

FULING GLOBAL INC.  
Form 20-F  
April 05, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**(Mark One)**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

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

**For the fiscal year ended December 31, 2018**

**OR**

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

**OR**

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

Date of event requiring this shell company report \_\_\_\_\_

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

**Commission file number 001-37602**

**Fuling Global Inc.**

(Exact name of Registrant as specified in its charter)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**Southeast Industrial Zone, Songmen Town**

**Wenling, Zhejiang Province**

**People's Republic of China 317511**

(Address of principal executive offices)

**Gilbert Lee, Chief Financial Officer**

**+1-610-366-8070 – telephone**

**glee@fulingusa.com**

**Fuling Plastic USA, Inc.**

**6690 Grant Way, Allentown, PA 18106**

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Ordinary Shares, par value \$0.001 per share	Nasdaq

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 15,795,910 Ordinary Shares

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

Yes      No

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

Yes      No

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

Yes      No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes      No

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

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

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

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

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

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

Item 17      Item 18

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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes    No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes    No

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**Conventions Used in this Annual Report**

Except where the context otherwise requires and for purposes of this annual report on Form 20-F only, “we,” “us,” “our company,” “Company,” “our” and “Fuling” refer to:

Fuling Global Inc., a Cayman Islands company (“FGI” when individually referenced), which is the parent holding company;

Total Faith Holdings Limited, a British Virgin Islands company (“Total Faith” when individually referenced), which is a wholly owned subsidiary of FGI;

Taizhou Fuling Plastics Co., Ltd., a PRC company (“Taizhou Fuling”), which is a wholly owned subsidiary of Total Faith;

Domo Industry Inc., a New York company (“Domo”), of which Total Faith owns 49% of the equity but maintains effective control;

Direct Link USA LLC, a Delaware company (“Direct Link”), which is a wholly owned subsidiary of Taizhou Fuling;

Fuling Plastic USA, Inc., a Pennsylvania company (“Fuling USA”), which is a wholly owned subsidiary of Taizhou Fuling;

Zhejiang Great Plastics Technology Co., Ltd., a PRC company (“Great Plastics”), which is a wholly owned subsidiary of Taizhou Fuling; and

Wenling Changli Import and Export Co., Ltd., a PRC company (“Wenling Changli”), which is a wholly owned subsidiary of Taizhou Fuling.

This annual report contains translations of certain RMB amounts into U.S. dollar amounts at a specified rate solely for the convenience of the reader. The exchange rates in effect as of December 31, 2018, 2017 and 2016 were US \$1.00 for RMB 6.8776, RMB 6.5074 and RMB 6.94477, respectively. The average exchange rates for the years ended December 31, 2018, 2017 and 2016 were US \$1.00 for RMB 6.6163, RMB 6.7578 and RMB 6.64410, respectively. We use period-end exchange rates for assets and liabilities and average exchange rates for revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

For the sake of clarity, this annual report follows the English naming convention of first name followed by last name, regardless of whether an individual’s name is Chinese or English. For example, the name of the Chief Operating Officer and Chair of our board of directors will be presented as “Guilan Jiang,” even though, in Chinese, Ms. Jiang’s

name is presented as “Jiang Guilan.”

We obtained the industry and market data used in this annual report or any document incorporated by reference from industry publications, research, surveys and studies conducted by third parties and our own internal estimates based on our management’s knowledge and experience in the markets in which we operate. We did not, directly or indirectly, sponsor or participate in the publication of such materials, and these materials are not incorporated in this annual report other than to the extent specifically cited in this annual report. We have sought to provide current information in this annual report and believe that the statistics provided in this p annual report remain up-to-date and reliable, and these materials are not incorporated in this annual report other than to the extent specifically cited in this annual report.

## **SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Certain matters discussed in this report may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are intended to identify such forward-looking statements. Our actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation, those discussed under “Item 3—Key Information—Risk Factors,” “Item 4—Information on the Company,” “Item 5—Operating and Financial Review and Prospects,” and elsewhere in this report, as well as factors which may be identified from time to time in our other filings with the Securities and Exchange Commission (the “SEC”) or in the documents where such forward-looking statements appear. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

The forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Except as required by law, we assume no responsibility for updating any forward-looking statements.



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**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable for annual reports on Form 20-F.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable for annual reports on Form 20-F.

**Item 3. Key Information**

**A. Selected Financial Data**

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the two years ended December 31, 2018, 2017 and 2016 and the selected consolidated balance sheets data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated balance sheet data for the year ended December 31, 2016 have been derived from our audited consolidated balance sheet as of December 31, 2016, which is not included in this annual report. The selected consolidated statements of operations data for the years ended June 30, 2015 and 2014 and the selected consolidated balance sheet data as of ended December 31, 2015 and 2014 have been derived from our audited consolidated financial statements for the years ended December 31, 2015 and 2014, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with US GAAP.

Please note that our results of operations related to Great Plastics have been reclassified as discontinued operations on a retrospective basis for all periods presented.

(All amounts in thousands of U.S. dollars, except Dividend per share in Renminbi and Shares outstanding)

**Statement of operations data:**

	For the year ended December 31,				
	2018	2017	2016	2015	2014
Revenues	\$138,664	\$124,209	\$102,321	\$88,994	\$80,369
Gross profit	\$29,750	\$26,132	\$25,191	\$23,235	\$21,562
Operating expenses	\$19,584	\$17,042	\$14,588	\$13,160	\$10,655
Income from operations	\$10,166	\$9,089	\$10,603	\$10,075	\$10,907
Provision for Income taxes	\$1,126	\$788	\$1,561	\$1,123	\$1,236
Net income from continuing operations	\$9,847	\$8,266	\$10,249	\$9,428	\$9,274
Net loss from discontinued operations, net of tax	\$(88 )	\$(1,975 )	\$(2,306 )	\$(1,480 )	\$(1,546 )
Net income	\$9,759	\$6,291	\$7,943	\$7,948	\$7,728
Net income from continuing operations per share (basic and diluted)	\$0.62	\$0.52	\$0.65	\$0.76	\$0.79
Net income from discontinued operations per share (basic and diluted)	\$(0.01 )	\$(0.13 )	\$(0.15 )	\$(0.12 )	\$(0.13 )
Dividend per share in USD	\$-	\$-	\$-	\$-	\$0.88
Dividend per share in Renminbi	¥-	¥-	¥-	¥-	¥5.41

**Balance sheet data:**

	As of December 31,				
	2018	2017	2016	2015	2014
Current assets	\$59,520	\$57,013	\$47,830	\$49,846	\$34,701
Total assets	\$122,640	\$116,730	\$94,265	\$75,729	\$57,224
Current liabilities	\$47,489	\$55,562	\$42,281	\$32,411	\$39,769
Total liabilities	\$57,906	\$58,736	\$44,793	\$32,411	\$39,769
Total shareholders' equity (net assets)	\$64,734	\$57,994	\$49,472	\$43,319	\$17,454
Capital stock	\$16	\$16	\$16	\$16	\$12
Shares outstanding	15,795,910	15,780,205	15,756,500	15,732,795	11,666,667

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Our financial information is presented in U.S. dollars. Our functional currency is Renminbi (“RMB”), the currency of the PRC. Transactions denominated in currencies other than RMB are translated into RMB at the exchange rate quoted by the People’s Bank of China at the dates of the transactions. Exchange gains and losses resulting from transactions denominated in a currency other than the RMB are included in statements of operations as foreign currency transaction gains or losses. Our financial statements have been translated into U.S. dollars in accordance with ASC 830, “Foreign Currency Matters”. The financial information is first prepared in RMB and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income (loss) in shareholders’ equity. The relevant exchange rates are listed below:

	<b>December 31, 2018</b>		<b>December 31, 2017</b>		<b>December 31, 2016</b>	
US \$1: RMB exchange rate	Period End	6.8776	Period End	6.5074	Period End	6.94477
	Average	6.6163	Average	6.7578	Average	6.64410

We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. We do not currently engage in currency hedging transactions.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated ([www.oanda.com](http://www.oanda.com)).

Midpoint of Buy and Sell Prices for U.S. Dollar per RMB				
Period	Period-End	Average	High	Low
2014	6.1484	6.1458	6.2080	6.0881
2015	6.4917	6.2288	6.4917	6.0933
2016	6.9448	6.6441	7.0672	6.4494
2017	6.5074	6.7578	6.9535	6.4686
2018	6.8776	6.6163	6.9720	6.2660
2019				
January	6.7035	6.7917	6.8772	6.7035
February	6.6876	6.7401	6.7790	6.6868
March	6.7119	6.7129	6.7342	6.6912

As of March 31, 2019, the exchange rate is RMB 6.7119 to \$1.00.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

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**Risks Related to Our Business and Industry**

***Changes in U.S. trade policies, including new and potential tariffs on goods and raw materials imported from China, have negatively affected us and may disrupt our business and have a material adverse effect on our financial condition and results of operations.***

Due to the trade conflicts between U.S. and China, more and more goods and raw materials imported from China are subject to higher tariffs levied by the U.S. Previously we imported a lot of plastic straws from China to the wholesale distributors in the U.S. We also imported polypropylene materials from China to our Allentown factory to produce plastic straws for fast food restaurants. The tariffs levied by the U.S. on these plastic straws and polypropylene materials have increased 25%. We have to absorb most of the increased cost for the plastic straws to sell to the wholesale distributors in the U.S. We also have to purchase more expensive polypropylene materials from other countries.

In addition, the tariff on paper cups and paper board imported from China has also increased 10%. The increased tariff on paper board which we planned to use to produce paper cups in Allentown is the major reason that we have paused our paper cup manufacturing project in Allentown.

Although we plan to start operating a factory in Mexico to enjoy the tariff-free benefit on producing paper cups, paper straws and plastic straws and shipping them from Mexico to U.S., the amount of the products to be produced in Mexico will not account a significant percentage of our total products in the near future. In addition, we cannot guarantee we will be successful on this strategy.

***Our U.S. competitors are significantly larger than our company.***

The three largest U.S. suppliers of foodservice disposables account for a significant percentage of the industry. As of 2012, Dart Container Corporation, Reynolds Group/Pactiv and Georgia-Pacific collectively held approximately 29% of the U.S. market share in the foodservice disposables industry. The overall industry consists of a small number of competitors, with approximately 50% of our market controlled by the top 10 companies in the industry.

Concentration in the foodservice disposables industry varies widely within specific market segments, with some segments dominated by a small number of producers. For example, Dart Container is the leading supplier of plastic foodservice beverage cups, followed by Pactiv and Berry Plastics. By contrast, the market for cutlery is more

fragmented, with a growing portion of the market supplied by contract manufacturers in China.

Nevertheless, we may be unable to compete effectively against such larger, better-capitalized companies, which have well-established, long-term relationships with the large customers we serve and seek to serve.

***We are subject to risks related to our dependence on the strength of restaurant, retail and commercial sectors of the economy in various parts of the world.***

Our business depends on the strength of the restaurant, retail and commercial sectors of the economy in various parts of the world, primarily in North America, and to a lesser extent Europe, Canada, Central and South America, the Middle East, Africa, and China. These sectors of the economy are affected primarily by factors such as consumer demand and the condition of the retail industry, which, in turn, are affected by general economic conditions. Challenging economic conditions in our target markets may exert considerable pressure on consumer demand, and the resulting impact on consumer spending may have an adverse effect on demand for our products, as well as our financial condition and results of operations.

***Our projections and assumptions underlying may be inaccurate, resulting in slower than anticipated growth.***

All statements, except historical data, are forward-looking statements. Although we believe the projections in these forward-looking statements are reasonable, we cannot guarantee these projections will happen. Our operational results in the future may be different from our estimates for many reasons, including but not limited to the oil price (our products are by-products of oil, so we are heavily impacted by oil price), shrinking fast food industry production caused by increased production cost and changed consumption habits of food industry, failure to grow capacity and capacity utilization as quickly as anticipated or at all, losing or failing to secure customers and customer orders, shutdown of important clients, and replacement of plastics industry by paper and wood products industry.

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***Our plans to continue to improve productivity and reduce costs may not be successful, which would adversely affect our ability to compete.***

Our success depends on our ability to continually improve our manufacturing operations to gain efficiencies, reduce supply chain costs and streamline selling, general and administrative expenses in order to produce products that are reasonably priced, while still allowing our Company to invest in innovation.

In particular, we are in the midst of setting up a factory in Mexico by using the maquiladora (shelter) structure. Our goal is to manufacture in this facility certain products that are not efficient to manufacture in U.S. or are subject to high tariffs if being manufactured in and shipped from China. This project may not be completed completely as planned, may be more costly to implement than expected, may have delays in implementation, or may not result in, in full or in part, the savings and other benefits anticipated. In addition, such initiatives require the Company to implement a significant amount of organizational changes, which could have a negative impact on employee engagement, divert management's attention from other concerns, and if not properly managed, impact the Company's ability to retain key employees, cause disruptions in the Company's day-to-day operations and have a negative impact on the Company's financial results.

***Price increases in raw materials and sourced products could harm the Company's financial results.***

Our primary raw materials are (1) plastic resin (primarily polypropylene ("PP"), polystyrene ("PS") which includes General Purpose Polystyrene ("GPPS") and High Impact Polystyrene ("HIPS"), and polyethylene terephthalate ("PET")), (2) plastic bags and membranes for packaging cutlery, (3) shipping cartons, (4) plastic colorants, (5) paper board for paper straws, (6) paper napkins, salt, pepper and wet wipes for inclusion in cutlery packages and (7) labeling materials. These raw materials are subject to price volatility and inflationary pressures. Our success is dependent, in part, on our continued ability to reduce our exposure to increases in those costs through a variety of programs, including sales price adjustments based on adjustments in such raw material costs, while maintaining and improving margins and market share. We also rely on third-party manufacturers as a source for our products. These manufacturers are also subject to price volatility and labor cost and other inflationary pressures, which may, in turn, result in an increase in the amount we pay for sourced products. Raw material and sourced product price increases may more than offset our productivity gains and price increases and may adversely impact the Company's financial results.

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***Our reliance on third party logistics providers may put us at risk of service failures for our customers.***

Although some of our larger competitors have integrated logistics and delivery service companies, we rely on third parties to ship our products from China to our customers. Even after completing installation of the production lines in our Allentown facility, we continue to rely on third parties for transportation within the United States. One of the bases on which we compete (particularly with regard to our QSR customers) is service. To the extent we are unable to meet their demand for products or do not deliver products on time, we stand a substantial risk of losing key accounts. Because we rely on third parties for logistics services, we may be unable to avoid supply chain failures, even if we are able to meet our manufacturing obligations to customers.

***If we fail to protect our intellectual property rights, it could harm our business and competitive position.***

We rely on a combination of patent, trademark, domain name and trade secret laws and non-disclosure agreements and other methods to protect our intellectual property rights. We own patents in China and U.S. covering our designs and production technology.

The process of seeking patent protection can be lengthy and expensive, our patent applications may fail to result in patents being issued, and our existing and future patents may be insufficient to provide us with meaningful protection or commercial advantage. Our patents and patent applications may also be challenged, invalidated or circumvented.

We also rely on trade secret rights to protect our business through non-disclosure provisions in employment agreements with employees. If our employees breach their non-disclosure obligations, we may not have adequate remedies in China, and our trade secrets may become known to our competitors.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in the PRC laws and enforcement difficulties. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other western countries. Furthermore, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position.



***Our Chinese patents and registered marks may not be protected outside of China due to territorial limitations on enforceability.***

In general, patent and trademark rights have territorial limitations in law and are valid only within the countries in which they are registered.

At present, Chinese enterprises may register their trademarks overseas through two methods. One is to file an application for trademark registration in each single country or region in which protection is desired, while the other is to apply via the Madrid system for international trademark registration. By the second way, under the provisions of the Madrid Agreement concerning the International Registration of Marks (the “Madrid Agreement”) or the Protocol Relating to the Madrid Agreement concerning the International Registration of Marks (the “Madrid Protocol”), applicants may designate their marks in one or more member countries via the Madrid system for international registration.

As of the date of the filing, we have registered one trademark at the International Bureau of the World Intellectual Property Organization (“WIPO”) under the Madrid Agreement and Protocol. We have also applied for territorial extension by designating 15 member countries through WIPO. Currently the registration for this trademark is valid in 13 foreign member countries, including the U.S.

Similar with trademarks, Chinese enterprises may also register their patents overseas through two methods. One is to file an application for patent registration in each single country or region, and the other is to file international application with the China Intellectual Property Office or the International Bureau of World Intellectual Property Organization under the Patent Cooperation Treaty. However, such international application may relate to invention or utility model patents, but does not include industrial design patents.

As of the date of the filing, we have registered two design patents at the United States Patent and Trademark Office. This registration is only valid in the U.S. For more details, please see the disclosure of our patents.

Currently, most of our patents and trademarks are registered in China. If we do not register them in other jurisdictions, they may not be protected outside of China. As a result, our business and competitive position could be harmed.

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***We may be exposed to intellectual property infringement and other claims by third parties which, if successful, could disrupt our business and have a material adverse effect on our financial condition and results of operations.***

Our success depends, in large part, on our ability to use and develop our technology and know-how without infringing third party intellectual property rights. If we sell our branded products internationally, and as litigation becomes more common in China, we face a higher risk of being the subject of claims for intellectual property infringement, invalidity or indemnification relating to other parties' proprietary rights. Our current or potential competitors, many of which have substantial resources and have made substantial investments in competing technologies, may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our branded products in either China or other countries, including the United States and other countries in Asia. The validity and scope of claims relating to patents in our industry involve complex scientific, legal and factual questions and analysis and, as a result, may be highly uncertain. In addition, the defense of intellectual property suits, including patent infringement suits, and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Furthermore, an adverse determination in any such litigation or proceedings to which we may become a party could cause us to:

pay damage awards;

seek licenses from third parties;

pay ongoing royalties;

redesign our branded products; or

be restricted by injunctions,

each of which could effectively prevent us from pursuing some or all of our business and result in our customers or potential customers deferring or limiting their purchase or use of our products, which could have a material adverse effect on our financial condition and results of operations.

***Outstanding bank loans may reduce our available funds.***

We have approximately \$27.1 million in outstanding bank loans as of December 31, 2018. The loans are held at multiple banks and entities and are secured by some of our land and property in China and the U.S. as the collateral for the debt. While we believe we have adequate capital to repay these bank loans at present, there can be no guarantee that we will be able to pay all amounts when due or to refinance the amounts on terms that are acceptable to us or at all. If we are unable to make our payments when due or to refinance such amounts, our property could be foreclosed and our business could be negatively affected.

While we do not believe they will impact our liquidity, the terms of the debt agreements impose significant operating and financial restrictions on us. These restrictions could also have a negative impact on our business, financial condition and results of operations by significantly limiting or prohibiting us from engaging in certain transactions, including but not limited to: incurring or guaranteeing additional indebtedness; transferring or selling assets currently held by us; and transferring ownership interests in certain of our subsidiaries. The failure to comply with any of these covenants could cause a default under our other debt agreements. Any of these defaults, if not waived, could result in the acceleration of all of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it on favorable terms, if any.

***We may be unable to refinance our short-term loans.***

We expect to be able to refinance its short-term loans based on past experience and our good credit history. We do not believe failure to refinance from certain banks will have significant negative impact on our normal business operations. Our related parties including our major shareholders and affiliate companies are willing to provide us financial support. Although our operating cash flow was positive in 2018, 2017 and 2016, it is possible for us to have negative cash flow in the future, and for our related parties to be unable or unwilling to provide us financial support as needed. As a result, the failure to refinance our short-term loans could potentially affect our capital expenditure and expansion of business.

***If the value of our property decreases, we may not be able to refinance our current debt.***

All of our current debt is secured by either mortgages on our real and other business property or guarantees by some of our shareholders. If the value of our real property decreases, we may find that banks are unwilling to loan money to us secured by our business property. A drop in property value could also prevent us from being able to refinance that loan when it becomes due on acceptable terms or at all.

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***We may require additional financing in the future and our operations could be curtailed if we are unable to obtain required additional financing when needed.***

We may need to obtain additional debt or equity financing to fund future capital expenditures. While we do not anticipate seeking additional financing in the immediate future, any additional equity may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:

limit our ability to pay dividends or require us to seek consent for the payment of dividends;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and

limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot guarantee that we will be able to obtain any additional financing on terms that are acceptable to us, or at all.

***The loss of any of our key customers could reduce our revenues and our profitability.***

Our key customers are principally multinational QSRs, third party distributors, and retail stores, mainly located in the U.S. For the year ended December 31, 2018, sales to our ten largest customers amounted in the aggregate to approximately 51.9% of our total revenue. For the year ended December 31, 2017, sales to our ten largest customers amounted in the aggregate to approximately 53.6% of our total revenue. For the year ended December 31, 2016, sales to our ten largest customers amounted in the aggregate to approximately 54.0% of our total revenue. There can be no assurance that we will maintain or improve the relationships with these customers, or that we will be able to continue to supply these customers at current levels or at all. Any failure to pay by these customers could have a material negative effect on our company's business. In addition, having a relatively small number of customers may cause our quarterly results to be inconsistent, depending upon when these customers pay for outstanding invoices.

During the years ended December 31, 2018, 2017 and 2016, respectively, we had zero, one and one customer that accounted for 10% or more of our revenues.

<b>Customer Name</b>	<b>Year Ended December 31, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>
Lollicup USA Inc.	* %	11.6 %	13.0 %

\*Less than 10% during the period.

If we cannot maintain long-term relationships with these major customers, the loss of our sales to them could have an adverse effect on our business, financial condition and results of operations.

*We buy our supplies from a relatively limited number of suppliers.*

During the year ended December 31, 2018, our ten largest suppliers accounted for approximately 48.9% of our total purchases. During the year ended December 31, 2017, our ten largest suppliers accounted for approximately 57.9% of our total purchases. During the year ended December 31, 2016, our four largest suppliers accounted for approximately 60% of our total purchases. During the years ended December 31, 2018, 2017 and 2016, respectively, we had one, two and three suppliers that accounted for 10% or more of our purchases.

<b>Supplier Name</b>	<b>Year Ended December 31, 2018</b>	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>
Brilliance Resources Company Limited	* %	* %	22.0 %
Koco Group Ltd	* %	11.2 %	13.2 %
Grand Chemical Group	12.0 %	12.4 %	19.1 %

\*Less than 10% during the period.

Because we purchase a material amount of our raw materials from these suppliers, the loss of any such suppliers could result in increased expenses for our company and result in adverse impact on our business, financial condition and results of operations.

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***Our bank accounts are not fully insured or protected against loss.***

We maintain our cash with various banks located in mainland China, Hong Kong and the United States. Our cash accounts in the PRC are not insured or otherwise protected. To the extent our U.S. and Hong Kong accounts were to exceed statutory amounts, they would also not be fully protected against loss. Should any bank or trust company holding our cash deposits become insolvent, or if we are otherwise unable to withdraw funds, we would lose the cash on deposit with that particular bank or trust company.

***We are substantially dependent upon our senior management and key research and development personnel.***

We are highly dependent on our senior management to manage our business and operations and our key research and development personnel for the development of new products and the enhancement of our existing products and technologies. In particular, we rely substantially on our Chief Executive Officer, Mr. Xinfu Hu, and our Chief Operating Officer and Chair, Ms. Guilan Jiang, to manage our operations. Ms. Jiang and Mr. Hu are husband and wife and have been involved in the plastic industry for more than twenty years. Due to their experience in the industry and long relationships with our customer base, they would be difficult to replace.

While we provide the legally required personal insurance for the benefit of our employees, we do not maintain key person life insurance on any of our senior management or key personnel. The loss of any one of them would have a material adverse effect on our business and operations. Competition for senior management and our other key personnel is intense, and the pool of suitable candidates is limited. We may be unable to quickly locate a suitable replacement for any senior management or key personnel that we lose. In addition, if any member of our senior management or key personnel joins a competitor or forms a competing company, they may compete with us for customers, business partners and other key professionals and staff members of our company. Although each of our senior management and key personnel has signed a confidentiality and non-competition agreement in connection with his employment with us, we cannot assure you that we will be able to successfully enforce these provisions in the event of a dispute between us and any member of our senior management or key personnel.

In our efforts to develop new products and methods of manufacturing, we compete for qualified personnel with technology companies and research institutions. Intense competition for these personnel could cause our compensation costs to increase, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

***Failure to manage our growth could strain our management, operational and other resources, which could materially and adversely affect our business and prospects.***

Our growth strategy includes increasing market penetration of our existing products, developing new products and increasing the number and size of customers we serve. Pursuing these strategies has resulted in, and will continue to result in substantial demands on management resources. In particular, the management of our growth will require, among other things:

continued enhancement of our research and development capabilities;

stringent cost controls and sufficient liquidity;

strengthening of financial and management controls;

increased marketing, sales and support activities; and

hiring and training of new personnel.

If we are not able to manage our growth successfully, our business and prospects would be materially and adversely affected.

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

***We are new to the Mexican legal system and the unfamiliarity could adversely affect us.***

We plan to start production in Mexico by cooperating with a local shelter services company. The production and the operation is governed by Mexican law which we barely have any knowledge. Although the shelter service company is obligated to handle essentially all of the legal and compliance matters for us, we cannot guarantee that it will handle those matters correctly. The lack of knowledge to the local law may cause noncompliance or breach of contracts and could adversely affect us and make us lose all of our investment there.

***Labor laws in the PRC may adversely affect our results of operations.***

On June 29, 2007, the PRC government promulgated the Labor Contract Law of the PRC, which became effective on January 1, 2008. The Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and

not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.



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***Under the Enterprise Income Tax Law, we may be classified as a “Resident Enterprise” of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC shareholders.***

China passed the Enterprise Income Tax Law, or the EIT Law, and it is implementing rules, both of which became effective on January 1, 2008. Under the EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a “resident enterprise,” meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise.

On April 22, 2009, the State Administration of Taxation of China, or the SAT, issued the Circular Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the SAT Notice 82, further interpreting the application of the EIT Law and its implementation to offshore entities controlled by a Chinese enterprise or enterprise group. Pursuant to the SAT Notice 82, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or enterprise group will be classified as a “non-domestically incorporated resident enterprise” if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate stamps, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management often resident in China. After SAT Notice 82, the SAT issued a bulletin, known as SAT Bulletin 45, which took effect on September 1, 2011, to provide more guidance on the implementation of SAT Notice 82 and clarify the reporting and filing obligations of such “non-domestically incorporated resident enterprise.” SAT Bulletin 45 provides procedures and administrative details for the determination of resident status and administration on post-determination matters. On January 29, 2014, the SAT issued Announcement of the State Administration of Taxation on Recognizing Resident Enterprises Based on the Criteria of de facto Management Bodies, to further clarify the reporting and filing procedure for offshore entities controlled by a Chinese enterprise or enterprise group and recognized as a resident enterprise.

The determining criteria set forth in SAT Notice 82 and SAT Bulletin 45 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, PRC enterprise groups or by PRC or foreign individuals. If the PRC tax authorities determine that FGI or its subsidiaries is a PRC resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Currently, we do not have any non-China source income, as we complete our sales, including export sales, in China. Second, under the EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would be deemed as “qualified investment income between resident enterprises” and therefore qualify as “tax-exempt income” pursuant to the clause 26 of the EIT Law. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which the dividends we pay with respect to our ordinary shares, or the gain our non-PRC stockholders may realize from the

transfer of our ordinary shares, may be treated as PRC-sourced income and may therefore be subject to a 10% PRC withholding tax. If we are required under the EIT Law and its implementing regulations to withhold PRC income tax on dividends payable to our non-PRC stockholders, or if non-PRC stockholders are required to pay PRC income tax on gains on the transfer of their shares of ordinary shares, our business could be negatively impacted and the value of your investment may be materially reduced. Further, if we were treated as a “resident enterprise” by PRC tax authorities, we would be subject to taxation in both China and such countries in which we have taxable income, and our PRC tax may not be creditable against such other taxes.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption law.***

We are subject to the U.S. Foreign Corrupt Practices Act (“FCPA”), and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. We are also subject to Chinese anti-corruption laws, which strictly prohibit the payment of bribes to government officials. We have operations, agreements with third parties, and make sales in China, which may experience corruption. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants or distributors of our company, because these parties are not always subject to our control. We are in process of implementing an anticorruption program, which prohibits the offering or giving of anything of value to foreign officials, directly or indirectly, for the purpose of obtaining or retaining business. The anticorruption program also requires that clauses mandating compliance with our policy be included in all contracts with foreign sales agents, sales consultants and distributors and that they certify their compliance with our policy annually. It further requires that all hospitality involving promotion of sales to foreign governments and government-owned or controlled entities be in accordance with specified guidelines. In the meantime, we believe to date we have complied in all material respects with the provisions of the FCPA and Chinese anti-corruption laws.

However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

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***Uncertainties with respect to the PRC legal system could adversely affect us.***

We conduct a substantial amount of our business through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. Our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws and regulations applicable to wholly foreign-owned enterprises. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because some of these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. FGI receives revenues and purchases raw materials primarily in U.S. dollars but incurs other expenses primarily in RMB. Although our main suppliers are based in mainland China or based in Hong Kong with Chinese operating subsidiaries, some of them provide quotations in U.S. dollars. We choose quotations based on price competitiveness. In the past, U.S. dollars quotations were more competitive so we purchase almost all of our raw materials in U.S. dollars. However, recently several RMB quotations were more competitive and we accepted them and paid in RMB.

Under our current corporate structure, FGI's income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account

transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our security-holders.

***We are a holding company and we rely for funding on dividend payments from our subsidiaries, which are subject to restrictions under PRC laws.***

We are a holding company incorporated in the Cayman Islands, and we operate our core businesses through our subsidiaries in the PRC and the United States. Therefore, the availability of funds for us to pay dividends to our shareholders and to service our indebtedness depends upon dividends received from these PRC subsidiaries. If our subsidiaries incur debt or losses, their ability to pay dividends or other distributions to us may be impaired. As a result, our ability to pay dividends and to repay our indebtedness will be restricted. PRC laws require that dividends be paid only out of the after-tax profit of our PRC subsidiaries calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. PRC laws also require enterprises established in the PRC to set aside part of their after-tax profits as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends to us. These restrictions on the availability of our funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

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

The Enterprise Bankruptcy Law of the PRC, or the Bankruptcy Law, came into effect on June 1, 2007. The Bankruptcy Law provides that an enterprise will be liquidated if the enterprise fails to settle its debts as and when they fall due and if the enterprise's assets are, or are demonstrably, insufficient to clear such debts.

Our PRC subsidiaries hold certain assets that are important to our business operations. If any of our PRC subsidiaries undergoes a voluntary or involuntary liquidation proceeding, unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

According to the SAFE's Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, effective on December 17, 2012, and the Provisions for Administration of Foreign Exchange Relating to Inbound Direct Investment by Foreign Investors, effective May 13, 2013, if any of our PRC subsidiaries undergoes a voluntary or involuntary liquidation proceeding, prior approval from the SAFE for remittance of foreign exchange to our shareholders abroad is no longer required, but we still need to conduct a registration process with the SAFE local branch. It is not clear whether "registration" is a mere formality or involves the kind of substantive review process undertaken by SAFE and its relevant branches in the past.



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

Changes in the value of the RMB against the U.S. dollar, Euro and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. Any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on our shares in U.S. dollar terms. For example, to the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on RMB amount we would receive from the conversion. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of paying dividends on our Ordinary Shares or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. In addition, fluctuations of the RMB against other currencies may increase or decrease the cost of imports and exports, and thus affect the price-competitiveness of our products against products of foreign manufacturers or products relying on foreign inputs.

Since July 2005, the RMB is no longer pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

We reflect the impact of currency translation adjustments in our financial statements under the heading "accumulated other comprehensive income (loss)." For year ended December 31, 2018, we had a negative adjustment of \$3,147,531 for foreign currency translations. For year ended December 31, 2017, we had a positive adjustment of \$2,172,347 for foreign currency translations. For years ended December 31, 2016, we had a negative adjustment of \$1,913,200 for foreign currency translations. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

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

Recently, U.S. public companies that have substantially all of their operations in China, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting

irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in some cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our company and our business. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend the Company. This situation may be a major distraction to our management. If such allegations are not proven to be groundless, our company and business operations will be severely hampered and your investment in our shares could be rendered worthless.

***PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to penalties and limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to distribute profits to us, or otherwise adversely affect us.***

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions.

SAFE Circular 37 was issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75.

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

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Ms. Jiang has completed her SAFE Circular 37 registration. Ms. Sujuan Zhu, Mr. Qian Hu, Mr. Xinzhong Wang, Mr. Jinxue Jiang and Mr. Yongjun Guo have applied to SAFE's local branch in Taizhou for registration, but we cannot provide any assurances that such registration will be completed in a timely manner. Moreover, we may not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with SAFE registration requirements.

As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiary, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

**Risks Related to Our Corporate Structure and Operation**

*We incur additional costs as a public company, which could negatively impact our net income and liquidity.*

We are a public company in the United States. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act and rules and regulations implemented by the SEC and The Nasdaq Capital Market require significantly heightened corporate governance practices for public companies. We expect that these rules and regulations to increase our legal, accounting and financial compliance costs and make many corporate activities more time-consuming and costly.

We do not expect to incur materially greater costs as a public company than those incurred by similarly sized foreign private issuers. If we fail to comply with these rules and regulations, we could become the subject of a governmental enforcement action, investors may lose confidence in us and the market price of our Ordinary Shares could decline.

*Entities controlled by our employees, officers and/or directors control a majority of our Ordinary Shares, decreasing your influence on shareholder decisions.*

Entities controlled by our employees, officers and/or directors, in the aggregate, continue to own a majority of our outstanding shares. As a result, our employees, officers and directors possess substantial ability to impact our management and affairs and the outcome of matters submitted to shareholders for approval. These shareholders,



acting individually or as a group, could exert control and substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership and voting power may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our Ordinary Shares. These actions may be taken even if they are opposed by our other shareholders. See “MAJOR SHAREHOLDERS.”

***The obligation to disclose information publicly may put us at a disadvantage to competitors that are private companies.***

We are a publicly listed company in the United States. As a publicly listed company, we are required to file periodic reports with the Securities and Exchange Commission upon the occurrence of matters that are material to our company and shareholders. In some cases, we need to disclose material agreements or results of financial operations that we would not be required to disclose if we were a private company. Our competitors may have access to this information, which would otherwise be confidential. This may give them advantages in competing with our company. Similarly, as a U.S.-listed public company, we are governed by U.S. laws that our non-publicly traded competitors are not required to follow. To the extent compliance with U.S. laws increases our expenses or decreases our competitiveness against such companies, our public listing could affect our results of operations.

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

We are a foreign private issuer and, as a result, we are not subject to the same requirements as U.S. domestic issuers. Under the Exchange Act, we are subject to reporting obligations that, to some extent, are more lenient and less frequent than those of U.S. domestic reporting companies. For example, we are not required to issue quarterly reports or proxy statements. We are not required to disclose detailed individual executive compensation information. Furthermore, our directors and executive officers are not required to report equity holdings under Section 16 of the Exchange Act and are not subject to the insider short-swing profit disclosure and recovery regime.

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As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. However, we are still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5 under the Exchange Act. Since many of the disclosure obligations imposed on us as a foreign private issuer differ from those imposed on U.S. domestic reporting companies, you should not expect to receive the same information about us and at the same time as the information provided by U.S. domestic reporting companies.

***As a foreign private issuer, we are permitted to rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. If we opt to rely on such exemptions in the future, such decision might afford less protection to holders of our ordinary shares.***

Section 5605(b)(1) of the Nasdaq Listing Rules requires listed companies to have, among other things, a majority of its board members to be independent, and Section 5605(d) and 5605(e) require listed companies to have independent director oversight of executive compensation and nomination of directors. As a foreign private issuer, however, we are permitted to follow home country practice in lieu of the above requirements. We agreed with our underwriters that we do not opt to follow home country practice in lieu of such requirements for two years after the completion of our initial public offering. See "Item 16.G. Corporate Governance." As this period has passed, we can decide to follow home country practice and our board of directors could make such a decision to depart from such requirements by ordinary resolution. The remainder of this risk factor, therefore, discusses risks to shareholders in the event the board of directors were to depart from some of such Nasdaq requirements and instead follow home country practices.

The corporate governance practice in our home country, the Cayman Islands, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee. Since a majority of our board of directors would not consist of independent directors if we relied on the foreign private issuer exemption, fewer board members would be exercising independent judgment and the level of board oversight on the management of our company might decrease as a result. In addition, we could opt to follow Cayman Islands law instead of the Nasdaq requirements that mandate that we obtain shareholder approval for certain dilutive events, such as an issuance that will result in a change of control, certain transactions other than a public offering involving issuances of 20% or greater interests in the company and certain acquisitions of the shares or assets of another company. For a description of the material corporate governance differences between the Nasdaq requirements and Cayman Islands law, see "Description of Share Capital — Differences in Corporate Law" in our registration statement on Form F-1 (File no. 333-205894), filed with the SEC on July 28, 2015, as amended.

***Our directors' and executive officers' other business activities may pose conflicts of interest.***

Our directors and executive officers may have other business interests outside the company from time to time that could potentially give rise to conflicts of interest. For example, our Chief Operating Officer and Chair, Guilan Jiang, previously owned 50% of Wenling Fulin Plastic Products Co. Ltd. Ms. Jiang was also its legal representative and general manager. Wenling Fulin Plastic Products Co. Ltd. is a holding company with no investment in any competing business with us, although it has investment in a local commercial bank and leases its land to a restaurant. While the company was previously in our industry, this privately held company's operations, but not the name, have changed. Notwithstanding the foregoing, if this company were to begin to operate within our industry and Ms. Jiang operates this company again, we might find a conflict of interest.

Although her business working time at this company is flexible, Ms. Jiang historically devoted very limited time to matters concerning Wenling Fulin Plastic Products Co. Ltd., and most of her time to matters for FGI. If Ms. Jiang devotes any significant time and effort to her other companies in the future, such business activities could both distract her from focusing on FGI and pose a conflict of interest to the extent her activities at any other companies compete with our company.

***An insufficient amount of insurance could expose us to significant costs and business disruption.***

While we have purchased insurance to cover certain assets and property of our business, the amounts and scope of coverage could leave our business inadequately protected from loss. For example, not all of our subsidiaries have coverage of business interruption insurance. If we were to incur substantial losses or liabilities due to fire, explosions, floods, other natural disasters or accidents or business interruption, our results of operations could be materially and adversely affected.

***We may have additional tax liabilities and the recent changes to the U.S. tax law could adversely affect our tax obligations and operating results.***

We are a multinational company subject to tax in several U.S. and foreign tax jurisdictions. Significant judgment is required in determining our tax provision for income taxes and evaluating our tax positions on a consolidated basis. We believe our tax positions are consistent with the tax laws in the jurisdictions in which we conduct our business. Should any tax authority disagree with our judgement or estimates and impose any additional tax liabilities on us, it could adversely impact our results of operations and financial position.

On December 22, 2017, the U.S. enacted tax reform through the Tax Cuts and Jobs Act of 2017 (the "Act"), and the Act made significant changes to U.S. income tax law including the manner in which the U.S. imposes income tax on multinational corporations. The U.S. Department of Treasury, the Internal Revenue Service and other standard-setting bodies have authority to issue regulations or interpretative guidance that may impact how we apply the law and impact our results of operations in the period issued and subsequently. Based on our understanding of the Act and guidance available as of the date of this filing, we have determined that there was no significant income tax impact derived from the Act for our 2018 taxable year and on the tax amounts reported in our 2018 financial statements. As additional

regulatory guidance is issued, and as we gain better understanding of the operation of the relevant rules, our analysis and conclusion may be different from our current assessments, which could materially affect our results of operations and financial position.

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**Risks Related to Ownership of Our Ordinary Shares**

***We are an “emerging growth company,” and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our Ordinary Shares less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although we could lose that status sooner if our revenues exceed \$1 billion, if we issue more than \$1.07 billion in non-convertible debt in a three year period, or if the market value of our Ordinary Shares held by non-affiliates exceeds \$700 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. We cannot predict if investors will find our Ordinary Shares less attractive because we may rely on these exemptions. If some investors find our Ordinary Shares less attractive as a result, there may be a less active trading market for our Ordinary Shares and our share price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail our company of this exemption from new or revised accounting standards and, therefore, are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

***If we are unable to maintain effective internal control over financial reporting in the future, and we may fail to detect errors in reports, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Ordinary Shares may decline.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. In addition, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We have completed our design of internal controls over financial reporting; and we have improved our internal controls by performing the adjustment entries before our auditor suggest them. However, we failed to engage our external financial consultant to conduct in-person field work for the financial reporting for the year ended December 31, 2018 and our independent auditors proposed a number of significant adjustments. Please see the material weakness in our internal controls discussed on page 96. In addition, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form

20-F following the date on which we are no longer an “emerging growth company,” which may be up to five full years following the date of our initial public offering. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting when required, we may fail to detect errors in a timely fashion and investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Ordinary Shares could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the Securities and Exchange Commission, or the SEC, or other regulatory authorities, which could require additional financial and management resources.

