

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____.

OR

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

Date of event requiring this shell company report:

Commission file number: 001-34999

Ossen Innovation Co., Ltd.

(Exact name of Registrant as Specified in its Charter)

British Virgin Islands

(Jurisdiction of Incorporation or Organization)

518 Shangcheng Road, Floor 17, Shanghai, 200120, People's Republic of China

(Address of Principal Executive Offices)

Wei Hua

Tel: +86 (21) 6888-8886 Fax: +86 (21) 6888-8666

518 Shangcheng Road, Floor 17, Shanghai, 200120, People's Republic of China

(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:

<u>Title of Each Class</u>	<u>Trading symbol</u>	<u>Name of Each Exchange On Which Registered</u>
Ordinary shares, par value US\$0.01 per share *	OSN	NASDAQ Capital Market

* Ordinary shares are not traded in the United States; rather they are deposited with JP Morgan Chase Bank, N.A., as Depositary. Each American Depositary Share represents three (3) ordinary shares.

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

None
(Title of Class)

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

None
(Title of Class)

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2018 was: 19,791,110 ordinary shares, par value \$0.01 per share.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

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

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

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

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

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

**OSSEN INNOVATION CO., LTD.
FORM 20-F ANNUAL REPORT**

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PART I

CERTAIN INFORMATION

In this annual report on Form 20-F, unless otherwise indicated, “we,” “us,” “our,” the “Company” and “Ossen” refer to Ossen Innovation Co., Ltd., a company organized in the British Virgin Islands, its predecessor entities and its subsidiaries.

Unless the context indicates otherwise, all references to “China” and the “PRC” refer to the People’s Republic of China, all references to “Renminbi” or “RMB” are to the legal currency of the People’s Republic of China, all references to “U.S. dollars,” “dollars” and “\$” are to the legal currency of the United States and all references to “ADSs” refer to our American Depositary Shares, each of which represents one ordinary share. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. We make no representation that the Renminbi or U.S. dollar amounts referred to in this report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On April 1, 2019, the cash buying rate announced by the People’s Bank of China was RMB 6.73 to \$1.00.

FORWARD-LOOKING STATEMENTS

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

These statements are necessarily subjective and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, and the accuracy and completeness of the publicly available information with respect to the factors upon which our business strategy is based or the success of our business.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management’s belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, those factors discussed under the headings “Risk Factors,” “Operating and Financial Review and Prospects,” and elsewhere in this report.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The following selected financial information should be read in connection with, and is qualified by reference to, our consolidated financial statements and their related notes and the section entitled “Operating and Financial Review and Prospects” included elsewhere in this annual report. The consolidated statements of income data for the fiscal years ended December 31, 2016, 2017 and 2018 and the balance sheet data as of December 31, 2017 and 2018 are derived from audited consolidated financial statements included elsewhere in this annual report. The consolidated statements of income data for the fiscal years ended December 31, 2014 and 2015 and the balance sheet data as of December 31, 2014, 2015 and 2016 are not included in this annual report. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

Selected Consolidated Statement of Income Data

	2018	2017	2016	2015	2014
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Revenues	\$ 136,104,867	\$ 132,375,915	\$ 117,029,154	\$ 117,908,416	\$ 123,571,455
Cost of goods sold	115,585,803	117,721,799	100,932,528	102,197,994	110,250,876
Gross profit	20,519,064	14,654,116	16,096,626	15,710,422	13,320,579
Selling and distribution expenses	327,365	598,832	734,159	986,378	772,383
General and administrative expenses	5,263,914	6,002,121	6,376,383	4,478,413	6,340,584
Total Operating Expenses	5,591,279	6,600,953	7,110,542	5,464,791	7,112,967
Income from operations	14,927,785	8,053,163	8,986,084	10,245,631	6,207,612
Financial expenses, net	(1,621,486)	(1,610,337)	(2,827,138)	(2,823,952)	(2,401,268)
Other income, net	208,071	147,108	90,584	371,894	907,941
Income before income taxes	13,514,370	6,589,934	6,249,530	7,793,573	4,714,285
Income taxes	(2,129,387)	(691,556)	(926,048)	(1,180,167)	(578,727)
Net income	11,384,983	5,898,378	5,323,482	6,613,406	4,135,558
Less: Net Income attributable to non-controlling interest	1,005,530	553,067	499,509	716,602	276,682
Net income attributable to controlling interest	10,379,453	5,345,311	4,823,973	5,896,804	3,858,876
Other comprehensive income					
Foreign currency translation gain (loss)	(6,272,303)	6,606,207	(6,975,100)	(5,829,470)	779,135
Total other comprehensive income (loss)	(6,272,303)	6,606,207	(6,975,100)	(5,829,470)	779,135
Comprehensive Income (loss)	4,107,150	11,951,518	(2,151,127)	67,334	4,638,011
Weighted average shares outstanding	19,791,110	19,791,110	19,804,164	19,862,537	19,901,959
Earnings per share*	0.52	0.27	0.24	0.30	0.19