***The requirements of being a public company may strain our resources and divert management’s attention.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the securities exchange on which we list, and other applicable securities rules and regulations. Despite recent reforms made possible by the JOBS Act, compliance with these rules and regulations nonetheless increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly and increases demand on our systems and resources, particularly after we are no longer an “emerging growth company.” The Exchange Act requires, among other things, that we file annual and current reports with respect to our business and operating results. In addition, as long as we are listed on The Nasdaq Capital Market, we are also required to file semi-annual financial statements.

As a result of disclosure of information in this annual report and in filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business, brand and reputation and results of operations.

We also expect that being a public company and these rules and regulations make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

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***The market price of our Ordinary Shares may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the price you paid.***

The trading price for our Ordinary Shares has fluctuated since we first listed our Ordinary Shares. Since our Ordinary Shares became listed on the Nasdaq on November 4, 2015, the trading price of our Ordinary Shares has ranged from US \$6 to US \$1.68 per common share, and the last reported trading price on April 2, 2019 was \$2.4 per Ordinary Share. The market price of our Ordinary Shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

actual or anticipated fluctuations in our revenue and other operating results;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

announcements by us or our competitors of significant products or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;

price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;

lawsuits threatened or filed against us; and

other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

***We do not intend to pay dividends for the foreseeable future.***

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, you may only receive a return on your investment in our Ordinary Shares if the market price of our Ordinary Shares increases.

***We are subject to liability risks stemming from our foreign status, which could make it more difficult for investors to sue or enforce judgments against our company.***

Most of our operations and assets are located in the PRC. In addition, most of our executive officers and directors are non-residents of the U.S., and much of the assets of such persons are located outside the U.S. As a result, it could be difficult for investors to effect service of process in the U.S., or to enforce a judgment obtained in the U.S. against us or any of these persons.

In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect to any such action, may result in the rights of shareholders of a Cayman Islands company being more limited than those of shareholders of a company organized in the United States. Accordingly, shareholders may have fewer alternatives available to them if they believe that corporate wrongdoing has occurred. The Cayman Islands courts are also unlikely to recognize or enforce against us judgments of courts in the United States based on certain liability provisions of U.S. securities law; and to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce the non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. This means that even if shareholders were to sue us successfully, they may not be able to recover anything to make up for the losses suffered.

Lastly, under the law of the Cayman Islands, there is little statutory law for the protection of minority shareholders. The principal protection under statutory law is that shareholders may bring an action to enforce the constituent documents of the corporation, our First Amended and Restated Memorandum and Articles of Association. Shareholders are entitled to have the affairs of the company conducted in accordance with the general law and the articles and memorandum.



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There are common law rights for the protection of shareholders that may be invoked, largely dependent on English company law, since the common law of the Cayman Islands for business companies is limited. Under the general rule pursuant to English company law known as the rule in *Foss v. Harbottle*, a court will generally refuse to interfere with the management of a company at the insistence of a minority of its shareholders who express dissatisfaction with the conduct of the company's affairs by the majority or the board of directors. However, every shareholder is entitled to have the affairs of the company conducted properly according to law and the constituent documents of the corporation. As such, if those who control the company have persistently disregarded the requirements of company law or the provisions of the company's First Amended and Restated Memorandum and Articles of Association, then the courts will grant relief. Generally, the areas in which the courts will intervene are the following: (1) an act complained of which is outside the scope of the authorized business or is illegal or not capable of ratification by the majority; (2) acts that constitute fraud on the minority where the wrongdoers control the company; (3) acts that infringe on the personal rights of the shareholders, such as the right to vote; and (4) where the company has not complied with provisions requiring approval of a special or extraordinary majority of shareholders, which are more limited than the rights afforded minority shareholders under the laws of many states in the United States.

***Our board of directors may decline to register transfers of ordinary shares in certain circumstances.***

Our board of directors may, in its sole discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless (i) the instrument of transfer is lodged with us, accompanied by the certificate for the shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (ii) the instrument of transfer is in respect of only one class of shares; (iii) the instrument of transfer is properly stamped, if required; (iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; (v) the shares conceded are free of any lien in favor of us; or (vi) a fee of such maximum sum as Nasdaq may determine to be payable, or such lesser sum as our board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within one month after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

***You may be unable to present proposals before general meetings or extraordinary general meetings not called by shareholders.***

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our First Amended and Restated Articles of Association allow our shareholders holding shares representing in aggregate not less than 20% of our voting share capital in issue, to requisition an extraordinary general meeting of our shareholders, in which case our directors are obliged to call such meeting and to put the resolutions so requisitioned to a vote at such meeting.

Although our First Amended and Restated Articles of Association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders, any shareholder may submit a proposal to our board of directors for consideration of inclusion in a proxy statement. Advance notice of at least ten calendar days is required for the convening of our annual general shareholders' meeting and any other general meeting of our shareholders. A quorum required for a meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third in nominal value of the total issued voting shares in our company.

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

Fuling Global Inc. ("FGI") was incorporated in the Cayman Islands on January 19, 2015. FGI has an indefinite term. FGI, its subsidiaries and its variable interest entity ("VIE") (collectively the "Company") are principally engaged in the production and distribution of environmentally-friendly plastic and paper serveware in the People's Republic of China ("PRC" or "China") and United States ("U.S."). Most products are exported to the U.S. and Europe and sold to major fast food chains and wholesalers.

The address of FGI's principal place of business is Southeast Industrial Zone, Songmen Town, Wenling, Zhejiang Province, People's Republic of China 317511. FGI's phone number is +86-576-86623058. We have appointed C T Corporation System (The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801) as our agent to receive service of process with respect to any action brought against us in the courts of the State of Delaware under the federal securities laws of the United States or under the securities laws of the State of Delaware.

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Taizhou Fuling Plastics Co., Ltd. (“Taizhou Fuling”) was established on October 28, 1992 as a Sino-Foreign joint venture under the laws of the People’s Republic of China (“China” or “PRC”) with initial registered capital of \$510,000.

On April 26, 2004, Total Faith Holdings Limited (“Total Faith”) was incorporated in British Virgin Islands.

In May 2005, Total Faith became one of Taizhou Fuling’s shareholders. The other shareholder was Wenling County Songmen Plastic Co., Ltd. (“Wenling Songmen”). In the same month, Wenling Songmen and Total Faith added \$846,300 and \$289,700, respectively, to the registered capital of Taizhou Fuling.

In December 2005, Taizhou Fuling changed its name to Zhejiang Fuling Plastic Co., Ltd. Wenling Songmen and Total Faith added \$745,000 and \$255,000, respectively, to the registered capital.

In November 2006, Taizhou Fuling changed its name from Zhejiang Fuling Plastic Co., Ltd. to Taizhou Fuling Plastics Co., Ltd. and extended its term from 15 years to 25 years. In July 2015, Taizhou Fuling extended its term from 25 years to 45 years. Therefore, its term is from October 28, 1992 to October 27, 2037.

In November 2007, Wenling Songmen and Total Faith added \$670,500 and \$229,500, respectively, to the registered capital.

On March 12, 2009, Wenling Songmen, one of Taizhou Fuling’s two investors, changed its name to Wenling Fulin Plastic Products Co. Ltd.

In May 2014, Total Faith added \$7,530,000 of registered capital to Taizhou Fuling. Wenling Songmen waived its right to add registered capital. As a result, Total Faith and Wenling Songmen held 76% and 24%, respectively, of the equity interests in Taizhou Fuling at the time. The total registered capital was increased to \$11,110,000.

On May 28, 2014, Total Faith acquired Wenling Songmen’s 24% interest in Taizhou Fuling for RMB 29 million, which was funded by a loan from Wenling Songmen for RMB 12.6 million and capital investment from Ms. Jiang for RMB 16.4 million. In compliance with Chinese business regulations, in order to update business registration with State Administration for Industry and Commerce, the consideration should be determined based on “fair value” of the interest transferred, which was determined to be RMB 29 million, compared to RMB 16.4 million, the registered

capital owned by Wenling Songmen. Total Faith, Wenling Songmen agreed that loan would be settled automatically after the RMB 12.6 million paid to Wenling Songmen, which is the excess to the register capital. As a result of the acquisition, Taizhou Fuling changed its entity type from a Sino-Foreign joint venture to a wholly foreign owned enterprise (“WFOE”). Taizhou Fuling is now 100% owned by Total Faith.

Taizhou Fuling has three wholly-owned subsidiaries, Zhejiang Great Plastics Technology Co., Ltd. (“Great Plastics”), Fuling Plastic USA, Inc. (“Fuling USA”), and Direct Link USA LLC (“Direct Link”).

Great Plastics was incorporated in China in March 2010 and principally engaged in the production of drinking straws, cup and plate items. Fuling USA was incorporated in the Commonwealth of Pennsylvania in 2014. Fuling USA is establishing the Company’s first production factory in the U.S. and will principally engage in the production of cutlery and straw items. Direct Link was incorporated in the State of Delaware in 2011. Great Plastics and Fuling USA serve as import trading companies of Taizhou Fuling in the United States.

Prior to the incorporation of Fuling USA, we incorporated a similarly-named wholly-owned subsidiary in New York named Fuling Plastics USA Inc. (“Old Fuling USA”) in 2009. (Note that Fuling USA’s name is the singular Fuling Plastic, rather than the plural Fuling Plastics.) Old Fuling USA served as a trading company that imported certain products from our China facilities and sold them to our customers in the U.S. Since we incorporated Fuling USA in 2014 in Pennsylvania to coordinate our Allentown project, we no longer needed to maintain Old Fuling USA and reduced its operations in January 2014. Old Fuling USA was dissolved on April 8, 2015.

Total Faith effectively controls Domo Industry Inc. (“Domo”), a U.S. company established in the State of New York in October 2007, based on the fact that Domo’s equity at risk is not sufficient to permit it to carry on its activities without additional subordinated financial support from Total Faith. Total Faith is obligated to absorb a majority of the risk of loss from Domo’s activities and to receive the majority of Domo’s residual returns. Based on this arrangement, Total Faith has gained effective control over Domo and Domo is considered a Variable Interest Entity (“VIE”) under Accounting Standards Codification (“ASC”) 810-10-05-08A. Accordingly, Total Faith consolidates Domo’s operating results, assets and liabilities.

On January 9, 2015, Fuling USA transferred 100% of its interest in Direct Link to Taizhou Fuling, and Ms. Jiang transferred her 49% interest in Domo to Total Faith, both in connection with the reorganization of our corporate structure in preparation for our initial public offering. On February 19, 2015, Ms. Jiang transferred her interest in Total Faith, which is 100% of the equity of Total Faith, to FGI. At the completion of these transactions, (i) Total Faith owns 49% of the equity of Domo but maintains effective control; (ii) Taizhou Fuling owns 100% of the equity of Direct Link; (iii) FGI owns 100% of the equity of Total Faith; and (iv) eight shareholders own 100% of the equity of FGI.

In November 2015, we completed our initial public offering, in which we offered and sold an aggregate of 4,038,423 ordinary shares. We received approximately US \$20 million in proceeds before expenses. Our ordinary shares are

listed on the Nasdaq under the symbol “FORK.”

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In November 2015, Total Faith increased Taizhou Fuling's registered capital from \$11.11 million to \$21.63 million.

In September 2016, Taizhou Fuling established Wenling Changli Import and Export Co., Ltd. ("Wenling Changli") in China. Wenling Changli's main business is to export materials from China to our Allentown facility.

In November 2018, Great Plastics signed sales contracts (the "Contracts") to sell the real properties previously used as one of its manufacturing factories in China the "Sanmen Factory") to Zhejiang Zhongye Packaging Technology Co. Ltd., an unrelated third party, for total cash consideration of RMB 40.2 million (approximately US\$5.8 million). We have relocated almost all of related machines and equipment to our new Wenling Factory. We plan to dissolve Great Plastics by September 2019 when we expect certain administrative matters will be resolved.

We are in the process of setting up manufacturing operation under the maquiladora model in Monterrey, Mexico (the "Mexico Factory"). In December 2018, we signed a building lease with Interpuerto Industrial Park in Monterrey, Mexico and a service agreement with a local shelter service company to help with administrative, accounting, compliance, import/export, human resources, etc., at the Mexico Factory. The local shelter service company established a shelter company which is not legally owned by us. We signed a maquila services agreement with this shelter company in January 2019 according to which the shelter company will operate the factory. We pay for all the costs and expenses for the operation. In exchange the shelter company manufactures the products and ship them to us for sales in the U.S. Factory renovating is expected to start in April 2019, followed by equipment installation and testing and worker recruitment in May 2019. We expect that the first phase of the Mexico Factory will have an annual design capacity of 10,000 tons and will be primarily used for producing plastic and paper straws and paper cups serving the U.S. market. We expect to launch commercial production at the Mexico Factory by July 2019.

We are in the process of constructing our Wenling factory and expanding our Allentown factory. Our Wenling factory is under the second phase of the construction which is expected be completed in August 2019.

**B. Business Overview**

We have been in business since 1992. In the beginning, however, we did not produce the disposable serviceware products we produce today. Instead, for our first 10 years, we sold plastic household articles, baskets and other plastic products mainly in Europe. During this time, we were a relatively small company generating a few million dollars per year in revenue.

In 2003, the focus of our company changed dramatically. We met a company from Pennsylvania at the China Import and Export Fair in 2003, and they were looking for a supplier of disposable plastic serviceware products to serve one of their large customers. Although we had not, at that time, ever produced cutlery of any type, we saw the opportunity to help this company, which had more than 70 years of operating history, meet its production requirements for a large customer.

Many of our competitors turned away from an opportunity like this, since the production of disposable serviceware was seen as a low profit venture. Although the profit margins were lower, the revenues were significantly higher, allowing us to reach revenues of more than \$10 million per year in 2003 and 2004.

Our customer was pleased with the quality of our products, and we began to increase our production levels to meet the new demand. There were, of course, some challenges along the way as we learned the requirements and increasing environmental sensitivities of our new industry. For example, we were initially unprepared for the audits conducted by QSR chains when the customer's Shanghai branch first visited our factory. After failing that first inspection, we tirelessly worked to address all of the issues noted and succeeded in passing the audit just seven short days later.

As we increased our business supplying our first QSR chain, other customers sought us out to provide disposable serviceware products as well. Continued growth raised our sales to approximately \$20 million per year in 2008.

In 2009, we started to work directly with U.S. customers rather than through intermediaries. Although this decision has been an important component of our long-term success, our orders temporarily decreased, affecting our sales during the period, as some distributors sourced products from some of our competitors that lacked the ability to compete directly with such intermediaries.

We saw these challenges as an opportunity to continue growing our business. We began our own research and development efforts to differentiate our company from the numerous small Chinese factories that were capable of filling existing demand but lacked the ability to develop new materials and production machines. We have also retained Mr. John Kunes, an experienced executive in the U.S. plastic foodservice disposable industry, who was instrumental in helping us build direct relationships with QSR chains. Mr. Kunes currently serves as an Executive Vice President of Fuling USA.

As we have grown into a mature company in our industry, we have developed four main types of customers:

1. Dealers

2. QSRs

3. Manufacturers

4. Retailers

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**Our Industry**

***Foodservice Disposables — Generally***

The foodservice disposables industry is segmented into (1) packaging, (2) serviceware and (3) napkins and other disposables. According to a 2013 report by the Freedonia Group, demand for the entire foodservice disposable industry is projected to reach \$19.7 billion by 2017, representing compound annual growth of 3.6% per year from 2012 sales of \$16.5 billion. This projected growth rate is based on a historical compound annual growth rate of 3.7% from 2007 through 2012. The industry projection consists of a blended compound annual growth rate of 4.1% in packaging, 3.2% in serviceware and 2.2% in napkins and other disposables, compared with historical compound annual growth rates of 4.1%, 3.5% and 2.3%, respectively, in the 2007 to 2012 period.

***Serviceware Segment***

Our products consist predominantly of serviceware, which includes cutlery, drinking straws, cups and plates. Approximately 45.5% of foodservice disposable sales were for disposable serviceware:

(The Freedonia Group, Inc.)

Serviceware segment's total revenues in 2012 were \$7.5 billion, compared with \$6.3 billion in 2007. By far, the largest component of serviceware products is cups, including beverage cups and portion cups, which accounted for approximately 55% of demand in the segment in 2012. According to 2014 polls conducted by Experian, nearly 65% of U.S. households use disposable cups and plates, and of those who use such products, more participants said they use the store brand (26.5%) than the next highest brand preference (20.1%). For companies like ours, which produce products under the brand names of our customers, the absence of strong brand loyalty in our industry is positive news.

Demand for serviceware has been driven by continued strength in QSR demand and the growth of limited service restaurants and retailer in-store cafes and snack bars.



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***Raw Materials in Foodservice Disposables Industry***

Foodservice disposables use a variety of materials, depending on the intended use of such disposables. Approximately 7.3 billion pounds of raw materials were used in manufacturing foodservice disposables in 2012:

(The Freedonia Group, Inc.)

Paper products are commonly used for bags, soda and coffee cups, napkins and wrapping papers. Aluminum foil products are often found in limited service restaurant take-out containers and foil/paper laminated wraps. Plastics (including a variety of polystyrene ("PS"), polypropylene ("PP"), polyethylenes and degradable resins) are seen in utensils, straws, clamshell containers, cups and container lids.

Plastics have an important role in the foodservice disposables industry, due to their impressive range of appropriate uses: keeping food hot, keeping food cold, low cost, light weight, water-tightness, clarity, flavor neutrality and malleability for different uses.

While we believe we are able to produce products that can be used for a variety of uses, we also recognize that specific products may be better suited for desired uses: for example, while we produce plastic drinking straws and are able to produce plastic wrappers for such straws, our customers typically prefer that we obtain paper wrappers for the straws we provide to them, both for cost reasons and also for safety reasons, as wet plastic wrappers may become pose accident risks on QSR floors.

Moreover, even where plastic products are well suited to specific uses, consumer preferences may affect demand. For example, few materials are better suited to keeping coffee warm (and avoiding burning the hands holding that coffee) than foamed polystyrene cups; however, due to environmental concerns some QSRs and other customers have chosen paper cups and cardboard sleeves as an alternative to foamed polystyrene. Indeed, some municipalities and states in the United States have proposed regulations that would prevent such cups from being sold.

To address these consumer requirements and to anticipate local ordinances, manufacturers like our company have researched and developed environmentally-friendly alternatives to traditional plastic products. As of 2012, degradable

products accounted for almost 2% of the total foodservice disposables revenue in the United States. Cups and containers made up approximately 75% of that demand. Degradable plastics consist primarily of starch-based plastics and polylactic acid (“PLA”).

### **Our Products**

While a majority of our products purchased by our customers use the above-mentioned PP, PS including General Purpose Polystyrene (“GPPS”) and High Impact Polystyrene (“HIPS”), and PET, we focused on developing more environmentally-friendly solutions in order to continue to compete as our target markets’ environmental laws become more stringent. We have already seen products like foamed polystyrene banned or heavily restricted in some of our target markets. We believe that by providing biodegradable disposable food service items, we may find a competitive advantage over companies that produce only traditional, less environmentally-friendly products.

In addition to plastic serviceware, we also produce paper straws and paper cups. We have been manufacturing paper cups in our Songmen factory since 2017. In 2018, we launched paper straw product after installing 35 paper straw production lines in our new Wenling factory.

We have collaborated with the Technical Institute of Physics and Chemistry, Chinese Academy of Sciences in research regarding foodservice disposables technology in materials, processes and systems. Under the terms of the Technology Development & Cooperation Contract between Taizhou Fuling and Chinese Academy of Sciences, the right to apply for a patent of an invention or creation and the right to use the know-how achieved in cooperative development shall be jointly owned by the parties thereto. Moreover, according the PRC Contract Law, if the Chinese Academy of Sciences transfers the right to apply for a patent, Taizhou Fuling has the right of first refusal under the same conditions.

It is through these collaborations that we have secured important breakthroughs resulting in proprietary knowledge and patents. Currently our research focuses on the latest biodegradable materials, including Polybutylene Succinate (“PBS”), PLA, and cellulose.

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PBS is crystallized biodegradable polyester. As PBS decomposes naturally into water and carbon dioxide, it is a biodegradable alternative to some common plastics. It is both a green and environmentally-friendly material. It has high mechanical performance, good toughness, good thermal stability, and a wide range of processing temperature 1. and high heat deflection temperature. PBS can be processed by various molding ways with normal equipment. To meet the requirements of various products, it can be mixed with other biodegradable or natural materials, such as PLA, polypropylene carbonate (“PPC”), polyhydroxyalkanoates (“PHAs”), Polycaprolactone (“PCL”) and starch or wood powder.

PLA is a biodegradable thermoplastic aliphatic polyester derived from renewable resources, such as corn starch (in 2. the United States), tapioca roots, chips or starch (mostly in Asia), or sugarcane (in the rest of the world). In 2010, PLA had the second highest consumption volume of any bioplastic of the world.

Cellulose is an organic compound. It is the most abundant organic polymer on Earth. Cellulose has no taste, is 3. odorless, is insoluble in water and most organic solvents and is biodegradable. Hydroxyl bonding of cellulose in water produces a sprayable, moldable material as an alternative to the use of plastics.

Our advanced R&D center in Wenling, Zhejiang aims to develop five new products every year. While our ability to maximize use of biodegradable materials will ultimately hinge on customer demand, we seek to maximize the environmental friendliness of our products. For a list of some of our recent research projects, see “BUSINESS — Research and Development.”

## Our Environmental Stewardship Measures

We endeavor to increase our production of environmentally-friendly products and reduce pollution in the production process. We have formulated various environmental manuals and policies, including *Environmental Targets*, *Environmental Measure Implementation Plan* and *Environmental Training Management Procedure* . We also have founded an environmental management group whose members have relevant environmental management qualifications and experience. We keep complete records of our clean production files. We have implemented examination equipment for monitoring pollution and full operations records of our environmental protection facility. We strictly comply with laws and regulations about environmental protection and comprehensive utilization of resources. We have never been penalized by any environmental protection governmental agency.

We have obtained several environmental stewardship-related certificates for our management systems that are listed in the following table.

## **Fuling Environmental Stewardship-related Certificates**

Issuing Authority	Certificate	Recipient	Standard	Applicable to	Valid Period
Beijing Zhong-An-Zhi-Huan Certification Center	Environmental Management System Certificate	Taizhou Fuling	GB/T 24001 — 2016/ISO 14001:2015	Plastic drinking cups and disposable plastic tableware production and service	2017-09-19 until 2020-09-13
Beijing Zhong-An-Zhi-Huan Certification Center	Environmental Management System Certificate	Great Plastics	GB/T 24001 — 2016/ISO 14001:2015	Production and related activities of disposable plastic cutlery and plastic cups	2017-09-19 until 2020-09-13

## **Production Strategy**

### ***Product Mix***

While we will continue to improve our traditional serviceware segment offerings, we plan to grow our packaging segment. Our customers in this segment are mainly retailers and wholesalers. We launched clamshell product in 2018 after installing one clamshell production line in our new Wenling factory. While packaging materials currently constitute a small percentage of our sales revenue, we aim to achieve significant growth in this segment. Our decision is based on following reasons:

- (1) Our packaging products have the same customer base as our serviceware products.
- (2) Several big cities including New York have discussed or announced bans on some level of plastic foam containers. Many of these containers are made of a plastic resin known as expanded polystyrene. These polystyrene materials are difficult to recycle and do not bio-degrade naturally. Considering the amount of plastic foam containers consumed every day in big cities which will soon be banned and increasing political and socioeconomic pressures, we estimate that environmentally-friendly packaging products like ours will be competitive alternatives for a variety of new customers.
- (3) Our R&D efforts and production facilities have prepared us to provide advanced environmentally-friendly packaging products to meet demand.

In addition, we launched paper straw product in 2018 after installing 35 paper straw production lines in our new Wenling factory. Our customers for this product involve retailers, wholesalers, QSRs and restaurants. As more and more fast food restaurants and coffee chains started using paper straws, we believe our sales on paper straws will keep growing.



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*Manufacturing Locations*

**Mexico Factory**

*Decision to Invest in Mexico*

We decided to start production in Mexico for the following reasons:

- 1) The ongoing U.S.- China trade tensions cast uncertainties for our export business to the U.S. market, our largest market segment that accounted for 85% of our revenues during the first half of 2018. By contrast, Mexico has free-trade agreements with over 45 countries around the world, including U.S., making Mexico a perfect launch pad for global manufacturing. In addition, under the maquiladora (shelter) structure that we are using, we are exempt to pay taxes in Mexico because all of our products will be shipped to U.S. for sale.
- 2) Mexico is only hours or at most a few days from U.S. supply outlets and market; the value chain between these two countries is very short, reducing transportation costs and production time. Especially for the cups and straws or similar hollow products which cannot be packed as tightly as cutlery and cause shipping costs as a higher percentage of the total cost, producing them in Mexico instead of China and shipping them to U.S., especially to the south of U.S. will save us a lot of shipping fees.
- 3) Mexico also has highly skilled and productive workforce. The Mexican maquiladora, which we are using now, is capable of handling skilled manufacturing operations while maintaining a high rate of production.
- 4) Mexico has a large population and is a significant consumer market. In addition, it is the gateway to the markets in Latin America. Once we establish a presence in Mexico, we can explore the opportunities of entering the Latin American markets a few years down the road.

*Mexico Project Plan*



## Schedule

On December 11, 2018, we signed a service agreement with Disenos E Ideas Mexicanos, S.A. DE C.V. (“DIMS”), which provides services of administration, accounting, compliance, import/export, human resources, etc., for our Mexico operation. DIMS is a Mexican shelter services provider that incorporates a separate shelter company, Mayenco, S. de R.L. de C.V., (“Mayenco”) in Mexico by providing a legal representative. Mayenco is owned by DIMS from a legal standpoint and is contracted by Fuling USA to manufacturing products in Mexico and then ship to the U.S. for us to sell. The shelter program allows foreign companies to manufacture in Mexico without being required to organize and operate their own subsidiary, for example, as a Mexican corporation.

On December 20, 2018, we, as a guarantor, through Mayenco as the lessee signed a lease agreement for a piece of land and a building located in Interpuerto Monterrey Industrial Park, Mexico to use as our factory. The building is 7,804 m<sup>2</sup> (approximately 84,002 square feet). From December 20, 2018 to June 30, 2019, we occupy 5,471 m<sup>2</sup> while another tenant occupies the rest. On July 1, 2019, after the other tenant moves out, we will occupy the entire building. The lease has a term of 50 months, expiring in February 2023, with an option to extend the lease for an additional two years. According to the lease, after the grace period from December 20, 2018 to February 14, 2019 during which we only needed to pay the maintenance fees, we started to pay the monthly rent from February 2019. For the first four months, the monthly rent is \$20,899 plus tax. After four months, the monthly rent will be \$29,810.47 plus tax.

On January 2, 2019, we signed a maquila services agreement with Mayenco. The term of the agreement is one year and will be renewed automatically unless terminated in advance by any party. According to the agreement, we are obligated to provide the machinery, raw materials, technology and processes to manufacture our products and pay for all the expenses and costs. Mayenco is obligated to manufacture, assemble and deliver the products to us or to whom we appoint.

Currently we are delivering production machinery from China to Monterrey, Mexico. Factory renovating is expected to start in April 2019, followed by equipment installation and testing and worker recruitment in May 2019. We expect to launch commercial production at the Mexico Factory by July 2019.

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**Estimate of the amount of expenditures**

The total investment spent for the first phase of the project will be roughly \$4 million, including approximately \$3.5 million of fixed asset investment, and \$0.5 million of working capital. We plan to finance the project with a capital investment of approximately \$2.0 million in equipment and machinery in 2019 and internal cash flow of 2.0 million. If we choose to increase production capability, we will incur additional costs.

**Production Capacity**

We expect that the first phase of the Mexico Factory will have an annual design capacity of 10,000 tons and will be primarily used for producing paper straws, paper cups and plastic straws serving the U.S. market.

**Environmental Considerations**

The major products that we plan to produce in the Mexico Factory are paper straws and paper cups. In the U.S., more and more fast food restaurants and coffee chains including Starbucks announced that they are ditching plastic straws and opting for eco-friendly alternatives, such as paper.

Our company will strictly follow applicable environmental regulations and policies in Mexico.

***Location***

Below is a diagram of the location of our Mexico facility.

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*Facility*

Our Mexico facility structure consists of 84,002 square feet of building area:

**Allentown Operation**

*Decision to Invest in U.S.*

The United States is one of the world's largest users of foodservice disposables; however, the United States has historically relied on imported products, as U.S. manufacturing has been unable to meet the required pricing levels. We previously produced substantially all of our products in China and shipped them to the United States for warehousing and sale. In 2014, we commenced construction of a facility in Allentown, Pennsylvania. Because of our success in automating the manufacturing process, we believe that the Allentown facility provides us a platform to manufacture products in the United States, particularly where doing so is cost effective for us.

Of the three categories of products we produce, the production of cutlery continue to occur in China, since our cutlery production process is already heavily streamlined and the cost savings we receive from labor cost differences between the U.S. and China, combined with our ability to pack shipments densely for transportation to the United States, makes it cost-effective to maintain production in China at present.

By contrast, cups and straws or similar hollow products are less cost effectively produced in China, since these products cannot be packed as tightly as cutlery. As a result, shipping costs tend to be a higher percentage of the total cost of these products. If we have substantial and consistent orders, we plan to fill the majority of such orders for drinking straws and cups from our Allentown factory before our Mexico factory is set up and is capable of handling a large amount of orders.

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The factors involved in determining where we will manufacture a given product generally consist of the following:

1. *Labor costs.* Currently the United States is much more expensive per hour for laborers, although U.S. laborers tend to be more productive in the same amount of time.
2. *Raw materials.* The United States is slightly more expensive for raw materials that we use in production of our products than China is. However, with the increased tariffs stemmed from the trade conflict between U.S. and China, this differential is narrowing and in some materials, we found that U.S. offers a more cost effective sourcing.
3. *Electricity.* Electricity needed to produce our products costs more in China than in the United States.
4. *Shipping.* If we ship the products from China to the United States for sale, shipping costs can account for up to 40% of the price of the product, depending upon the location and the product.
5. *Taxes.* Taxes on our income for sales in the United States are different with the taxes for sales in China.

As a result of analyzing these factors, we determined that it was in the best interest of our company to invest in America, hire U.S. workers and produce certain of our products in Allentown. We are manufacturing drinking straws in our Allentown facility.

### ***Decision to Invest in Allentown***

Based on the above analysis of the merits of moving production of some of our products to the United States, our next decision was where to invest. We chose Allentown, Pennsylvania as the city to develop our first production line in the United States because of its superior geographic location, strong economic status, and ties to China.

Allentown is Pennsylvania's third most populous city and is currently the fastest growing city in Pennsylvania. Part of the New York City Metropolitan Area, Allentown is 50 miles north-northwest of Philadelphia, the fifth most populous city in the United States; 90 miles east-northeast of state capital Harrisburg and 90 miles west of New York City, the nation's largest city.

Four expressways run through the Allentown area, and the city is also a regional center for commercial freight rail traffic and is close to several major airports. As a result, we expect transportation of our products to our customers will be convenient and efficient.

Pennsylvania is home to fifty Fortune 500 companies. Pennsylvania's 2017 total gross state product of \$752 billion ranks the state 6<sup>th</sup> in the nation. If Pennsylvania were an independent country, its economy would rank as the 18th largest in the world. Moreover, Pennsylvania has a beneficial taxation policy that was attractive to our company in deciding where to locate manufacturing operations. In Pennsylvania, personal income tax is a flat 3.07%. The corporate net income tax is 9.9% and is levied on federal taxable income, without the federal net operating loss deduction. In addition, Pennsylvania allows a 20-year net operating loss carry forward of up to \$2 million a year.

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Finally, Pennsylvania has a strong trade relationship with China. Other than Canada and Mexico, China was the largest destination for exports from Pennsylvania, with \$2.7 billion in exports in 2017.

***Allentown Project Plan***

**Estimate of the amount of expenditures**

The total investment spent on the project was roughly \$9.3 million, including approximately \$4.3 million of fixed asset investment, and \$5.0 million of working capital. If we choose to increase production capability, we will incur additional costs.

**Schedule**

We signed the lease of the factory and acquired property for our Allentown facility in 2013 for approximately \$235,100. For the year ended December 31, 2018, we paid rental fees of approximately \$47,000 per month, including tax and insurance. As of the time of this filing, we have paid approximately \$1.9 million for factory renovations. In addition, we rented a warehouse of 17,000 square feet nearby for approximately \$11,000 per month since June 2016.

The preparatory work for the project began in the second half of 2013, and in October 2013 we committed with the Pennsylvania Department of Commerce to invest and build the factory in Pennsylvania.

We completed preparations for the preliminary stage of the project in early 2014. From May 2014 to December 2014, we finished the construction and renovation of the factory.

From January 2015 to May 2015, we purchased and installed the initial six straw production lines at a cost of approximately \$1 million. As of June 2016, we installed an additional six straw production lines at a total cost of about \$610,000. All twelve production lines have been in full operation and running 24/7 with 4 shifts of operators throughout the remainder of 2016.

Instead of putting in another 12 straw production lines as we originally planned, we plan to diversify our product offering in Allentown and use the space to bring in other manufacturing processes. From March 2016 to February 2017, we successfully tested and installed six automated straw packaging machines – one machine for every two lines. As of the end of 2016, we installed a ten-silo raw material storage and automatic distribution system was installed that is able to hold 430 metric tons of resin.

In 2017, we only made minor capital expenditures. We completed the installation of a raw material distribution system that included construction of ten silos outside the factory building for storage of plastic materials. We focused on optimizing the utilization of our existing equipment in Allentown and increased productivity by about 30%. At the same time, we reduced our labor cost per ton output by 40% and caused Allentown operations to become profitable in the second half of 2017.

In 2018, we planned to initiate paper cup manufacturing at the Allentown facility with a \$2.5 million projected investment on machinery. The project was delayed because our technical experts on paper cup in China did not get visas to come to the U.S. In addition, the U.S. tariff on importing paper boards, the major raw material to produce paper cups, increased in 2018. Then we shifted the focus to starting up Mexico.

In 2019, if the demands of straws increase substantially, we will add straw production machines.

### **Production Capacity**

The designated annual capacity is 2,400 tons of straw series products with the 12 straw production lines put into operations. We consistently reached 100% capacity in 2018 producing 2,302 tons for the year, an increase of 33.7% from 2017. The plant operates 24/7 throughout the year except on holidays and days under unusual weather conditions. In 2019, we will strive to exceed the 2,400 ton designed capacity. However, if demands increase significantly, we will add new machines.

### **Environmental Considerations**

The products from the Allentown project are designed to meet the environmental protection trends in the United States. The project's products are disposable plastic straws, which can be customized according to the specific needs of customers: either custom manufactured biodegradable products or general products. In the U.S. market, our customers are increasingly requesting biodegradable products. With the growing awareness of environmental protection and the implementation of local government initiatives limiting plastic use and/or favoring recyclable or biodegradable products, we expect we will see demand for biodegradable products increase in the future. We have designed the Allentown project to be able to deliver products that address these trends.

Our company will strictly follow applicable environmental regulations and policies including the National Environmental Policy Act, and other related policies such as the Clean Air Act and the Clean Water Act.



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***Location***

Below is a diagram of the location of our Allentown facility.

As can be seen in the above map, the Allentown facility is located conveniently near the intersection of the Lehigh Valley Thruway (U.S. Route 22), which stretches from Cincinnati, Ohio to Newark, New Jersey, and Pennsylvania Route 100, which runs from Pleasant Corners through Philadelphia and into Chester County, Pennsylvania. In addition, the facility is less than 10 minutes from I-78, a major road that sees more than 4 million trucks annually and links New York City and New Jersey with western points.

In addition, its proximity to Lehigh Valley International Airport and Newark Liberty International Airport, both of which serve scheduled airlines and cargo traffic, executive aviation as well as various logistics cargos, makes this area attractive and fitting for this facility.

***Facility***

Our Allentown facility structure consists of 88,000 square feet on 7.7 acres of land:

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The current build-out plan is as depicted below. The blue figures in the left lower corner represent our first 6 straw production lines that we installed in 2015. The green figures in the middle represent the second six straw production lines we installed in 2016. The red and green figures to the right represent paper cup manufacturing and plastic equipment we plan to install in the future.

### ***Current Stage***

We have installed (1) twelve straw production lines, (2) six automated straw packaging machines – one machine for every two lines; and (3) a ten-silo raw material storage and automatic distribution system. Our total investment in manufacturing equipment has reached approximately \$2.3 million.

## **Wenling Expansion**

### ***Decision to Build a New Factory in Wenling***

We decided to invest in building a new factory in Wenling for the following reasons:

1) By building a new factory, we can meet the growing demand for our products. Currently the extent of utilization of our old factory in Songmen Town of Wenling has reached 100% as expected. A new factory will allow us to expand our production capacity.

2) The location of this new factory is in the Eastern New District of Wenling, only 5 km from our Songmen factory, so it is easy for us to integrate the new factory into our business operations and leverage our existing resources to grow the new facility.

3) The location of our new factory is only 15 km from the Longmen sea port, which is convenient for us to ship our products.

### ***Wenling Project Plan***

The project construction period is budgeted from April 2016 to December 2019, divided into three phases.

We estimate the total amount of expenditures is approximately \$63 million. We have financed the expansion with IPO proceeds, self-generated cash flow and profits from operations, and will keep financing it with self-generated cash flow and profits from operations. We have spent approximately \$50 million on purchase of land use right, construction of facilities and equipment purchase. The major equipment we plan to install includes 141 injection molding production lines and 26 vacuum thermoforming production lines in total. The 141 injection molding production lines will produce cutlery, plates, cups and bowls. We anticipate that 8 of the 26 vacuum thermoforming production lines will produce cups, and 18 of the vacuum thermoforming production lines will produce plates, cup lids and various types of containers, such as vegetable containers, fruit containers and packaging containers. Currently we have installed 129 injection molding production lines and 23 vacuum thermoforming production lines. We anticipate that the production capacity will be increased by 47,150 tons after completion of the project.

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The following chart shows the specific status/plan:

	Phase I	Phase II	Phase III
Period	April 2016 – May 2017	August 2017 – August 2019	September 2019– December 2019
Actual/estimated expenditures required	\$31 million 1) Purchase of land use right: \$10 million for 32.45 acres (197 mu); 2) Construction of facilities: \$13 million for 54,450 square meters of manufacturing facilities; 3) Equipment purchase: \$8 million.	\$26.1 million 1) Construction of facilities: \$13.1 million; 2) Equipment purchase: \$7 million; 3) R&D: \$6 million.	\$5.5 million 1) Equipment purchase: \$1.5 million; 2) R&D: \$4 million.
Financing resources	IPO proceeds and self-generated cash flow	Profit from operation in 2016, 2017 and 2018	Profit from operation in 2018
Actual/Anticipated increase in production capacity	24,250 tons	13,000 tons	2,900 tons
141 injection molding production lines	95 (capacity of 14,250 tons)	40 (capacity of 6,000 tons)	6 (capacity of 900 tons)
26 vacuum thermoforming production lines	10 (capacity of 10,000 tons)	14 (capacity of 14,000 tons)	2 (capacity of 2,000 tons)

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**Environmental Considerations**

The production lines that we plan to install are capable of producing biodegradable products.

This new factory is located in the Eastern New District of Wenling. Below is a diagram of the planned location of our Wenling facility and the location of Longmen sea port which our facility will use. The star represents the proposed location of the factory, and the triangle represents the newly-built Longmen sea port.

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***Facility***

Our new Wenling facility structure consists of 107,800 square meters on 33.27 acres of land. The plan includes four workshop buildings, one warehouse, two dormitory buildings and one office building. We have built three workshop buildings and one warehouse which occupy 54,000 square meters in total. Another workshop building of 20,700 square meters is under construction. The two dormitory buildings consist of 380 rooms and can accommodate 1,520 workers. Workers have moved into these dormitory buildings. The office building occupying 7,000 square meters is under construction. We expect it will be ready in August 2019.