* Calculation is based on net income attributable to controlling interest and the weighted average shares outstanding, excluding foreign currency translation gain (loss).

Selected Balance Sheets Data

	December 31,				
	2018	2017	2016	2015	2014
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Cash and cash equivalents	\$ 3,444,421	\$ 950,225	\$ 217,631	\$ 812,277	\$ 684,592
Restricted cash	\$ 4,070,655	\$ 7,192,928	\$ 6,703,624	\$ 8,780,443	\$ 17,572,732
Total current assets	155,293,023	144,640,849	132,259,554	144,772,273	159,358,503
Total long-term assets	6,952,888	7,878,057	8,184,198	9,468,260	11,405,994
Total assets	162,245,911	152,518,906	140,443,752	154,240,533	170,764,497
Total liabilities	42,182,852	37,568,527	37,997,958	50,106,311	67,355,476
Total shareholders' equity	120,063,059	114,950,379	102,445,794	104,134,222	103,409,021
Total liabilities and shareholders' equity	162,245,911	152,518,906	140,443,752	154,240,533	170,764,497

3.B. Capitalization and Indebtedness

Not Applicable.

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

Not Applicable.

3.D. Risk Factors

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

Risks Related to Our Business and Our Industry

The proposed sale of our existing business and proposed acquisition of a new business in the medical technology industry have not been consummated, and such transaction will not be consummated.

On July 19, 2017, we entered into a Share Exchange Agreement (the "SEA") with the shareholders (the "Selling Shareholders") of America-Asia Diabetes Research Foundation (the "Foundation"), a California corporation that owns 90.27% of the equity interests of San MediTech (Huzhou) Co. Ltd. ("San MediTech"), a China-based medical device company engaged in the research, development and marketing of glucose control products. Pursuant to the SEA, we agreed to acquire all of the issued and outstanding equity interests of the Foundation in exchange for 81,243,000 of our ordinary shares (the "Acquisition"). Upon completion of the Acquisition, we would indirectly own 90.27% of San MediTech. San MediTech's proprietary Dynamic Glucose Monitoring System ("DGMS") provides continuous, real-time monitoring of glucose level in diabetes patients, with two patents granted in China and several patents pending both in China and the U.S. DGMS has been approved by the China Food and Drug Administration and has entered into clinical trials in the U.S. for DGMS.

In connection with the Acquisition, we agreed to sell our existing pre-stressed steel manufacturing business, including all existing liabilities, immediately following the completion of the Acquisition. An entity affiliated with Dr. Liang Tang, our Chairman, agreed to acquire all of the equity of our wholly-owned subsidiary, which indirectly owns all of our existing operating subsidiaries, in exchange for the forfeiture and cancellation of all 11,850,000 ordinary shares held by Dr. Tang at that time (the "Sale Transaction").

The Selling Shareholders breached the SEA and as a result, the SEA and the Sale Transaction have been terminated. We may consider a transaction similar to the Sale Transaction along with the acquisition of another business in the future, although no such plans currently exist and there is no guarantee that we will be successful in consummating any such transaction. Any such transaction would be subject to the satisfaction of various closing conditions, including shareholder approval. Furthermore, in the event that such transactions are consummated, the interests of our existing shareholders may be substantially diluted.