Our New Workshop Building in Wenling

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**Seasonality**

Our main business does not have significant seasonality.

**Raw Materials**

Our primary raw materials are (1) PP, PS which includes GPPS and HIPS, and PET, (2) plastic bags and membranes for packaging cutlery, (3) shipping cartons, (4) plastic colorants, (5) paper board for paper straws, (6) paper napkins, salt, pepper and wet wipes for inclusion in cutlery packages and (7) labeling materials. We purchase our raw materials from a variety of suppliers, including more than ten suppliers of our key raw material, granular plastic resin. As we have a variety of options to supply us with raw materials for our products and the technical demands of preparing such raw materials are relatively low, we do not anticipate any difficulties in obtaining raw materials to produce our products. We are not reliant on a single supplier for any of our raw materials, and we expect we would be easily able to replace any of our suppliers if we needed to do so.

Plastic resin constituted approximately 75.5% of our raw material purchases in 2018. Plastic costs have recently been volatile as a result of significant fluctuations in petroleum prices. The company considers only plastic resin cost fluctuations to be material, given resin price volatility and plastic's percentage of the cost of our products. We have historically been able to pass price fluctuations on to our customers. We do this in two ways.

First, for orders of our products by customers without long-term supply agreements with our company, we simply base the price quoted to the customers on current commodity prices. As raw material prices increase and decrease, we are able to adjust the price of our products as necessary.

Second, for our supply agreements for customers that have long-term supply agreements, such as a QSR that sources straws in a five-year agreement, we provide adjustable pricing that will fluctuate in part based on changes in plastic resin costs. Our client website maintains commodity prices to enable both parties to track such fluctuations.

For these reasons, we believe we will be able to adjust our pricing of products to allow us to maintain margins, serve our clients, and to avoid shortages in raw materials in the event of price increases.

**Marketing Channels**

We mainly rely on our sales team to market our products. In addition, we attend trade fairs both in China and in U.S. frequently. We also market our products through our websites.

**Distribution Channels*****Geographic Distribution of Revenues***

Although the vast majority of our customers are in the United States, we sell our products around the world. Following is a summary of our total revenues by geographic market for each of our last three fiscal years. All amounts are presented in thousands of U.S. dollars. Please note that the revenue here does not include our income from sources other than our serveware products, which are mainly sales of raw materials and recyclable waste.

(All amounts in thousands of U.S. dollars)

<b>Region</b>	<b>2018</b>		<b>2017</b>		<b>Year-over Year Increase</b>		
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>Percentage</b>	
United States	\$118,308	85.32 %	\$106,564	85.79 %	\$11,744	11	%
Europe	6,622	4.78 %	6,101	4.91 %	521	9	%
Canada	1,636	1.18 %	1,944	1.57 %	(308)	-15.84	%
China	8,286	5.98 %	7,741	6.23 %	545	7.04	%
Others	3,812	2.75 %	1,859	1.50 %	1,953	105.06	%
Total	\$138,664		\$124,209		\$14,455		



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Our approach to competition in the market depends largely on the type of customer we seek to serve, as various customer industries have different priorities for their purchasing decisions. Historically, we have sold our serviceware products to four categories of customers (below estimates include sales through distributors to ultimate customers):

Type of Customer	Products Sold	Geographic Region	Estimated Sales % In 2018		Estimated Sales % In 2017		Estimated Sales % in 2016	
Dealers	Serviceware, Straws, Cups, Plates	USA, Europe, Canada, others	46	%	46	%	67	%
QSRs	Serviceware, Straws, Cups	USA, China	27	%	29	%	27	%
Retailers	Serviceware, Straws, Cups, Plates	USA, others	7	%	4	%	1	%
Manufacturers	Serviceware	USA	20	%	21	%	5	%
Total			100	%	100	%	100	%

***Distribution Channels***

When we began to produce serviceware, we sold our products through distributors that had existing relationships with the ultimate customers looking to purchase our products. Beginning in 2009, we began to sell directly to such purchasers. For the years ended December 31, 2018, 2017 and 2016, approximately 34%, 33% and 28% of our sales were made directly to end-users and retailers, respectively, and approximately 46%, 46% and 67% of our sales were made to distributors including dealers, respectively. Although we believe we benefit from having direct relationships with QSRs, retailers and other end users, we also believe that strong relationships with distributors can allow us to penetrate smaller markets where we do not have the marketing resources to deliver our products directly.

**Methods of Competition**

Regardless of our customers' industry, our customers have clear expectations about the quality level and value they expect in purchasing disposable serviceware. We are subject to frequent quality audits on an ongoing basis from new

and existing customers, and we constantly engage in product testing to ensure that our products meet our customers' demands. Accordingly, although we describe below our interpretation of the relative weight given to purchasing decisions in our customer categories, you should not read the table to suggest that any of these features are unimportant to a customer. We have used four stars to reflect our belief that an element is crucial to the customer's decision-making, three stars to suggest that the element is very important, two stars to suggest that it is important and one star to reflect that the element is less important.

<b>Type of Customer</b>	<b>Quality</b>	<b>Delivery</b>	<b>R&amp;D</b>	<b>Service</b>	<b>Price</b>
Dealers	**	***	***	****	****
QSRs	***	****	*	****	**
Retailers	***	****	***	***	***
Manufacturers	****	**	**	**	***

### **Competitive Position**

The largest producers of foodservice disposables in the United States are significantly larger than our company. A recent report by Freedonia estimates that three companies control approximately 29% of the foodservice disposable market in the United States, and the top ten companies accounted for approximately 50% of the market in 2012. Because the entire foodservice disposable market in the United States consists of packaging, serveware and napkins, and other foodservice disposables — while we only compete in the serveware segment — we occupy a relatively small competitive position in the market as a whole.

Concentration in the foodservice disposables industry varies widely within specific market segments, with some segments dominated by a small number of producers. For example, Dart Container is the leading supplier of plastic foodservice beverage cups, followed by Pactiv and Berry Plastics. By contrast, the market for cutlery is more fragmented, with a growing portion of the market supplied by contract manufacturers in China. Among U.S.-based suppliers of foodservice disposable cutlery are Berry Plastics, D&W Fine Pack, Dart Container (including Solo Cup), Georgia-Pacific, Maryland Plastics, Pactiv, and Waddington Group. Most of these firms offer a number of different cutlery lines and are diversified into the production of straws and other foodservice disposables. In April 2012, D&W Fine Pack expanded its cutlery and straw offerings through its acquisition of Jet Plastica Industries. Prior to the acquisition, Jet Plastica claimed to be the largest manufacturer of straws in the U.S. Other suppliers of foodservice straws include Cell-O-Core, Earth Straws, New WinCup, Pactiv (via Spirit Foodservice), Rockline Industries, Royer, Stalk Market Products, and Stone Straw (Wentworth Technologies).

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Our primary competitors are the following companies. We have set forth our assessment of our companies' relative strengths and challenges. This table represents our belief about our competitive position and is based on our observations, rather than objective data except the ranking. The ranking is provided by the China Chamber of Commerce for Import and Export of Light Industrial Products and Arts and Crafts regarding China's plastic kitchenware and serveware companies for exports. Our assessment may not be shared by others, including such competitors, but it does represent management's assessment of our industry position. Moreover, the below statements of industry are based on our current knowledge in our industry; to the extent there are developments we have not learned about (for instance, if a competitor has licensing agreements with a founder, rather than obtaining a patent in its own name or if a competitor is in the midst of building an overseas manufacturing facility that has not yet been announced), the below information may be incomplete.

	Taizhou Fuling	Jiaxing Zhongli Plastic Co., Ltd.	Baohao Plastic & Hardware Production (Jiangmen) Co Ltd	Ningbo Homelink Plastic Product Manufacture Co., Ltd.
Ranking	2015: No. 3 2016: No. 2 2017: No. 2	2015: No. 6 2016: No. 8 2017: No. 6	2015: No. 2 2016: No. 6 2017: No. 3	2015: No. 1 2016: No. 1 2017: No. 1
Products	Disposable plastics serveware including cutlery, cups, containers, straws, etc.	Disposable plastic serveware including cutlery, cups, straws, etc.	Plastic and hardware household articles and gifts.	Disposable plastics serveware including cutlery, cups, straws, etc.
Overseas sales, marketing and production	Four warehouses and distribution centers in U.S. and two warehouses in and distribution centers. The only one that has established overseas manufacturing factory.	Sales office and warehouse in U.S.	Not known.	Sales office and warehouse in U.S.
R&D and Patents	Academician Expert Workstation; over 40 patents.	Not known.	Not known.	56 patents.
Customers	Dealers, QSRs including four of top	Dealers, QSRs, retailers, manufacturers.	Dealers, restaurants,	Dealers, restaurants,

	five, retailers, manufacturers.		retailers, manufacturers.	retailers, manufacturers.
	Participate in			
	initiating and			
	drafting the national			
Product specification standard	standard	No participation.	No participation.	No participation.
	<i>General Requirement</i>			
	<i>Of Plastic Disposable Tableware.</i>			

Nevertheless, we have been one of China's largest exporters of disposable serviceware. The China Chamber of Commerce for Import and Export of Light Industrial Products and Arts and Crafts has recognized Taizhou Fuling as Number 2 out of 12,013 plastic kitchenware and serviceware companies for exports from China in 2017, Number 2 out of 10,113 in 2016 and Number 3 out of 9,162 in 2015. In addition, we were rated one of top 10 enterprises of plastic industry (daily plastic household products) in China light industries in 2017 by China National Light Industry Council and China Plastic Processing Industry Association, based on our (1) revenue, (2) profit, (3) profit tax rate, and (4) business growth rate.

We have invested heavily (\$15,653,364 since 2013 to 2018) in research and development to increase our future competitive position, seeking to increase our use of environmentally-friendly materials, develop degradable and biodegradable materials, and reduce reliance on fossil raw materials. In addition, we have developed advanced robotics to produce our products more efficiently and at lower cost to be more competitive in the face of rising wages and higher quality demands.

### **Awards and Recognition**

The Company is fully ISO 9001 and 14001 certified and, importantly, has obtained HACCP, GMP and FDA food facility registration certifications.

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In addition, our company is rated a Category A enterprise of China Customs, which provides streamlined customs clearance measures. Taizhou Fuling has been a Category A enterprise since 2007 and submits a report on business management status to the PRC Customs every year. We understand that the PRC Customs re-validate the rating of Category A enterprises on an irregular basis, and the most recent written decision on re-validating Taizhou Fuling's rating of Category A enterprise was received on October 24th, 2014 from the PRC Customs.

Taizhou Fuling can maintain the rating of Category A enterprises of PRC Customs if Taizhou Fuling simultaneously meets the following requirements as a consignor and consignee of imported and exported goods according to the Measures of the PRC Customs for the Classified Administration of Enterprises promulgated by PRC General Administration of Customs:

- i. Having never committed the crime of smuggling, the act of smuggling or violation of the provisions on customs supervision and control for one consecutive year;
- ii. Having never been subject to any customs administrative punishment due to infringement on intellectual property rights by importing or exporting goods for one consecutive year;
- iii. Having not delayed nor defaulted on paying taxes or fines for one consecutive year;
- iv. Having gross import or export value of more than \$500,000 in the previous year;
- v. Having an error rate of import and export declaration of less than 5% during the previous year;
- vi. Having sound accounting rules, as well as truthful and complete business records;
- vii. Having taken initiatives in cooperation with customs administration, timely handling various customs formalities, and providing truthful, complete and valid documents and certificates to PRC Customs;
- viii. Submitting the Report on Business Management Status every year;
- ix. Handling the formality for reissuing and altering the Register Document for Customs Declaration of Consignees or Consigners of Import or Export Goods of the Customs of the People's Republic of China according to the provisions; and
- x. Having no bad records in the administrative departments and institutions of commerce, People's bank, industry and commerce, taxation, quality inspection or foreign exchange and supervision for one consecutive year.

In the last ten years, we have earned a variety of national, provincial and local honors, awards and certifications for our quality products and scientific research efforts:

**2018**

Top 10 Enterprises of Plastic Industry (Daily Plastic) in China Light Industries, 2018

Outstanding Technology Innovative Enterprise in Chinese Plastic Processing Industry

Leading Export Enterprise, Zhejiang Province

Famous Export Brand in Zhejiang (2018-2020)

**2017**

Top 10 Enterprises of Plastic Industry (Daily Plastic) in China Light Industries, 2017

Key supporting Zhejiang Enterprise

Top 20 Zhejiang Enterprise with Offshore Investment Bolstering Export Sales

Zhejiang Famous Trademark

Outstanding Returned Project of Zhejiang Enterprise, 2016

FSSC 22000 Certificate of Registration for Food Safety Management System

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**2016**

Top 10 Enterprises of Plastic Industry (Daily Plastic) in China Light Industries, 2016

China Credible Enterprise published by State Administration for Industry and Commerce of China)

Province Level Enterprise Research Institute – Zhejiang Fuling New Materials Research Institute (three years)

Taizhou Top 20 Growing Enterprise

**2015**

Deputy Chair of Zhejiang Plastics Industry Association

Wenling Top 10 Industrial Enterprise

Taizhou Export and Import Credit Enterprise (Grade A)

**2014**

Zhejiang Famous Export Brand

Zhejiang Famous Trademark

Wenling Star Enterprise

Taizhou Quality Enterprise Leader

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**Regulations**

We are subject to a variety of PRC and foreign laws, rules and regulations across a number of aspects of our business. This section summarizes the principal PRC laws, rules and regulations relevant to our business and operations. Areas in which we are subject to laws, rules and regulations outside of the PRC include intellectual property, competition, taxation, anti-money laundering and anti-corruption.

***Foreign Investment Restrictions Regulations***

Historically, the principal regulation governing foreign ownership of businesses in the PRC was the Guidance Catalogue for Industrial Structure Adjustments (the “Guidance Catalogue”). The Guidance Catalogue classified various industries into three categories: encouraged, restricted and prohibited. The Guidance Catalogue has been replaced by the Special Administrative Measures (Negative List) for Foreign Investment Access (2018), effective July 28, 2018 (the “Negative List”). The Negative List specifies the prohibited and non-prohibited (similar to the restricted in the Guidance Catalogue) industries for foreign investment. For the industries not covered by the Negative List, the foreign investment and the domestic investment have equal access. Foreign investors may not invest in the prohibited industries specified by the Negative List. For the non-prohibited industries on the Negative List, a foreign investor must obtain an investment permit. There are certain requirements on the equity ownership and the executive officers of the foreign invested enterprises. If PRC has certain equity requirements in certain investment fields, no foreign-invested partnership may be established. For example, pursuant to the latest Negative List, the provision of telecommunications services and value-added telecommunications services fall in the prohibited industry and the percentage of foreign ownership cannot exceed 50% (except for e-commerce).

According to the Negative List, our products are not prohibited. Therefore, our proportion of the foreign investment may be up to 100%. As a result, FGI’s investment in our Chinese subsidiaries is in compliance with the Negative List.



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***Intellectual Property Rights Regulations***

The Trademark Law of the PRC was adopted by the Standing Committee of the National People's Congress ("NPC") on August 23, 1982 and was amended on February 2, 1993 and October 27, 2001. The PRC Trademark Law Implementation Rules, or the Implementation Rules, were promulgated by the State Council on August 2, 2002 and became effective on September 15, 2002. The PRC is a signatory country to the Madrid Agreement and the Madrid Protocol. These agreements provide a mechanism whereby an international registration produces the same effects as an application for registration of the trademark made in each of the countries designated by the applicant.

According to the Trademark Law, the National Trademark Bureau under the SAIC is responsible for the registration and administration of trademarks throughout the country. A "first-to-file" principle with respect to trademarks has been adopted. If trademark owners deem an infringement to their trademarks constituted, they can file the dispute with the competent court or the relevant administrative department. Should the case be so serious as to constitute a crime, trademark owners may lodge a complaint with the relevant public security organization.

If the registered trademark owners intend to assign their registered trademark, a registered trademark transfer agreement shall be entered into between the owner and the assignee. The owner and assignee shall together apply to the National Trademark Bureau for registration of such assignment as prescribed under the Trademark Law.

Registered trademark owners may license other to use their registered trademark by concluding the registered trademark license agreement and such license agreements shall be subject to filing recordation with the National Trademark Bureau according to the Trademark Law. The licensor shall supervise the quality of the commodities on which such registered trademark is used, and the licensee shall guarantee the quality of such commodities.

The Measures for the Administration of Domain Names for the Chinese Internet, or the Domain Names Measures, were promulgated by the Ministry of Information Industry on November 5, 2004 and became effective on December 20, 2004. The Domain Names Measures govern registration of domain names with the internet country code ".cn" and domain names in Chinese. We have one website ([www.fulingplastics.com.cn](http://www.fulingplastics.com.cn)) governed by the Domain Names Measures.

The Measures on Domain Names Dispute Resolution, or the Domain Names Dispute Resolution Measures, were promulgated by the China Internet Infrastructure Center on February 14, 2006 and became effective on March 17, 2006. The Domain Names Dispute Resolution Measures require domain name disputes to be submitted to institutions authorized by the China Internet Network Information Center for resolution.

***Regulations on Tax***

The Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law"), promulgated by NPC on March 16, 2007 and put into force on January 1, 2008, imposes a uniform enterprise income tax rate of 25% on all resident enterprises in China, including foreign-invested enterprises, on all their income and a tax rate of 10% on non-resident enterprises on their income from the jurisdiction of PRC.

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Attention shall be paid to the fact that non-resident enterprises may be considered resident enterprises for the purpose of EIT if their de facto management bodies are located within the PRC territory and therefore their global income is subject to a tax rate of 25%. The Notice of the State Administration of Taxation on Issues Relevant to Foreign-registered Chinese-invested Holding Enterprises Determined as Resident Enterprises in Accordance with Actual Management Organization Standard (“Circular 82”), promulgated by the State Administration of Taxation (“SAT”), provides that, a foreign Chinese-invested enterprise, if it concurrently satisfies the following conditions, for the purpose of the EIT, shall be determined to be a non-domestically-registered resident enterprise when: (1) The places where the top managers and the top management departments that are responsible for implementing the routine production, management and operation of the enterprise, perform their duties within the territory of China; (2) The financial decisions (such as borrowing, lending, financing, financial risk management, etc.) and the personnel decisions (such as appointment, dismissal, remuneration payment, etc.) of the enterprise shall be made or be approved by the organization or the persons within the territory of China; (3) The primary properties, accounting books, company seals, summaries and archives of the board meetings and shareholders meetings shall be placed or kept within the territory of China; and (4) One half or more of the enterprise’s directors or top managers having rights to vote shall frequently reside within the territory of China. Our PRC counsel, Jingtian&Gongcheng Attorneys at Law advised that because we (“FGI”) are incorporated in Cayman Islands, we do not meet the conditions outlined in Circular 82, however, our tax residency status is subject to the discretion of the PRC tax authorities whose determination is hard to predict, so we will continue to monitor our tax residency status.

The implementation rules of the EIT Law provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for PRC tax purposes, any dividends we pay to our overseas shareholders which are non-resident enterprises as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10% unless any such non-resident individuals’ jurisdiction has a tax treaty with China that provides for a preferential tax rate or a tax exemption.

The Interim Regulations of the People’s Republic of China on Value-added Tax, promulgated by State Council on November 10, 2008 came into force on January 1, 2009, impose a Value-Added Tax at the rate of 17% on the revenues from sales of goods. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Raising the Export Tax Rebate Rates for Certain Commodities, promulgated by the Ministry of Finance and SAT on June 3, 2009, the export tax rebate rate is 13% for certain plastic products. In 2014, 99.6% of our products benefitted from the 13% export tax rebate.

In April 2018, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Tax Rate of Value-added Tax (Circular 32 of Finance and Taxation, 2018). The Notice clearly stipulates that, from May 1, 2018, for all taxpayers who have engaged in taxable sales of VAT or imported goods, where the original 17% and 11% tax rates were applied, the tax rates shall be adjusted to 16% and 10%, respectively. This can lighten the operation burden of enterprises to a certain extent.

### ***Foreign Exchange Regulation***

The Regulations of the People's Republic of China on Foreign Exchange Control, promulgated by State Council on August 5, 2008, lays the legal framework for foreign exchange control in PRC. A number of notices, implementing rules, replies and circulars are promulgated thereunder to clarify the regulations on the foreign exchange. Under these regulations, payments of current account items, such as profit distributions, may be made in foreign currencies without prior approval from SAFE provided that certain procedure is complied with. Where, however, payments of capital account is involved, such as RMB is to be converted into foreign currency for the purpose of remitting out of China to retire foreign currency-denominated loans, approval from or registration with appropriate government authorities is required. According to the SAFE Circular 142 i.e., Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises, promulgated by SAFE on August 29, 2008 and SAFE Circular 45, promulgated by SAFE on November 9, 2011, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes falling within the business scope approved by the relevant authority and may not be used for equity investments within the PRC. The use of such RMB capital may not be altered without SAFE's approval, and such RMB capital may not in any way be used to retire RMB loans where the proceeds of such loans have not been used.

The Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, promulgated by SAFE on November 19, 2012, materially amends and, therefore, simplifies the foreign exchange procedure then existing. Various special purpose foreign exchange accounts may be opened in different provinces, which was prohibited previously. The Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents, promulgated by SAFE in May 2013, provides for that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted through registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

We have obtained all material approvals and permits necessary for our operation in the PRC from SAFE and other PRC government authorities.

### ***SAFE Circular 37***

The Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, promulgated by SAFE on October 21, 2005 and designed to replace the former circular commonly known as "SAFE Circular 75", requires registration of PRC residents with local branches of SAFE with respect to their direct establishment or indirect control of an offshore entity (referred to in SAFE Circular 37 as "special purpose vehicle"), where such offshore entity are established for the purpose of overseas investment or financing, provided that PRC residents contribute their legally owned assets or

equity into such entity.

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SAFE Circular 37 further requires amendment to the registration where any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, divestiture or other material event.

Any violation of these registration requirements may, among other liabilities that may be imposed under PRC laws governing evasion of foreign exchange controls, cause the PRC subsidiaries of the special purpose vehicle be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and may cause the special purpose vehicle's ability to contribute additional capital into its PRC subsidiary be restricted.

***Regulation of Dividend Distribution***

The Company Law of the People's Republic of China, promulgated by Standing Committee of the NPC on December 28, 2013 and came into force on March 1, 2014, and the Wholly Foreign-owned Enterprise Law, promulgated and came into force on October 31, 2000 by Standing Committee of the NPC, provide that dividend may only be paid out of accumulated profits as determined in accordance with applicable accounting standards provided that: (1) all losses from prior fiscal years have been offset; and (2) a general reserve has been established and which shall amount to the 50% of the registered capital.

***Labor Laws and Social Insurance***

The Labor Contract Law was promulgated by the Standing Committee of the NPC on June 29, 2007 and became effective on January 1, 2008.

The Labor Contract Law requires employers to enter into written contracts with their employees, restricts the use of temporary workers and aims to give employees long-term job security. Pursuant to the Labor Contract Law, employment contracts lawfully executed prior to the implementation of the Labor Contract Law and continuing as of the date of its implementation shall continue to be performed. If an employment relationship was established prior to the implementation of the Labor Contract Law with no written employment contract executed, a contract must be executed within one month after the implementation of the Labor Contract Law.

In addition, according to the PRC Social Insurance Law, social insurance in China includes basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. Both

employers and employees must pay basic pension insurance contributions based on the employee's wage category, as required by the relevant regulations. Employees participating in basic pension insurance schemes are entitled to receive monthly basic pensions if their accumulated contribution period has reached or exceeded 15 years when they reach the statutory retirement age. A notice issued by the Social Assurance Authority provides that retirement is permitted at age of 60 for male employees and between 50 and 55 for female employees. Social insurance (including pension insurance) payment obligations end at such voluntary retirement ages.

In July 2018, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the Reform Plan for the Taxation and Administration System of State Taxes and Local Taxes (hereinafter referred to as the Reform Plan). The Reform Plan clearly stipulates that from January 1, 2019, all social insurance premiums, such as basic old-age insurance premium, basic medical insurance premium, unemployment insurance premium, industrial injury insurance premium and maternity insurance premium, will be levied by the tax authorities. The Reform Plan makes the collection of social insurance fees more transparent and standardized, and reduces a certain degree of flexibility that enterprises can enjoy before. For enterprises that have not paid all the related fees before, the Reform Plan will increase the financial burden of enterprises, which may even face administrative penalties and illegal risks. The details of how to levy social insurance fees need to be clarified.

### ***Company Law***

The Company Law of the PRC, adopted at the Fifth Session of the Standing Committee of the Eighth National People's Congress on December 29, 1993, was amended for the first time at the 13th Session of the Standing Committee of the Ninth National People's Congress on December 25, 1999; amended for the second time at the 11th Session of the Standing Committee of the Tenth National People's Congress on August 28, 2004; revised at the 18th Session of the Standing Committee of the Tenth National People's Congress on October 27, 2005; and Revised at the 6th Session of the Standing Committee of the Twelfth National People's Congress on December 28, 2013, takes effect on March 1, 2014 (the "Company Law").

Pursuant to the Company Law, (1) the term "company" shall refer to a limited liability company or a Company Limited by Shares; (2) the shareholders of both Limited Liability Company and Company Limited by Shares shall only be subject to the liability of the company to the extent of the capital contributions they have subscribed; (3) the minimum amount of registered capital of a limited liability company and the minimum percent of cash contribution by shareholders have been eliminated by revision in 2014.

### ***Wholly Foreign-Owned Enterprise Law***

The Law of the PRC on Wholly Foreign-owned Enterprises, or the WFOE Law, was adopted by the NPC on April 12, 1986 and was amended on October 31, 2000. Moreover, the Implementation Regulation of the WFOE Law was promulgated on December 12, 1990 and amended on April 12, 2001.

The ratio between its registered capital and total amount of investment shall be in conformity with the relevant regulations of the PRC, and the difference between its registered capital and total amount of investment equal to the amount of foreign exchange loans that the WFOE is permitted to borrow from its foreign investor.



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***Environmental Protection***

The Environmental Protection Law, promulgated by the Standing Committee of NPC on December 26, 1989 and came into force on December 26, 1989, lays the foundation of the legal framework for environmental protection in the PRC. The Ministry of Environmental Protection under the State Council is charged with the administration of The Environmental Protection Law.

The Law on Prevention and Control of Environmental Pollution by Solid Wastes (“the Solid Wastes Law”), promulgated by the NPC on December 29, 2004 and came into force on April 1, 2005, provides that any disposition of hazardous wastes shall be in compliance with relevant provisions promulgated by the State. Moreover, it is forbidden to supply or entrust hazardous wastes to entities that do not have business licenses and qualifications for the collection, storage, utilization and disposition of solid wastes. The Air Pollution Prevention Law, promulgated by the Standing Committee of the NPC on April 29, 2000 and came into force on September 1, 2000, The Water Pollution Prevention Law, promulgated by the Standing Committee of the NPC on May 11, 1984 and came into force on November 1, 1984 as amended on March 15, 1996 and February 28, 2008 are also important laws in this area.

Under these regulations, a number of requirements for handling, storage, treatment, transportation and disposal of regulated substances and wastes must be complied with and enterprise that discharge wastes into air or waters must obtain a permit and pay the waste treatment fees. Violation of these regulations may cause the violator to be subject to injunction and/or fine. We have obtained all material approvals necessary for our business operations.

***Property***

The Law of the PRC on Property, or the Property Law, was promulgated by the Standing Committee of the NPC on March 16, 2007 and became effective on October 1, 2007. Under the Property Law, any creation, modification, transfer or termination of property rights shall only become effective upon registration with the relevant government authorities. All lawful property of the State, collective organization and individual are protected by the Property Law against embezzlement and encroachment.

The Law of the PRC on Land Administration, or the Land Administration Law, was promulgated by the Standing Committee of the NPC on June 25, 1986 and became effective on January 1, 1987 and as amended on December 29, 1988 and August 28, 2004. According to the Land Administration Law, the lands within territory of the PRC are classified into two categories, state-owned land and collective-owned land. The use right of state-owned land can be obtained through either government allocation or grant with grant fees paid.

It further prescribes that any entity who intends to conduct construction must construct on the state-owned land except as otherwise provided under the Land Administration Law. The collective-owned land shall not be granted, assigned or leased for use of agriculture-unrelated-construction unless it otherwise falls in the scope permitted under the Land Administration Law. Violation of such provisions under the Administration Law may result in fines and confiscation of the buildings constructed on the land.

The Urban Real Estate Administration Law was promulgated by the Standing Committee of the NRC on July 5, 1994 and became effective on January 1, 1995 and as amended on August 30, 2007. According to the Urban Real Estate Administration Law, if the real estate is mortgaged to third party the land where such real estate occupies shall also be mortgaged together.

### ***Product Liability***

Under the current PRC laws, manufacturers and/or vendors of defective products in the PRC may incur liability for loss and injury caused by such defective products. Pursuant to the General Principles of the Civil Law of the PRC, or the PRC Civil Law, promulgated by the NPC on April 12, 1986, a defective product which causes property damage and/or physical injury to any person may subject the manufacturer and/or vendor of such defective product to civil liability for such damage and/or injury caused therefrom.

The Product Quality Law of the PRC, or the Product Quality Law, was promulgated by the Standing Committee of the NPC on February 22, 1993, to supplement the PRC Civil Law aiming to protect the legitimate rights and interests of the end-users and consumers and to strengthen the supervision and control over the quality of products. The Product Quality Law was revised on July 8, 2000. Pursuant to the revised Product Quality Law, manufacturers who produce defective products may be subject to civil or criminal liability and have their business licenses revoked.

The Law of Protection of the Rights and Interests of Consumers, or the Consumers Protection Law, was promulgated by the Standing Committee of the NPC on October 31, 1993, and became effective on January 1, 1994. The Consumers Protection Law provides further protection to the legal rights and interests of consumers in connection with the purchase or use of goods and services. At present, all business operations must observe and comply with the Consumers Protection Law when they provide their goods and/or services.

The Tort Law of the PRC, or the Tort Law, was adopted by the Standing Committee of the NPC and promulgated on December 26, 2009 and will become effective on July 1, 2010. The Tort Law establishes a separate chapter regarding product liability. Compared to previous laws and regulations in relation to product liability, the provisions of the Tort Law expressly provide that, in the event that any entity is clearly aware of the defects existing in the products but notwithstanding manufactures and distributes such defective products which finally cause others' death or serious injury, those so infringed upon are entitled to claim punitive damages.

***U.S. Regulations***

Federal, state and local governments mandate a variety of laws and regulations aimed at serviceware products and packaging products. At the federal level, the Food and Drug Administration (“FDA”), the Consumer Product Safety Commission and the Environmental Protection Agency (“EPA”), among other federal agencies, have promulgated regulations that directly or indirectly affect the products we produce.

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For example, the FDA is charged with, among other responsibilities, regulating industry to ensure that food contact substances are safe, approving materials for use in foodservice disposables, and setting safety standards for products made with recycled content. Unlike many other industrialized nations, the U.S. does not currently have national packaging recycling laws in place; such laws, where they exist, are at the state level.

The Affordable Care Act (“Obamacare”) requires restaurant chains with over 20 locations to display the calorie content of each food and drink item it serves on signs and printed menus. Such regulation may indirectly affect our product usage as the intention of such regulation is to encourage healthier eating and better food choices, including a decrease in consumption of food from fast food restaurants and quick service restaurants.

State and local governments regulate restaurant cleanliness standards, with which foodservice disposables must comply. And a number of states, including large states such as California and Florida, as well as cities and counties have passed regulations governing consumer packaging materials. Polystyrene foam bans are particularly widespread among local governmental regulations, particularly in California, which has more than 50 cities and counties that have restricted or banned foamed polystyrene containers. Although no state has yet to impose a statewide ban on polystyrene, numerous bills that would accomplish such ban have been promoted in various state legislatures.

## **C. Organizational Structure**

Below is a chart representing our current corporate structure:

Our registered office in the Cayman Islands is at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands, telephone +1.345.769.9372.

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

### **Property**

There is no private land ownership in China. Individuals and entities are permitted to acquire land use rights for specific purposes. We, including our wholly owned subsidiary Great Plastics, were granted land use rights for our facilities in Sanmen County and Songmen Town, which extend until between 2053 and 2060.

In the U.S., in October 2013, we committed with the Pennsylvania Department of Commerce to invest and build a factory in Allentown, Pennsylvania. On February 27, 2014, Fuling signed a lease of premises in Allentown, Pennsylvania for general office, manufacturing and warehousing purposes. The Allentown project contemplates construction of the factory, renovation of the rented premises in Allentown and the purchase and installation of 12 production lines of manufacturing equipment.

On December 20, 2018, we, as a guarantor, through Mayenco as the lessee, signed a lease agreement for certain property located in Interpuerto Monterrey Industrial Park, Mexico to use as our factory. The building is 7,804 m<sup>2</sup> (approximately 84,002 square feet).

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Following is a list of our properties, including the first four, which we lease:

Transferee/ Lessee/Owner	Property	Land/Building Use Term	Space (m2)	Ground Floor Area (m2)	Productive Capacity (ton)	Extent of Utilization	Products Produced
Fuling USA	Commercial/industrial space at 6690 Grant Way, Suite 1, Allentown, PA 18106	2014-03-01 until 2024-05-31	8,175.47		2,400	100 %	Straws
Fuling USA	Warehouse at 6370 Hedgewood Drive, Suite 120, Allentown, PA 18106	2016-06-01 until 2021-05-31	1,579			100 %	N/A
Fuling USA	Industrial unit at Ave. Gomez Morin No. 955 L-317, Col. Montebello, San Pedro Garza García, C.P. 66279.	2018-12-20 until 2023-02-20		5,470.92	10,000	0 %	Expect to be paper straws, paper cups and plastic straws
Taizhou Fuling	Factory building at 8 Shengpan Road, Guanweitong Village, Wenqiao County	2019-01-01 until 2020-12-31	5,120.00		6,000	100 %	Knives and forks
Taizhou Fuling	Land at 88 Jintang S Rd, Eastern New District, Wenling City	2016-04-14 until 2066-04-06		95,833.00	N/A	N/A	N/A
Taizhou Fuling	Factory buildings and warehouse at 88 Jintang S Rd, Eastern New District,, Wenling City	Until 2066-04-06	54,000.00		51,700	90 %	Mainly cups, knives, straws, forks, plates and bowls
Taizhou Fuling	Non-residential building in Ximen Village, Songmen Town	No expiration (rights acquired 2000-04-27)	177.58		(rent out)	N/A	N/A
			668.89			N/A	N/A

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Taizhou Fuling	Non-residential building in Ximen Village, Songmen Town	No expiration (rights acquired 2000-04-27)		(rent out)				
Taizhou Fuling	Land in South of Binhai Road, Songmen Town	2007-03-27 until 2053-03-10	13,996.79	13,970	100	%	Mainly knives, forks, paper cups, plates and bowls	
Taizhou Fuling	Land in South of Binhai Road, Songmen Town	2007-03-27 until 2055-01-14	14,076.80				Same as above	
Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2053-03-10	491.05				Same as above	
Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2053-03-10	1,471.22				Same as above	

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Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2053-03-10	2,559.28				Same as above
Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2053-03-10	1,847.10				Same as above
Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2053-03-10	3,694.20				Same as above
Taizhou Fuling	Non-residential building in South of Binhai Road, Songmen Town	2013-07-25 until 2055-01-14	7,717.56				Same as above
Taizhou Fuling	Land in Southeast Industrial Zone, Songmen Town	2015-01-29 until 2065-01-15	2,576.00	N/A	N/A	N/A	

(1) The dormitory has 130 rooms, and is able to accommodate 350 employees. Currently 90 rooms are occupied by 212 employees.

Fixed assets at our properties consist of office equipment, buildings, structures, ancillary facilities, and equipment for production and packaging of plastic foodservice disposals including plastic food containers, drinking straws, cutlery, cups and plates, and others.

Some of our real property and fixed assets are encumbered by secured loans from our creditors. For example, Agricultural Bank of China Taizhou Branch has encumbrances on Taizhou Fuling's land use right and building ownership right in the property located at 88 Jintang S Rd, Eastern New District, Wenling City, to guarantee all of our loans with Agricultural Bank of China from June 27, 2018 to September 28. Bank of China Wenling Branch has encumbrances on Taizhou Fuling's land use right and building ownership right in the property located at South of Binhai Road, Songmen town. The term of our loan with Bank of China is from March 26, 2018 to March 26, 2023.

None of our property is affected by any environmental issues that may affect our use of the property. At present, our plans to further develop, expand or improve these properties are funded through proceeds from our initial public offering and through our operating cash flows. Regarding details of our Allentown expansion and Wenling expansion, please see "Item 4. Information on the Company – B. Business review."

In addition to our property rights, we also currently have agreements to warehouse our products for delivery to customers. We pay storage and handling fees based on the quantity of goods we are warehousing at most of such facilities. We expect to devote part of such facility to warehousing our products prior to delivering to our customers. We may, from time to time, enter into new agreements to meet our warehousing needs.





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### **Plant**

Currently, we have the following factories, three in China, one in U.S., and one in Mexico.

1. Wenqiao factory: 8 Shengpan Road, Guanweitong Village, Wenqiao County, Wenling City, Zhejiang Province, China
2. Songmen factory: South of Binhai Road, Songmen Town, Wenling City, Zhejiang Province, China
3. Wenling factory: 88 Jintang S Rd, Eastern New District, Wenling City, Zhejiang Province, China
4. Allentown factory: 6690 Grant Way, Allentown, PA, USA
5. Mexico factory: Ave. Gomez Morin No. 955 L-317, Col. Montebello, San Pedro Garza García, C.P. 66279

We are in the process of constructing our Wenling factory and renovating our Mexico factory. Regarding details to our material plans to these projects, please see “Item 4. Information on the Company —B. Business Review”.

### **Equipment**

As labor has become more expensive in China, we have found that we have less of an advantage over similarly situated companies from certain other countries. As a result, we have focused on increasing automation to reduce our reliance on labor, especially for cutlery. Because we have developed some of our own machinery for producing and packaging our products, we believe we have advantages over less automated competitors.

We are using more and more fully automated machinery including automatic injection molding machines, robotic arms, and automatic delivery systems. For example, we developed a six-in-one automatic packing machine to meet our customers’ needs. This machine can combine six steps into one step. Therefore, it packs forks, cutlery, napkins and other plastic serveware into a single plastic package. A normal packing machine would require seven workers to operate. This machine reduces labor demand to only four workers.

Most of our automatic machines are customized. For instance, we cooperated with a manufacturer to transform a normal injection molding machine into a professional, industrial-quantity injection molding machine for serveware production. We also cooperated with an automation factory to produce robotic arms for our production system.

The following chart shows some of our advanced equipment.

<b>Equipment</b>	<b>Function</b>
Elemental Analyzer	Our elemental analyzers can detect 26 kinds of toxic heavy metal elements and detect a variety of regular and irregular sample of the power, plate, linear. Alloys, metal materials and plastic materials can be detected.
Injection Molding Machine	Our injection molding machine is also called an injection machine. It is our main molding equipment using plastic molding to make thermoplastic or thermosetting plastic into various shapes of plastic products. High power is applied to molten plastic to fill the mold cavity and injection. The dedicated robotic arm of the injection molding machine is able to automate transportation of products or running tools according to the predetermined requirement for the operation of automated production equipment.
Vacuum Magnetron Sputtering Coating Machine	Our vacuum magnetron sputtering coating machine mainly uses direct current (or intermediate frequency) magnetron sputtering and can be adapted to a wide range of coating targets, such as copper, titanium, chromium, stainless steel, nickel and other metal materials, which can be coated using a sputtering process. It can also improve film adhesion, reproducibility, density, uniformity and other characteristics.
Four-Layer Co-Extruded Sheet Machine	Our four-layer co-extrusion sheet machine is mainly suitable for PP, PS and other raw materials, production of various high-grade thermally formed sheets and stationery sheets. Widely used in the manufacture of various high-grade four-layer sheets, the machine is suitable for manufacturing high-grade beverage cups, jelly cups, food packaging and other packaging containers.
High-Speed Plastic Molding Machines (Computer Controlled)	Our computer controlled high-speed plastic molding machine is suitable for PS, modified PP and PET reel sheet. It can manufacture to a variety of specifications, including disposable fast-food containers, instant noodle bowls, western food boxes, food packaging for products such as candy and cake boxes, daily necessities, metal packaging, children's toys and agricultural seedling trays.
Thermoforming Machine	Our thermoforming machine is mainly suitable for HIPS, PS, PVC, PET and other plastic sheet, using heating principles to form plastic sheets, including in particular the production of, among other items, various small spoons and plate covers.

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From 2013 to 2018, we invested approximately \$26.8 million on advanced equipment and technology to increase our productivity levels, increasing our annual per-production worker output from approximately \$102,562 in 2013 to approximately \$141,920 in 2018, an important 38% performance improvement.

We have established an automation department in 2015 to work on research and development for that aspect of our manufacturing process. We believe we still have room to continue to automate our production processes and enjoy additional savings in labor expenses and increased productivity.

The following pictures show some of the automation in our factories and product lines.

Injection Molding Machine (including robotic arm) in our Songmen factory.

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High-Speed Plastic Molding Machines (Computer Controlled) in our Sanmen factory.

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Four-Layer Co-Extruded Sheet Machine in our Sanmen factory.

**Item 4A. Unresolved Staff Comments**

None.

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**Item 5. Operating and Financial Review and Prospects**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear in this annual report. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report, particularly in “Risk Factors.”*

**A. Operating Results**

**Overview of Company**

We are a specialized production and distribution company for environmentally-friendly plastic and paper serviceware with primary customers from the United States and European countries. We mainly conduct our operations in China and United States through our wholly owned subsidiary, Taizhou Fuling Plastics Co., Ltd. and its subsidiaries in both countries.

Our plastic and paper serviceware products are made from environmentally-friendly material. Our products include disposable cutlery, drinking straws, cups and plates and other plastic products. Our largest customer base is in the United States. Our production facilities include four factories in Zhejiang Province, China and one factory in Pennsylvania, U.S., and we have obtained ISO9001 quality management system, ISO14001 environmental management system, HACCP, FDA food facility registration and GMP certifications. These certifications are crucial for businesses like ours that serve some of the most sophisticated purchasers of foodservice disposables in the world.

Our primary raw materials in production of our products include PP, GPPS, HIPS and PET, which are extracted from crude oil. Thus, our cost of raw material is highly impacted by fluctuations in the price of oil. Cost of revenues mainly includes costs of raw materials, costs of direct labor, utilities, depreciation expenses and other overhead.

Our largest product category is disposable cutlery. It includes forks, knives, spoons, general, specialized and multipurpose utensils (for instance, the spork), both in single- and multi-utensil packages. It accounted for 48%, 50% and 52% of our revenue for the years ended December 31, 2018, 2017 and 2016, respectively, and we believe it will continue to be a key area for growth in the coming years. Our other product categories are (i) drinking straws, (ii) cups and plates and (iii) other plastics products, which accounted for 17%, 27% and 8% of the total sales respectively for

the year ended December 31, 2018, 15%, 27% and 8% of the total sales respectively for the year ended December 31, 2017 and 14%, 27% and 7% of the total sales respectively in the year ended December 31, 2016.

Direct Link, one of our subsidiaries was incorporated in the United States in 2011 and is engaged in the distribution of our products in the U.S. In May 2014, Fuling Plastic USA, Inc. (“Fuling USA”) was incorporated in the Commonwealth of Pennsylvania as a wholly-owned subsidiary of Taizhou Fuling. Fuling USA has established the Company’s first production factory in the U.S. and principally engages in the production of plastic drinking straw items. We have not established any subsidiaries in Europe and we rely on the sales forces located in China to export our products to European countries. In September 2016, Wenling Changli Import and Export Co., Ltd (“Wenling Changli”) was established in Wenling, China as a wholly-owned subsidiary of Taizhou Fuling. Wenling Changli principally engages in the export of materials to our Allentown facility.

On November 22, 2018, Great Plastics signed sales contracts with a third party to sell the land and buildings previously used as one of its manufacturing factories in China (aka, the “Sanmen Factory”) for total cash consideration of RMB 40.2 million (approximately US\$5.8 million). We sold all related machines and equipments to Taizhou Fuling and Zhejiang Great New Materials Co., Ltd. (“Great NM”). Great NM is a company owned by direct relatives of Taizhou Fuling’s officials. We plan to dissolve Great Plastics in the third quarter of 2019.



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In December 2018, the Company announced its plan to set up a manufacturing factory (the “Mexico Factory”) in Monterrey, Mexico. In December 2018, the Company signed a building lease with Interpuerto Industrial Park in Monterrey, Mexico and a service agreement with a local shelter service company to help with administrative, accounting, compliance, import/export, human resources, etc., at the Mexico Factory. Factory remodeling is expected to start in April 2019, followed by equipment installation and testing and worker recruitment in May. We expect that the first phase of the Mexico Factory will have an annual design capacity of 10,000 tons and will be primarily used for producing paper straws and plastic straws and paper cups serving the U.S. market. We expect to launch commercial production at the Mexico Factory around July 2019.

As of March 10, 2019, our products are sold in 22 countries. Our customers now include Subway, Wendy’s, Burger King, Taco Bell, KFC (China only), Wal-Mart, and McKesson.

In 2018, we supplied five of the six largest fast food restaurant chains in the United States, based on U.S. system-wide sales amount as published by QSR Magazine. We estimate we supplied the following percentages of these customers’ products in the United States in 2018. These percentages are management’s best estimates, based on orders from such customers and understanding of other supplier relationships. Sales to these five customers amounted in the aggregate to 21.5% of our total revenues in the year ended December 31, 2018.

Customer	Cutlery		Straws		Courtesy Cups
A	100	%	100	%	*
B	60	%	35	%	*
C	30	%	33	%	*
D	*		100	%	*
E	*		15	%	*

\* Less than 1%; please note that these customers are presented in random order and not in order of size in order to protect the confidentiality of the customers.

In 2017, we supplied five of the six largest fast food restaurant chains in the United States, based on U.S. system-wide sales amount as published by QSR Magazine. We estimate we supplied the following percentages of these customers’ products in the United States in 2017. These percentages are management’s best estimates, based on orders from such customers and understanding of other supplier relationships. Sales to these five customers amounted in the aggregate to 23.6% of our total revenues in the year ended December 31, 2017.

Customer	Cutlery		Straws		Courtesy Cups
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A	100	%	100	%	*
B	60	%	35	%	*
C	30	%	33	%	*
D	*		100	%	*
E	*		15	%	*

\* Less than 1%; please note that these customers are presented in random order and not in order of size in order to protect the confidentiality of the customers.

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In 2016, we supplied five of the six largest fast food restaurant chains in the United States, based on U.S. system-wide sales amount as published by QSR Magazine. We estimate we supplied the following percentages of these customers' products in the United States in 2016. These percentages are management's best estimates, based on orders from such customers and understanding of other supplier relationships. Sales to these five customers amounted in the aggregate to 23.5% of our total revenues in the year ended December 31, 2016.

Customer	Cutlery	Straws	Courtesy Cups
A	100 %	70 %	*
B	45 %	45 %	*
C	24 %	*	*
D	*	100 %	*
E	*	15 %	*

\* Less than 1%; please note that these customers are presented in random order and not in order of size in order to protect the confidentiality of the customers.

Revenue by Geographic Area

(All amounts, other than percentages, in thousands of U.S. dollars)

Region	Year Ended December 31, 2018 Amount		Year Ended December 31, 2017 Amount		Year Ended December 31, 2016 Amount	
United States	\$118,308	85.32 %	\$106,564	85.79 %	\$92,730	90.63 %
Europe	\$6,622	4.78 %	\$6,101	4.91 %	\$3,173	3.10 %
Canada	\$1,636	1.18 %	\$1,944	1.57 %	\$982	0.96 %
China	\$8,286	5.98 %	\$7,741	6.23 %	\$3,839	3.75 %
Other Countries	\$3,812	2.75 %	\$1,859	1.50 %	\$1,597	1.56 %
Total	\$138,664		\$124,209		\$102,321	

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**Factors Affecting Our Results of Operations**

***Government Policy May Impact our Business and Operating Results.***

Our business and operating results will be affected by China's overall economic growth and government policy. Unfavorable changes in government policies (as well as government policies affecting our customers) could affect the demand for our products and could materially and adversely affect our results of operations. Our products are currently not subject to the government restrictions in the PRC. However, any future changes in the government's policy upon plastic related production industry or disposal rules may have a negative effect on our business. As our majority of business is from international trading, any future changes in the government policy affecting the importing and exporting industry may impact our revenue and profitability, such as the tariff policies.

***World crude oil prices may impact our profitability.***

The price of our products' main raw material is closely associated with that of crude oil. Fluctuating oil prices impact not only the cost of plastic resin, but also transportation costs. Normally, our customers and we mutually agree to adjust our price according to raw material price fluctuation. However, if we are unable to do that in the future, oil price fluctuation will impact our profitability.

***The fast food industry is expected to grow slowly.***

Our major customers operate in fast food industry in the U.S. The industry is expected to perform marginally better over the next five years as the U.S. economy improves and consumers continue to seek convenient meal options. While no severe revenue declines are expected, fast food restaurants will continue to operate in a slow-growth environment. Successful operators will need to adapt to changing consumer preferences as the traditional concept of fast food evolves to include a wider variety of options. As plenty of opportunities remain for new fast food concepts and products, the industry's long era of growth is far from over. Over the past five years, the Fast Food Restaurants in the US industry has grown by 3.8% to reach revenue of \$256 billion in 2018. Over the past five years, the Global Fast Food Restaurants industry has grown by 3.5% to reach revenue of \$668 billion in 2018. In addition, the demand for foodservice disposables in the U.S. is projected to increase 3.9% per year to \$21.9 billion in 2019. Global foodservice disposables market is expected to reach \$82.1 billion by 2025.

***Competition is high and increasing.***

The three largest U.S. suppliers of foodservice disposables account for a significant percentage of the industry. As of 2012, Dart Container Corporation, Reynolds Group/Pactiv and Georgia-Pacific collectively held approximately 29% of the U.S. market share in the foodservice disposables industry. Our industry is marked by a small number of strong competitors, with approximately 50% of our market controlled by the top 10 companies in the industry. In addition, larger companies tend to have more resources and opportunities to deal with the higher tariffs on products and/or raw materials exported from China to U.S. Under such circumstances, we may be unable to compete effectively against such larger, better-capitalized companies, which have well-established long-term relationships with the large customers we serve and seek to serve. Competition in this industry is primarily based on price. Other significant competitive factors are quality and reliability of delivery.

Table of Contents*Exchange rate fluctuations may significantly impact our business and profitability.*

We sell a majority of our products in the United States (approximately 85.3%, 85.8% and 90.5% based on the revenues for the year ended December 31, 2018, 2017, and 2016). Historically, we have relied on lower wages and favorable exchange rates in China to make our products sold abroad competitive in price. As China's currency has fluctuated significantly against the U.S. dollar in the past year, our advantage in price competitiveness might be impacted. While having already begun to diversify risk by moving some of our manufacturing to the United States, we anticipate continuously producing the majority of our products in China. To the extent the Chinese RMB appreciates, our products could become more expensive and, as a result, less attractive to potential customers in other countries. Currently we do not have any foreign currency net investments which are hedged by currency borrowings and other hedging instruments.

**Results of Operations**

The following table summarizes the results of our operations during the fiscal years ended December 31, 2018 and 2017, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such years.

(All amounts, other than percentages, in thousands of U.S. dollars)

Statement of Operations Data:	2018		2017		Amount		Percentage	
	Amount	As % of Sales	Amount	As % of Sales	Increase (Decrease)		Increase (Decrease)	
Revenues	\$138,664	100 %	\$124,209	100 %	\$ 14,455		11.6	%
Cost of goods sold	108,914	79 %	98,077	79 %	10,837		11.0	%
Gross profit	29,750	21 %	26,132	21 %	3,618		13.8	%
Operating expenses								
Selling expenses	7,830	6 %	6,835	6 %	995		14.6	%
G&A expenses	8,323	6 %	7,254	6 %	1,069		14.7	%
R&D expenses	3,431	2 %	2,953	2 %	478		16.2	%
Total operating expenses	19,584	14 %	17,042	14 %	2,542		14.9	%
Income from operations	10,166	7 %	9,090	7 %	1,076		11.84	%
Interest expense, net	(1,736 )	(1 )%	(924 )	(1 )%	(812 )		87.9	%
Subsidy income	1,706	1 %	1,012	1 %	694		68.6	%
Investment income	(9 )	0 %	-	- %	(9 )		-	

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Foreign currency transaction gain (loss)	781	1	%	(175	)	0	%	956	(546.3	)%	
Other income, net	66	0	%	51		0	%	15	29.4	%	
Total other income (expenses)	808	1	%	(36	)	0	%	844	(2,344.4	)%	
Income before income taxes	10,974	8	%	9,054		7	%	1,920	21.2	%	
Provision for income taxes	1,127	1	%	788		1	%	339	43.0	%	
Net income from continuing operations	\$9,847	7	%	\$8,266		7	%	\$ 1,581	19.1	%	
Net loss from discontinued operations, net of tax	(88	)	0	%	(1,974	)	2	%	1,886	95.5	%
Net income	\$9,759	7	%	\$6,291		5	%	\$ 3,468	55.1	%	

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The following table summarizes the results of our operations during the fiscal years ended December 31, 2017 and 2016, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such years.

(All amounts, other than percentages, in thousands of U.S. dollars)

Statement of Operations Data:	2017	As %		2016	As %		Amount	Percentage
	Amount	of Sales		Amount	of Sales		Increase (Decrease)	Increase (Decrease)
Revenues	\$124,209	100	%	\$102,321	100	%	\$ 21,888	21.4 %
Cost of goods sold	98,077	79	%	77,130	75	%	20,947	27.2 %
Gross profit	26,132	21	%	25,191	25	%	941	3.7 %
Operating expenses								
Selling expenses	6,835	6	%	5,955	6	%	880	14.8 %
G&A expenses	7,254	6	%	6,277	6	%	977	15.6 %
R&D expenses	2,953	2	%	2,356	2	%	597	25.3 %
Total operating expenses	17,042	14	%	14,588	14	%	2,454	16.8 %
Income from operations	9,090	7	%	10,603	10	%	(1,513 )	(14.3 )%
Interest expense, net	(924 )	(1 )	%	(562 )	(1 )	%	(362 )	64.4 %
Subsidy income	1,012	1	%	1,647	2	%	(635 )	(38.6 )%
Foreign currency transaction gain (loss)	(175 )	0	%	57	0	%	(232 )	(407.0 )%
Other income, net	51	0	%	65	0	%	(14 )	(21.5 )%
Total other income (expenses)	(36 )	0	%	1,207	1	%	(1,243 )	(103.0 )%
Income before income taxes	9,054	7	%	11,810	12	%	(2,756 )	(23.3 )%
Provision for income taxes	788	1	%	1,561	2	%	(773 )	(49.5 )%
Net income from continuing operations	\$8,266	7	%	\$10,249	10	%	\$ (1,983 )	(19.3 )%
Net loss from discontinued operations, net of tax	(1,974 )	2	%	(2,306 )	2	%	332	13.4 %
Net income	\$6,291	5	%	\$7,943	8	%	\$ (1,652 )	(20.8 )%

**Revenues.**

Revenues increased by approximately \$14.5 million, or 11.6%, to approximately \$138.7 million in 2018 from approximately \$124.2 million in 2017. The increase in revenues was primarily driven by a 8.8% increase of sales volume and a 2.6% increase in blended average selling price.



Revenues increased by approximately \$21.9 million, or 21.4%, to approximately \$124.2 million in 2017 from approximately \$102.3 million in 2016. The increase in revenues was primarily driven by a 15.4% increase of sales volume and a 5.1% increase in blended average selling price.

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Revenues from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$5.6 million, \$3.0 million, and \$2.6 million, respectively and were included in net loss from discontinued operations.

**Revenue by Product Type in 2018 and 2017**

(All amounts, other than percentages, in thousands of U.S. dollars)

	2018		2017		Variance			
	Amount	% of Sales	Amount	% of Sales	Amount Increase (Decrease)	Percentage Increase (Decrease)		
Cutlery	\$66,559	48 %	\$62,104	50 %	\$4,455	7	%	
Straws	23,573	17 %	18,631	15 %	4,942	27	%	
Cups and plates	37,439	27 %	33,537	27 %	3,902	12	%	
Others	11,093	8 %	9,937	8 %	1,156	12	%	
Total	\$138,664	100 %	\$124,209	100 %	\$14,455	12	%	

**Revenue by Product Type in 2017 and 2016**

(All amounts, other than percentages, in thousands of U.S. dollars)

	2017		2016		Variance			
	Amount	% of Sales	Amount	% of Sales	Amount Increase (Decrease)	Percentage Increase (Decrease)		
Cutlery	\$62,104	50 %	\$53,207	52 %	\$8,897	17	%	
Straws	18,631	15 %	14,325	14 %	4,306	30	%	
Cups and plates	33,537	27 %	27,627	27 %	5,910	21	%	
Others	9,937	8 %	7,162	7 %	2,775	39	%	
Total	\$124,209	100 %	\$102,321	100 %	\$21,888	21	%	

***Cutlery***

Revenue from cutlery increased by \$4.5 million, or 7%, from \$62.1 million in 2017 to \$66.6 million in 2018. Sales volume of cutlery increased 3.0% or 0.9 million kilograms to 30.3 million kilograms. Average selling price for cutlery increased 4.1% or \$0.09 per kilogram, to \$2.20 per kilogram for the year of 2018.

Revenue from cutlery increased by \$8.9 million, or 17%, from \$53.2 million in 2016 to \$62.1 million in 2017. Sales volume of cutlery increased 10.6% or 2.8 million kilograms to 29.4 million kilograms. Average selling price for cutlery increased 5.6% or \$0.11 per kilogram, to \$2.11 per kilogram for the year of 2017.

### *Straws*

Revenue for straws increased by \$4.9 million, or 27% in 2018 to \$23.6 million compared with revenue of \$18.6 million in 2017. In 2018, the quantity sold increased by 1.6 million kilograms or 86.7% compared to that in 2017. The average selling price of straws decreased by \$3.23 per kilogram, or 32.2% to \$6.80 per kilogram in 2018. By shifting more of our straw production from China to U.S. and Mexico, we continued to improve our competitiveness and large QSR customers are looking to increase their purchases of straws from us. We expect our sales volume will continue to increase in this category.

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Revenue for straws increased by \$4.3 million, or 30% in 2017 to \$18.6 million compared with revenue of \$14.3 million in 2016. In 2017, the quantity sold decreased by 0.3 million kilograms or 15.2% compared to that in 2016. The average selling price of straws increased by \$3.49 per kilogram, or 53.3% to \$10.03 per kilogram in 2017. By shifting more of our straw production from China to U.S., we continued to improve our competitiveness and large QSR customers are looking to increase their purchases of straws from us.

Our Allentown factory began operation in 2015 and has been 100% devoted solely to straw manufacturing. In 2018, 2017 and 2016, the Allentown factory manufactured 2,302,230 kilograms, 1,736,530 kilograms and 1,326,699 kilograms of straws respectively.

Great Plastics specialized in straws production. The production that Great Plastics performed will be completely absorbed by Taizhou Fuling and some may flow over to Mexico when it starts up.

***Cups and plates***

Revenue for cups and plates increased by \$3.9 million, or 12% in 2018 to \$37.4 million compared with revenue of \$33.5 million in 2017. Sales volume increased by 10.7% compared to 2017. The average selling price increased from \$3.16 to \$3.19 per kilogram. We will continue to experience higher growth in this category as the market looks for substitutes for Styrofoam cups and plates which we don't make. Our more environmentally friendly products in paper and biodegradable plastic materials are the most popular alternatives.

Revenue for cups and plates increased by \$5.9 million, or 21% in 2017 to \$33.5 million compared with revenue of \$27.6 million in 2016. Sales volume increased by 31.1% compared to 2016. The average selling price decreased from \$3.42 to \$3.16 per kilogram. Growth in this product category continues to look promising now that we have our fourth Chinese factory fully operational and there are no more capacity constraints.

***Other products***

Other products include products for family use, party and other entertainment purposes.

Revenue from other products increased by \$1.2 million, or 12% in 2018 to \$11.1 million compared with revenue of \$9.9 million in 2017. The revenue increase was mainly due to an increase of 9.7% in sales volume and a 1.7% increase in average selling price.

Revenue from other products increased by \$2.8 million, or 39% in 2017 to \$9.9 million compared with revenue of \$7.2 million in 2016. The revenue increase was mainly due to an increase of 39.8% in sales volume and a 0.8% decrease in average selling price.

Table of Contents**Revenue by Geographic Area in 2018 and 2017**

(All amounts, other than percentages, in thousands of U.S. dollars)

Region	2018			2017			Year-over Year Increase		
	Amount	%		Amount	%		Amount Increase (Decrease)	Percentage Increase (Decrease)	
United States	\$ 118,308	85.3	%	\$ 106,564	85.8	%	\$ 11,744	11.0	%
Europe	6,622	4.8	%	6,101	4.9	%	521	8.5	%
China	8,286	6.0	%	7,741	6.2	%	545	7.0	%
Canada	1,636	1.2	%	1,944	1.6	%	(308 )	(15.8 )	%
Others	3,812	2.7	%	1,859	1.5	%	1,953	105.1	%
Total	\$ 138,664	100.0	%	\$ 124,209	100.0	%	\$ 14,455	11.6	%

**Revenue by Geographic Area in 2017 and 2016**

(All amounts, other than percentages, in thousands of U.S. dollars)

Region	2017			2016			Year-over Year Increase		
	Amount	%		Amount	%		Amount Increase (Decrease)	Percentage Increase (Decrease)	
United States	\$ 106,564	85.8	%	\$ 92,730	90.6	%	\$ 13,834	14.9	%
Europe	6,101	4.9	%	3,173	3.1	%	2,928	92.3	%
China	7,741	6.2	%	3,839	3.8	%	3,902	101.6	%
Canada	1,944	1.6	%	982	1.0	%	962	98.0	%
Others	1,859	1.5	%	1,597	1.6	%	262	16.4	%
Total	\$ 124,209	100.0	%	\$ 102,321	100.0	%	\$ 21,888	21.4	%

Our sales from the United States market grew significantly in 2018. It increased \$11.7 million or 11.0% from \$106.6 million in 2017 to \$118.3 million in 2018. While this demonstrated steady growth in the U.S. market, we continued to encounter strong competition especially in the wholesale distribution channel where everyone shops for lower prices from Chinese importers. Our business with QSR customers continued to experience strong growth due to our U.S.

manufacturing capability.

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Our sales from the United States market grew significantly in 2017. It increased \$13.8 million or 14.9% from \$92.7 million in 2016 to \$106.6 million in 2017. While this demonstrated steady growth in the U.S. market, we continued to encounter strong competition especially in the wholesale distribution channel where everyone shops for lower prices from Chinese importers. Our business with QSR customers continued to experience strong growth due to our U.S. manufacturing capability.

Europe, China, and others markets all grew more than 7% in 2018. The Chinese market overtook the European market and became our second largest market in 2016. Sales from the Chinese market increased by \$0.5 million, or 7.0% from 2017 to 2018, and by \$3.9 million, or 101.6% from 2016 to 2017 due to the significant increase of the fast food market in China. As the Chinese fast food industry and consumer dining out behavior are catching up with the U.S. standards, our type of higher quality plastic and paper disposable serviceware products will be in increasing demand.

***Cost of goods sold.***

Our cost of goods sold increased by approximately \$10.8 million or 11.0% to approximately \$108.9 million in 2018 from approximately \$98.1 million in 2017, which is consistent with sales growth in 2018. As a percentage of revenues, the cost of goods sold kept stable as 79.0% in 2018.

Our cost of goods sold increased by approximately \$20.9 million or 27.2% to approximately \$98.1 million in 2017 from approximately \$77.1 million in 2016, which is consistent with sales growth in 2017. As a percentage of revenues, the cost of goods sold increased by approximately 3.6% point to 79.0% in 2018 from 75.4% in 2017. Higher oil prices led to increased raw material cost in the early part of 2017 and we were not able to completely pass on the increase to customers as the U.S. market is very competitive. By the time the market reacted to the increase and willing to accept it, oil prices declined back down and took away our rationale to increase. In addition, labor cost continued to rise in China putting pressure on gross margin. Our new factory should help us alleviate that going forward due to its advanced automation and higher efficiency, thus relying less on manual labor.

Cost of goods sold from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$7.6 million, \$3.1 million, and \$2.5 million, respectively and were included in net loss from discontinued operations.

The portion of our products produced by third-party manufacturers in the years ended December 31, 2018, 2017 and 2016 were less than 1%. The associated impact on our gross margins is very limited considering the portion.



***Gross profit.***

Our gross profit increased by approximately \$3.6 million, or 13.8%, to approximately \$29.8 million in 2018 from approximately \$26.1 million in 2017. Gross profit margin was 21.5% in 2018, as compared with 21.0% in 2017. The increase of 0.5% point was primarily attributable to lowered raw material unit cost, and higher average selling price, offset by increased labor cost. Oil prices started to decrease from middle 2018 and decreased oil prices led to decreased raw material cost in 2018.

Our gross profit increased by approximately \$0.9 million, or 3.7%, to approximately \$26.1 million in 2017 from approximately \$25.2 million in 2016. Gross profit margin was 21.0% in 2017, as compared with 24.6% in 2016. The decrease of 3.6% point was primarily attributable to higher raw material cost and labor cost, partially offset by higher average selling price. Continued from the oil price increase at the end of 2016, raw material prices in the first quarter of 2017 remained high, as well as transportation costs. We were unable to implement a price increase until deep into the second quarter but by that time, oil prices went back down. We had less support to raise prices while plastic resin prices remain higher for the most part of the year. Our price increases were not sufficient to offset our increase in costs.

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Our gross profit from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$(2.0) million, \$(0.08) million, and \$0.05 million, respectively and were included in net loss from discontinued operations.

Our cost and gross profit by product types for fiscal year 2018 and 2017 are as follows:

(All amounts, other than percentages, in thousands of U.S. dollars)

	2018		2017		Variance			
	Cost	Gross Profit %	Cost	Gross Profit %	Cost Increase (Decrease)	Gross Profit % Increase (Decrease)		
Cutlery	\$55,546	16.5 %	\$52,291	15.8 %	\$3,255	6.2	%	
Straws	19,605	16.8 %	15,670	15.9 %	3,935	25.1	%	
Cups and plates	25,050	33.1 %	22,355	33.3 %	2,695	12.1	%	
Others	8,277	25.4 %	7,290	26.6 %	987	13.5	%	
Tax	436	N/A	471	N/A	(35 )	N/A		
Total	\$108,914	21.5 %	\$98,077	21.0 %	\$10,837	11.1	%	

Cost of revenue for cutlery products increased by approximately \$3.3 million to approximately \$55.5 million in 2018 compared to \$52.3 million in 2017. Gross profit margin was 16.5% and 15.8%, respectively in 2018 and 2017. Gross margin increased due to a 4.1% increase in average selling price offset by a 0.3% increase in unit cost. Cutlery represented the largest portion of sales at 48%.

Cost of revenue for straws was approximately \$19.6 million in 2018 compared to approximately \$15.7 million in 2017. The gross profit margin was approximately 16.8% in 2018 compared to 15.9% in 2017. The gross margin increased because average selling price declined 32% while unit cost declined 35%. Straw is a low margin product but we are gaining market share especially in the Quick Service Restaurants (“QSR”) segment due to our manufacturing in the U.S. and price competitiveness. We are improving efficiency at our U.S. operation and lowering manufacturing unit cost. It is an important product to lead into selling other product categories in the QSR segment.

Cost of revenue for cups and plates was around \$25.1 million and \$22.4 million in 2018 and 2017, respectively. Gross profit margin was 33.1% in 2018 compared to 33.3% in 2017. Average selling price increased 1% and unit cost declined 2% in 2018. Cups and plates remained our highest gross margin product category and we plan to focus on growing this category by engineering new product designs and developing new materials that would improve profit

margin.

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Our cost and gross profit by product types for fiscal year 2017 and 2016 are as follows:

(All amounts, other than percentages, in thousands of U.S. dollars)

	2017		2016		Variance		
	Cost	Gross Profit %	Cost	Gross Profit %	Cost Increase (Decrease)	Gross Profit % Increase (Decrease)	
Cutlery	\$52,291	15.8 %	\$43,729	17.8 %	\$8,562	(2.0 )%	
Straws	15,670	15.9 %	11,204	21.8 %	4,466	(5.9 )%	
Cups and plates	22,355	33.3 %	16,818	39.1 %	5,537	(5.8 )%	
Others	7,290	26.6 %	5,043	29.6 %	2,247	(3.0 )%	
Tax	471	N/A	335	N/A	136	N/A	
Total	\$98,077	21.0 %	\$77,129	24.6 %	\$20,948	(3.6 )%	

Cost of revenue for cutlery products increased by approximately \$8.6 million to approximately \$52.3 million in 2017 compared to \$43.7 million in 2016. Gross profit margin was 15.8% and 17.8%, respectively in 2017 and 2016. Gross margin decreased due to a 8% increase in unit cost partially offset by a 6% increase in average selling price. Price increases were delayed due to market competition and the magnitude was not sufficient to offset increase in material costs. Cutlery represented the largest portion of sales at 50%.

Cost of revenue for straws was approximately \$15.7 million in 2017 compared to approximately \$11.2 million in 2016. The gross profit margin was approximately 15.9% in 2017 compared to 21.8% in 2016. The gross margin decreased because average selling price increased 53% while unit cost rose 65%. Straw is a low margin product but we are gaining market share especially in the QSR segment due to our manufacturing in the U.S. and price competitiveness. We are improving efficiency at our U.S. operation and lowering manufacturing unit cost. It is an important product to lead into selling other product categories in the QSR segment.

Cost of revenue for cups and plates was around \$22.4 million and \$16.8 million in 2017 and 2016, respectively. Gross profit margin was 33.3% in 2017 compared to 39.1% in 2016. Average selling price declined 7% and unit cost increased 1% in 2017. Cups and plates remained our highest gross margin product category and we plan to focus on growing this category by engineering new product designs and developing new materials that would improve profit margin.

Taxes included in costs represent the VAT paid for purchased inventory, which cannot be deducted to offset our sales tax. The amount of tax in costs can vary year to year depending on the timing and amount of purchases made throughout the year.

***Selling expenses.***

Selling expenses increased by approximately \$995,000, or 14.6% to approximately \$7.8 million in 2018 compared to approximately \$6.8 million in 2017. As a percentage of sales, our selling expenses were 5.6% and 5.5% in 2018 and 2017, respectively. The increase in selling expenses is consistent with the increase of revenues.

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Selling expenses increased by approximately \$880,000, or 14.8% to approximately \$6.8 million in 2017 compared to approximately \$6.0 million in 2016. As a percentage of sales, our selling expenses were 5.5% and 5.8% in 2017 and 2016, respectively. The increase in selling expenses is consistent with the increase of revenues.

Selling expenses from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$496,000, \$786,000, and \$902,000, respectively and were included in net loss from discontinued operations.

***General and administrative expenses.***

Our general and administrative expenses increased by approximately \$1.1 million or 14.7%, to approximately \$8.3 million in 2018 from approximately \$7.3 million in 2017. As a percentage of revenues, general and administrative expenses were 6.0% and 5.8% in 2018 and 2017, respectively. The level of general and administrative expenses increase was normal based on our substantial increase in business. We were able to keep administrative expense increase to a minimum to generate more operating profits.

Our general and administrative expenses increased by approximately \$1.0 million or 15.6%, to approximately \$7.3 million in 2017 from approximately \$6.3 million in 2016. As a percentage of revenues, general and administrative expenses were 5.8% and 6.1% in 2017 and 2016, respectively. The level of general and administrative expenses increase was normal based on our substantial increase in business. We were able to keep administrative expense increase to a minimum to generate more operating profits.

Our general and administrative expenses from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$750,000, \$627,000, and \$1,234,000, respectively and were included in net loss from discontinued operations.

***Research and development expenses.***

Our research and development expenses increased approximately \$478,000, or 16.2% to approximately \$3.4 million in 2018 compared with approximately \$3.0 million in 2017. We expect to increase our R&D expenditures proportionate to our revenue increase, as we continue to conduct research and development activities, especially seeking to increase the use of environmentally-friendly materials, develop biodegradable materials and reduce reliance on fossil-based raw materials.

Our research and development expenses increased approximately \$598,000, or 25.4% to approximately \$3.0 million in 2017 compared with approximately \$2.4 million in 2016. We expect to increase our R&D expenditures proportionate to our revenue increase, as we continue to conduct research and development activities, especially seeking to increase the use of environmentally-friendly materials, develop biodegradable materials and reduce reliance on fossil-based raw materials.

Our research and development expense from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$0, \$ 0, and \$0, respectively and were included in net loss from discontinued operations.

***Interest income (expense).***

Our net interest expense increased by approximately \$0.8 million to approximately \$1.7 million in 2018, from approximately \$0.9 million in 2017.

Our net interest expense increased by approximately \$0.3 million to approximately \$0.9 million in 2017, from approximately \$0.6 million in 2016.

Our net interest expense from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$105,000, \$183,000, and \$211,000, respectively and were included in net loss from discontinued operations.

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The average interest rates for our average outstanding loans in 2018, 2017 and 2016 were 4.89%, 5.07% and 4.37%, respectively. At the time of an initial loan application, different commercial banks determine loan interest rates based on various factors, including general economic conditions in China, internal bank lending policies, the applicant's credit standing and relative bargaining power. For the year ended December 31, 2018, 2017 and 2016, People's Bank of China has kept its prevailing interest rate at 4.3%

The bank loan balances as of December 31, 2018, 2017 and 2016 were \$19.9 million, \$27.4 million and \$15.1 million respectively. The average amounts of loan outstanding for 2018, 2017 and 2016 were \$23.7 million, \$21.3 million and \$13.0 million, respectively. We borrow from commercial banks based on our working capital conditions and forecast of business needs. The average amount of loan outstanding in 2018 was higher than 2017 due to expansion of our business. The average amount of loan outstanding in 2017 was higher than 2016 due to expansion of our business.

There is no interest expense associated with notes payable but we are subject to a bank charge. The bank charge is usually 0.05% of the notes payable issued. For the years ended December 31, 2018, 2017 and 2016, bank charges related to notes payable were immaterial.

***Subsidy income.*** Our government subsidy income was approximately \$1.7 million in 2018 compared to approximately \$1.0 million in 2017. Our government subsidy income was approximately \$1.0 million in 2017 compared to approximately \$1.6 million in 2016. Our government subsidy income was all granted by local governments in recognizing our achievements in various areas. All subsidies we received in 2018, 2017 and 2016 were one-time grants and may not occur again in the future. We cannot predict the likelihood or amount of any future subsidies.

Our government subsidy income from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$39,000, \$31,000, and \$217,000, respectively and were included in net loss from discontinued operations.

***Other income (expense).***

Other income was approximately \$66,000 and \$52,000 in 2018 and 2017, respectively. The significant increase is attributed to increased income from disposal of property, plant, and equipment in 2018.



Other income was approximately \$52,000 and \$65,000 in 2017 and 2016, respectively. The significant decrease is attributed to increased loss from disposal of property, plant, and equipment in 2017.

Other expense from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$407,000, \$(71,000), and \$218, respectively and were included in net loss from discontinued operations.

***Foreign currency translation gain (loss).*** The Company recorded \$0.8 million, \$(0.2) million and \$0.1 million of foreign currency translation gain in 2018, 2017 and 2016, respectively.

***Income before income taxes.***

Our income before income taxes was approximately \$10.9 million in 2018, an increase of approximately \$1.9 million or 21.2% compared with approximately \$9.1 million in 2017. The increase was primarily attributable to increased sales, increased gross margin, increased subsidy income, offset by increased cost of goods sold, increased operating expense, and increased interest expenses as discussed above.

Our income before income taxes was approximately \$9.1 million in 2017, a decrease of approximately \$2.7 million or 23.3% compared with approximately \$11.8 million in 2016. The decrease was primarily attributable to increased sales and gross margin offset by increased cost of goods sold, increased operating expense, and decreased subsidy income as discussed above.

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Our income before income taxes from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$(2.8) million, \$(1.9) million, and \$(1.8) million, respectively and were included in net loss from discontinued operations.

***Provision for income taxes.***

Our provision for income taxes was approximately \$1.1 million in 2018, an increase of approximately \$0.3 million or 42.9% from approximately \$0.8 million in 2017. The increase was due to the fact that more taxable income was generated from our Chinese subsidiaries compared to 2017. In 2018, taxable income generated from China was \$13.3 million compared to \$8.7 million in 2017.

Our provision for income taxes was approximately \$0.8 million in 2017, a decrease of approximately \$1.2 million or 49.5% from approximately \$1.6 million in 2016. The decrease was due to the fact that less taxable income was generated from our Chinese subsidiaries compared to 2016. In 2017, taxable income generated from China was \$8.7 million compared to \$15.1 million in 2016.

Our provision for income taxes from Great Plastics (our discontinued business) for the years ended December 31, 2018, 2017 and 2016 were approximately \$221,000, \$36,000, and \$469,000, respectively and were included in net loss from discontinued operations.

**B. Liquidity and Capital Resources**

We are a holding company incorporated in the Cayman Islands. Total Faith, our BVI organized wholly owned subsidiary, owns Taizhou Fuling which in turn owns our U.S. and China assets through its subsidiaries. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. We have relied on direct payments of expenses by our subsidiaries (which generate revenues), to meet our obligations to date. To the extent payments are due in U.S. dollars, we have occasionally paid such amounts in RMB to an entity controlled by our management capable of paying such amounts in U.S. dollars. Such transactions have been made at prevailing exchange rates and have resulted in immaterial losses or gains on currency exchange but no other profit.

Construction in progress represents costs of construction incurred for the Company's new plant and equipment. The Company started the first phase of the construction for its facility expansion in China ("Phase I") in April 2016 in China. For the year ended December 31, 2017, construction in progress of approximately \$19.3 million was completed and was transferred to property, plant and equipment for Phase I.

In the beginning of August 2017, the Company started its second phase of the construction for its facility expansion in China ("Phase II"). Phase II includes construction of a new plant, an office building and two dormitory buildings. The construction is expected to be completed before the end of 2019 and the total construction cost of Phase II is expected to be \$13.1 million. For the year ended December 31, 2018, construction in progress of approximately \$9.9 million was completed and was transferred to property, plant and equipment for Phase II. The Company expects to fulfill the payments using cash generated from operating activities and additional loans borrowed from local banks in case any shortage of cash on hand in the future. As of December 31, 2018, we had no purchase commitments for construction and machinery purchase. These commitments represent the amount of agreements signed but not yet paid.

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As of December 31, 2018 and 2017, we had outstanding loans of approximately \$27.1 million and \$29.2 million from various banks and entities, respectively. To secure this debt, we have pledged some of its properties and machinery, equipment, land use rights as well as other assets in China to several banks. Approximately \$1.7 million and \$1.7 million worth of equipment was used as collateral for the loan from Pennsylvania Industrial Development Authority as of December 31, 2018 and 2017, respectively.

Further, although instruments governing the current debts incurred by our PRC subsidiaries do not have restrictions on their abilities to pay dividend or make other payments to us, the lender may impose such restriction in the future. As a result, our ability to distribute dividends largely depends on earnings from our PRC subsidiaries and their ability to pay dividends out of their earnings. We cannot assure you that our PRC subsidiaries will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends.

As of December 31, 2018 and 2017, we had cash and cash equivalents of approximately \$4.4 million and \$4.1 million, respectively and restricted cash of approximately \$2.4 million and \$3.8 million, respectively. As of December 31, 2018, we also had certificates of deposits of \$0 million which will mature in December 2018. As of December 31, 2017, we had certificates of deposits of \$0.1 million which matured in December 2018. We did not have any other short-term investments. As of December 31, 2018, Our current assets were approximately \$59.5 million, and our current liabilities were approximately \$47.5 million, which resulted in a current ratio of 1.25:1. Total FGI's equity as of December 31, 2018 was approximately \$64.7 million. As of December 31, 2017, our current assets were approximately \$57.0 million, and our current liabilities were approximately \$55.56 million, which resulted in a current ratio of 1.03:1. Total FGI's equity as of December 31, 2017 was approximately \$57.8 million.

We have historically funded our working capital needs from operations, advance payments from customers, bank borrowings, and capital from shareholders. Presently, our principal sources of liquidity are generated from our operations, proceeds from our initial public offering and loans from commercial banks. In China, long-term loans are generally available; however, short-term loans are a more readily accessible source of financing. Long-term loans in China are usually approved by banks for capital expenditures only, such as fixed asset construction or property acquisitions. Our working capital requirements are influenced by the level of our operations, the numerical volume and dollar value of our sales contracts, the progress of execution on our customer contracts, and the timing of accounts receivable collections.