Our chairman controls a large percentage of our outstanding stock through an entity that has applied for listing on a foreign exchange and could significantly influence the outcome of our corporate matters.

Acme Innovation Limited, an affiliate of Dr. Tang, owns approximately 65.9% of our outstanding ordinary shares, reflecting a majority equity interest in our company. The parent entity of Acme Innovation Limited has applied for listing of its shares on a foreign exchange. See Item 4C below. As the controlling person of our majority shareholder, Dr. Tang is able to elect our board of directors, and determine the outcome of all matters requiring the approval of the holders of a majority of our outstanding shares, including the sale of our assets or an acquisition of assets. This concentration of ownership in our shares controlled by Dr. Tang limits your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us. In addition, sales of significant amounts of ordinary shares controlled by Dr. Tang, or the prospect of these sales, could adversely affect the market price of our ordinary shares. Furthermore, the potential listing of our parent entity on a foreign exchange could negatively impact on the market price of our ordinary shares.

Our operations are cash intensive, and our business could be adversely affected if we fail to maintain sufficient levels of liquidity and working capital.

As of December 31, 2018, we had approximately \$3.4 million of cash and cash equivalents and \$4.1 million of restricted cash. Historically, we have spent a significant amount of cash on our operational activities, principally to procure raw materials for our products. Our short-term loans are from Chinese banks and are generally secured by a portion of our fixed assets, land use right, receivables and/or guarantees by related parties. The term of almost all such short-term loans is one year or less. Historically, we have rolled over such loans on an annual basis. However, we may not have sufficient funds available to pay all of our borrowings upon maturity in the future. Failure to roll over our short-term borrowings at maturity or to service our debt could result in the imposition of penalties, including increases in interest rates, legal actions against us by our creditors, or even insolvency.

Although we have been able to maintain adequate working capital primarily through cash from operations and short-term borrowings, any failure by our customers to settle outstanding accounts receivable, or our inability to borrow sufficient capital from local banks, in the future could materially and adversely affect our cash flow, financial condition and results of operations.

If existing sources of capital are insufficient to support our business, we may issue debt and equity securities that are senior to our ordinary shares as to distributions and in liquidation, which could negatively affect the value of our ordinary shares, or we may not be able to raise additional financing at all.

If available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include considering pursuing alternative financing arrangements, reducing expenditures as necessary, or limiting our plans for expansion to meet our cash requirements. However, there is no assurance that, if required, we will be able to raise additional capital, reduce discretionary spending or efficiently limit our expansion to provide the required liquidity. Currently, the capital markets for small capitalization companies are difficult and banking institutions have become stringent in their lending requirements. Accordingly, we cannot ensure the availability or terms of any third party financing. If we are unable to raise additional financing, we may be unable to procure the raw materials we need, implement our long-term business plan, develop or enhance our products, take advantage of future opportunities or respond to competitive pressures on a timely basis.

Alternatively, if we raise capital by issuing equity or convertible debt securities, such issuances could result in substantial dilution to our shareholders. In addition, we may issue senior notes, subordinated notes or preferred shares that have preference over our common equity. In the event of our liquidation, any such lenders and holders of our debt or preferred securities would receive a distribution of our available assets before distributions to the holders of our ADSs. Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of future offerings and debt financings. Future offerings could reduce the value of shares of our ADSs or dilute your investment.

We face intense competition, and if we are unable to compete effectively we may not be able to maintain profitability.

We compete with many other companies located in the PRC and internationally that manufacture materials similar to ours. Many of our competitors are larger companies with greater financial resources than us. Intense competition in a challenging economic environment in the PRC has, in the past, put pressure on our margins and may adversely affect our future financial performance. Moreover, intense competition may result in potential or actual litigation between us and our competitors relating to such activities as competitive sales practices, relationships with key suppliers and customers or other matters.