Based on our current operating plan, we believe that our existing resources, including cash generated from operations, proceeds from our initial public offering, bank loans, bank notes payable, and advances from suppliers will be sufficient to meet our working capital requirement for our current operations over the next twelve months. We expect to be able to refinance our short-term loans based on past experience and our good credit history. We do not believe failure to refinance our short term loans from certain banks will have a significant negative impact on our normal business operations. Our related parties including our major shareholders and affiliate companies are willing to provide us financial support. Although our operating cash flow was positive in 2018, 2017 and 2016, it is possible for

us to have negative cash flow in the future, and for our related parties to be unable or unwilling to provide us financial support as needed. If this happened, the failure to refinance our short-term loans could potentially affect our capital expenditure and expansion of business.

During the period from January 1, 2019 to March 30, 2019, we repaid approximately \$5.2 million bank loans and \$1.8 million notes payable that become due. We also borrowed approximately \$7.4 million bank loans as well as approximately \$2.0 million notes payable from various banks in China. All the loans and notes payable are short term in nature and guaranteed by its shareholders, related parties and third parties. If we cannot refinance from commercial banks, our major shareholders and affiliate companies could provide us financial support as needed. Lack of sufficient financial support from local banks or our related parties could potentially affect our capital expenditure and expansion of business. We do not believe failure to refinance from certain banks will have significant negative impact on our normal business operations.

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

(All amounts in thousands of U.S. dollars)

	2018	2017	2016
Net cash provided by operating activities	\$11,577	\$2,474	\$5,145
Net cash used in investing activities	(8,732 )	(14,346 )	(23,648 )
Net cash provided by financing activities	(2,772 )	13,838	7,980
Effect of exchange rate changes on cash	(1,147 )	(356 )	(401 )
Net (decrease) increase in cash	(1,074 )	1,610	(10,924 )
Cash, beginning of year	7,871	6,261	17,185
Cash, end of year	\$6,797	\$7,871	\$6,261

***Operating Activities***

Net cash provided by operating activities was approximately \$11.6 million in 2018, an increase of \$9.1 million compared to cash provided by operating activities of approximately \$2.5 million in 2017. The increase in net cash provided by operating activities was primarily attributable to the following factors:

Accounts receivable increased \$5.5 million in 2018, compared with increase of \$2.4 million in 2017. The increase in account receivable balance corresponded to the trend of increase in sales. Our sales increased by 11.6% or \$14.5 million in 2018 compared with 2017.

Accounts payable increased by \$5.2 million in 2018, compared with a decrease of \$2.3 million in 2017. The increase was primarily financed by increase in long term borrowings and increased purchase of inventory during 2018 for locking a lower purchase price of raw material.

Net cash provided by operating activities was approximately \$2.5 million in 2017, a decrease of \$2.7 million compared to cash provided by operating activities of approximately \$5.2 million in 2016. The decrease in net cash provided by operating activities was primarily attributable to the following factors:

Accounts receivable increased \$2.4 million in 2017, compared with increase of \$6.7 million in 2016. The increase in account receivable balance corresponded to the trend of increase in sales. Our sales increased by 31.3% or \$27.1 million in 2017 compared with 2016.

Accounts payable decreased by \$2.3 million in 2017, compared with an increase of \$5.5 million in 2016. The decrease was primarily due to more inventory purchase in 2016.

***Investing Activities***

Net cash used in investing activities was approximately \$8.7 million in 2018, a decrease of approximately \$5.6 million from net cash used in investing activities of approximately \$14.3 million in 2017. The decrease in net cash used in investing activities in 2018 was primarily attributable to less spending associated with the construction in progress in 2018 compared to 2017 because the Phase II construction is expected to be completed soon, and the cash receipt from disposal of Great Plastics property and equipment in 2018.

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Net cash used in investing activities was approximately \$14.3 million in 2017, a decrease of approximately \$9.3 million from net cash used in investing activities of approximately \$23.6 million in 2016. The decrease in net cash used in investing activities in 2017 was primarily attributable to less spending associated with the construction in progress in 2017 compared to 2016, as well as a payment made in 2016 for land use rights for \$8.3 million that didn't recur in 2017.

***Financing Activities***

Net cash used in financing activities was approximately \$2.8 million in 2018, compared to approximately \$13.9 million net cash provided from financing activities in 2017. The decrease in net cash provided from financing activities in 2018 was primarily attributable to in 2018 the Company made repayments from short term borrowings of \$39.6 million and in 2017 the Company made repayments of short term borrowings of \$20.3 million. The Company repaid all outstanding borrowings and bank notes payable of Great Plastics in 2018 as the Company plans to dissolve Great before the end of 2019.

Net cash provided from financing activities was approximately \$13.9 million in 2017, compared to approximately \$8.0 million in 2016. The increase in net cash provided from financing activities in 2017 was primarily attributable to more proceeds from short term borrowings in 2017 compared with 2016. In 2017 the Company had proceeds from short term borrowings of \$31.2 million and in 2016 the Company has proceeds from short term borrowings of \$23.7 million.

In 2016, we used capital expenditures primarily to develop a new factory in Wenling and continue to equip our Allentown facility. In 2017 and 2018, we continued our capital expenditures in constructing Phase II of our new Wenling factory including purchasing machinery and equipment. Our material cash requirements in 2019 may include (i) investments of approximately \$5.8 million in the new production lines and the construction of manufacturing facilities in our new factory in China; (ii) purchase of equipment and renovation of the factory for approximately \$3.0 million for the Mexico factory. If the demand for our products is expected to grow in the coming years, we may need to add additional manufacturing capacity in Wenling, China and in Allentown factory.

Our primary source of cash is currently generated from the sales of our products and bank borrowings in addition to proceeds from our initial public offering. In the coming years, we will be looking to other sources, such as raising additional capital by issuing shares of stock, to meet our cash needs. While facing uncertainties in regards to the size and timing of capital raises, we are confident that we can continue to meet operational needs solely by utilizing cash flows generated from our operating activities and bank borrowings, as necessary.





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As of December 31, 2018, the details of all our short-term bank loans are as follows:

(All amounts in U.S. dollars)

	As of December 31, 2018
Agricultural Bank of China (“ABC”)	(1) \$ 8,622,194
China Merchants Bank (“CMB”)	(2) 1,696,441
Industrial and Commercial Bank of China (“ICBC”)	(3) 4,557,315
Bank of China (“BOC”)	(4) 2,724,793
East West Bank (“EWB”)	(5) 2,000,000
Postal Savings Bank of China (“PSBC”)	(6) -
Pennsylvania Industrial Development Authority – current portion of long-term borrowing (see “long-term borrowing” below)	89,898
East West Bank loan – current portion of long-term borrowing (see “long-term borrowing” below)	200,000
Total	\$ 19,890,641

During the year ended December 31, 2018, Taizhou Fuling entered into a series of short-term bank loan agreements with ABC for a total amount of \$8,622,194. The terms of these loans are six months with variable interest rates based on the prevailing interest rates, respectively. The effective rates are from 4.57% to 5.15% per annum.

(1)

These loans were guaranteed by the assets of a third party guaranty company and a shareholder of the Company. The third party guaranty company charges 2% of total loan amount.

During year ended December 31, 2018, Taizhou Fuling entered into a series of short-term bank borrowing agreements with CMB for a total amount of approximately \$6.3 million (RMB 43.4 million). The terms of these (2)loans are five to twelve months with variable interest rates based on the prevailing interest rates. The effective rates were from 2.40% to 6.09% per annum. The loans are guaranteed by Special Plastics and Taizhou Fuling’s general manager and Chair of the Board. As of December 31, 2018, \$4,586,234 had been repaid in full upon maturity.

During the year ended December 31, 2018, Taizhou Fuling entered into a series of short-term loan agreements with (3) ICBC for a total amount of \$4,557,315. The terms of these loans are five to twelve months with the interest rates ranged from 3.47% to 5.44% per annum.

During the year ended December 31, 2018, Taizhou Fuling entered into a series of short-term bank borrowing agreements and other financing agreements with BOC. The terms of the loans are three to twelve months, with (4) fixed interest rates based on London InterBank Offered Rate (“LIBOR”) (for loans dominated in USD) or prime loan rates issued by People’s Bank of China (for loans dominated in RMB), plus certain base points. The effective interest rates vary from 3.30% to 5.01% per annum. The loans to Taizhou Fuling are guaranteed by the Chief Executive Officer (“CEO”).

On March 9, 2017, Direct Link entered into a line of credit agreement with East West Bank for \$2,000,000 for one year. The annual interest rate is equivalent to LIBOR rate plus 2.75%. Direct Link was required to make restricted deposit of \$41,900 for one year (which was released in June 2018) with an initial interest rate of 3.76% per annum. The line of credit is guaranteed by FGI. The agreements require Direct Link to comply with certain financial covenants and ratios, including maintaining but not limited to minimum debt service coverage ratio of 1.40 times and to maintain maximum total debt to equity ratio of 3.0 times. Direct Link will be measured semi-annually at (5) June 30th and December 31st. Direct Link was not in compliance as of December 31, 2018. On April 7, 2017, Direct Link drew down \$1,500,000 with the effective rate of 3.86% per annum. On December 1, 2017, Direct Link drew down another \$500,000 with the effective rate of 4.45% per annum. Interest expense incurred on this loan for the year ended December 31, 2018 and 2017 were \$47,955 and \$14,942, respectively. On March 14, 2018, East West Bank approved to extend the loan to June 9, 2018. On June 26, 2018, East West Bank again approved to extend the loan to June 9, 2019. East West Bank waived financial covenant violations as at December 31, 2018.

In January 2018, Taizhou Fuling entered into a short-term bank loan agreement with PSBC for \$987,881. The (6) terms of the loan are twelve months. The effective rates are 2.95% per annum. As of December 31, 2018, this loan had been repaid prior to its maturity.

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As of December 31, 2018, land use rights in the amount of \$7,821,842 and property and buildings in the amount of \$14,071,515 were pledged for all the above loans.

As of December 31, 2017, the details of all our short-term bank loans are as follows:

(All amounts in U.S. dollars)

	As of December 31, 2017
Agricultural Bank of China (“ABC”)	(1) \$ 11,831,148
China Merchants Bank (“CMB”)	(2) 3,073,424
Industrial and Commercial Bank of China (“ICBC”)	(3) 4,019,908
Bank of China (“BOC”)	(4) 2,274,333
East West Bank (“EWB”)	(5) 2,000,000
Postal Savings Bank of China (“PSBC”)	(6) 4,046,597
Pennsylvania Industrial Development Authority – current portion of long-term borrowing (see “long-term borrowing” below)	88,339
East West Bank loan – current portion of long-term borrowing (see “long-term borrowing” below)	83,333
Total	\$ 27,417,082

During fiscal year 2017, Taizhou Fuling entered into a series of short-term bank loan agreements with ABC for a total amount of \$11,831,148. The terms of these loans are six to twelve months with variable interest rates based on the prevailing interest rates, respectively. The effective rates are from 4.57% to 4.90% per annum.

(1)

These loans were guaranteed by the assets of a third party guaranty company and a shareholder of the Company. The third party guaranty company charges 2% of total loan amount.

In January, March, July and December 2017, Taizhou Fuling entered into four short-term bank borrowing agreements for approximately \$4.5 million (RMB 29.4 million) with CMB for twelve, six, six and twelve months, (2) respectively. The effective rates were 6.09%, 2.67%, 1.99% and 6.09% per annum, respectively. The loans are guaranteed by Special Plastics and Taizhou Fuling’s general manager and Chair of the Board. As of December 31, 2017, \$1,398,970 had been repaid in full upon maturity.

(3) During fiscal year 2017, Taizhou Fuling entered into a series of short-term loan agreements with ICBC for a total amount of \$7,092,174. The terms of these loans are five to twelve months with the interest rates ranged from

2.14% to 5.00% per annum. As of December 31, 2017, \$3,024,902 of them had been repaid upon maturity.

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During fiscal year 2017, Taizhou Fuling entered into a series of short-term bank borrowing agreements and other financing agreements with BOC. The terms of the loans are three to twelve months, with fixed interest rates based on London InterBank Offered Rate (“LIBOR”) (for loans dominated in USD) or prime loan rates issued by People’s Bank of China (for loans dominated in RMB), plus certain base points. The effective interest rates vary from 1.97% to 5.57% per annum. The loans to Taizhou Fuling are guaranteed by the Chief Executive Officer (“CEO”). The loans to Great Plastics are guaranteed by the CEO and Chair of the Board.

On March 9, 2017, Direct Link entered into a line of credit agreement with East West Bank for \$2,000,000 for one year. The annual interest rate is equivalent to LIBOR rate plus 2.75%. Direct Link is required to make restricted deposit of \$73,336 for one year with an initial interest rate of 3.76% per annum. The line of credit is guaranteed by FGI. The agreements require Direct Link to comply with certain financial covenants and ratios, including maintaining but not limited to minimum debt service coverage ratio of 1.25 times and to maintain maximum total debt to equity ratio of 3.0 times. Direct Link will be measured semi-annually at June 30th and December 31st. Direct Link was not in compliance as of December 31, 2017. On April 7, 2017, Direct Link drew down \$1,500,000 with the effective rate of 3.86% per annum. On December 1, 2017, Direct Link drew down another \$500,000 with the effective rate of 4.45% per annum. Interest expense incurred on this loan for the year ended December 31, 2017 was \$46,182. On March 14, 2018, East West Bank approved to extend the loan to June 9, 2018. Also East West Bank waived financial covenant violations as at December 31, 2017.

In November and December 2017, Taizhou Fuling entered into a series of short-term bank loan agreements with PSBC for \$2,975,004 and \$1,071,593, respectively. The terms of these loans are twelve and five months, respectively. The effective rates are 2.65% and 4.15% per annum, respectively.

As of December 31, 2017, land use rights in the amount of \$8,442,532 and property and buildings in the amount of \$15,620,048 were pledged for all the above loans.

As of December 31, 2016, the details of all our short-term bank loans are as follows:

(All amounts in U.S. dollars)

	As of December 31, 2016
China Merchants Bank (“CMB”)	(1) 2,759,227
Industrial and Commercial Bank of China (“ICBC”)	(2) 3,239,848
Bank of China (“BOC”)	(3) 3,241,042
Zhejiang Mintai Commercial Bank (“MTB”)	(4) 5,759,730
	86,808

Pennsylvania Industrial Development Authority – current portion of long-term borrowing (see “Long-term Borrowing” below)

Total	\$ 15,086,655
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During fiscal year 2016, Taizhou Fuling entered into a series of seven short-term bank loan agreements with CMB (1) for five to twelve months. The interest rates ranged from 1.10% to 6.09% per annum. \$1,440,000 of them had been repaid subsequent after December 31, 2016.

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In February 2016, Taizhou Fuling entered into a loan agreement with ICBC for \$593,000 for five months, with fixed interest rate of 3.5%. This loan had been repaid upon maturity.

In April 2016, Taizhou Fuling entered into a loan agreement with ICBC for \$647,970 for five months, bearing a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 161.6 base points. The effective rate was 5.92% per annum. This loan had been repaid upon maturity.

In July 2016, Taizhou Fuling entered into two loan agreements with ICBC for \$575,973 and \$575,973 respectively for twelve and five months, bearing a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 161.6 base points. The effective rate was 5.00% per annum. \$575,973 of them had been repaid subsequently.

(2)

In August 2016, Taizhou Fuling entered into a loan agreement with ICBC for \$647,970 for five months, bearing a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 113.75 base points. The effective rate was 5.44% per annum.

In October 2016, Taizhou Fuling entered into a loan agreement with ICBC for \$791,963 for twelve months, bearing a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 70.25 base points. The effective rate was 5.00% per annum.

In December 2016, Taizhou Fuling entered into two loan agreements with ICBC for \$719,966 and \$503,976 respectively for twelve and twelve months, bearing a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 70.25 base points. The effective rate was 5.00% per annum.

(3) During fiscal year 2016, Taizhou Fuling entered into a series of short-term bank borrowing agreements and other financing agreements with BOC. The terms of the loans are three to twelve months, with fixed interest rates based on LIBOR (for loans dominated in USD) or prime loan rates issued by People's Bank of China (for loans dominated in RMB), plus certain base points. The effective interest rates vary from 1.56% to 5.9% per annum. The loans to Taizhou Fuling are guaranteed by Great Plastics and Taizhou Fuling's general manager. The loans to Great Plastics are guaranteed by Taizhou Fuling's general manager and Chair of the Board.

(4) In October and December in 2016, Taizhou Fuling entered into two loan agreements with MTB for \$5,759,730 respectively for six and six months. The effective rates were 6.41% per annum, respectively. The loan is



guaranteed by Taizhou Fuling's general manager.

As of December 31, 2016, land use rights in the amount of \$8,047,726 and property and buildings in the amount of \$131,971 and equipment in the amount of \$0, respectively, were pledged for the above loans.

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Long-term borrowings consisted of the following:

	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Pennsylvania Industrial Development Authority (1)	\$658,234	\$ 748,132	\$ 836,471
Agricultural Bank of China (“ABC”) (2)	5,815,982	137,088	-
East West Bank (“EWB”) (3)	729,141	916,667	-
Total	\$7,203,357	\$ 1,801,887	\$ 836,471

On September 28, 2016, Fuling USA entered into a ten-year Machinery and Equipment Loan Agreement with the Pennsylvania Industrial Development Authority for \$937,600, with fixed interest rate of 1.75%. This loan has been (1) collateralized by the machinery and equipment, worth approximately \$1.72 million. As of December 31, 2018, the amount of long-term borrowing was \$748,132, and it consists of \$89,898 of which is due within a year and \$658,234 that is due over a year.

Future obligations for payments of this long-term loan are as below:

Twelve months ended December 31,	
2019	\$89,898
2020	91,484
2021	93,098
2022	94,740
2023	96,411
Thereafter	282,501
Total	\$748,132

(2) In June 2018, Taizhou Fuling entered into two buyer’s credit Loan Agreements with Agriculture Bank of China Limited for total of \$2,471,792 (RMB 17 million) for 36 months. In July 2018, Taizhou Fuling entered into three buyer’s credit Loan Agreements with Agriculture Bank of China Limited for total of \$3,344,190 (RMB 23 million) for 36 months. The loan bear variable interest rates based on the prevailing interest rate set by the People’s Bank of China at the time of borrowing, plus 13% of the prevailing interest rate. As of December 31, 2018, the amount of long-term borrowing was \$5,815,982, and the effective rates were 5.37% and 5.23% per annum. The line of credit’s purpose is for inventory purchase. The line of credit is effective for the period from first day of loan to 36 months after the first day of loan.

On October 31, 2016, Fuling USA entered into a buyer's credit Loan Agreement with Agricultural Bank of China Limited for a line of credit in the amount of \$5,903,723 (RMB 41 million) for 18 months. The loan bears a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 6% of the prevailing interest rate. As of December 31, 2017, the amount of long-term borrowing was \$137,088, and the effective rate was 5.30% per annum. The line of credit's purpose is to acquire equipment. China Export & Credit Insurance Corporation provides insurance for the line of credit. The line of credit is effective for the period from first day of loan to 18 months after the first day of loan. As of December 31, 2018, this loan was fully repaid in full upon maturity.

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On March 9, 2017, Fuling USA entered into a Delayed Draw Term Loan agreement with East West Bank for \$1,000,000. The amount drawn will be turned into a 5-year term loan at LIBOR rate plus 3.00%. The loan is guaranteed by Fuling Global. Fuling USA is required to make a restricted deposit of \$73,336 for one year with an initial interest rate of 4.19% per annum. The restricted deposit was increased to \$121,639 in June 2018. The agreement requires Fuling USA to comply with certain financial covenants and ratios, including to maintain minimum debt service coverage ratio of 1.25 times and to maintain maximum total debt to equity ratio of 3.0 times etc. Fuling USA's compliance with these covenants will be reviewed semi-annually at December 31th and (3) December 31th. Fuling USA was in compliance as of December 31, 2018. On April 7 and December 1, 2017, Fuling USA drew down \$500,000 (April 2017 Loan) and \$500,000 (December 2017 Loan), respectively. April 2017 loan will expire April 7, 2023 and December 2017 loan will expire on December 1, 2023. Both April 2017 loan and December 2017 loan require interest only payment for the first year and require interest and principal payments for years from second year to sixth year. The effective rate was 4.11% per annum. As of December 31, 2018, the amount of long-term borrowing was \$929,141, and it consists of \$200,000 of which is due within a year and \$729,141 which is due over a year.

Future obligations for payments of this long-term loan are as below:

Twelve months ended December 31,	
2019	\$200,000
2020	200,000
2021	200,000
2022	200,000
2023	129,141
Thereafter	-
Total	\$929,141

Bank Notes Payable

The Company had the following bank notes payable as of December 31, 2018:

	December 31, 2018
ICBC, due May 5, 2019	\$ 286,902
ABC, due various dates from January 4, 2019 to June 27, 2019	2,601,151
Total	\$ 2,888,053

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The Company had the following bank notes payable as of December 31, 2017:

	December 31, 2017
ICBC, due various dates from January 28, 2018 to May 27, 2018	\$ 3,052,664
ABC, due various dates from February 10, 2018 to April 30, 2018	1,384,016
Total	\$ 4,436,680

The Company had the following bank notes payable as of December 31, 2016:

	December 31, 2016
ICBC, due various dates from January 12, 2017 to June 29, 2017	\$ 1,564,479
CMBC, due April 8, 2017 and April 24, 2017	345,584
CITIC, due various dates from February 5, 2017 to June 27, 2017	172,792
Total	\$ 2,082,855

As of December 31, 2018, 2017 and 2016, \$1,439,063, \$3,053,622 and \$987,719 cash deposits were held by banks as a guaranty for the notes payable, respectively.

All loans and bank acceptance notes due as of the date of this filing have been repaid. From January to March 2019, the Company repaid approximately \$5.2 million bank loans and \$1.8 million notes payable that become due. The Company also borrowed approximately \$7.4 million bank loans as well as approximately \$2.0 million notes payable from various banks in China. All the loans and notes payable are short term in nature and guaranteed by its shareholders, related parties and third parties.

Although we currently do not have any material unused sources of liquidity, giving effect to the foregoing bank loans and other financing activities, including the discounting of bills/notes receivable, we believe that our currently

available working capital should be adequate to sustain our operations at our current levels through at least the next twelve months. We will consider additional borrowing based on our working capital needs and capital expenditure requirements. There is no seasonality of our borrowing activities.

### ***Statutory Reserves***

Under PRC regulations, all of our subsidiaries in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with accounting principles generally of the PRC ("PRC GAAP"). In addition, these companies are required to set aside at least 10% of their after-tax net profits each year, if any, to fund the statutory reserves until the balance of the reserves reaches 50% of their registered capital. The statutory reserves are not distributable in the form of cash dividends to the Company and can be used to make up cumulative prior year losses.

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Restrictions on net assets also include the conversion of local currency into foreign currencies, tax withholding obligations on dividend distributions, the need to obtain State Administration of Foreign Exchange approval for loans to a non-PRC consolidated entity. We did not have these restrictions on our net assets as of December 31, 2018, December 31, 2017 and December 31, 2016. We are also a party to certain debt agreements that are secured with collateral on our real property, but such debt agreements do not restrict our net assets and instead only impose restrictions on the pledged property. To the extent we wish to transfer pledged property, we are able to do so subject to the obligation that we settle the loan obligation.

The following table provides the amount of our statutory reserves, the amount of restricted net assets, consolidated net assets, and the amount of restricted net assets as a percentage of consolidated net assets, as of December 31, 2018, 2017 and 2016.

	As of December 31,					
	2018		2017		2016	
Statutory Reserves	\$5,532,945		\$4,617,039		\$4,017,957	
Total Restricted Net Assets	\$5,532,945		\$4,617,039		\$4,017,957	
Consolidated Net Assets	\$64,688,467		\$57,843,550		\$49,334,539	
Restricted Net Assets as Percentage of Consolidated Net Assets	8.55	%	7.98	%	8.14	%

Total restricted net assets accounted for approximately 8.55% and 7.98% of our consolidated net assets as of December 31, 2018 and 2017, respectively. As our subsidiaries usually set aside only 10% of after-tax net profits each year to fund the statutory reserves and are not required to fund the statutory reserves when they incur losses, we believe the potential impact of such restricted net assets on our liquidity is limited.

***Capital Expenditures***

We had capital expenditures of approximately \$4.0 million, \$6.5 million and \$4.0 million for the years ended December 31, 2018, 2017 and 2016, respectively for additions to and renovations of our workshops and office buildings; and purchases of equipment in connection with our business activities.

In 2019, our capital expenditures for China are expected to be approximately \$5.8 million, and will be primarily related to investments of approximately \$2.9 million in the phase II construction of manufacturing facilities and \$2.9 million in machinery and equipment, in our new factory in China.

In 2019, our capital expenditures for U.S. are expected to be approximately \$0.5 million and will be primarily related to adding machinery and miscellaneous leasehold improvement at the Allentown factory.

In 2019, our capital expenditures for Mexico are expected to be approximately \$3.0 million, and will be primarily related to investment of machinery and leasehold improvements to start up the first phase of the Mexico factory.

For more information regarding our material commitments for capital expenditure, please see “Item 4. Information on the Company.” We expect that our capital expenditures will increase in the future as our business continues to develop and expand. We have used cash generated from our subsidiaries’ operations and proceeds received from our initial public offering to fund our capital commitments in the past and anticipate using cash generated from our subsidiaries’ operations to fund capital expenditure commitments in the future.



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**Critical Accounting Policies and Estimates**

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

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

***Revenue recognition***

The Company follows paragraph 606 of the FASB Accounting Standards Codification for revenue recognition and ASU 2014-09. On January 1, 2018, the Company adopted ASU 2014-09, which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company considers revenue realized or realizable and earned when all the five following criteria are met: (1) Identify the Contract with a Customer, (2) Identify the Performance Obligations in the Contract, (3) Determine the Transaction Price, (4) Allocate the Transaction Price to the Performance Obligations in the Contract, and (5) Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation. Results for reporting periods beginning after January 1, 2018 are presented under ASU 2014-09, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. The Company has assessed the impact of the guidance by reviewing its existing customer contracts and current accounting policies and practices to identify differences that will result from applying the new requirements, including the evaluation of its performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations. Based on the assessment, the Company concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams in scope of Topic 606 and therefore there was no material changes to the Company’s financial statements upon adoption of ASC 606, and there have not been any significant changes to our business processes, systems, or internal controls as a result of implementing the standard.

We sell our products either under free on board (“FOB”) shipping point term or under FOB destination term. For sales under FOB shipping point term, we recognize revenue when product was loaded on the ships. Product delivery is

evidenced by warehouse shipping log as well as signed shipping bills from the shipping company. For sales under FOB destination term, we recognize revenue when the product is delivered and accepted by customer. Product delivery is evidenced by signed receipt document and title transfers upon delivery.

Revenue is reported net of all value added taxes. We do not routinely permit customers to return products and historically, customer returns have been immaterial.

*Allowance for accounts receivable*

We establish an allowance for doubtful accounts based on management's assessment of the collectability of accounts receivable. A considerable amount of judgment is required in assessing the amount of the allowance.

We consider the historical level of credit losses and apply percentages to aged receivable categories when we decide the allowance for accounts receivable. Additional specific provision is made against accounts receivable to the extent which they are considered to be doubtful. Bad debts are written off when identified and we do not accrue interest on trade receivables. Collectability conditions are assessed on individual receivable accounts when we determine an allowance is necessary.

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***Income Tax***

We account for income taxes in accordance with ASC 740, “Income Taxes”. ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or future deductibility is uncertain.

Our subsidiaries in China are subject to the income tax laws of the PRC. We believe that our tax return positions are fully supported, but tax authorities in China may challenge certain positions. Therefore, the amount ultimately paid could be materially different from the amounts previously included in income tax expense and therefore could have a material impact on our tax provision, net income and cash flows.

***Recently Issued Accounting Pronouncements***

*New Accounting Pronouncements Recently Adopted*

On April 1, 2018, we adopted ASU 2016-18, Restricted Cash – A Consensus of the FASB Emerging Issues Task Force, (“ASU 2016-18”), which amends ASC 230, Statement of Cash Flows, to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows using the full retrospective method. Adoption of this standard did not have a material impact on our consolidated financial statements. See our unaudited condensed consolidated statements of cash flows for the reconciliation of cash presented in the statements of cash flows to the cash presented on the balance sheet.

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective April 1, 2018 using the retrospective transition method. The core principle of the new accounting standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Adoption of this standard did not result in significant changes to the Company’s accounting policies, business processes, systems or controls, or have a material impact on the Company’s financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast.

*New Accounting Pronouncements Not Yet Adopted*

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under this ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption of this ASU is permitted. The Company does not expect adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2018-20, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing leases assets and lease liabilities on the balance sheet and disclosing key information about lease transactions. This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption of this ASU is permitted. The Company is evaluating the effect of the pronouncement on the financial statements.

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

**Research and Development**

We are committed to researching and developing better ways to make our products more environmentally-friendly and cost effective and better ways to make our production methods more efficient. We believe scientific and technological innovations are integral to our operations and the mainstay of our competitive advantage and differentiation strategy. The barrier to entry to produce plastic foodservice disposables is relatively low; we believe that by devoting resources to finding new solutions to challenges facing our customers, we are able to improve our competitiveness, even where we are not the lowest cost provider of products, because we compensate with quality and service.

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The R&D team has 165 dedicated employees who are researchers and analysts focused on product development and design of systems to automate our production process. Quality control is an important aspect of the teams' work and ensuring quality at every stage of the process has been a key driver in maintaining and developing brand value for our Company.

We have collaborated with the Technical Institute of Physics and Chemistry of the Chinese Academy of Sciences in research regarding foodservice disposables technology in materials, processes and systems. Current efforts focus on biodegradable product materials including PBS and cellulose synthesis of biodegradable material. It is through these collaborations that the company has managed to secure important breakthroughs resulting in proprietary knowledge and patents.

During years ended December 31, 2018, 2017 and 2016, we spent \$3.43 million, \$2.95 million and \$2.36 million, respectively, on R&D. The increase of the amount spent on R&D was due to more R&D projects in 2018 and 2017 than 2016. R&D expenditures in each year were for the following purposes:

	Year Ended December 31,		
	2018	2017	2016
	(in	(in	(in
	millions)	millions)	millions)
Purpose			
Salaries	\$0.94	\$ 0.70	\$ 0.60
Materials	1.98	1.97	1.36
Other	0.51	0.28	0.40
Total	\$3.43	\$ 2.95	\$ 2.36

We expect to increase our R&D expenditures proportionate to our revenue increase in 2019.

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The following chart shows some of our recent research projects.

Project	Source	Year
Fully biodegradable food grade straw	R&D cooperation with Beijing Technology and Business University	2018
Light PET cups	Self-Developed	2018
PET tableware modified with surface coating	Self-Developed	2018
High transparency cup lid with high efficiency manufacturing	Self-Developed	2018
New GPPS material with HDPE/SBS/mineral modification	Self-Developed	2018
One-step production of high-filled tableware	Self-Developed	2018
Functional straw development	Self-Developed	2018
High anti-stick PP film production	Self-Developed	2018
PP Continuous physical foaming tableware production	Self-Developed	2018
Storage tray with new barrier to preserve freshness	Self-Developed	2018
Recrystallization heat-resistant full-degradable tableware	Self-Developed	2017
Study of automatic packaging of tableware	Self-Developed	2017
Melt grafted modified polypropylene cutlery	Self-Developed	2017
Controllable bio-degradable polypropylene cutlery	Self-Developed	2017
Highly transparent quick injection molding cutlery	Self-Developed	2017
Natural antibacterial material composite tableware	Self-Developed	2017
Food grade antistatic BOPP Straw wrapping film	Self-Developed	2017
High strength cutlery development	Self-Developed	2017
Light weight PET cup		2017

R&D cooperation  
with  
Chinese Academy of  
Sciences

High heat resistant crystallization CPET oven plate	Self-Developed	2017
Disposable Paper-Like Cups	R&D cooperation with Chinese Academy of Sciences	2016
High Quality Printing Paper	R&D cooperation with Chinese Academy of Sciences	2016
Paper Cup	Self-Developed	2016
PET Cups with/without Printing	Self-Developed	2016
PET Salad Bowl	Self-Developed	2016
Injection Deli with Printing	Self-Developed	2016
Thermoforming Deli with Printing	Self-Developed	2016
PP School Tray	Self-Developed	2016

Table of Contents**Intellectual Property*****Our Patents***

We rely on our technology patents to protect our business interests and ensure our position as a pioneering manufacturer in our industry. We have placed a high priority on the management of our intellectual property. Some products that are material to our operating results incorporate patented technology. Patented technology is critical to the continued success of our products. However, we do not believe that our business, as a whole, is dependent on, or that its profitability would be materially affected by, the revocation, termination, or expiration of, or infringement upon, any specific single patent. The following chart represents the selected patents issued to us:

Proprietary name	Patent No.	Patent type	Application Date	Approval Date	Expiration Date	Authority
Clamshell to go box	zL 2017 3 0523546.X	Design	2017.10.28	2018.03.02	2028.03.02	China State Intellectual Property Office
To go container	zL 2017 3 0523428.9	Design	2017.10.28	2018.05.08	2028.05.08	China State Intellectual Property Office
Medicine cup	zL 2017 3 0520989.3	Design	2017.10.30	2018.05.08	2028.05.08	China State Intellectual Property Office
Automatic cup stacking machine	zL 2017 2 1448271.9	Utility model	2017.11.02	2018.05.11	2028.05.11	China State Intellectual Property Office
Vacuum suction equipment for knife, fork and spoon manufacturing	zL 2017 2 1674225.0	Utility model	2017.12.05	2018.06.12	2028.06.12	China State Intellectual Property Office
Multifunction intelligent packaging equipment	zL 2016 1 0792046.0	Patent	2016.08.31	2018.07.06	2028.07.06	China State Intellectual Property Office
Cup lid hole punching machine	zL 2017 2 1807920.X	Utility model	2017.12.21	2018.07.10	2028.07.10	China State Intellectual Property Office
Cup lid molding machine	zL 2017 2 1810110.X	Utility model	2017.12.21	2018.07.17	2028.07.17	China State Intellectual Property Office
PET sheet coating machine	zL 2017 2 1807849.5	Utility model	2017.12.21	2018.07.31	2028.07.31	China State Intellectual Property Office



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Single screw Extrusion foaming machine	zL 2017 2 1920786.4	Utility model	2017.12.29	2018.07.31	2028.07.31	China State Intellectual Property Office
Cup	US D724,426 S	Design	2014.07.24	2015.03.17	2029.03.17	United States Patent and Trademark Office
Set of Clamshell containers	US D793,225 S	Design	2016.02.02	2017.08.01	2026.06.22	US Patent and Trademark Office
A type of disposable spoon	Z1 2016 2 0406977.8	Utility model	2016.05.05	2016.11.16	2026.05.05	China State Intellectual Property Office
A type of disposable cutlery	Z1 2016 2 0401916.2	Utility model	2016.05.05	2016.11.16	2026.05.05	China State Intellectual Property Office
A cup with measuring cup	Z1 2016 2 0640630.X	Utility model	2016.06.22	2017.07.21	2026.06.22	China State Intellectual Property Office
A type of cup combination	Z1 2016 2 0634342.3	Utility model	2016.06.22	2017.01.18	2025.5.24	China State Intellectual Property Office
A type of multi-function smart packaging machine	Z1 2016 2 1002052.3	Utility model	2016.08.31	2017.03.29	2025.5.24	China State Intellectual Property Office
Food grade polypropylene composite material and preparation and uses	ZL 2010 1 0116076.2	Patent	2010.03.02	2013.06.05	2030.03.01	China State Intellectual Property Office
Two section straw packaging and transmission system	ZL 2007 1 0156428.5	Patent	2007.10.26	2010.12.15	2027.10.25	China State Intellectual Property Office
Split-type goblets	ZL 2010 2 0684010.9	Utility model	2010.12.28	2011.08.03	2020.12.27	China State Intellectual Property Office

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Proprietary name	Patent No.	Patent type	Application Date	Approval Date	Expiration Date	Authority
Plates	ZL 2010 3 0701465.2	Design	2010.12.29	2011.08.03	2020.12.28	China State Intellectual Property Office
Cup with curled rim	ZL 2011 2 0049179.1	Utility model	2011.02.26	2011.08.24	2021.02.25	China State Intellectual Property Office
Spork	ZL 2010 2 0685416.9	Utility model	2010.12.28	2011.09.07	2020.12.27	China State Intellectual Property Office
Multipurpose fork	ZL 2010 2 0685497.2	Utility model	2010.12.28	2011.10.19	2020.12.27	China State Intellectual Property Office
Anti-counterfeit bags	ZL 2011 2 0049491.0	Utility model	2011.02.26	2011.10.19	2021.02.25	China State Intellectual Property Office
Combined serviceware package	ZL 2010 2 0684440.0	Utility model	2010.12.28	2011.11.09	2020.12.27	China State Intellectual Property Office
Hollow-handle cutlery	ZL 2010 2 0684221.2	Utility model	2010.12.28	2011.11.30	2020.12.27	China State Intellectual Property Office
Serviceware kit (toughened)	ZL 2011 3 0402067.5	Design	2011.11.07	2012.05.16	2021.11.06	China State Intellectual Property Office
Ice cream cup	ZL 2011 2 0561621.9	Utility model	2011.12.29	2012.10.03	2021.12.28	China State Intellectual Property Office
Cover/lid	ZL 2012 3 0240031.6	Design	2012.06.11	2012.10.31	2022.06.10	China State Intellectual Property Office
Cover remover	ZL 2012 2 0285999.5	Utility model	2012.06.16	2013.01.09	2022.06.15	China State Intellectual Property Office
Packaging barrel	ZL 2012 2 0288697.3	Utility model	2012.06.16	2013.01.09	2022.06.15	China State Intellectual Property Office
Bowls	ZL 2012 3 0542829.6	Design	2012.11.09	2013.04.10	2022.11.08	China State Intellectual Property Office
Plates (honeycomb design)	ZL 2012 3 0543240.8	Design	2012.11.09	2013.04.10	2022.11.08	China State Intellectual Property Office
Cutlery with removable structure	ZL 2012 2 0591687.7	Utility model	2012.11.09	2013.05.01	2022.11.08	China State Intellectual Property Office

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Bowl for noodles	ZL 2010 3 0701464.8	Design	2010.12.29	2011.06.08	2020.12.28	China State Intellectual Property Office
Combined fork and cutlery	ZL 2010 2 0683337.4	Utility model	2010.12.28	2011.10.19	2020.12.27	China State Intellectual Property Office
Multipurpose clip	ZL 2011 2 0048688.2	Utility model	2011.02.26	2011.10.19	2021.02.25	China State Intellectual Property Office
Water dispenser bucket with handle	ZL 2011 2 0219976.X	Utility model	2011.06.27	2012.01.25	2021.06.26	China State Intellectual Property Office
Plate	ZL 2015 3 0165070.8	Design	2015.05.27	2015.09.02	2025.05.26	China State Intellectual Property Office
Serviceware distribution organization	ZL 2015 2 0307980. X	Utility model	2015.05.13	2015.09.09	2025.05.12	China State Intellectual Property Office
High luminous suction cup	ZL 2015 2 0332164.4	Utility model	2015.05.21	2015.09.23	2025.05.20	China State Intellectual Property Office
High transparent children plate	ZL 2015 2 0343466.1	Utility model	2015.05.25	2015.09.23	2025.05.24	China State Intellectual Property Office
High transparent antiskid serviceware	ZL 2015 2 0343446.4	Utility model	2015.5.25	2015.9.23	2025.5.24	China State Intellectual Property Office

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In addition to our patents, we also rely on trademarks and service marks to protect our intellectual property and branding. Below is a selected list of our registered marks.