In 2017 and 2018, we generated revenue of approximately \$112.4 million and \$103.4 million, respectively, or 84.9% and 76.0%, respectively, of our total revenue, from sales of our rare earth coated PC wires and PC strands. We believe that our rare earth coating capabilities provide us with a competitive advantage among our competitors, however, it is likely that our competitors may develop similar competing products. We intend to continue to expand research and development efforts to advance our rare earth coating applications even further, including improving the products' corrosion-resistant level and increasing the products' strength and life span. Meanwhile, we will also continue to invest in research and development of higher strength and higher corrosion-resistant level of other types of prestressed products. However, there can be no assurance that our initial competitive advantage will be retained and that one or more competitors will not develop products that are equal or superior to ours in quality and are better priced than our rare earth coated products.

Our revenues are highly dependent on a limited number of customers and the loss of any one of our major customers could materially and adversely affect our growth and our revenues.

During the years ended December 31, 2018 and 2017, our six largest customers contributed 68.3% and 74.8% of our total sales, respectively. As a result of our reliance on a limited number of customers, we may face pricing and other competitive pressures, which may have a material adverse effect on our profits and our revenues. The volume of products sold for specific customers varies from year to year, especially since we are not the exclusive provider for any customers. In addition, there are a number of factors, other than our performance, that could cause the loss of a customer or a substantial reduction in the products that we provide to any customer and that may not be predictable. For example, our customers may decide to reduce spending on our products or a customer may no longer need our products following the completion of a project. The loss of any one of our major customers, a decrease in the volume of sales to these customers or a decrease in the price at which we sell our products to them could materially adversely affect our profits and our revenues.

In addition, this customer concentration may subject us to perceived or actual leverage that our customers may have in negotiations with us, given their relative size and importance to us. If our customers seek to negotiate their agreements on terms less favorable to us and we accept such unfavorable terms, such unfavorable terms may have a material adverse effect on our business, financial condition and results of operations. Accordingly, unless and until we diversify and expand our customer base, our future success will significantly depend upon the timing and volume of business from our largest customers and the financial and operational success of these customers.

As we expand our operations, we may need to establish a more diverse supplier network for our raw materials. The failure to secure a more diverse supplier network could have an adverse effect on our financial condition.

We currently purchase almost all of our raw materials from a small number of suppliers. Purchases from our five largest suppliers accounted for 99.8% and 99.7% of our raw material purchases in the years ended December 31, 2018 and 2017, respectively. In the event that we need to diversify our supplier network, we may not be able to procure a sufficient supply of raw materials at a competitive price, which could have an adverse effect on our results of operations, financial condition and cash flows.

Furthermore, despite our efforts to control our supply of raw materials and maintain good relationships with our existing suppliers, we could lose one or more of our existing suppliers at any time. The loss of one or more key suppliers could increase our reliance on higher cost or lower quality supplies, which could negatively affect our profitability. Any interruptions to, or decline in, the amount or quality of our raw materials supply could materially disrupt our production and adversely affect our business, financial condition and financial prospects.

Volatile steel prices can cause significant fluctuations in our operating results. Our revenues and operating income could decrease if steel prices decline or if we are unable to pass price increases on to our customers.

Our principal raw material is high carbon steel wire rods that we typically purchase from multiple primary steel producers. The steel industry as a whole is cyclical and, at times, pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, levels of inventory held by us and other steel service centers, consolidation of steel producers, higher raw material costs for steel producers, import duties and tariffs and currency exchange rates. This volatility can significantly affect the availability and cost of raw materials for us.

We, like many other steel product manufacturers, maintain substantial inventories of steel to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase steel in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, supply agreements with customers and market conditions. Our commitments to purchase steel are generally at prevailing market prices in effect at the time we place our orders. We have no long-term, fixed-price steel purchase contracts. When steel prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the revenues and profitability of our business could be adversely affected.

When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices, lower margins and inventory valued at the lower of cost or market adjustments as we use existing steel inventory. Significant or rapid declines in steel prices or reductions in sales volumes could result in us incurring inventory or goodwill impairment charges. Therefore, changing steel prices could significantly impact our revenues, gross margins, operating income and net income.