Mark	Owner	Classification Number <sup>(1)</sup>	Registration Date	Expiration Date	Authority
	Taizhou Fuling	8 – #4712944	2008.3.28	2028.3.27	China State Administration for Industry and Commerce
	Taizhou Fuling	21 – #4712943	2008.12.28	2028.12.27	
	Taizhou Fuling	8 – #4712945	2008.3.28	2028.3.27	China State Administration for Industry and Commerce
	Taizhou Fuling	21 – #4712946	2008.12.28	2028.12.27	
	Taizhou Fuling	21 – #1032903 <sup>(2)</sup>	2009.11.16	2019.11.16 <sup>(3)</sup>	Intellectual Office Property Register
	Taizhou Fuling	8 – #11235808	2013.12.14	2023.12.13	China State Administration for Industry and Commerce
	Taizhou Fuling	21 – #11235777	2013.12.14	2023.12.13	
	Taizhou Fuling	21 – #8441442	2011.7.14	2021.7.13	China State Administration for Industry and Commerce
	Taizhou Fuling	21 – #11235865	2013.12.14	2023.12.13	China State Administration for Industry and Commerce
	Taizhou Fuling	8 – #11236889	2013.12.14	2023.12.13	China State Administration for Industry and Commerce
	Great Plastics	8 – #9966708	2012.11.21	2022.11.20	China State Administration

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Great Plastics	21 – #9966694	2013.3.7	2023.3.6	for Industry and Commerce
Great Plastics	8 – #9966716	2012.11.21	2022.11.20	China State Administration for Industry and Commerce
Great Plastics	8-# 12489484	2014.9.28	2024.9.27	China State Administration for Industry and Commerce
Great Plastics	21-# 12489468	2014.9.28	2024.9.27	China State Administration for Industry and Commerce
Fuling USA	8 – #4291028	2013.2.19	—	(4) United States Patent and Trademark Office

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Classification 8 products consist of serviceware (knife, fork and spoon); knife and fork set serviceware; steel knives; chopping knives; ice hammers; spoons; wine ladles; long handle spoons and tongs for sugar cubes.

- (1) Classification 21 products consist of non-precious metal serviceware (except knives, forks and spoons); enamel and plastic ware for everyday use (including basins, bowls, plates, kettles and cups); ice cream sticks; lunch boxes; utensils for household uses; covers for dishes; paper or plastic cups; ice creams spoons; non-precious serviceware and picnic baskets (including plates and dishes).

- (2) Basing on #4712946 registration in China, we have registered the trademark at the International Bureau of the World Intellectual Property Organization (WIPO) under the Madrid Agreement and Protocol.

- (3) We plan to extend the registration before it expires.

- (4) The registration is valid as long as Fuling USA timely files all post registration maintenance documents.

## ***Our Domain Names***

We have registered 6 domain names, including fulingplastics.com.cn, fulingusa.com, fulingplasticusa.com, domoplastics.com, directlinkusallc.com and domoindustry.com, while only the first two websites are active. We also have the authorization from Ms. Guilan Jiang to use fulingplastics.com, We do not incorporate the information on our websites into this annual report and you should not consider any information on, or that can be accessed through, our websites as part of this annual report.

## **D. Trend Information**

### **Industry Trends and Company Strategy**

We have noted the existence of the following trends since the beginning of 2016, all of which are likely to affect our business to the extent they continue in the future. We are adopting strategies accordingly.

#### ***Industry operators will need to cater to environmental concerns in order to succeed***

Business and consumer concerns over the environmental impact of plastic will gain importance as an industry trend over the next five years. Consumers will likely be more conscious of the environmental impact of paper and plastic

products and look to purchase recycled and eco-friendly products. As a result, industry operators will need to cater to environmental concerns in order to succeed in the industry. For instance, according to Freedonia, McDonald's reports that its corrugated clamshells contain at least 37 percent recycled content.

Our management believes companies that provide eco-friendly products can charge higher prices which usually offset more than the cost increase and thus achieve higher profit margins. On average, our eco-friendly products have 10% higher gross margin compared to our conventional products.

### ***Innovation and cost cutting***

The main material used to produce plastic products is plastic resin, a petroleum-based product. For this reason, fluctuations in global crude oil prices lead to changes in the input costs for plastic manufacturers. Crude oil prices are generally volatile.

The plastic resins we primarily use are polypropylene ("PP"), polystyrene ("PS") which includes General Purpose Polystyrene ("GPPS"), High Impact Polystyrene ("HIPS"), and Polyethylene Terephthalate ("PET"). We began to use PET in 2016 to produce and fulfill orders of PET cups and cup lids. The following chart shows their percentages of our total cost of raw materials for the years ended December 31, 2018, 2017 and 2016:

	<b>Year Ended December</b>		
	<b>31,</b>		
<b>Raw Material</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
PP	44.93 %	44.27 %	49.05 %
GPPS	17.98 %	21.24 %	21.01 %
HIPS	2.15 %	2.46 %	2.62 %
PET	9.42 %	8.84 %	6.71 %
Total	74.48 %	76.81 %	79.39 %

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The following chart shows the monthly prices of PP, GPPS, HIPS, PET and Brent oil (one kind of crude oil) from January 2016 to March 2019:

	PP (\$/LB)	GPPS (\$/LB)	HIPS (\$/LB)	PET (\$/LB)	Brent Oil (\$/barrel)
2016					
January	\$0.607	0.815	0.914	-	30.700
February	0.580	0.805	0.914	-	32.180
March	0.720	0.886	1.100	-	38.031
April	0.720	0.891	0.988	0.830	41.583
May	0.730	0.879	0.976	0.810	46.757
June	0.740	0.858	0.949	0.760	48.247
July	0.929	0.974	1.062	0.820	47.250
August	0.753	0.884	0.962	0.810	47.310
September	0.886	0.898	1.039	0.820	46.900
October	0.886	0.896	1.030	0.830	49.710
November	0.910	0.920	1.050	0.840	47.310
December	0.920	0.970	1.130	0.820	56.140
2017					
January	0.900	0.970	1.160	0.840	53.200
February	0.919	1.063	1.169	0.830	56.620
March	0.916	1.017	1.182	0.830	53.14
April	0.910	0.976	1.144	0.840	51.15
May	0.914	0.932	1.101	0.820	51.84
June	0.906	0.923	1.092	0.840	47.80
July	0.894	0.934	1.112	0.860	52.63
August	0.886	0.953	1.115	0.870	50.67
September	0.893	0.964	1.131	0.890	56.63
October	0.883	0.964	1.126	0.869	57.93
November	0.892	0.960	1.129	0.873	62.69
December	0.912	0.963	1.132	0.887	66.17
2018					
January	0.946	1.011	1.160	0.940	68.00
February	0.965	1.043	1.183	0.950	68.90
March	0.940	1.013	1.178	0.941	63.860
April	0.941	1.011	1.179	0.957	73.860
May	0.947	1.017	1.197	1.011	77.180
June	0.946	1.035	1.198	1.066	77.550
July	0.954	1.049	1.200	0.993	75.350
August	1.119	1.047	1.051	0.965	77.750
September	1.115	1.057	1.078	0.969	81.300
October	1.110	1.066	1.033	1.006	76.870
November	1.051	1.043	0.960	0.983	59.730
December	0.965	1.007	0.947	0.969	53.580
2019					



January	0.915	0.979	0.933	0.937	61.11
February	\$0.983	0.993	0.974	0.915	66.55
Increased	61.91 %	21.83 %	6.54 %	(2.70 )%	116.78 %

With competition being mostly price-based, market players need to improve technology and manufacturing processes to save cost. In addition, the environmental trend will encourage market players around the world to invest more in research and development.

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We have consistently invested in R&D and new equipment and technology to increase our cost competitiveness. The following chart illustrates the effect:

	2016	2017	2018	Increase (decrease) from 2016 to 2018	
Average Worker Annual Salary	\$7,719	\$8,628	\$9,570	24.0	%
R&D Expense	\$2,355,539	\$2,953,477	\$3,432,188	45.7	%
Productivity Per Employee	\$145,058	\$121,572	\$111,920	-2.2	%

***Proximity to key markets is a major success factor***

Although many degradable products are imported from Asia, due to rising manufacturing costs in China, some importers of degradable foodservice disposables are in the midst of establishing U.S. production operations. For example, Trellis Earth Products, an Oregon-based manufacturer of sustainable food service products, is shifting its manufacturing of its bioplastic-based disposables from China to a facility in Rochester, New York. The trend is based on the economic logic of producing or sourcing near the consumer.

The nature of some of our products (straws, cups and plates, specifically) necessitates operations to be fairly localized, as shipping costs tends to be significant for these products. It makes economic sense to manufacture those products at a location close to markets. In addition to reduced transportation costs and delivery time, this is also helpful for customer satisfaction since it allows manufacturers to respond to customer needs more quickly.

In 2014, we commenced construction of a manufacturing facility in Allentown, Pennsylvania, which provides us a platform to manufacture drinking straws in the United States. The total investment for the project will be roughly \$10.1 million. The factory in Allentown became operational in June 2015.

***Business Development Trends***

Our prices fluctuate based on changes in our material costs. We and our long-term customers closely follow changes in such prices and adjust our product prices accordingly. Oil prices remained high in the first half of 2018 putting pressure on our profit margin as the market remained competitive and it was difficult to implement price increases. As oil prices declined in the second half of 2018, we regained some of the profits with lower raw material costs.

However, the higher tariffs stemmed from the trade conflict between China and U.S. created another problem for us and we had to make adjustments in sourcing raw materials for the production in our Allentown factory.

## E. Off-Balance Sheet Arrangements

### *Off-balance Sheet Commitments and Arrangements*

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements.

## F. Tabular Disclosure of Contractual Obligations

Below is a table setting forth all of our contractual obligations as of December 31, 2018, which consists of our short-term loan agreements, loans from third parties and due to related parties:

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Short-Term Debt Obligations	\$19,890,641	\$19,890,641	\$0	\$0	\$0
Long-Term Debt Obligations	7,203,357	0	6,400,563	520,293	282,501
Bank Acceptance Notes Payable	2,888,053	2,888,053	0	0	0
Capital Lease Obligations	5,483,426	2,847,859	2,635,567	0	0
Operating Lease Obligations	4,184,632	866,971	1,777,282	1,343,448	196,931
Letter of Credit	5,147,960	5,147,960	0	0	0
Short-Term Debt Interest Obligations	1,185,168	1,185,168	0	0	0
Long-Term Debt Interest Obligations	973,208	313,673	573,865	78,403	7,267
Purchase Obligations	0	0	0	0	0
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	0	0	0	0	0
Loans from Third Parties	0	0	0	0	0
Total	\$46,956,445	\$33,140,325	\$11,387,277	\$1,942,144	\$486,699

## G. Safe Harbor

See “SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS.”

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**Item 6. Directors, Senior Management and Employees**

A. Directors and Senior Management

The following table provides information regarding our senior management ,directors and a key U.S. executive as of April 5, 2019:

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Xinfu Hu	58	Chief Executive Officer
Guilan Jiang	55	Chair of Board of Directors and Chief Operating Officer
Gilbert Lee	61	Chief Financial Officer
Sujuan Zhu	47	Director
Jian Cao	68	Director (Independent)
Hong (Simon) He	50	Director (Independent)
Fuyou Cai	53	Director (Independent)
John C. Kunes	69	Executive Vice President of Fuling USA

The business address of all such senior management and directors is Southeast Industrial Zone, Songmen Town, Wenling, Zhejiang Province, People’s Republic of China 317511.

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### Directors

**Guilan Jiang.** Ms. Jiang has served as the Chief Operating Officer and Chair of the Company since September 2015. Ms. Jiang co-founded Taizhou Fuling in October of 1992 with her husband, Mr. Xinfu Hu, our CEO, and serves as the legal representative and the Chair. Ms. Jiang co-founded Great Plastics in March 2010 with Mr. Xinfu Hu and Ms. Sujuan Zhu, and serves as the legal representative, the general manager and a director. Ms. Jiang previously owned 95% of Zhejiang Special Plastics Technology Co., Ltd. (“Special Plastics”) from September 2006 through 2015 and acts as a supervisor. Ms. Jiang is the general manager and a shareholder of Wenling Wantong Investment Co., Ltd. Ms. Jiang has been certified by Zhejiang Province as a senior economist in 2012. This qualification certifies her qualification and experience in business management, and understanding of the global economic marketplace in which we operate and shows that she has passed certain qualification tests in business field. Currently Ms. Jiang is Deputy Chair of the China Plastics Processing Industry Association, Deputy Chair of the Zhejiang Female Entrepreneur Association, and Chair of the Wenling Plastics Association. Ms. Jiang has acted as a representative of the local People’s Congress several times, most recently, in March 2017. Ms. Jiang has received an award as an Outstanding Female in China, as a Top 10 Outstanding Female in Zhejiang, and as an Excellent Entrepreneur in Taizhou and Wenling. Ms. Jiang received her associate degree in accounting from China University of Geosciences in 2006. We have chosen Ms. Jiang to serve as the Chair of our board of directors because of her more than twenty years of experience in our industry, and leadership at the national level.

**Sujuan Zhu.** Ms. Zhu has been a member of our board of directors since January 19, 2015. She co-founded Taizhou Fuling in October 1992, is a director and has worked in its financial department. Ms. Zhu also co-founded Great Plastics in March 2010. Ms. Zhu is also a director and the general manager of Wenling Hongkun Investment Co., Ltd. We have chosen Ms. Zhu to serve on our board of directors because of her more than twenty years of experience advising and assisting our company on finance and management as it has grown.

**Jian Cao.** Mr. Cao has been an independent member of our board of directors since July 2015. Mr. Cao has been the Executive Vice President at the China Plastics Processing Industry Association since May 1995 and legal representative since May 2011. In this capacity, Mr. Cao manages the daily operations of the association. Mr. Cao has helped the Association participate in the development of the national standards applicable to the plastics industry. Prior to working with the China Plastics Processing Industry Association, Mr. Cao served a plastic industry association in Liaoning Province, including as general manager, since 1978. Since August 2013, Mr. Cao has also served as a director at Xinjiang Tianye Water Saving Irrigation System Company Limited, a public company in China. Mr. Cao is also a director at Jiangsu Cenmen Equipment Co., Ltd., another public company in China. Mr. Cao has also been a director at the China Light Industry Federation since May 2012. Since May 2013, Mr. Cao has been chief of the national standardization technical committee for the plastics industry. Mr. Cao earned his bachelor degree in October 1978 from Dalian University of Technology. We believe Mr. Cao’s qualifications to serve on our board of directors include his knowledge of our industry, with almost 40 years’ experience in the plastics industry.

**Hong (Simon) He.** Mr. He has been an independent member of our board of directors since July 2015. Since August 2014, Mr. He has been the finance director of SciClone Pharmaceuticals, Inc., which is a Nasdaq-listed company with main operations in China. He manages corporate financial analysis, SEC reporting and SOX compliance. Mr. He was Vice President of Finance and the controller of Augmedix, Inc. from January 2014 to June 2014, where he developed financial accounting and reporting process in compliance with U.S. GAAP. From October 2011 to December 2013, Mr. He was the Vice President of Finance at Baidu Leho.com, which is backed by Baidu, a Nasdaq-listed company. He established financial accounting infrastructure and ensured the financial statements were prepared in line with the U.S. GAAP. From March 2010 to October 2011, Mr. He was the CFO of Sunity Online Entertainment Ltd., a pre-IPO company. He coordinated the IPO application for Nasdaq listing and ensured the U.S. GAAP compliance for its financial statements. Mr. He is a U.S. Certified Management Accountant and a China Certified Public Accountant. Mr. He earned his Bachelor of Science degree in accounting from Beijing University of Technology in July 1992 and his MBA degree from University of Chicago Booth School of Business in December 2006. We have selected Mr. He to serve on our board of directors and as the Chair of our Audit Committee because of his rich accounting and finance experience.

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**Fuyou Cai.** Mr. Cai has been an independent member of our board of directors since January 2019. Mr. Cai is a partner of Zhejiang Mingquan Law Firm. He has been working at Zhejiang Mingquan Law Firm since May 1995 and received his lawyer's license in 2010. Mr. Cai has been providing legal services to various companies and governmental agencies. Mr. Cai is also a part-time professor of China University of Political Science and Law and a guest professor of Zhejiang Agricultural University. Mr. Cai earned his Bachelor of Laws degree in 2002 from Zhejiang University and a Master of Laws from Southwest University of Political Science & Law in 2008. We have selected Mr. Cai to serve on our board of directors because of his rich compliance experience.

## Executive Officers

**Xinfu Hu.** Mr. Hu has served as the Chief Executive Officer of the Company since September 2015. Mr. Hu co-founded Taizhou Fuling in October of 1992 with his wife, Ms. Guilan Jiang, and serves as the general manager. Mr. Hu co-founded Great Plastics in March 2010 with his wife, Ms. Guilan Jiang, and Ms. Sujuan Zhu and has served as a supervisor. Mr. Hu is also the legal representative, the general manager and a director of Wenling Yuanheng Real Estate Development Co., Ltd. Mr. Hu is a shareholder of Sanmen Decoration City Market Development Co., Ltd and Hangzhou YaJiu Investment Co., Ltd. Mr. Hu has been certified by Zhejiang Province as a senior economist in 2013. This qualification certifies his qualification and experience in business management, and understanding of the global economic marketplace in which we operate and shows that he has passed certain qualification tests in business field. Mr. Hu is also an engineer. Currently Mr. Hu is Deputy Chair of the China Chamber of Commerce for Import and Export of Light Industrial Products and Arts and Crafts, and a member of Committee of the People's Political Consultative Conference of Sanmen County. Mr. Hu received his associate degree in business management from Southwest University of Science and Technology in 2006. Our board of directors has chosen Mr. Hu to serve as Chief Executive Officer because of his more than twenty years of experience in our industry.

**Gilbert Lee.** Mr. Lee has been our Chief Financial Officer since August 2015. Mr. Lee was the Vice President of Operations of Fuling USA from May 2015 to August 2015. Prior to joining our company, from October 2013 through May 2015, Mr. Lee was Vice President of Business Development and prior to that, from August 2011 to October 2013, the U.S. based Chief Financial Officer at Tanke Biosciences Corporation, a Chinese manufacturer listed on OTCQB, where he was responsible for SEC reporting, investor relations, capital-raising, GAAP conversion, annual audits, and corporate finance. From 2010 through 2011, Mr. Lee was the Finance Executive in Planning & Analysis for Dimensional Merchandising Inc., at which he developed strategies to turn around sales and profit, and oversaw accounting and payroll functions. Mr. Lee also held various executive positions in finance, marketing, and business analysis at a Paris CAC 40 company and a NYSE listed company. Mr. Lee is a CPA and a CMA. Mr. Lee earned his MBA from University of Texas at Austin in 1995, his MPA (Master of Professional Accounting) from University of Texas at Arlington in 1987 and his BBA (Bachelor of Business Administration) in Marketing from University of Texas at Arlington in 1982.

## Key U.S. Executive



**John C. Kunes.** Mr. Kunes has served as Executive Vice President at Fuling USA/Old Fuling USA since January 2013 and was the Chief Marketing Officer at Old Fuling USA from July 2009, responsible for developing customer relationships, negotiating distribution logistics, and marketing our products in the United States. Mr. Kunes has been an independent contractor for Fuling USA/Old Fuling USA since January 2013 through JCK Enterprises. Prior to joining our company, Mr. Kunes was Director of Operations for Jet Plastica Industries, a plastic foodservice disposables company, from 1998 through 2008. At Jet Plastica he managed more than 600 employees, and implemented projects to enhance efficiency such as automating production lines and matching cutlery production to orders. Mr. Kunes worked as the Director of Finance for Tenneco Packaging from 1995 through 1998 and in a variety of operations and finance roles. He was plant manager and business unit controller for Mobil Chemical Company from 1988 through 1995. Mr. Kunes earned his B.S. and MBA from the Rochester Institute of Technology.

## **B. Compensation**

### **Compensation of Directors and Executive Officers**

In 2018, we paid an aggregate of approximately US \$370,000 in cash as salaries and fees to our senior executives, officers and directors named in this annual report, and granted an aggregate of 15,705 Ordinary Shares to our CFO. We do not separately set aside any amounts for pensions, retirement or other benefits for our executive officers, other than pursuant to relevant statutory requirements.

### **Share Incentive Plan**

For information regarding the share incentive plan, see “Item 6. Directors, Senior Management and Employees — Share and Share Options.”

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**C. Board Practices**

***Terms of Directors and Executive Officers***

All directors hold office until the next annual meeting of shareholders at which they are re-elected and until their successors have been duly elected and qualified. Officers are elected by and serve at the discretion of the board of directors. See “Item 6.A Directors and Senior Management” as to current directors and officers. In addition, the service agreements between us and the directors do not provide benefits upon termination of their services.

***Election of Officers***

Our executive officers are elected by, and serve at the discretion of, our board of directors. Our Chief Operating Officer and Chair of our board of directors, Guilan Jiang is married to the Chief Executive Officer, Xinfu Hu. Sujuan Zhu, one of our board directors, is Guilan Jiang’s sister-in-law. Other than these relationships, there are no familial relationships among any members of the executive officers.

***Board of Directors and Board Committees***

Our board of directors currently consists of five (5) directors. A majority of our board of directors (namely, Messrs. Cao, He and Cunningham) are independent, as such term is defined by the Nasdaq Capital Market.

A director may vote in respect of any contract or transaction in which he is interested, provided, however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof of the nature of a director’s interest shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may be counted for a quorum upon a motion in respect of any contract or arrangement which he shall make with our company, or in which he is so interested and may vote on such motion.

We do not have a lead independent director, and we do not anticipate having a lead independent director because we will encourage our independent directors to freely voice their opinions on a relatively small company board. We

believe this leadership structure is appropriate because we are a relatively small. Our board of directors plays a key role in our risk oversight. The board of directors makes all relevant Company decisions. As a smaller company with a small board of directors, we believe it is appropriate to have the involvement and input of all of our directors in risk oversight matters.

### ***Board Committees***

We have established three standing committees under the board: the audit committee, the compensation committee and the nominating committee. Each committee has three members, and each member is independent, as such term is defined by The Nasdaq Capital Market. The audit committee is responsible for overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company, including the appointment, compensation and oversight of the work of our independent auditors. The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all forms of compensation, and also administers and has authority to make grants under our incentive compensation plans and equity-based plans (but our board will retain the authority to interpret those plans). The nominating committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. The nominating committee considers diversity of opinion and experience when nominating directors.

The members of the audit committee, the compensation committee and the nominating committee as of December 31, 2018 are set forth below. All such members qualify as independent under the rules of The Nasdaq Capital Market.

Director	Audit Committee	Compensation Committee	Nominating Committee
Jian Cao	(1 )	(1 )(2)	(1 )
Hong (Simon) He	(1 )(2)(3)	(1 )	(1 )
Donald T. Cunningham, Jr.	(1 )	(1 )	(1 )(2)

(1)Committee member

(2)Committee chair

(3)Audit committee financial expert

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***Duties of Directors***

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. The directors of a company occupy a fiduciary relationship to the Company, which means that they owe heightened duties of good faith and responsibility. Our directors have a duty to exercise the care, skill and diligence that would be exercised by a reasonably diligent person having the general knowledge, skill and experience reasonably to be expected of a person acting as a director and must exercise the knowledge, skill and experience which they actually possess. See “Description of Share Capital — Differences in Corporate Law” for additional information on our directors’ fiduciary duties under Cayman Islands law. In fulfilling their duty of care to us, our directors must ensure compliance with our First Amended and Restated Memorandum and Articles of Association. We have the right to seek damages if a duty owed by our directors is breached.

***Interested Transactions***

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

***Remuneration and Borrowing***

The directors may receive such remuneration as our board of directors may determine or change from time to time. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. Our board of directors may exercise all the powers of the company to borrow money and to mortgage or charge our undertakings and property or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

***Qualification***

A majority of our board of directors is required to be independent. There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting. There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

### ***Director Compensation***

All directors hold office until the next annual meeting of shareholders at which they are re-elected and until their successors have been duly elected and qualified. Our Chief Operating Officer and Chair of our Board of Directors, Guilan Jiang is married to the CEO, Xinfu Hu. Officers are elected by and serve at the discretion of the Board of Directors. Employee directors do not receive any compensation for their services. Non-employee directors will be entitled to receive such remuneration as our board of directors may determine or change from time to time for serving as directors and may receive incentive option grants from our company. In addition, each non-employee director is entitled to be repaid or prepaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred in attending meetings of our board of directors or committees of our board of directors or shareholder meetings or otherwise in connection with the discharge of his or her duties as a director.

### ***Limitation of Director and Officer Liability***

Under Cayman Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Cayman Islands law does not limit the extent to which a company's First Amended and Restated Memorandum and Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our First Amended and Restated Memorandum and Articles of Association, we may indemnify our directors, officers and liquidators against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with civil, criminal, administrative or investigative proceedings to which they are party or are threatened to be made a party by reason of their acting as our director, officer or liquidator. To be entitled to indemnification, these persons must have acted honestly and in good faith with a view to the best interest of the company and, in the case of criminal proceedings, they must have had no reasonable cause to believe their conduct was unlawful. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

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The decision of our board of directors as to whether the director acted honestly and in good faith with a view to our best interests and as to whether the director had no reasonable cause to believe that his or her conduct was unlawful, is in the absence of fraud sufficient for the purposes of indemnification, unless a question of law is involved. The termination of any proceedings by any judgment, order, settlement, conviction or the entry of no plea does not, by itself, create a presumption that a director did not act honestly and in good faith and with a view to our best interests or that the director had reasonable cause to believe that his or her conduct was unlawful. If a director to be indemnified has been successful in defense of any proceedings referred to above, the director is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by the director or officer in connection with the proceedings.

We may purchase and maintain insurance in relation to any of our directors or officers against any liability asserted against the directors or officers and incurred by the directors or officers in that capacity, whether or not we have or would have had the power to indemnify the directors or officers against the liability as provided in our First Amended and Restated Memorandum and Articles of Association.

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

***Involvement in Certain Legal Proceedings***

To the best of our knowledge, none of our directors or officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, nor has been a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement. Except as set forth in our discussion below in “Related Party Transactions,” our directors and officers have not been involved in any transactions with us or any of our affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

**D. Employees**

As of December 31, 2018, we employed a total of 1,476 full-time and no part time employees in the following functions:

Department	Number of Employees		
	December 31, 2018	December 31, 2017	December 31, 2016
Senior Management	23	23	23
Human Resource & Administration	61	71	54
Finance	17	18	19
Research & Development	230	230	180
Material Management	18	15	15
Quality Control	90	90	80
Production	1017	1396	970
Sales & Marketing	20	19	18
Total	1,476	1,862	1359

Production employees decreased in 2018 because we used more machines to replace workers and also decreased the number of production managers to control our managing costs.

Of our total employees on December 31, 2018, 1,423 were employed in China and 62 were employed in the United States (not including John Kunes, our U.S. - based Executive Vice President who is an independent contractor).

Our employees are not represented by a labor organization or covered by a collective bargaining agreement. We have not experienced any work stoppages.

We are required under PRC law to make contributions to employee benefit plans at specified percentages of our after-tax profit. In addition, we are required by PRC law to cover employees in China with various types of social insurance. In 2018, we contributed approximately \$998,140 and \$1,788,473 to the employee benefit plans and social insurance, respectively. In 2017, we contributed approximately \$802,443 and \$1,652,495 to the employee benefit plans and social insurance, respectively. In 2016, we contributed approximately \$657,074 and \$1,183,373 to the employee benefit plans and social insurance, respectively. The effect on our liquidity by the payments for these contributions is immaterial. We believe that we are in material compliance with the relevant PRC employment laws.

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**Employment Agreements**

In accordance with the PRC National Labor Law, which became effective in January 1995, and the PRC Labor Contract Law, which became effective in January 2008, as amended subsequently in 2012, employers must execute written labor contracts with full-time employees of the Chinese entity in order to establish an employment relationship. However, as Mr. Hu and Ms. Jiang are retained by FGI, a Cayman Islands entity, and as Mr. Lee and Mr. Kunes are retained by a U.S. entity, they are not governed by this requirement. Nevertheless, Mr. Kunes has an independent contractor agreement through JCK Enterprises and each of Mr. Hu, Ms. Jiang and Mr. Lee has an employment agreement.

In China, all employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, employers in China are obliged to pay contributions to the social insurance plan and the housing fund plan for employees. Accordingly, all of our employees, including management, have executed their employment agreements. Our employment agreements with our executives provide the amount of each executive officer's salary and establish their eligibility to receive a bonus. We believe our labor relationships are good.

Our employment agreements with our executive officers generally provide for a salary to be paid monthly. The agreements also provide that executive officers are to work full time for our company and are entitled to all legal holidays as well as other paid leave in accordance with PRC laws and regulations and our internal work policies. The employment agreements also provide that we will pay for all mandatory social insurance programs for our executive officers in accordance with PRC regulations. In addition, our employment agreements with our executive officers prevent them from rendering services for our competitors for so long as they are employed.

Other than the salary, bonuses, equity grants and necessary social benefits required by the government, which are defined in the employment agreements, we currently do not provide other benefits to the officers. Our executive officers are not entitled to severance payments upon the termination of their employment agreement or following a change in control. We are not aware of any arrangement that may at a subsequent date, result in a change of control of our company.

We have not provided retirement benefits (other than a state pension scheme in which all of our employees in China participate) or severance or change of control benefits to our named executive officers.



Under Chinese law, we may terminate an employment agreement without penalty by providing the employee thirty days' prior written notice or one month's wages in lieu of notice if the employee is incompetent or remains incompetent after training or adjustment of the employee's position in other limited cases. If we wish to terminate an employment agreement in the absence of cause, then we are obligated to pay the employee one month's salary for each year we have employed the employee. We are, however, permitted to terminate an employee for cause without penalty to our company, where the employee has committed a crime or the employee's actions or inactions have resulted in a material adverse effect to us.

### **Guilan Jiang**

We entered into an employment agreement with our Chief Operating Officer and Chair, Ms. Guilan Jiang, effective September 12, 2015. Under the terms of Ms. Jiang's employment, she is entitled to base compensation of \$100,000 per year.

Ms. Jiang's employment has no expiration date but may be terminated immediately for cause or at any time by either party upon presentation of 30 days' prior notice in the event she is unable to perform assigned tasks or the parties are unable to agree to changes to her employment agreement.

### **Xinfu Hu**

We entered into an employment agreement with our Chief Executive Officer, Mr. Xinfu Hu, effective September 12, 2015. Under the terms of Mr. Hu's employment, he is entitled to base compensation of \$100,000 per year.

Mr. Hu's employment has no expiration date but may be terminated immediately for cause or at any time by either party upon presentation of 30 days' prior notice in the event he is unable to perform assigned tasks or the parties are unable to agree to changes to his employment agreement.

### **Gilbert Lee**

We entered into an employment agreement with our Chief Financial Officer, Mr. Lee, effective August 17, 2015. Under the terms of Mr. Lee's employment, he is entitled to the following:

Base compensation of \$120,000 per year.



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An incentive grant equal to one-half percent (0.5%) of the final outstanding shares after FGI's initial public offering; twenty percent (20%) of such shares will be granted upon the conclusion of the initial public offering of FGI and each anniversary of the conclusion of the initial public offering of FGI, until all such shares have been issued, provided Mr. Lee remains employed with us at such time.

Mr. Lee's employment has no expiration date but may be terminated immediately for cause or at any time by either party upon presentation of 30 days' prior notice in the event he is unable to perform assigned tasks or the parties are unable to agree to changes to his employment agreement.

**E. Share Ownership**

For information regarding the share ownership of our directors and senior management, see "Item 7. Major Shareholders and Related Party Transactions — A. Major Shareholders."

**Share and Share Options**

**Incentive Securities Pool**

We have established a pool for shares and share options for our employees. As of the date of this report, this pool contains shares and options to purchase 1,570,509 of our Ordinary Shares, equal to 10% of the number of Ordinary Shares outstanding at the conclusion of our initial public offering. Subject to approval by the Compensation Committee of our board of directors, we may grant options in any percentage determined for a particular grant. We may grant the award of options to existing employees, officers and consultants. We may also grant the award of restricted stock as a hiring incentive to employees, officers and directors and to non-employee directors on an ongoing basis.

Any options granted will vest at a rate of 20% per year for five years and have a per share exercise price equal to the fair market value of one of our common shares on the date of grant. We expect to grant shares and/or options under this pool to certain employees. We have not yet determined the recipients of any such grants.

**Item 7. Major Shareholders and Related Party Transactions**

## A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our Ordinary Shares as of April 5, 2019 by:

Each person who is known by us to beneficially own 5% or more of our outstanding Ordinary Shares;

Each of our directors and named executive officers; and

All directors and named executive officers as a group.

The number and percentage of Ordinary Shares beneficially owned before the offering are based on 15,795,910 Ordinary Shares outstanding as of April 5, 2019. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of 5% or more of our Ordinary Shares. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of Ordinary Shares beneficially owned by a person listed below and the percentage ownership of such person, Ordinary Shares underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of April 5, 2019 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all Ordinary Shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of our Company at Southeast Industrial Zone, Songmen Town, Wenling, Zhejiang Province, People's Republic of China 317511.

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	<b>Ordinary Shares beneficially owned<sup>(1)</sup></b>		
	Number	Percent	
Directors and Senior Management:			
Guilan Jiang <sup>(2)</sup>	5,541,668	35.1	%
Xinfu Hu <sup>(2)</sup>	0	-	
Gilbert Lee	62,820	*	
Jian Cao	12,000	*	
Hong (Simon) He	12,000	*	
Fuyou Cai	0	-	
Sujuan Zhu <sup>(3)</sup>	2,216,667	14.0	%
John C. Kunes	0	-	
All directors and executive officers as a group (eight (8) persons)	7,845,155	49.7	%
5% or greater Beneficial Owners:			
Qian Hu <sup>(2)</sup>	1,154,104	7.3	%
Xinzhong Wang	1,108,333	7.0	%
Jinxue Jiang <sup>(3)</sup>	1,108,333	7.0	%

\* Less than 1%

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the Ordinary Shares.

Ms. Jiang and Mr. Xinfu Hu are married, and Mr. Qian Hu is their adult son. Ms. Jiang holds her shares through Silver Trillion Investments Limited, a British Virgin Islands company which she owns and controls and may be deemed to hold beneficial ownership of such shares. Mr. Qian Hu holds 45,771 shares by himself and 1,108,333 shares through Zheng Hui Investments Limited, a British Virgin Islands company which he owns and controls and may be deemed to hold beneficial ownership of such shares.

Mr. Xinfu Hu does not, directly or indirectly, exercise or share voting or investment power of any shares held by Silver Trillion Investments Limited or Zheng Hui Investments Limited and disclaims beneficial ownership of such shares. Mr. Qian Hu does not, directly or indirectly, exercise or share voting or investment power of any shares held by Silver Trillion Investments Limited and disclaims beneficial ownership of such shares. Ms. Jiang does not, directly or indirectly, exercise or share voting or investment power of any shares held by Zheng Hui Investments Limited and disclaims beneficial ownership of such shares.

(3) Ms. Zhu is the mother of Mr. Jinxue Jiang. Ms. Zhu holds her shares through Celestial Sun Holding Limited, a British Virgin Islands company and may be deemed to share beneficial ownership of such shares. Mr. Jiang holds 1,108,333 shares through Tengyu International Limited, a British Virgin Islands company and may be deemed to

hold beneficial ownership of such shares.

Ms. Zhu does not, directly or indirectly, exercise or share voting or investment power of any shares held by Tengyu International Limited and disclaims beneficial ownership of such shares. Mr. Jiang does not, directly or indirectly, exercise or share voting or investment power of any shares held by Celestial Sun Holding Limited and disclaims beneficial ownership of such shares.

## **B. Related party transactions**

In addition to the executive officer and director arrangements discussed in “Item 6. Directors, Senior Management And Employees,” below we describe transactions since January 1, 2012, to which we have been a participant, in which the amount involved in the transactions is material to us or the related party.

### ***Special Plastics; Ms. Guilan Jiang and Mr. Qian Hu***

Since the beginning of fiscal 2012, we have had transactions with Special Plastics, a PRC company that was previously 95% owned by our Chief Operating Officer and Chair, Ms. Guilan Jiang, and 5% owned by Mr. Qian Hu, a shareholder of FGI and Ms. Jiang’s and Mr. Xinfu Hu’s son. Mr. Qian Hu currently owns 100% of Special Plastics. Special Plastics has established an advanced testing center that has been certified by China’s National Accreditation Service for Conformity Assessment. Special Plastics mainly provides some pre-delivery product testing for our products in addition to the testing we conduct ourselves. Special Plastics currently provides these services without additional charge to us. We estimate that we would pay approximately \$10,000 per year for these services if Special Plastics did not provide such services, and we do not anticipate that we would encounter any difficulty obtaining such services from a third party. None of Ms. Jiang, Mr. Qian Hu or Special Plastics receives any material benefit from third parties for providing these testing services.

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Since our products are exported, it is important to ensure that our products conform to standards in the different countries where they are sold. Special Plastics' facility is equipped with industry leading testing equipment and experts. The facility includes low-high temperature test chambers, automatic density apparatus, automatic colorimeter, electronic balance, melt flow rate tester, Charpy impact strength testing machine and ATP fluorescence detector.

***Rental Payments to Special Plastics***

During the years ended December 31, 2018, 2017 and 2016, we paid Special Plastics \$55,715, \$54,550 and \$55,484, respectively, for rental of a factory building at 8 Shengpan Road, Guanweitong Village, Wenqiao County.

***Future Related Party Transactions***

Our Corporate Governance Committee of our board of directors (which consists solely of independent directors) have approved all related party transactions. All material related party transactions are made or entered into on terms that are no less favorable to use than can be obtained from unaffiliated third parties.

**C. Interests of experts and counsel**

Not applicable for annual reports on Form 20-F.

**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

Please refer to Item 18.

**Legal and Administrative Proceedings**

We are currently not a party to any material legal or administrative proceedings and are not aware of any pending or threatened material legal or administrative proceedings against us. We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business.

## **Dividend Policy**

We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the board of directors may deem relevant. Other than dividends of (i) \$9,000 declared by Taizhou Fuling in 2004 and reinvested in Taizhou Fuling as additional paid in capital, (ii) \$900,000 declared by Taizhou Fuling in 2007 and reinvested in Taizhou Fuling as additional paid in capital and (iii) \$10,274,848 declared by Taizhou Fuling in 2014, of which \$7,530,000 was reinvested in Taizhou Fuling as additional paid in capital, we have never declared or paid any cash dividends on our Ordinary Shares. Those dividends were paid in RMB in China. (Most of the portion of the 2014 dividend that was not reinvested consisted of taxes associated with restructuring the Company.)

Under Cayman Islands law, we may only pay dividends from surplus (the excess, if any, at the time of the determination of the total assets of our company over the sum of our liabilities, as shown in our books of account, plus our capital), and we must be solvent before and after the dividend payment in the sense that we will be able to satisfy our liabilities as they become due in the ordinary course of business; and the realizable value of assets of our company will not be less than the sum of our total liabilities, other than deferred taxes as shown on our books of account, and our capital.



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If we determine to pay dividends on any of our Ordinary Shares in the future, as a holding company, we will be dependent on receipt of funds from our BVI subsidiary, Total Faith. Current PRC regulations permit our indirect PRC subsidiaries to pay dividends to Total Faith only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. Each of such entity in China is also required to further set aside a portion of its after-tax profits to fund the employee welfare fund, although the amount to be set aside, if any, is determined at the discretion of its board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation.

In addition, pursuant to the EIT Law and its implementation rules, dividends generated after January 1, 2008 and distributed to us by our PRC subsidiaries are subject to withholding tax at a rate of 10% unless otherwise exempted or reduced according to treaties or arrangements between the PRC central government and governments of other countries or regions where the non-PRC-resident enterprises are incorporated.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from operations in China may be used to pay dividends to our company. Taizhou Fuling may go to a licensed bank to remit its after-tax profits out of China. Nevertheless, the bank will require Taizhou Fuling to produce the following documents for verification before it may transfer the dividends to an overseas bank account of Taizhou Fuling's parent company: (1) tax payment statement and tax return; (2) auditor's report issued by a Chinese certified public accounting firm confirming the availability of profits and dividends for distribution in the current year; (3) the Board minutes authorizing the distribution of dividends to its shareholders; (4) the foreign exchange registration certificate issued by SAFE; (5) the capital verification report issued by a Chinese certified public accounting firm; (6) if the declared dividends will be distributed out of accumulated profits earned in prior years, Taizhou Fuling must appoint a Chinese certified public accounting firm to issue an auditors' report to the bank to certify Taizhou Fuling's financial position during the years from which the profits arose; and (7) other information as required by SAFE.

## **B. Significant Changes**

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **Item 9. The Offer and Listing**

**A. Offer and listing details**

Our Ordinary Shares have been listed on the Nasdaq Capital Market since November 4, 2015 under the symbol “FORK.” The table below shows, for the periods indicated, the high and low market prices for our shares.