In 2018, China continued focusing on addressing the overcapacity in the steel industry and strengthening supply-side structural reform to drive sustained growth. As of December 2018, China has lowered steel production by approximately 150 million tons, according to reports issued by the Chinese government. As a result, the average price of steel products, including our products and principal raw materials, increased in 2018. According to industry consultant Frost & Sullivan, the Chinese central government will focus on strictly controlling steel capacity increases in 2019, however, due to the slowdown of economic growth, local governments in Northern China, the most important steel production base in China, could increase allowable production levels of steel products, including our products and principal raw materials. As a result, we expect the average price of our principal raw materials to decrease in 2019. This could adversely impact our results of operations due to lower sale prices of our coated and plain surface products in the market.

Sales to customers outside China and international developments expose us to risks inherent in international sales and increased competition.

We generated approximately 3.3% and 4.1%, respectively, of our revenue during the years ended December 31, 2018 and 2017 from sales to customers in international markets. As a result, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in China. In the first quarter of 2018, the United States government announced stiff tariffs on imports of steel and aluminum from certain countries, including China. In June 2018, the United States government announced the imposition of an additional duty of 25% on approximately \$34 billion worth of Chinese imports. In September 2018, the United States government announced the imposition of an additional duty of 10% on approximately \$200 billion worth of Chinese imports. Although we have not generated any sales from the United States since the anti-dumping duties were imposed in 2010, these measures imposed in 2018 may also have a negative impact on our business and results of operations because Chinese-based steel product exporters may now focus their marketing efforts on the Chinese domestic market.

We are subject to various risks and uncertainties that might affect our ability to procure quality raw materials.

Our performance depends on our ability to procure low cost, high quality raw materials on a timely basis from our suppliers. Our suppliers are subject to certain risks, including availability of raw materials, labor disputes, inclement weather, natural disasters, and general economic and political conditions, which might limit the ability of our suppliers to provide us with low cost, high quality merchandise on a timely basis. Furthermore, for these or other reasons, one or more of our suppliers might not adhere to our quality control standards, and we might not identify the deficiency. Our suppliers' failure to supply quality materials at a reasonable cost on a timely basis could reduce our net sales or profits, damage our reputation and have an adverse effect on our financial condition.

We may lose our competitive advantage, and our operations may suffer, if we fail to prevent the loss or misappropriation of, or disputes over, our intellectual property.

We rely on a combination of patents, trademarks, trade secrets and confidentiality agreements to protect our intellectual property rights. While we are not currently aware of any infringement on our intellectual property rights, our ability to compete successfully and to achieve future revenue growth will depend, in significant part, on our ability to protect our proprietary technology. Despite many laws and regulations promulgated, as well as other efforts made, by China over the past several years in an attempt to protect intellectual property rights, intellectual property rights are not as certain in China as they would be in many Western countries, including the United States. Furthermore, enforcement of such laws and regulations in China has not been fully developed. Neither the administrative agencies nor the court systems in China are as equipped as their counterparts in developed countries to deal with violations or handle the nuances and complexities between compliant technological innovation and non-compliant infringement.

Our rare earth coating technology is protected through a combination of patents, trade secrets, confidentiality agreements and other methods. However, our competitors may independently develop proprietary methodologies similar to ours or duplicate our products, or develop alternatives, which could have a material adverse effect on our business, results of operations and financial condition. The misappropriation or duplication of our intellectual property could disrupt our ongoing business, distract our management and employees, reduce our revenues and increase our expenses. We may need to litigate to enforce our intellectual property rights. Any such litigation could be time consuming and costly and the outcome of any such litigation cannot be guaranteed.

Our revenues, expenses and profits are difficult to predict and vary significantly from quarter to quarter. This could cause the trading price of our ordinary shares to decline.

Our operating results vary significantly from quarter to quarter. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. It is possible that in the future some of our quarterly results of operations may be below the expectations of market analysts and our investors, which could lead to a significant decline in the trading price of our ordinary shares. Factors which affect the fluctuation of our revenues, expenses and profits include:

- delays or cancellations of infrastructure projects in China due to unexpected accidents or to financial or other issues confronting the Ministry of Transport, China National Railway Co., or other PRC governmental agencies overseeing these industries;
- changes in prices of our raw materials, with higher prices leading to reduced operating income;
- variations, expected or unexpected, in the duration, size, timing and scope of purchase orders;
- changes in our pricing policies or those of our competitors;
- changes in compensation, which may reduce our gross profit for the quarter in which they are effected;
- our inability to manage costs, including those related to our raw materials, personnel, infrastructure and facilities;
- exchange rate fluctuations; and
- general economic conditions.

A portion of our expenses, particularly those related to personnel and facilities are generally fixed in advance of any particular quarter. As a result, unanticipated variations in the number and timing of our purchase orders or prices of our raw materials may cause significant variations in our operating results in any particular quarter.

Our success depends in large part upon our senior management and key personnel. Our inability to attract and retain these individuals could materially and adversely affect our business, results of operations and financial condition.

We are highly dependent on our senior management and other key employees, including our Chairman, Dr. Tang and our Chief Executive Officer and Chief Financial Officer, Mr. Hua. Our future performance will be dependent upon the continued service of members of our senior management and key employees. We do not maintain key man life insurance for any of the members of our management team or other key personnel. Competition for senior management in our industry is intense, and we may not be able to retain our senior management and key personnel or attract and retain new senior management and key personnel in the future, which could materially and adversely affect our business, results of operations and financial condition.

We have limited insurance coverage and may incur losses resulting from product liability claims, business interruption or natural disasters.

We are exposed to risks associated with product liability claims in the event that the use of our products results in property damage or personal injury. Since our products are ultimately incorporated into bridges, buildings, railways and other large structures, it is possible that users of these structures or people installing our products could be injured or killed by such structures, whether as a result of defects, improper installation or other causes. Because we continue to expand our customer base and because our products are used for long periods of time, we are unable to predict whether product liability claims will be brought against us in the future or to predict the impact of any resulting adverse publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. We do not carry product liability insurance and may not have adequate resources to satisfy a judgment in the event of a successful claim against us. As the insurance industry in China is still in its early stages of development, even the insurance that we currently carry offers limited coverage compared with that offered in many other countries. Any business interruption or natural disaster could result in substantial losses and diversion of our resources and materially and adversely affect our business, financial condition and results of operations.

If we are unable to maintain appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, and cause investors to lose confidence in our reported financial information.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. As a public company, we have significant requirements for enhanced financial reporting and internal controls. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and, for many companies, a report by the independent registered public accounting firm addressing these assessments. The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company.

We cannot assure you that we will not in the future identify areas requiring improvement in our internal control over financial reporting. In addition, we cannot assure you that the measures we will take to remediate any areas in need of improvement will be successful or that we will implement and maintain adequate controls over our financial processes and reporting in the future as we continue our growth. If we are unable to establish appropriate internal financial reporting controls and procedures, it could cause us to fail to comply with Sarbanes-Oxley and meet our reporting obligations, result in the restatement of our financial statements, harm our operating results, subject us to regulatory scrutiny and sanction, and cause investors to lose confidence in our reported financial information.

A failure of our information technology systems would harm our business.

The nature of our business requires the development and implementation of certain functioning information technology systems. Such systems are vulnerable to a variety of potential risks, including damage or interruption resulting from natural disasters and telecommunication failures and human error or intentional acts of sabotage, vandalism, break-ins and similar acts. The occurrence of any of these events could result in costly interruptions or failures adversely affecting our business and the results of our operations.

We rely on information technology to support our operations and reporting environments. A security failure of that technology could impact our ability to operate our businesses effectively, adversely affect our reported financial results, impact our reputation and expose us to potential liability or litigation.

In the ordinary course of our business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and information of our customers and employees, on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to a cyber incident, natural disaster, hardware or software failure or error, telecommunications system failure, service provider or vendor error or failure, intentional or unintentional personnel actions, employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, altered, damaged, held ransom, lost or stolen. In any such event, we could suffer significant loss or incur significant liability, including: damage to our reputation; loss of customer confidence or goodwill; and significant expenditures of time and money to address and remediate resulting damages to affected individuals or business partners. Furthermore, such data breach could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations, and damage our reputation, which could adversely affect our business, revenues and competitive position.