	<b>Market Price Per Share</b>	
	<b>High</b>	<b>Low</b>
<b>Yearly:</b>		
2015 (from November 4, 2015)	\$5.27	2.24
2016	\$3.45	1.68
2017	\$3.70	2.30
2018	\$5.20	2.35
2019 (through April 2, 2019)	\$3.89	2.12
<b>Quarterly:</b>		
First quarter 2017	\$3.70	2.30
Second quarter 2017	\$3.75	2.65
Third quarter 2017	\$6.00	3.10
Fourth quarter 2017	\$6.00	3.55
First quarter 2018	\$5.20	3.75
Second quarter 2018	\$4.35	3.75
Third quarter 2018	\$4.00	2.35
Fourth quarter 2018	\$4.29	3.01
First quarter 2019	\$3.89	2.12
<b>Monthly:</b>		
October 2018	\$4.29	3.42
November 2018	\$3.77	3.01
December 2018	\$4.29	3.40
January 2019	\$3.89	3.50
February 2019	\$3.89	2.32
March 2019	\$3.14	2.12

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**B. Plan of distribution**

Not applicable for annual reports on Form 20-F.

**C. Markets**

Our Ordinary Shares are listed on the Nasdaq Capital Market under the symbol “FORK.”

**D. Selling shareholders**

Not applicable for annual reports on Form 20-F.

**E. Dilution**

Not applicable for annual reports on Form 20-F.

**F. Expenses of the issue**

Not applicable for annual reports on Form 20-F.

**Item 10. Additional Information**

**A. Share capital**

Not applicable for annual reports on Form 20-F.

## **B. Memorandum and articles of association**

The information required by this item is incorporated by reference to the material headed “Description of Share Capital” in our Registration Statement on Form F-1, File no. 333-205894, filed with the SEC on July 28, 2015, as amended.

## **C. Material contracts**

We have not entered into any material contracts other than in the ordinary course of business and otherwise described elsewhere in this annual report.

## **D. Exchange controls**

### **Foreign Currency Exchange**

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations. Under the PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. By contrast, approval from or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of foreign currency-denominated loans or foreign currency is to be remitted into China under the capital account, such as a capital increase or foreign currency loans to our PRC subsidiaries.

In August 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency-registered capital into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of SAFE Circular 142. Under SAFE Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE’s approval, and such RMB capital may not in any case be used to repay RMB loans if

the proceeds of such loans have not been used.

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In November 2012, SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment, which substantially amends and simplifies the current foreign exchange procedure. Pursuant to this circular, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different provinces, which was not possible previously. In addition, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

We typically do not need to use our offshore foreign currency to fund our PRC operations. In the event we need to do so, we will apply to obtain the relevant approvals of SAFE and other PRC government authorities as necessary.

### **SAFE Circular 75**

Under the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or SAFE Circular 75, issued by SAFE on October 21, 2005 and its implementation rules, a PRC resident (whether a natural or legal person) is required to complete an initial registration with its local SAFE branch before incorporating or acquiring control of an offshore special purpose vehicle, or SPV, with assets or equity interests in a PRC company, for the purpose of offshore equity financing. The PRC resident is also required to amend the registration or make a filing upon (1) the injection of any assets or equity interests in an onshore company or undertaking of offshore financing, or (2) the occurrence of a material change that may affect the capital structure of a SPV. SAFE also subsequently issued various guidance and rules regarding the implementation of SAFE Circular 75, which imposed obligations on PRC subsidiaries of offshore companies to coordinate with and supervise any PRC-resident beneficial owners of offshore entities in relation to the SAFE registration process.

### **Regulation of Dividend Distribution**

The principal laws, rules and regulations governing dividend distribution by foreign-invested enterprises in the PRC are the Company Law of the PRC, as amended, the Wholly Foreign-owned Enterprise Law and its implementation regulations and the Equity Joint Venture Law and its implementation regulations. Under these laws, rules and regulations, foreign-invested enterprises may pay dividends only out of their accumulated profit, if any, as determined in accordance with PRC accounting standards and regulations. Both PRC domestic companies and wholly-foreign

owned PRC enterprises are required to set aside as general reserves at least 10% of their after-tax profit, until the cumulative amount of such reserves reaches 50% of their registered capital. A PRC company is not permitted to distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

## **E .. Taxation**

The following sets forth the material Cayman Islands, Chinese and U.S. federal income tax consequences related to an investment in our Ordinary Shares. It is directed to U.S. Holders (as defined below) of our Ordinary Shares and is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This description does not deal with all possible tax consequences relating to an investment in our Ordinary Shares, such as the tax consequences under state, local and other tax laws.

The following brief description applies only to U.S. Holders (defined below) that hold Ordinary Shares as capital assets and that have the U.S. dollar as their functional currency. This brief description is based on the tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The brief description below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of shares and you are, for U.S. federal income tax purposes,

an individual who is a citizen or resident of the United States;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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**WE URGE HOLDERS OF OUR SHARES TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF OUR SHARES.**

**People's Republic of China Enterprise Taxation**

The following brief description of Chinese enterprise laws is designed to highlight the enterprise-level taxation on our earnings, which will affect the amount of dividends, if any, we are ultimately able to pay to our shareholders. See “Dividend Policy.”

We are a holding company incorporated in the Cayman Islands and we gain substantial income by way of dividends paid to us from our PRC subsidiaries. The EIT Law and its implementation rules provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its equity holders that are non-resident enterprises, will normally be subject to PRC withholding tax at a rate of 10%, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential tax rate or a tax exemption.

Under the EIT Law, an enterprise established outside of China with a “de facto management body” within China is considered a “resident enterprise,” which means that it is treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. Although the implementation rules of the EIT Law define “de facto management body” as a managing body that actually, comprehensively manage and control the production and operation, staff, accounting, property and other aspects of an enterprise, the only official guidance for this definition currently available is set forth in SAT Notice 82, which provides guidance on the determination of the tax residence status of a Chinese-controlled offshore incorporated enterprise, defined as an enterprise that is incorporated under the laws of a foreign country or territory and that has a PRC enterprise or enterprise group as its primary controlling shareholder. Although FGI does not have a PRC enterprise or enterprise group as our primary controlling shareholder and is therefore not a Chinese-controlled offshore incorporated enterprise within the meaning of SAT Notice 82, in the absence of guidance specifically applicable to us, we have applied the guidance set forth in SAT Notice 82 to evaluate the tax residence status of FGI and its subsidiaries organized outside the PRC.

According to SAT Notice 82, a Chinese-controlled offshore incorporated enterprise will be regarded as a PRC tax resident by virtue of having a “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following criteria are met: (i) the places where senior management and senior management departments that are responsible for daily production, operation and management of the enterprise perform their duties are mainly located within the territory of China; (ii) financial decisions (such as money borrowing, lending, financing and financial risk management) and personnel decisions (such as appointment, dismissal and salary and wages) are decided or need to be decided by organizations or persons located within the territory of China; (iii) main property, accounting books, corporate seal, the board of directors and files of the minutes



of shareholders' meetings of the enterprise are located or preserved within the territory of China; and (iv) one half (or more) of the directors or senior management staff having the right to vote habitually reside within the territory of China.

We believe that we do not meet some of the conditions outlined in the immediately preceding paragraph. For example, as a holding company, the key assets and records of FGI, including the resolutions and meeting minutes of our board of directors and the resolutions and meeting minutes of our shareholders, are located and maintained outside the PRC. In addition, we are not aware of any offshore holding companies with a corporate structure similar to ours that has been deemed a PRC "resident enterprise" by the PRC tax authorities. Accordingly, we believe that FGI and its offshore subsidiaries should not be treated as a "resident enterprise" for PRC tax purposes if the criteria for "de facto management body" as set forth in SAT Notice 82 were deemed applicable to us. However, as the tax residency status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entities, we will continue to monitor our tax status.

The implementation rules of the EIT Law provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or gains are treated as China-sourced income. It is not clear how "domicile" may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for PRC tax purposes, any dividends we pay to our overseas shareholders which are non-resident enterprises as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

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See “Risk Factors — Risks Related to Doing Business in China — Under the Enterprise Income Tax Law, we may be classified as a “Resident Enterprise” of China.”

Our company pays a 17% value added tax and EIT rates of 15% for Taizhou Fuling (or \$1,111,784 in 2018) because it has been certified as a high technology company and thus enjoys a preferable rate. Great Plastics pays EIT tax at the standard 25% rate (or \$221,226 in 2018). If Taizhou Fuling’s favorable EIT rate were to be terminated or Taizhou Fuling were to fail to qualify to receive this rate, it would be subject to taxation at the standard EIT rate of 25% for enterprise income taxes, unless we were otherwise to qualify for a decreased tax rate.

Any gain or loss recognized by you generally will be treated as United States source gain or loss. However, if we are treated as a PRC resident enterprise for PRC tax purposes and PRC tax were imposed on any gain, and if you are eligible for the benefits of the tax treaty between the United States and PRC, you may elect to treat such gain as PRC source gain under such treaty and, accordingly, you may be able to credit the PRC tax against your United States federal income tax liability.

## **Cayman Islands Taxation**

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

## **United States Federal Income Taxation**

The following does not address the tax consequences to any particular investor or to persons in special tax situations such as:

banks;

financial institutions;

insurance companies;

regulated investment companies;

real estate investment trusts;

broker-dealers;

traders that elect to mark-to-market;

U.S. expatriates;

tax-exempt entities;

persons liable for alternative minimum tax;

persons holding our Ordinary Shares as part of a straddle, hedging, conversion or integrated transaction;

persons that actually or constructively own 10% or more of our voting shares;

persons who acquired our Ordinary Shares pursuant to the exercise of any employee share option or otherwise as consideration; or

persons holding our Ordinary Shares through partnerships or other pass-through entities.

You are urged to consult your own tax advisors about the application of the U.S. federal income tax rules to your particular circumstances as well as the state, local, foreign income and other tax consequences of the purchase, ownership and disposition of our Ordinary Shares.

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***Taxation of Dividends and Other Distributions on our Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions made by us to you with respect to the Ordinary Shares (including the amount of any taxes withheld therefrom) will generally be includable in your gross income as dividend income on the date of receipt by you, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). With respect to corporate U.S. Holders, the dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends will be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) the Ordinary Shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of an approved qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend is paid or the preceding taxable year, and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, Ordinary Shares are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Capital Market. You are urged to consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our Ordinary Shares, including the effects of any change in law after the date of this annual report.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our Ordinary Shares will constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), it will be treated first as a tax-free return of your tax basis in your Ordinary Shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

***Taxation of Dispositions of Ordinary Shares***

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of a share equal to the difference between the amount realized (in U.S. dollars) for the share and your tax basis (in U.S. dollars) in the Ordinary Shares. The gain or loss will generally be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the Ordinary Shares for more than one year, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as United States source income or loss for foreign tax credit limitation purposes.

### ***Passive Foreign Investment Company***

A non-U.S. corporation is considered a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year if either:

at least 75% of its gross income is passive income; or

at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

Based on the market price of our Ordinary Shares, the value of our assets and the composition of our assets and income, we believe that we were not a PFIC for our taxable year ended December 31, 2017, 2016 or 2015. However, given the factual nature of the analyses and the lack of guidance, no assurance can be given. We do not expect to be a PFIC for our taxable year ending December 31, 2018. However, because PFIC status is a factual determination for each taxable year which cannot be made until the close of the taxable year, our actual PFIC status will not be determinable until the close of the taxable year and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year or any future taxable year.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change from year to year. In particular, because the value of our assets for purposes of the asset test will generally be determined based on the market price of our Ordinary Shares, our PFIC status will depend in large part on the market price of our Ordinary Shares. Accordingly, fluctuations in the market price of the Ordinary Shares may cause us to become a PFIC. In addition, the application of the PFIC rules is subject to uncertainty in several respects including the composition of our income and assets in a given year. If we are a PFIC for any year during which you hold Ordinary Shares, we will continue to be treated as a PFIC for all succeeding years during which you hold Ordinary Shares. However, if we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a “deemed sale” election with respect to the Ordinary Shares.



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If we are a PFIC for any taxable year during which you hold Ordinary Shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the Ordinary Shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the Ordinary Shares will be treated as an excess distribution. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for the Ordinary Shares;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and

the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the Ordinary Shares cannot be treated as capital, even if you hold the Ordinary Shares as capital assets.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the Ordinary Shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the Ordinary Shares as of the close of your taxable year over your adjusted basis in such Ordinary Shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the Ordinary Shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the Ordinary Shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the Ordinary Shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the Ordinary Shares, as well as to any loss realized on the actual sale or disposition of the Ordinary Shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such Ordinary Shares. Your basis in the Ordinary Shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower applicable capital gains rate for qualified dividend income discussed above under “— Taxation of Dividends and Other Distributions on our Ordinary Shares” generally would not apply.

The mark-to-market election is available only for “marketable stock”, which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market (as defined in applicable U.S. Treasury regulations), including the Nasdaq Capital Market. If the Ordinary Shares are regularly traded on the Nasdaq Capital Market and if you are a holder of Ordinary Shares, the

mark-to-market election would be available to you were we to be or become a PFIC.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder who makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if such PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not currently intend to prepare or provide the information that would enable you to make a qualified electing fund election. If you hold Ordinary Shares in any year in which we are a PFIC, you will be required to file U.S. Internal Revenue Service Form 8621 regarding distributions received on the Ordinary Shares and any gain realized on the disposition of the Ordinary Shares.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in our Ordinary Shares and the elections discussed above.

#### ***Information Reporting and Backup Withholding***

Dividend payments with respect to our Ordinary Shares and proceeds from the sale, exchange or redemption of our Ordinary Shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on U.S. Internal Revenue Service Form W-9. You are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.



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Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the U.S. Internal Revenue Service and furnishing any required information. We do not intend to withhold taxes for individual shareholders.

Under the Hiring Incentives to Restore Employment Act of 2010, certain United States Holders are required to report information relating to ordinary shares, subject to certain exceptions (including an exception for ordinary shares held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold ordinary shares. U.S. Holders are urged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

**F. Dividends and paying agents**

Not applicable for annual reports on Form 20-F.

**G. Statement by experts**

Not applicable for annual reports on Form 20-F.

**H. Documents on display**

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, the Company files reports and other information with the SEC. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at <http://www.sec.gov> that contains reports and other information regarding registrants that file electronically with the SEC.

**I. Subsidiary Information**

Not applicable.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

### ***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year and long-term held-to-maturity securities with maturities of greater than a year. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities that have declined in market value due to changes in interest rates. We have not been, and do not expect to be, exposed to material interest rate risks, and therefore have not used any derivative financial instruments to manage our interest risk exposure.

In 2018, 2017 and 2016, we had \$28.2 million, \$22.2 million and \$16.5 million weighted outstanding bank loans, with weighted average effective interest rate of 4.89%, 5.07% and 4.37% respectively.

As of December 31, 2018, if interest rates increased/decreased by 1%, with all other variables having remained constant, and assuming the amount of bank borrowings outstanding at the end of the year was outstanding for the entire year, profit attributable to equity owners of our company would have been RMB 2.1 million (0.3 million) lower/higher, respectively, mainly as a result of higher/lower interest income from our cash and cash equivalents and loan receivables.

As of December 31, 2018, we had short-term certificates of deposit of \$0 million.

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***Foreign Exchange Risk***

Our functional currency is the RMB, and our financial statements are presented in U.S. dollar. The RMB depreciated by 1.4% in 2015 and 6.7% in 2016 and appreciated by 6.3% in 2017. The change in the value of RMB relative to the U.S. dollar may affect our financial results reported in the U.S., dollar terms without giving effect to any underlying change in our business or results of operation.

Currently, our assets, liabilities, revenues and costs are denominated in RMB and in U.S. dollars, and our offering proceeds will be denominated in U.S. dollars. Our exposure to foreign exchange risk will primarily relate to those financial assets denominated in U.S. dollars. Any significant revaluation of RMB against U.S. dollar may materially affect our earnings and financial position, and the value of, and any dividends payable on, our Ordinary Shares in U.S. dollars in the future. See “Risk Factors — Risks Related to Doing Business in China — Fluctuations in exchange rates could adversely affect our business and the value of our securities.”

***Commodity Risk***

As a developer and manufacturer of plastic and paper products, our Company is exposed to the risk of an increase in the price of raw materials. We historically have been able to pass on price increases to customers by virtue of pricing terms that vary with changes in resin prices, but we have not entered into any contract to hedge any specific commodity risk. Moreover, our Company does not purchase or trade on commodity instruments or positions; instead, it purchases commodities for use.

**Item 12. Description of Securities Other than Equity Securities**

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

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

We do not have any material defaults in the payment of principal, interest, or any installments under a sinking or purchase fund.

**Item 14. Material Modifications to the Rights of Securities Holders and Use of Proceeds**

**Material Modifications to the Rights of Security Holders**

The information required here is incorporated by reference to the material headed “Description of Share Capital-Ordinary Shares” in our Registration Statement on Form F-1, File No. 333-205894, filed with the SEC on July 28, 2015, as amended.

**Use of Proceeds**

Not applicable as we disclosed application of all the offering proceeds in our Annual Report on Form 20-F, File 001-37602, filed with the SEC on March 15, 2017.

**Item 15. Controls and Procedures**

(a) Disclosure Controls and Procedures.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in our reports that we file or submit under the Security Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC’s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow for timely decisions regarding disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only

reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2018, the end of the fiscal year covered by this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2018, our disclosure controls and procedures were ineffective. Such conclusion is due to the presence of material weakness in internal control over financial reporting as described below.

(b) Management's annual report on internal control over financial reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. We used the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "2013 COSO Framework") in performing the assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Based on the assessment, management determined that, as of December 31, 2018, we did not maintain effective internal control over financial reporting as our accounting staff continues to lack sufficient U.S. GAAP experience and requires further substantial training. In addition, there was a lack of sufficient documented financial closing procedures.

(c) Attestation report of the registered public accounting firm.

Not applicable.

(d) Changes in internal control over financial reporting.

There have been no changes in our internal controls over financial reporting occurred during the twelve months ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Item 15T. Controls and Procedures**

Not applicable.

**Item 16. [Reserved]**

**Item 16A. Audit Committee Financial Expert**

The Company's board of directors has determined that Mr. Hong (Simon) He qualifies as an "audit committee financial expert" in accordance with applicable Nasdaq Capital Market standards. The Company's board of directors has also determined that Mr. He and the other members of the Audit Committee are all "independent" in accordance with the applicable Nasdaq Capital Market standards.

**Item 16B. Code of Ethics**

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's directors, officers, employees and advisors. The Code of Ethics is attached it as an exhibit to this annual report. We have also posted a copy of our code of business conduct and ethics on our website at <http://ir.fulingglobal.com/>.

**Item 16C. Principal Accountant Fees and Services**

Friedman LLP was appointed by the Company to serve as its independent registered public accounting firm for fiscal 2018. Audit services provided by Friedman LLP for fiscal 2018 included the examination of the consolidated financial statements of the Company; and services related to periodic filings made with the SEC.

**Fees Paid To Independent Registered Public Accounting Firm**

*Audit Fees*

During fiscal 2018, 2017 and 2016, Friedman LLP's fees for the annual audit of our financial statements and the quarterly reviews of the financial statements were \$170,000, \$195,000 and \$201,000, respectively.

***Audit-Related Fees***

The Company has not paid Friedman LLP for audit-related services in fiscal 2018, 2017 and 2016.

***Tax Fees***

The Company has not paid Friedman LLP for tax services in fiscal 2018, 2017 and 2016.

***All Other Fees***

The Company has not paid Friedman LLP for any other services in fiscal 2018, 2017 and 2016.

***Audit Committee Pre-Approval Policies***

Before Friedman LLP was engaged by the Company to render audit or non-audit services, the engagement was approved by the Company's audit committee. All services rendered by Friedman LLP have been so approved.

***Percentage of Hours***

The percentage of hours expended on the principal accountants' engagement to audit our consolidated financial statements for 2018 that were attributed to work performed by persons other than Friedman LLP's full-time permanent employees was less than 50%.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

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**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Neither the Company nor any affiliated purchaser has purchased any shares or other units of any class of the Company's equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act during the fiscal year ended December 31, 2018.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law. In addition, because our ordinary shares are listed on The Nasdaq Capital Market, we are subject to Nasdaq's corporate governance requirements.

As noted above in the risk factor titled "As a foreign private issuer, we are permitted to rely on exemptions from certain Nasdaq corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. If we opt to rely on such exemptions in the future, such decision might afford less protection to holders of our ordinary shares", The Nasdaq Capital Market allows foreign private issuers like our Company to opt to follow rules that apply in the issuer's home country instead of a given Nasdaq rule. For example, there are circumstances in which Nasdaq requires a company to obtain Nasdaq-listed companies to get shareholder approval prior to issuing stock, but a foreign private issuer may not need such shareholder approval if their home country does not require it. agreed not to rely on any home country rules during the period of two years after the completion of our initial public offering ("Voluntary Reporting Period"). As a result, during the Voluntary Reporting Period, we were bound by all of the same Nasdaq rules that a U.S. domestic company listed on The Nasdaq Capital Market would be required to follow. As this period has passed, we can decide to follow home country practice and our board of directors could make such a decision to depart from such requirements by ordinary resolution.

**Item 16H. Mine Safety Disclosure**

Not applicable.



Table of Contents**PART III****Item 17. Financial Statements**

See Item 18.

**Item 18. Financial Statements**

Our consolidated financial statements are included at the end of this annual report, beginning with page F-1.

**Item 19. Exhibits**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>	<b>Included</b>	<b>Form</b>	<b>Filing Date</b>
1.1.1	<u>Form of Amended and Restated Articles of Association of the Registrant as currently in effect</u>	By Reference	F-1/A	October 20, 2015
1.1.2	<u>Form of Amended and Restated Memorandum of Association of the Registrant as currently in effect</u>	By Reference	F-1/A	October 20, 2015
2.1	<u>Registrant's Form of Ordinary Share Certificate</u>	By Reference	F-1/A	October 2, 2015
2.2	<u>Registrant's Incentive Securities Plan</u>	By Reference	F-1/A	October 2, 2015
4.1	<u>Employment Agreement with Xinfu Hu</u>	By Reference	F-1/A	September 14, 2015
4.2	<u>Employment Agreement with Guilan Jiang</u>	By Reference	F-1/A	September 14, 2015
4.3	<u>Employment Agreement with Gilbert Lee</u>	By Reference	F-1/A	September 14, 2015
4.4	<u>First Amendment of Standard Industrial/Commercial Multi-Tenant Lease, by and between CAM 6690 Grant Way, LLC and Fuling Plastic</u>	By Reference	F-1	July 28, 2015

USA, Inc.

4.5	<u>Translation of Factory Lease Agreement by and between Zhejiang Special Plastics Technology Co., Ltd. and Taizhou Fuling Plastics Co., Ltd.</u>	Herewith		
4.6	<u>Summary Translation of State-Owned Construction Land Use Right Transfer Contract by and between Land Resources Bureau of Sanmen County of Zhejiang Province and Zhejiang Great Plastics Technology Co., Ltd.</u>	By Reference	F-1	July 28, 2015
4.7	<u>Lease Agreement by and among Servicios Interpuerto, S.A. de C.V., Mayenco, S. de R.L. de C.V. and Fuling Plastic USA, Inc.</u>	Herewith		
4.8	<u>Instrument of Transfer by and between Guilan Jiang and Fuling Global Inc.</u>	By Reference	F-1	July 28, 2015
8.1	<u>List of Subsidiaries of the Registrant</u>	By Reference	20-F	March 15, 2017
11.1	<u>Code of Business Conduct and Ethics</u>	By Reference	20-F	March 30, 2016
12.1	<u>Certification of Chief Executive Officer Required by Rule 13a-14(a)</u>	Herewith		
12.2	<u>Certification of Chief Financial Officer Required by Rule 13a-14(a)</u>	Herewith		
13.1	<u>Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	Herewith		
13.2	<u>Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</u>	Herewith		
99.1	<u>Press release dated April 5, 2019 titled "Fuling Global Inc. Reports Full Year 2018 Financial Results"</u>	Herewith		
101.INS	XBRL Instance Document.			
101.SCH	XBRL Taxonomy Extension Schema Document.			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.			

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**Fuling Global Inc.**

Date: April 5, 2019 By: /s/ Xinfu Hu

Name: Xinfu Hu

Title: Chief Executive Officer

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**FULING GLOBAL INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 and 2016**

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**FULING GLOBAL INC. AND SUBSIDIARIES**

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**Consolidated Financial Statements**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Fuling Global Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Fuling Global Inc. and its subsidiaries (collectively, the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.



Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the 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

We have served as the Company's auditor since 2015.

New York, New York

April 5, 2019

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Table of Contents**FULING GLOBAL INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	December 31, 2018	December 31, 2017
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$4,400,402	\$4,103,797
Restricted cash	2,396,993	3,767,081
Certificates of deposit	-	105,707
Accounts receivable, net	27,760,956	22,935,245
Advances to supplier, net	1,255,420	509,770
Inventories, net	22,274,613	19,320,066
Security deposits for sale leaseback	-	771,814
Prepaid expenses and other current assets	1,394,234	2,185,961
Current assets from discontinued operation	37,761	3,313,681
Total Current Assets	59,520,379	57,013,122
Property, plant and equipment, net	51,836,633	43,680,372
Intangible assets, net	8,157,916	8,797,581
Prepayments for construction and equipment purchases	1,222,888	527,568
Security deposits for sale leaseback - long term	1,590,671	543,996
Other assets	297,906	282,195
Non-current assets from discontinued operations	13,697	5,884,799
Total Assets	\$122,640,090	\$116,729,633
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Short term borrowings	\$19,890,641	\$27,417,082
Bank notes payable	2,888,053	4,436,680
Advances from customers	393,749	543,675
Accounts payable	18,186,400	12,797,853
Accounts Payable-related party	82,014	-
Accrued and other liabilities	2,121,304	2,794,584
Other payable - sale leaseback	2,847,859	2,755,931
Taxes payable	247,635	262,828
Deferred gains	291,170	87,605
Due to Related party	12,200	-
Current liabilities from discontinued operation	528,263	4,466,481
Total Current Liabilities	47,489,288	55,562,719
Deferred tax liability	577,826	-

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Long term payable - sale leaseback	2,635,567	1,371,359
Long term borrowings	7,203,357	1,801,887
Total Liabilities	57,906,038	58,735,965
Commitments and contingencies		
Shareholders' Equity		
Common stock: \$0.001 par value, 70,000,000 shares authorized, 15,795,910 and 15,780,205 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	15,797	15,781
Additional paid in capital	30,009,545	29,904,285
Statutory reserve	5,532,945	4,617,039
Retained earnings	31,602,434	22,654,848
Accumulated other comprehensive income	(2,472,254 )	651,597
Total Fuling Global Inc.'s equity	64,688,467	57,843,550
Non-controlling interest	45,585	150,118
Total Shareholders' Equity	64,734,052	57,993,668
Total Liabilities and Shareholders' Equity	\$ 122,640,090	\$ 116,729,633

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

Table of Contents**FULING GLOBAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	For the Years Ended December 31,		
	2018	2017	2016
Revenues	\$ 138,664,272	\$ 124,208,506	\$ 102,320,689
Cost of goods sold	108,914,256	98,077,100	77,129,454
Gross Profit	29,750,016	26,131,406	25,191,235
Operating Expenses			
Selling expenses	7,830,280	6,834,645	5,955,391
General and administrative expenses	8,323,207	7,254,270	6,277,018
Research and development expenses	3,430,529	2,953,477	2,355,449
Total operating expenses	19,584,016	17,042,392	14,587,858
Income from Operations	10,166,000	9,089,014	10,603,377
Other Income (Expense):			
Interest income	32,810	57,477	27,870
Interest expense	(1,768,434 )	(981,061 )	(589,758 )
Subsidy income	1,705,956	1,012,128	1,646,774
Investment loss	(8,667 )	-	-
Foreign currency transaction gain (loss)	780,406	(175,271 )	56,970
Other income, net	65,926	51,607	65,260
Total other income (expense), net	807,997	(35,120 )	1,207,116
Income Before Income Taxes	10,973,997	9,053,894	11,810,493
Provision for Income Taxes	1,126,736	788,370	1,561,404
Net income from continuing operations	\$ 9,847,261	\$ 8,265,524	\$ 10,249,089
Discontinued operation:			
Net loss from discontinued operations, net of tax	(88,302 )	(1,974,852 )	(2,306,036 )
Net income	9,758,959	6,290,672	7,943,053
Less: net income (loss) attributable to non-controlling interest from continuing operations	(104,533 )	12,875	20
Net income attributable to Fuling Global Inc.	\$ 9,863,492	\$ 6,277,797	\$ 7,943,033
Other Comprehensive Income			
Foreign currency translation income (loss)	(3,123,851 )	2,172,347	(1,913,200 )

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Comprehensive income attributable to Fuling Global Inc.	\$6,739,641	\$8,450,144	\$6,029,833
Earnings per share - Basic and diluted			
Continuing operations	\$0.62	\$0.52	\$0.65
Discontinued operations	\$(0.01)	) \$(0.13	) \$(0.15)
Weighted average number of shares - Basic and diluted			
Continuing operations and discontinued operations	15,782,055	15,759,293	15,735,588

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

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Table of Contents**FULING GLOBAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

	Common Stock		Additional Paid in	Statutory	Retained	Accumulated Other Comprehensive Income	Noncontrolling	Total shareholders'
	Shares	Amount	Capital	Reserve	Earnings	(loss)	Interest	Equity
Balance at December 31, 2015	15,732,795	\$15,733	\$29,722,127	\$2,868,844	\$10,182,213	\$392,450	\$137,223	\$43,318,590
Issuance of common stock	23,705	24	123,315	-	-	-	-	123,339
Net income	-	-	-	-	7,943,033	-	20	7,943,053
Appropriations to statutory reserve	-	-	-	1,149,113	(1,149,113 )	-	-	-
Foreign currency translation loss	-	-	-	-	-	(1,913,200)	-	(1,913,200 )
Balance at December 31, 2016	15,756,500	15,757	29,845,442	4,017,957	16,976,133	(1,520,750)	137,243	49,471,782
Issuance of common stock	23,705	24	58,843	-	-	-	-	58,867
Net income	-	-	-	-	6,277,797	-	12,875	6,290,672
Appropriations to statutory reserve	-	-	-	599,082	(599,082 )	-	-	-
Foreign currency translation gain	-	-	-	-	-	2,172,347	-	2,172,347
Balance at December 31, 2017	15,780,205	15,781	29,904,285	4,617,039	22,654,848	651,597	150,118	57,993,668
	15,705	16	105,260	-	-	-	-	105,276

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Issuance of common stock								
Net income	-	-	-	-	9,863,492	-	(104,533)	9,758,959
Appropriations to statutory reserve	-	-	-	915,906	(915,906 )	-	-	-
Foreign currency translation loss	-	-	-	-	-	(3,123,851)	-	(3,123,851 )
Balance at December 31, 2018	15,795,910	\$15,797	\$30,009,545	\$5,532,945	\$31,602,434	\$(2,472,254)	\$45,585	\$64,734,052

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

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Table of Contents**FULING GLOBAL INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$9,758,959	\$6,290,672	\$7,943,053
Net (loss) from discontinued operations	(88,302 )	(1,974,852 )	(2,306,036 )
Net income from continuing operations	9,847,261	8,265,524	10,249,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock based compensation	105,276	58,867	123,339
Deferred tax expense	-	-	319,252
Depreciation and amortization	4,406,888	3,611,510	2,354,193
Bad debt provisions (recovery)	(3,372 )	154,051	(1,645 )
Unrealized (gains) losses	(4,849 )	34,417	(60,225 )
Inventory reserve	38,716	22,818	23,932
(Gain) loss on disposal of fixed assets	(30,981 )	43,172	(12,687 )
Changes in operating assets:			
Accounts receivable	(5,547,070 )	(2,414,707 )	(6,742,328 )
Advances to suppliers	(733,643 )	(40,504 )	(251,704 )
Inventories	(3,805,026 )	(3,408,394 )	(3,262,302 )
Other assets	704,459	(1,969,564 )	(5,159,033 )
Security deposit for sale leaseback	(359,340 )	(523,839 )	(755,934 )
Changes in operating liabilities:			
Accounts payable	5,195,799	(2,285,276 )	5,525,688
Accounts Payable-related party	85,253	-	-
Advance from customers	(301,971 )	(43,339 )	34,729
Deferred gains	216,506	(583,978 )	679,774
Deferred tax liability	600,646	-	-
Taxes payable	(40,248 )	(258,589 )	(558,864 )
Accrued and other liabilities	(566,821 )	1,270,299	1,446,220
Net cash provided by operating activities from continuing operations	9,807,483	1,932,468	3,951,494
Net cash provided by operating activities from discontinuing operations	1,770,101	542,170	1,193,663
Net cash provided by operating activities	11,577,584	2,474,638	5,145,157
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(4,171,367 )	(6,388,069 )	(3,838,709 )
Additions to construction in progress	(9,878,241 )	(10,231,413 )	(12,679,337 )
Cash receipts from disposal property and equipment	272,055	13,352	19,296
Cash increase in certificates of deposit	103,967	1,479,874	1,505,061
Payments of construction and equipment purchase	(752,299 )	(480,689 )	(1,996,510 )



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Repayments of deposit and prepayments for construction and equipment purchase	-	1,358,566	1,354,585
Purchase of intangible assets	(6,589 )	(2,602 )	(8,298,564 )
Cash from discontinued business	(18,684 )	64,208	435,085
Net cash (used in) investing activities from continuing operations	(14,451,158)	(14,186,773)	(23,499,093)
Net cash provided by (used in) investing activities from discontinuing operations	5,719,074	(159,086 )	(149,403 )
Net cash (used in) investing activities	(8,732,084 )	(14,345,859)	(23,648,496)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings	33,213,599	31,239,350	23,677,701
Repayments of short-term borrowings	(39,629,404)	(20,342,692)	(18,538,408)
Proceeds from long-term borrowings	5,631,163	1,048,749	836,471
Proceeds from bank notes payable	5,947,885	7,002,823	5,255,076
Repayments of bank notes payable	(7,309,428 )	(4,871,021 )	(5,431,761 )
Repayment of third party borrowing	-	-	(180,611 )
Proceeds from loans from related parties	-	-	55,484
Repayments of loans from related parties	(24,930 )	(57,148 )	-
Proceeds from other payable - sales lease back	5,784,874	2,906,977	3,941,746
Repayments of other payable - sales lease back	(4,144,246 )	(2,638,787 )	(172,154 )
Net cash provided by (used in) financing activities from continuing operations	(530,487 )	14,288,251	9,443,544
Net cash (used in) financing activities from discontinuing operations	(2,241,606 )	(450,272 )	(1,463,718 )
Net cash provided by (used in) financing activities	(2,772,093 )	13,837,979	7,979,826
<b>EFFECT OF EXCHANGE RATES CHANGES ON CASH AND CASH EQUIVALENTS</b>	(1,146,890 )	(356,466 )	(400,727 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	(1,073,483 )	1,610,292	(10,924,240)
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR</b>	7,870,878	6,260,586	17,184,826
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</b>	\$6,797,395	\$7,870,878	\$6,260,586
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</b>	\$6,797,395	\$7,870,878	\$6,260,586
<b>LESS: RESTRICTED CASH</b>	2,396,993	3,767,081	2,333,608
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$4,400,402	\$4,103,797	\$3,926,978
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest paid	\$1,329,377	\$836,401	\$762,868
Income tax paid	\$331,997	\$1,433,998	\$2,331,173
Non-cash investing activities:			
Transfer from construction in progress to fixed assets	\$9,918,862	\$15,545,784	\$1,209,221
Transfer from accounts payable to fixed assets	\$851,966	\$1,162,202	\$-
Transfer from advance payments to fixed assets	\$170,281	\$191,868	\$296,853

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

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**FULING GLOBAL INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Fuling Global Inc. (“Fuling Global”) is a Cayman Islands corporation established on January 19, 2015.

Total Faith Holdings Limited (“Total Faith”) is a wholly-owned subsidiary of Fuling Global formed in accordance with laws and regulations of the British Virgin Islands in April 2004.

Fuling Global and its subsidiary Total Faith are holding companies whose only asset, held through a subsidiary, is 100% of the registered capital of Taizhou Fuling Plastics Co., Ltd. (“Taizhou Fuling”), as well as 49% ownership of Domo Industry Inc. (“Domo”).

Taizhou Fuling was established in October 1992 under the laws of the People’s Republic of China (“China” or “PRC”) with initial capital of \$0.51 million. After several registered capital increases and capital contributions, the registered capital of Taizhou Fuling was increased to \$21.36 million in November 2015.

Taizhou Fuling has four wholly-owned subsidiaries, Zhejiang Great Plastics Technology Co., Ltd. (“Great Plastics”), Direct Link USA LLC (“Direct Link”), Fuling Plastic USA, Inc. (“Fuling USA”) and Wenling Changli Import and Export Co., Ltd (“Wenling Changli”), which was established in September 2016 in China.

Great Plastics was incorporated in China in March 2010 and principally engaged in the production of straw items. Direct Link was incorporated in the State of Delaware in December 2011 and serves as an import trading company of Taizhou Fuling in the United States (“U.S.”). Fuling USA was incorporated in the Commonwealth of Pennsylvania in May 2014, as a wholly-owned subsidiary of Taizhou Fuling. In 2015 Fuling USA established the Company’s first production factory in the U.S., which principally engages in the production of plastic straw items. Prior to the incorporation of Fuling USA, Taizhou Fuling wholly owned another subsidiary incorporated in 2009 in the State of New York, named Fuling Plastics USA Inc. (“Old Fuling USA”). Old Fuling USA served as one of the trading entities of Taizhou Fuling in the U.S. until early 2014 and its business was discontinued and transferred over to the new

Fuling USA when the Company decided to set up the new factory in Allentown, Pennsylvania. Old Fuling USA was dissolved on April 8, 2015.

Domo is a U.S. company established in the State of New York in October 2007. Total Faith owns 49% of its equity interest. However, Total Faith holds 2 out of 3 seats and has a majority of the voting rights on the board of directors. The Board of Directors of Domo is the controlling decision-making body with respect to Domo instead of the equity holders. The number of seats in the Board empowers Total Faith the ability to control Domo's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholders' approval. In addition, Domo's equity at risk is not sufficient to permit it to carry on its activities without additional subordinated financial support from Total Faith and Domo is highly relying on the financial support from the Company. Total Faith is obligated to absorb a majority of the risk of loss from Domo's activities and to receive majority of Domo's residual returns. Based on these facts, Total Faith has gained effective control over Domo and Domo is considered a Variable Interest Entity ("VIE") under Accounting Standards Codification ("ASC") 810-10-05-08A. Accordingly, Total Faith consolidates Domo's operating results, assets and liabilities.

Fuling Global, Total Faith, Domo, Taizhou Fuling and Taizhou Fuling's subsidiaries (herein collectively referred to as the "Company") are engaged in the production and distribution of plastic and paper serveware in China, Europe and U.S. Products exported to the U.S. and Europe are primarily sold to major fast food restaurant chains and wholesalers.

On November 22, 2018, Great Plastics signed sales contracts with a third party to sell the land and buildings previously used as one of its manufacturing factories in China (aka, the "Sanmen Factory") for total cash consideration of RMB 40.2 million (approximately US\$5.8 million) (see Note 5 and 6). The Company sold all related machines and equipment to Taizhou Fuling and Zhejiang Great New Materials Co., Ltd. ("Great NM"). Great NM is a company owned by direct relatives of Taizhou Fuling's officials. The Company plans to dissolve Great Plastics in 2019. Certain prior period amounts of Great Plastics have been reclassified to conform to the current period presentation as discontinued operation. Such reclassifications had no effect on net income or cash flows as previously reported.

Table of Contents**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Principles of Consolidation and Basis of Presentation**

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The consolidated financial statements include the financial statements of Fuling Global, Total Faith, Taizhou Fuling and its subsidiaries and VIE. All significant intercompany balances and transactions have been eliminated in consolidation.

In accordance with accounting standards regarding consolidation of variable interest entities, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

The Company has concluded that Domo is a VIE, based on the facts that Total Faith has a majority of voting rights on the board of directors and is obligated to absorb a majority of the risk of loss from Domo's economic performance. Based on our evaluation of the VIE, we are the primary beneficiary of its risks and rewards; therefore, we consolidate Domo for financial reporting purposes.