Risks Related to Doing Business in China

Fluctuations in the value of the RMB may have an adverse effect on our shareholders' investment.

Our reporting currency is the U.S. dollar. However, substantially all of our revenues are denominated in RMB. Any significant revaluation of the Renminbi may have a material adverse effect on the U.S. dollar equivalent amount of our revenues and financial condition as well as on the value of, and any dividends payable on, our ordinary shares in foreign currency terms. For instance, a decrease in the value of Renminbi against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our ordinary shares and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the prices of our ADSs. For 2017 and 2018, we had foreign currency translation gain of \$6.6 million and foreign currency translation loss of \$6.3 million, respectively, primarily due to the strengthening of the RMB against the U.S. dollar in 2017 and the weakening of the RMB against the U.S. dollar in 2018.

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on exchange rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB solely to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, however, this appreciation halted and the RMB was traded within a narrow range against the U.S. dollar. Between July 2010 and November 2015, the RMB fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of IMF completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, RMB is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. In 2018, the RMB depreciated 4.8% against the U.S. dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

The Renminbi may be revalued further against the U.S. dollar or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the U.S. dollar or other currencies. In addition, there are very limited hedging transactions available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars.

Changes in China's political or economic situation could harm us and our operating results.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some of factors that could have this effect include:

- Level of government involvement in the economy;
- Control of foreign exchange;
- Methods of allocating resources;
- Balance of payments position;
- International trade restrictions; and
- International conflict.

The Chinese economy differs from most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in many ways. For example, state-owned enterprises still constitute a large portion of the Chinese economy, and weak corporate governance and the lack of a flexible currency exchange policy still prevail in China. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

The PRC government exerts substantial influence over the infrastructure and steel sectors and the manner in which we must conduct our business activities.

The PRC government has exercised, and continues to exercise, substantial control over virtually every sector of the Chinese economy through regulation and state ownership, including the infrastructure and steel sectors where we have been doing our business. Any government decisions or actions to postpone, change or halt the construction of certain types of infrastructure projects for any reason, such as the high speed railway accident in July 2011 in South China and the reduction of 150 million tons of steel production announced between 2016 and 2018, or any decisions the government might make to cut spending, could adversely impact our business and results of operations.

In addition, our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property, and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof.

You may have difficulty enforcing judgments against us.

Our assets are located, and our operations are conducted, in the PRC. In addition, substantially all of our directors and officers are nationals and residents of the PRC and a substantial portion of their assets is located outside the United States. As a result, it may be difficult to effect service of process within the United States upon these persons. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts because China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security, or the public interest.

Most of our revenues are denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility.

We are exposed to the risks associated with foreign exchange controls and restrictions in China, as our revenues are primarily denominated in Renminbi, which is currently not freely exchangeable. The PRC government imposes control over the convertibility between Renminbi and foreign currencies. Under the PRC foreign exchange regulations, payments for “current account” transactions, including remittance of foreign currencies for payment of dividends, profit distributions, interest and operation-related expenditures, may be made without prior approval but are subject to procedural requirements. Strict foreign exchange control continues to apply to “capital account” transactions, such as direct foreign investment and foreign currency loans. These capital account transactions must be approved by, or registered with, the PRC State Administration of Foreign Exchange, or SAFE. Further, capital contribution by an offshore shareholder to its PRC subsidiaries may require approval by the Ministry of Commerce in China or its local counterparts. We cannot assure you that we are able to meet all of our foreign currency obligations to remit profits out of China, to pay dividends, or to fund operations in China.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 142, to regulate the conversion by foreign invested enterprises, or FIEs, of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-dominated capital of a FIE may be used only for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC unless specifically provided. In addition, SAFE strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-dominated capital of a FIE. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Compliance with Circular 142 may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

In light of the flood of capital outflows of China in 2016 due to the weakening RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fails to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies, we may not be able to satisfy our foreign currency demands.