The following tables set forth the assets, liabilities, results of operations and changes in cash and cash equivalents of the VIE, which were included in the Company's consolidated balance sheets, statements of income and comprehensive income and cash flows:

	December 31, 2018	December 31, 2017
Current assets	\$ 4,395,466	\$ 3,053,731
Non-current assets	-	-
Total assets	4,395,466	3,053,731
Third-party liabilities	(635,845 )	(575,935 )
Intercompany payables*	(3,664,964 )	(2,189,169 )
Total liabilities	(4,300,809 )	(2,765,104 )
Net assets	\$ 94,657	\$ 288,627

\*Payables to Taizhou Fuling are eliminated upon consolidation.

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	For the years ended		
	December 31,	December 31,	December 31,
	2018	2017	2016
Revenue	\$10,858,274	\$ 9,744,914	\$ 7,928,478
Net income (loss)	\$(204,967 )	\$ 25,246	\$ 39

	For the years ended		
	December 31,	December 31,	December 31,
	2018	2017	2016
Net cash provided by (used in) operating activities	\$(1,021,593)	\$ 296,037	\$(1,006,413 )
Net cash (used in) provided by financing activities*	\$1,475,795	\$(376,338 )	\$1,153,126
Net (decrease) increase in cash and cash equivalents	\$454,202	\$(80,301 )	\$146,713

\*Intercompany financing activities are eliminated upon consolidation.

The Company has the power to direct activities of the VIE and can have assets transferred freely out of the VIE without restrictions. Therefore, the Company considers that there is no asset of the VIE that can only be used to settle obligations of the VIE. The creditors of the VIE's third-party liabilities do not have recourse to the general credit of the primary beneficiary in normal course of business.

**Non-controlling interests**

Non-controlling interests represents the individual shareholder's proportionate share of 51% of equity interest in Domo.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the financial statements.

Significant estimates required to be made by management include, but are not limited to, the valuation of accounts receivable, inventories, advances to suppliers, useful lives of property, plant and equipment, intangible assets, and the recoverability of long-lived assets. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents.

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### **Restricted Cash**

Restricted cash consists of cash equivalents used as collateral to secure short-term bank notes payable and bank borrowings. The Company is required to keep certain amounts on deposit that are subject to withdrawal restrictions. Upon the maturity of the bank acceptance notes and bank borrowings, the Company is required to deposit the remainder to the escrow account to settle the bank notes payable and bank borrowings. The notes payable and bank borrowings with security deposits are generally short term in nature due to their short maturity period of three months to one year; thus, restricted cash is classified as a current asset.

As of December 31, 2018 and 2017, the Company had restricted cash of \$2,396,993 and \$3,767,081, respectively, of which \$1,439,064 and \$3,053,622, respectively, was related to the bank acceptance notes payable (see Note 8), and \$649,675 and \$565,821, respectively, was related to the letters of credit (see Note 11). The remaining \$308,254 and \$147,638, respectively, were related to other miscellaneous deposits made in bank.

### **Certificates of Deposit**

As of December 31, 2018 and 2017, certificates of deposit with original maturities of more than three months amounted to \$0 and \$105,707, respectively.

### **Accounts Receivable**

Accounts receivable are recognized and carried at original invoiced amount less an estimated allowance for uncollectible accounts. The Company usually grants credit to customers with good credit standing with a maximum of 90 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect amounts due. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against accounts receivables balances, with a corresponding charge recorded in the consolidated statements of income and comprehensive income. Actual amounts received may differ from management's estimate of credit worthiness and the economic environment. Delinquent account balances are written-off against the allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs include the cost of raw materials, freight, direct labor and related production overhead. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less any costs to complete and sell products.

### **Property, Plant and Equipment**

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

<b>Items</b>	<b>Useful life</b>
Property and buildings	10–20 years
Leasehold improvements	Lesser of useful life and lease term
Machinery equipment	3–10 years
Transportation vehicles	4–10 years
Office equipment and furniture	3–5 years

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

## **Intangible Assets**

Intangible assets consist primarily of land use rights, trademark and patents. Under the PRC law, all land in the PRC is owned by the government and cannot be sold to an individual or company. The government grants individuals and companies the right to use parcels of land for specified periods of time. These land use rights are sometimes referred to informally as “ownership.” Land use rights are stated at cost less accumulated amortization. Intangible assets are amortized using the straight-line method with the following estimated useful lives:

<b>Items</b>	<b>Useful life</b>
Land use rights	50 years
Trademarks	10 years
Patents	7-10 years

## **Impairment of Long-lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated cash flows from the use of the asset and its eventual disposition are below the asset’s carrying value, then the asset is deemed to be impaired and written down to its fair value. There were no impairments of these assets as of December 31, 2018 and 2017.

## **Revenue Recognition**

The Company follows paragraph 606 of the FASB Accounting Standards Codification for revenue recognition and ASU 2014-09. On January 1, 2018, the Company adopted ASU 2014-09, which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company considers revenue realized or realizable and earned when all the five following criteria are met: (1) Identify the Contract with a Customer, (2) Identify the Performance Obligations in the Contract, (3) Determine the Transaction Price, (4) Allocate the Transaction Price to the Performance Obligations in the Contract, and (5)

Recognize Revenue When (or As) the Entity Satisfies a Performance Obligation. Results for reporting periods beginning after January 1, 2018 are presented under ASU 2014-09, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. The Company has assessed the impact of the guidance by reviewing its existing customer contracts and current accounting policies and practices to identify differences that will result from applying the new requirements, including the evaluation of its performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations. Based on the assessment, the Company concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams in scope of Topic 606 and therefore there was no material changes to the Company's consolidated financial statements upon adoption of ASC 606, and there have not been any significant changes to our business processes, systems, or internal controls as a result of implementing the standard.

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**Income Taxes**

The Company accounts for income taxes under ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period including the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The provisions of ASC 740-10-25, “Accounting for Uncertainty in Income Taxes,” prescribe a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. This interpretation also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and related disclosures. The Company does not believe that there was any uncertain tax position at December 31, 2018 and 2017.

To the extent applicable, the Company records interest and penalties as general and administrative expenses. The statute of limitations for the Company’s U.S. federal income tax returns and certain state income tax returns subject to examination by tax authorities for three years from the date of filing. As of December 31, 2018, the tax years ended December 31, 2014 through December 31, 2017 for the Company’s PRC subsidiaries remain open for statutory examination by PRC tax authorities. As of December 31, 2018, the tax years ended December 31, 2011 through December 31, 2017 for the Company’s U.S. subsidiaries remain open for statutory examination by U.S. tax authorities.

**Value Added Tax (“VAT”)**

Sales revenue represents the invoiced value of goods, net of VAT. The VAT is based on gross sales price and VAT rates range up to 17%, depending on the type of products sold. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. Further, when exporting goods, the exporter is entitled to some or all of the refund of the VAT paid or assess. Since a majority of the Company’s products are exported to the U.S. and Europe, the Company is eligible for VAT refunds when the Company completes all the required tax filing procedures.

All of the VAT returns of the Company have been and remain subject to examination by the tax authorities for five years from the date of filing.

### **Foreign Currency Translation**

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

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The value of RMB against US\$ and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. Any significant revaluation of RMB may materially affect the Company's financial condition in terms of US\$ reporting. The following table outlines the currency exchange rates that were used in creating the consolidated financial statements in this report:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Period-end spot rate	US \$1=RMB 6.8776	US \$1=RMB 6.5074	US \$1=RMB 6.94477
Average rate	US \$1=RMB 6.6163	US \$1=RMB 6.7578	US \$1=RMB 6.64410

**Fair Value of Financial Instruments**

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

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company considers the recorded value of its financial assets and liabilities, which consist primarily of cash and cash equivalents, restricted cash, accounts receivable, advance to vendors, accounts payable, accrued expenses, advances from customers, notes payable to approximate the fair value of the respective assets and liabilities at December 31, 2018 and 2017 based upon the short-term nature of the assets and liabilities.

The Company believes that the carrying amount of the short-term borrowings approximates fair value at December 31, 2018 and 2017 based on the terms of the borrowings and current market rates as the rate is reflective of the current market rate.

### **Concentrations and Credit Risk**

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



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As of December 31, 2018 and 2017, \$4,116,684 and \$7,027,894, respectively, of the Company's cash and cash equivalents, certificates of deposit and restricted cash were on deposit at financial institutions in the PRC where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure.

Substantially all of the Company's sales are made to customers that are located primarily in the USA and Europe. The Company's operating results could be adversely affected by the government policy on exporting business, foreign exchange rate fluctuation, and local market condition change. The Company has a concentration of its revenues and receivables with specific customers. For the year ended December 31, 2018, no customer accounted for more than 10% of total revenue. For the year ended December 31, 2017, one customer accounted for 12% of total revenue. As of December 31, 2018, one customer's account receivable accounted for 14% of the total outstanding accounts receivable balance. As of December 31, 2017, one customer's account receivable accounted for 18% of the total outstanding accounts receivable balance.

For the year ended December 31, 2018, the Company purchased approximately 12% of its raw materials from its one largest supplier. For the year ended December 31, 2017, the Company purchased approximately 12% and 11% of its raw materials from its two largest suppliers, respectively. As of December 31, 2018, advanced payments to two major suppliers accounted for 20% and 15% of the total advance payments outstanding. As of December 31, 2017, no supplier accounted for more than 10% of the total advance payments outstanding.

A loss of either of these customers or suppliers could adversely affect the operating results or cash flows of the Company.

## **Risks and Uncertainties**

The major operations of the Company are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political, regulatory and social conditions in the PRC. Although the Company has not experienced losses from these situations and believes that it is in compliance with existing laws and regulations including its organization and structure disclosed in Note 1, this may not be indicative of future results.

## Recent Accounting Pronouncements

### New Accounting Pronouncements Recently Adopted

On April 1, 2018, we adopted ASU 2016-18, Restricted Cash – A Consensus of the FASB Emerging Issues Task Force, (“ASU 2016-18”), which amends ASC 230, Statement of Cash Flows, to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows using the full retrospective method. Adoption of this standard did not have a material impact on our consolidated financial statements. See our consolidated statements of cash flows for the reconciliation of cash presented in the statements of cash flows to the cash presented on the balance sheet.

The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective April 1, 2018 using the retrospective transition method. The core principle of the new accounting standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Adoption of this standard did not result in significant changes to the Company’s accounting policies, business processes, systems or controls, or have a material impact on the Company’s financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast.

### New Accounting Pronouncements Not Yet Adopted

In June 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under this ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption of this ASU is permitted. The Company does not expect adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2018-20, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing leases assets and lease liabilities on the balance sheet and disclosing key information about lease transactions. This ASU is effective for annual reporting periods beginning after December 15, 2018. Early adoption of this ASU is permitted. The Company is evaluating the effect of the pronouncement on the financial statements.

Table of Contents**NOTE 3 – ACCOUNTS RECEIVABLE, NET**

Accounts receivable consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Trade accounts receivable	\$ 27,984,656	\$ 23,127,679
Less: allowance for doubtful accounts	(223,700 )	(192,434 )
Accounts receivable, net	\$ 27,760,956	\$ 22,935,245

**NOTE 4 – INVENTORY, NET**

Inventories consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Raw materials	\$ 7,011,718	\$ 4,587,519
Work-in-progress	1,387,111	1,594,096
Finished goods	14,047,720	13, 277,742
Less: inventory valuation allowance	(171,936 )	(139,291 )
Total inventory	\$ 22,274,613	\$ 19,320,066

Table of Contents**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Property and Buildings	\$26,766,432	\$18,251,057
Leasehold improvement	2,376,165	1,862,388
Machinery and equipment (1)	34,006,697	31,985,871
Automobiles	1,006,032	1,021,208
Office and electric equipment	948,090	813,073
Subtotal	65,103,416	53,933,597
Construction in progress	2,393,006	2,570,443
Less: accumulated depreciation	(15,659,789 )	(12,823,668 )
Property and equipment, net	\$51,836,633	\$43,680,372

(1) A total amount of \$11,787,174 machinery was related to the sale leaseback transaction (see Note 10).

Depreciation expense was \$4,227,620, \$3,437,207 and \$2,217,994 for the years ended December 31, 2018, 2017 and 2016, respectively.

Construction in progress represents costs of construction incurred for the Company's new plant and equipment. The Company started the first phase of the construction for its facility expansion in China ("Phase I") in April 2016 in China. For the year ended December 31, 2017, construction in progress of approximately \$19.3 million was completed and was transferred to property, plant and equipment for Phase I.

In the beginning of August 2017, the Company started its second phase of the construction for its facility expansion in China ("Phase II"). Phase II includes construction of a new plant, an office building and two dormitory buildings. The construction is expected to be completed before the end of 2019 and the total construction cost of Phase II is expected to be \$13.1 million. For the year ended December 31, 2018, construction in progress of approximately \$9.9 million was completed and was transferred to property, plant and equipment for Phase II. The Company expects to fulfill the payments using cash generated from operating activities and additional loans borrowed from local banks in case any shortage of cash on hand in the future.

On November 22, 2018, Great Plastics sold its manufacturing factories to an unrelated third party for total cash consideration of RMB 40.2 million (approximately US\$5.8 million). The net book value of the plant and properties disposed in the transaction amounted to RMB 25.7 million (approximately US\$3.7 million), and the net book value of the intangible assets disposed in the transaction amounted to RMB 8.1 million (approximately US\$1.2 million). Tax payable related to this transaction amounted RMB 3.7 million (approximately US\$0.5 million). Total net value disposed and tax amounted RMB 35.7 million (approximately US\$5.4 million). Gain from disposal of plant and properties and of intangible assets amounted to approximately RMB 2.7 million (approximately US\$0.4 million).

Table of Contents**NOTE 6 – INTANGIBLE ASSETS, NET**

Intangible assets, net consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Land use rights	\$ 8,731,398	\$ 9,228,119
Trademarks	13,718	9,802
Patents	7,365	5,782
Total	8,752,481	9,243,703
Less: accumulated amortization	(594,565 )	(446,122 )
Intangible assets, net	\$ 8,157,916	\$ 8,797,581

Amortization expense was \$179,268, \$174,303 and \$136,199 for the years ended December 31, 2018, 2017 and 2016, respectively.

Land use right of Great was disposed by Great on November 22, 2018 (See Note 5).

Estimated future amortization expense for intangible assets is as follows:

Periods ending December 31,	Amortization expense
2019	\$ 176,191
2020	176,191
2021	175,991
2022	175,766
2023	175,331
Thereafter	7,278,446
	\$ 8,157,916

Table of Contents**NOTE 7 – SHORT-TERM AND LONG-TERM BORROWINGS**Short-term Borrowings

Short-term borrowings represent amounts due to various banks and other companies normally maturing within one year. The principal of the borrowings is due at maturity. Accrued interest is due either monthly or quarterly.

Short-term borrowings consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Agricultural Bank of China (“ABC”)	(1) \$ 8,622,194	\$ 11,831,148
China Merchants Bank (“CMB”)	(2) 1,696,441	3,073,424
Industrial and Commercial Bank of China (“ICBC”)	(3) 4,557,315	4,019,908
Bank of China (“BOC”)	(4) 2,724,793	2,274,333
East West Bank (“EWB”)	(5) 2,000,000	2,000,000
Postal Savings Bank of China (“PSBC”)	(6) -	4,046,597
Pennsylvania Industrial Development Authority – current portion of long-term borrowing (see “long-term borrowing” below)	89,898	88,339
East West Bank loan – current portion of long-term borrowing (see “long-term borrowing” below)	200,000	83,333
Total	\$ 19,890,641	\$ 27,417,082

- (1) During the year ended December 31, 2018, Taizhou Fuling entered into a series of short-term bank loan agreements with ABC for a total amount of \$8,622,194. The terms of these loans are six months with variable interest rates based on the prevailing interest rates, respectively. The effective rates are from 4.57% to 5.15% per annum.

During fiscal year 2017, Taizhou Fuling entered into a series of short-term bank loan agreements with ABC for a total amount of \$11,831,148. The terms of these loans are six to twelve months with variable interest rates based on the prevailing interest rates. The effective rates were from 4.57% to 4.90% per annum. As of December 31, 2018, \$11,831,148 of them had been repaid upon maturity.

In February 2017, Great Plastics entered into a short-term bank loan agreement with ABC for \$691,520. The terms of the loan are twelve months with a variable interest rate based on the prevailing interest rate. The effective rates are 5.66% per annum. This loan was fully repaid in July 2017 prior to its maturity.

These loans were guaranteed by the assets of a third party guaranty company and a shareholder of the Company. The third party guaranty company charges 2% of total loan amount.

During year ended December 31, 2018, Taizhou Fuling entered into a series of short-term bank borrowing agreements with CMB for a total amount of approximately \$6.3 million (RMB 43.4 million). The terms of these (2) loans are five to twelve months with variable interest rates based on the prevailing interest rates. The effective rates were from 2.40% to 6.09% per annum. The loans are guaranteed by Special Plastics and Taizhou Fuling's general manager and Chair of the Board. As of December 31, 2018, \$4,586,234 had been repaid in full upon maturity.

In January, March, July and December 2017, Taizhou Fuling entered into four short-term bank borrowing agreements for approximately \$4.5 million (RMB 29.4 million) with CMB for twelve, six, six and twelve months, respectively. The effective rates were 6.09%, 2.67%, 1.99% and 6.09% per annum, respectively. The loans are guaranteed by Special Plastics and Taizhou Fuling's general manager and Chair of the Board. As of December 31, 2018, these loans had been repaid in full upon maturity.

During the year ended December 31, 2018, Taizhou Fuling entered into a series of short-term loan agreements with (3) ICBC for a total amount of \$4,557,315. The terms of these loans are five to twelve months with the interest rates ranged from 3.47% to 5.44% per annum.

During 2017, Taizhou Fuling entered into a series of short-term loan agreements with ICBC for a total amount of \$7,092,174. The terms of these loans are five to twelve months with the interest rates ranged from 2.14% to 5.00% per annum. As of December 31, 2018, these loans had been repaid upon maturity.

During the year ended December 31, 2018 and the year ended December 31, 2017, Taizhou Fuling entered into a series of short-term bank borrowing agreements and other financing agreements with BOC. The terms of the loans (4) are three to twelve months, with fixed interest rates based on London InterBank Offered Rate ("LIBOR") (for loans dominated in USD) or prime loan rates issued by People's Bank of China (for loans dominated in RMB), plus certain base points. The effective interest rates vary from 3.30% to 5.01% per annum. The loans to Taizhou Fuling are guaranteed by the Chief Executive Officer ("CEO").



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On March 9, 2017, Direct Link entered into a line of credit agreement with East West Bank for \$2,000,000 for one year. The annual interest rate is equivalent to LIBOR rate plus 2.75%. Direct Link was required to make restricted deposit of \$41,900 for one year (which was released in June 2018) with an initial interest rate of 3.76% per annum. The line of credit is guaranteed by Fuling Global. The agreements require Direct Link to comply with certain financial covenants and ratios, including to maintain minimum debt service coverage ratio of 1.40 times and to maintain maximum total debt to equity ratio of 3.0 times etc. Direct Link will be measured semi-annually at (5) December 31st and December 31st. Direct Link was not in compliance as of December 31, 2018. On April 7, 2017, Direct Link drew down \$1,500,000 with the effective rate of 3.86% per annum. On December 1, 2017, Direct Link drew down another \$500,000 with the effective rate of 4.45% per annum. Interest expense incurred on this loan for the year ended December 31, 2018 and 2017 were \$47,955 and \$14,942, respectively. On March 14, 2018, East West Bank approved to extend the loan to June 9, 2018. On June 26, 2018, East West Bank again approved to extend the loan to June 9, 2019. East West Bank had waived financial covenant violations as of December 31, 2018.

In January 2018, Taizhou Fuling entered into a short-term bank loan agreement with PSBC for \$987,881. The (6) terms of the loan are twelve months. The effective rates are 2.95% per annum. As of December 31, 2018, this loan had been repaid prior to its maturity.

In November and December 2017, Taizhou Fuling entered into a series of short-term bank loan agreements with PSBC for \$2,975,004 and \$1,071,593, respectively. The terms of these loans are twelve and five months, respectively. The effective rates are 2.65% and 4.15% per annum, respectively. As of December 31, 2018, these loans had been repaid upon maturity.

Long-term Borrowings

Long-term borrowings represent amounts due to various banks and other companies normally maturing over one year. The principal of the borrowings is due at maturity. Accrued interest is due either monthly or quarterly.

Long-term borrowings consisted of the following:

	As of December 31, 2018	As of December 31, 2017
Pennsylvania Industrial Development Authority – long term (1)	\$ 658,234	\$ 748,132
Agricultural Bank of China (“ABC”) (2)	5,815,982	137,088
East West Bank (“EWB”) – long term (3)	729,141	916,667
Total	\$ 7,203,357	\$ 1,801,887

On September 28, 2016, Fuling USA entered into a ten-year Machinery and Equipment Loan Agreement with the Pennsylvania Industrial Development Authority for \$937,600, with fixed interest rate of 1.75%. This loan has been (1) collateralized by the machinery and equipment, worth approximately \$1.72 million. As of December 31, 2018, the amount of long-term borrowing was \$748,132, and it consists of \$89,898 of which is due within a year and \$658,234 that is due over a year.

Future obligations for payments of this long-term loan are as below:

Twelve months ended December 31,	
2019	\$89,898
2020	91,484
2021	93,098
2022	94,740
2023	96,411
Thereafter	282,501
Total	\$748,132

In June 2018, Taizhou Fuling entered into two buyer's credit Loan Agreements with Agriculture Bank of China Limited for total of \$2,471,792 (RMB 17 million) for 36 months. In July 2018, Taizhou Fuling entered into three buyer's credit Loan Agreements with Agriculture Bank of China Limited for total of \$3,344,190 (RMB 23 million) for 36 months. The loan bears variable interest rates based on the prevailing interest rate set by the People's Bank of (2) China at the time of borrowing, plus 13% of the prevailing interest rate. As of December 31, 2018, the amount of long-term borrowing was \$5,815,982, and the effective rates were 5.37% and 5.23% per annum. The line of credit's purpose is for inventory purchase. The line of credit is effective for the period from first day of loan to 36 months after the first day of loan.

On October 31, 2016, Fuling USA entered into a buyer's credit Loan Agreement with Agricultural Bank of China Limited for a line of credit in the amount of \$5,903,723 (RMB 41 million) for 18 months. The loan bears a variable interest rate based on the prevailing interest rate set by the People's Bank of China at the time of borrowing, plus 6% of the prevailing interest rate. As of December 31, 2017, the amount of long-term borrowing was \$137,088, and the effective rate was 5.30% per annum. The line of credit's purpose is to acquire equipment. China Export & Credit Insurance Corporation provides insurance for the line of credit. The line of credit is effective for the period from first day of loan to 18 months after the first day of loan. As of December 31, 2018, this loan was fully repaid in full upon maturity.

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On March 9, 2017, Fuling USA entered into a Delayed Draw Term Loan agreement with East West Bank for \$1,000,000. The amount drawn will be turned into a 5-year term loan at LIBOR rate plus 3.00%. The loan is guaranteed by Fuling Global. Fuling USA is required to make a restricted deposit of \$73,336 for one year with an initial interest rate of 4.19% per annum. The restricted deposit was increased to \$121,639 in June 2018. The agreement requires Fuling USA to comply with certain financial covenants and ratios, including to maintain minimum debt service coverage ratio of 1.25 times and to maintain maximum total debt to equity ratio of 3.0 times etc. Fuling USA's compliance with these covenants will be reviewed semi-annually at December 31th and (3) December 31th. Fuling USA was in compliance as of December 31, 2018. On April 7 and December 1, 2017, Fuling USA drew down \$500,000 (April 2017 Loan) and \$500,000 (December 2017 Loan), respectively. April 2017 loan will expire April 7, 2023 and December 2017 loan will expire on December 1, 2023. Both April 2017 loan and December 2017 loan require interest only payment for the first year and require interest and principal payments for years from second year to sixth year. The effective rate was 4.11% per annum. As of December 31, 2018, the amount of long-term borrowing was \$929,141, and it consists of \$200,000 of which is due within a year and \$729,141 which is due over a year.

Future obligations for payments of this long-term loan are as below:

Twelve months ended December 31,

2019	\$200,000
2020	200,000
2021	200,000
2022	200,000
2023	129,141
Thereafter	-
Total	\$929,141

As of December 31, 2018 and 2017, land use rights in the amount of \$7,821,842 and \$8,442,532, and property and buildings in the amount of \$14,071,515 and \$15,620,048, respectively, were pledged for all the above short-term and long-term borrowings.

Table of Contents**NOTE 8 – BANK NOTES PAYABLE**

Short-term bank notes payables are lines of credit extended by banks that can be endorsed and assigned to vendors as payments for purchases. The notes payable are generally payable within six months. These short-term notes payable are guaranteed by the bank for their full face value. In addition, the banks usually require the Company to deposit a certain amount of cash (usually range from 30% to 100% of the face value of the notes) at the bank as a guarantee deposit, which is classified on the balance sheet as restricted cash.

The Company had the following bank notes payable as of December 31, 2018:

	December 31, 2018
ICBC, due May 5, 2019	\$ 286,902
ABC, due various dates from January 4, 2019 to June 27, 2019	2,601,151
Total	\$ 2,888,053

The Company had the following bank notes payable as of December 31, 2017:

	December 31, 2017
ICBC, due various dates from January 28, 2018 to May 27, 2018	\$ 3,052,664
ABC, due various dates from February 10, 2018 to April 30, 2018	1,384,016
Total	\$ 4,436,680

As of December 31, 2018 and 2017, \$1,439,063 and \$3,053,622 cash deposits were held by banks as a guaranty for the notes payable, respectively. In addition, as of December 31, 2018 and 2017, notes payable totaling \$1,448,990 and \$1,383,058 were secured by the personal properties of the Company's principal shareholders and third party individuals, respectively.

**NOTE 9 – INCOME TAXES**

The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Fuling Global and Total Faith are both offshore holding companies and are not subject to tax on income or capital gains under the laws of the Cayman Islands and British Virgin Islands, respectively.

Taizhou Fuling and Great Plastics are incorporated in the PRC and are subject to PRC income tax, which is computed according to the relevant laws and regulations in the PRC. Under the Corporate Income Tax Law of the People's Republic of China, corporate income tax rate applicable to all companies, including both domestic and foreign-invested companies, is 25%. Taizhou Fuling was recognized as a High-technology Company by Chinese government and subject to a favorable income tax rate of 15% from year 2012 to 2018. \$1,343,322, \$715,087 and \$231,733 income tax expenses were exempted for the years ended December 31, 2018, 2017 and 2016, respectively. Per share effect of the tax exemption was \$0.09, \$0.05 and \$0.01 for the years ended December 31, 2018, 2017 and 2016, respectively.

Domo, Fuling USA and Direct Link are incorporated in the United States and subject to the U.S. federal and state income tax.

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The following table summarizes income (loss) before income taxes and non-controlling interest allocation:

	For the year ended December 31, 2018	For the year ended December 31, 2017	For the year ended December 31, 2016
United States	\$599,898	\$ 90,466	\$ (2,381,347 )
Foreign	10,374,099	8,963,428	14,191,840
Total	\$ 10,973,997	\$ 9,053,894	\$ 11,810,493

Significant components of the income tax provision were as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	For the year ended December 31, 2016
Current tax provision:			
United States	\$ -	\$ 4,455	\$ -
Foreign	595,461	783,915	1,561,404
Deferred tax provision:			
Foreign	531,275	-	-
Total	\$ 1,126,736	\$ 788,370	\$ 1,561,404

The deferred tax expense (benefit) is the change of deferred tax assets and deferred tax liabilities resulting from the temporary difference between tax and U.S. GAAP. Our operations in the U.S. have incurred a cumulative net operating loss of approximately \$2,868,000, 3,468,000 and \$3,554,000, respectively, as of December 31, 2018, 2017 and 2016. This carry-forward will expire if is not utilized by 2036. The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized.

For the years ended December 31, 2018, 2017 and 2016, management believes that the realization of the benefit arising from the losses of certain U.S. subsidiaries appears to be uncertain and may not be realizable in the near future. Therefore, 100% valuation allowances of \$420,056, \$605,081 and \$625,742 have been provided against the deferred tax assets of these subsidiaries, respectively.

A new tax regulation under the Provisional Regulations of The People's Republic of China Concerning Income Tax on Enterprises promulgated by the PRC took effect on May 7, 2018. The new tax regulation allows companies to expense in full all machinery and equipment acquired between January 1, 2018 to December 31, 2020 instead of depreciate over depreciation period, except for any asset with unit price over \$0.7 million (RMB 5 million). Thus, deferred tax liabilities resulted from the temporary difference. Until the end of 2018, the Company acquired new machinery and equipment of \$3,852,713 (RMB 26.5 million) in total, which were qualified to be fully deducted from taxable income in 2018, and incurred the deferred tax liabilities of \$577,826 as of December 31, 2018.

On December 22, 2017, the U.S. enacted the "Tax Cuts and Jobs Act" (the "Act"). Under the provisions of the Act, the U.S. corporate tax rate decreased from 35% to 21%. Since the Company has a December 31 fiscal year-end, a U.S. statutory federal rate of 21% rate is applied to the provision for income tax from the fiscal year of 2018.

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

	For the year ended December 31, 2018		For the year ended December 31, 2017		For the year ended December 31, 2016	
U.S. Statutory rates	21.0	%	34.0	%	34.0	%
Foreign income not recognized in the U.S.	(19.4	)	(32.5	)	(33.8	)
Foreign income tax rate	25.0		25.0		25.0	
Effect of favorable income tax rate in certain entity in PRC	(10.5	)	(8.1	)	(11.5	)
R&D tax credit (1)	(3.5	)	(2.4	)	(1.5	)
Change in valuation allowance	(1.7	)	(0.3	)	8.0	
Non-taxable permanent difference (2)	(0.6	)	(7.0	)	7.0	
Effective tax rate	10.3	%	8.7	%	13.2	%

(1) From 1 January 2018 to 31 December 2020, for R&D expenses incurred for new technology, new products, or new craftsmanship, an extra 75% of the actual expenses incurred are also tax-deductible as an incentive.

(2) It represents expenses incurred by the Company that were not deductible for PRC income tax and income (loss) generated in countries with no income tax obligations.

**NOTE 10 – SALE LEASEBACK**

In October 2016, The Company has entered into a sale leaseback arrangement and sold certain machinery located in China to an unrelated third party for approximately \$3,651,346 (RMB 25,112,500), and subsequently leased back the machinery for 24 months for a total amount of approximately \$3,804,092 (RMB 26,163,022). The Company was required to make a security deposit of approximately \$730,269 (RMB 5,022,500) for the leaseback. The leaseback has been accounted for as a capital lease. The title of the machinery will be transferred back to the Company upon the last payment from the Company. A one-time processing fee of \$23,223 (RMB 159,716) was paid by the Company related to this lease. Since the machinery was sold exceeding its carrying value, the Company also recognized a deferred gain of \$180,849 (RMB 1,243,810) on this transaction, which will be amortized over 24 months as an income. In addition, unrecognized financing charge of \$177,853 (RMB 1,223,203) was recognized for the capital lease, which will be amortized over 24 months as an interest expense. The Company repaid the lease as of December 31, 2018. All deferred gain and unrecognized financing charge were fully amortized as of December 31, 2018.

The lease was fully repaid in June 2018 prior to its maturity:



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Total lease payment	\$3,804,106
Less: imputed interest and principal	(3,804,106)
Total current portion of sale leaseback obligation as of December 31, 2018	\$-

Interest expense incurred for the years ended December 31, 2018, 2017 and 2016 amounted to \$39,148, 128,069 and \$14,858, respectively.

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In May 2017, the Company has entered into another sale leaseback arrangement and sold certain machinery located in China to an unrelated third party for approximately \$2,573,572 (RMB 17,700,000), and subsequently leased back the machinery for 36 months for a total amount of approximately \$2,750,504 (RMB 18,916,864). The Company was required to make a security deposit of approximately \$514,714 (RMB 3,540,000) for the leaseback. (2) The leaseback has been accounted for as a capital lease. The title of the machinery will be transferred back to the Company upon the last payment from the Company. A one-time processing fee of \$15,441 (RMB 106,200) was paid by the Company related to this lease. Since the machinery was sold under its carrying value, the Company also recognized a deferred loss of \$241,206 (RMB 1,658,918) on this transaction, which will be amortized over 36 months as an expense. In addition, unrecognized financing charge of \$96,954 (RMB 666,811) was recognized for the capital lease, which will be amortized over 36 months as an interest expense.

The minimum payments for the remaining lease term of 17 months from December 31, 2018 to May 18, 2020 are as follows:

Total lease payment	\$2,750,504
Less: imputed interest and principal	(1,452,961)
Total sale leaseback obligation as of December 31, 2018	1,297,543
Less: current portion of sale leaseback obligation	(915,912 )
Long term payable - sale leaseback as of December 31, 2018	\$381,631

According to the sale leaseback agreement, future obligations for payments of sale leaseback are as below:

Twelve months ended December 31, 2018	
2019	\$915,912
2020	381,631
Total	\$1,297,543

Interest expense incurred for the years ended December 31, 2018, 2017 and 2016 amounted to \$76,700, \$64,231 and \$0, respectively.

(3) In February 2018, the Company has entered into another sale leaseback arrangement and sold certain machinery located in China to an unrelated third party for approximately \$5,379,784 (RMB 37,000,000), and subsequently leased back the machinery for 36 months for a total amount of approximately \$5,784,874 (RMB 39,786,052). The Company was required to make a security deposit of approximately \$1,075,957 (RMB 7,400,000) for the leaseback. The leaseback has been accounted for as a capital lease. The title of the machinery will be transferred back to the Company upon the last payment from the Company. A one-time processing fee of \$32,279 (RMB 222,000) was paid by the Company related to this lease. Since the machinery was sold under its carrying value, the Company also recognized a deferred gain of \$403,158 (RMB 2,772,759) on this transaction, which will be

amortized over 36 months as an expense. In addition, unrecognized financing charge of \$277,503 (RMB 1,908,556) was recognized for the capital lease, which will be amortized over 36 months as an interest expense.

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The minimum payments for the remaining lease term of 26 months from December 31, 2018 to February 18, 2021 are as follows:

Total lease payment	\$5,784,874
Less: imputed interest and principal	(1,598,991)
Total sale leaseback obligation as of December 31, 2018	4,185,883
Less: current portion of sale leaseback obligation	(1,931,947)
Long term payable - sale leaseback as of December 31, 2018	\$2,253,936

According to the sale leaseback agreement, future obligations for payments of sale leaseback are as below:

Twelve months ended December 31,	
2019	\$ 1,931,946
2020	1,931,946
2021	321,991
Total	\$4,185,883

Interest expense incurred for the years ended December 31, 2018, 2017 and 2016 amounted to \$206,803, \$0 and \$0, respectively.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**Rent Commitment**

The Company's subsidiary Fuling USA leases manufacturing facility under operating leases. Operating lease expense amounted to \$534,589, \$534,077 and \$454,223 for the years ended December 31, 2018, 2017 and 2016, respectively.

On December 20, 2018, the Company entered into a five year lease agreement with a third party for its manufacturing facility in Mexico (see Note 15). in Mexico. The rent expense is \$10,514 for the year ended December 31, 2018.

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

Twelve months ended December 31,	
2019	\$866,971
2020	913,242
2021	864,040
2022	815,053
2023	528,395
Thereafter	196,931
Total	\$4,184,632

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**Letters of Credit**

As of December 31, 2018 and 2017, the Company had \$5,147,960 and \$6,546,920 outstanding in trade letters of credit, respectively.

**Purchase Commitment**

As of December 31, 2018, the Company had no purchase commitments for construction. These commitments represent the amount of agreements signed but yet not paid. Pursuant to the signed agreement, the payment is not due until the construction is completed, and there is no a fixed deadline for the completion of construction.

**Litigation**

The Company's subsidiary Fuling USA is a defendant-counterclaimant in pending litigation in the District Court for the District of Connecticut in the U.S. The plaintiff asserted causes of action for breach of contract, trademark infringement and related unfair competition claims under the Lanham Act, trade secret misappropriation, interference with a business opportunity, breach of fiduciary duty, and violation of the Connecticut Unfair Trade Practices Act. Fuling USA filed an answer and counterclaims seeking declaratory judgment of non-infringement of the trademark, cancellation of the trademark registration, breach of contract, and unjust enrichment. Until the date of this filing, the litigation has not been closed but no material contingent liability was expected.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Company rents space from one of its related parties. For the years ended December 31, 2018, 2017 and 2016, the total rent expense was \$55,715, \$54,550 and \$55,484, respectively.

Due from a related party amounted to \$28,242 and \$0 as of December 31, 2018 and 2017, respectively. It is outstanding rent from Great NM.

Accounts payable to Great NM amount to \$82,014 and \$0 as of December 31, 2018 and 2017, respectively.

## **NOTE 13 – EQUITY**

### **Statutory Reserve**

The Company is required to make appropriations to certain reserve funds, comprising the statutory surplus reserve and the discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (“PRC GAAP”). Appropriations to the statutory surplus reserve are required to be at least 10% of the after-tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entity’s registered capital. Appropriations to the surplus reserve are made at the discretion of the Board of Directors. As of December 31, 2018 and 2017, the balance of statutory reserve was \$5,532,945 and \$4,617,039, respectively.

### **Share Issuance**

On November 18, 2018, the Company granted 15,705 shares to its Chief Financial Officer. On November 18, 2017, the Company granted 15,705 shares and 8,000 shares collectively to its Chief Financial Officer and two directors, respectively. On November 18, 2016, the Company granted 15,705 shares and 8,000 shares collectively to its Chief Financial Officer and two directors, respectively. On November 2, 2015, the Company granted 15,667 shares and 12,000 shares collectively to its Chief Financial Officer and three directors, respectively. On November 18, 2015, the Company granted 38 shares to its Chief Financial Officer. The Company recorded \$105,276, \$58,867 and \$123,339 as stock based compensation expense for the years ended December 31, 2018, 2017 and 2016, respectively.

Table of Contents**NOTE 14 – 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” in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company’s chief operating decision maker for making operating decisions and assessing performance as the source for determining the Company’s reportable segments. Management, including the chief operating decision maker, reviews operation results by the revenue of different products. Based on management’s assessment, the Company has determined that it has only one operating segment as defined by ASC 280.

The following table presents revenue by major products for the years ended December 31, 2018, 2017 and 2016, respectively.

	For the years ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Cutlery	\$66,558,851	\$62,104,253	\$53,206,758
Straws	23,572,926	18,631,276	14,324,897
Cups and plates	37,439,353	33,536,297	27,626,586
Others	11,093,142	9,936,680	7,162,448
Total	\$138,664,272	\$124,208,506	\$102,320,689

The following table presents revenue by geographic areas for the years ended December 31, 2018, 2017 and 2016, respectively.

	For the years ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Revenue from United States	\$118,307,987	\$106,563,934	\$92,729,983
Revenue from Europe	6,621,940	6,101,139	3,172,868
Revenue from Canada	1,635,667	1,943,946	982,106
Revenue from China	8,286,146	7,740,720	3,839,176
Revenue from other foreign countries	3,812,532	1,858,767	1,596,556
Total	\$138,664,272	\$124,208,506	\$102,320,689



Long-lived assets of \$58,848,571 and \$4,271,140 were located in China and the United States, respectively, as of December 31, 2018. Long-lived assets of \$56,808,223 and \$3,136,106 were located in China and the United States, respectively, as of December 31, 2017.

#### **NOTE 15 – SUBSEQUENT EVENTS**

In January to March 2019, the Company repaid approximately \$5.2 million short term bank loans and \$1.8 million notes payable that become due. The Company also borrowed approximately \$7.4 million short term bank loans as well as approximately \$2.0 million notes payable from various banks in China. All the loans and notes payable are guaranteed by its shareholders, related parties and third parties.

In December 2018, the Company announced its plan to set up a manufacturing factory (the “Mexico Factory”) in Monterrey, Mexico. In December 2018, the Company signed a building lease with Interpuerto Industrial Park in Monterrey, Mexico and a service agreement with a local shelter service company to help with administrative, accounting, compliance, import/export, human resources, etc., at the Mexico Factory. Factory remodeling is expected to start in April 2019, followed by equipment installation and testing and worker recruitment in May. We expect that the first phase of the Mexico Factory will have an annual design capacity of 10,000 tons and will be primarily used for producing paper straws and plastic straws and paper cups serving the U.S. market. The Company expects to launch commercial production at the Mexico Factory around July 2019.