China's legal system is different from those in some other countries.

China is a civil law jurisdiction. Under the civil law system, prior court decisions may be cited as persuasive authority but do not have binding precedential effect. Although progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade, China's legal system remains less developed than the legal systems in many other countries. Furthermore, because many laws, regulations and legal requirements have been recently adopted, their interpretation and enforcement by the courts and administrative agencies may involve uncertainties. Sometimes, different government departments may have different interpretations. Licenses and permits issued or granted by one government authority may be revoked by a higher government authority at a later time. Government authorities may decline to take action against unlicensed operators which may work to the disadvantage of licensed operators, including us. The PRC legal system is based in part on government policies and internal rules that may have a retroactive effect. We may not be aware of our violation of these policies and rules until sometime after the violation. Changes in China's legal and regulatory framework, the promulgation of new laws and possible conflicts between national and provincial regulations could adversely affect our financial condition and results of operations. In addition, any litigation in China may result in substantial costs and diversion of resources and management attention.

Our business and financial performance may be materially adversely affected if the PRC regulatory authorities determine that our acquisition of Ossen Materials constitutes a round-trip investment without MOFCOM approval.

On August 8, 2006, six PRC regulatory agencies promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the 2006 M&A Rule, which became effective on September 8, 2006. According to the 2006 M&A Rule which was amended by the Ministry of Commerce on June 22, 2009, a "round-trip investment" is defined as having taken place when a PRC business that is owned by PRC individuals is sold to a non-PRC entity that is established or controlled, directly or indirectly, by those same PRC individuals. Under the 2006 M&A Rules which was amended by the Ministry of Commerce on June 22, 2009, any round-trip investment must be approved by MOFCOM, and any indirect arrangement or series of arrangements which achieves the same end result without the approval of MOFCOM is a violation of PRC law.

However, the PRC regulatory authorities may take the view that the acquisition of shares in our PRC operating subsidiaries and the share exchange between our predecessor, Ultra Glory, and our subsidiary, Ossen Materials Group, are part of an overall series of arrangements which constitute a round-trip investment. If the PRC regulatory authorities take this view, we cannot assure you we may be able to obtain the approval required from MOFCOM. It is also possible that the PRC regulatory authorities could invalidate our acquisition and ownership of our Chinese subsidiaries, and that these transactions require the prior approval of the China Securities Regulatory Commission, or CSRC, before MOFCOM approval is obtained.

If these regulatory actions occur, we cannot assure you that we will be able to re-establish control of our Chinese subsidiaries' business operations, that any such contractual arrangements will be protected by PRC law, or that we would receive as complete or effective an economic benefit and control of our Chinese subsidiaries' business as if we had direct ownership of our Chinese subsidiaries.

PRC regulations relating to investments in offshore companies by PRC residents may subject our future PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of 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, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

We believe that some of our shareholders are PRC residents under SAFE Circular 37. We do not have control over these shareholders and our other beneficial owners and cannot assure you that all of our PRC-resident beneficial owners have complied with, and will in the future comply with, SAFE Circular 37 and subsequent implementation rules. The failure of PRC-resident beneficial owners to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future PRC-resident beneficial owners of our company to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Furthermore, SAFE Circular 37 is unclear how this regulation, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, and we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to us. These risks could in the future have a material adverse effect on our business, financial condition and results of operations.

All employee participants in our share incentive plans who are PRC citizens may be required to register with the SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional option plans for our directors and employees under PRC law.

In December 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange, which set forth the respective requirements for foreign exchange transactions by PRC individuals under either current account or the capital account. In January 2007, the SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, the SAFE promulgated the Processing Guidance on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies, or the Stock Option Rule. Under the Stock Option Rule, PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a qualified PRC domestic agent or PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures. In February 2012, the SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, according to which, employees, directors, supervisors and other management members participating in any share incentive plan of an overseas publicly listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete the SAFE registrations may subject them to fines and legal sanctions and may also limit our ability to make payments under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our subsidiaries in China and limit our subsidiaries' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under PRC law.

In addition, the PRC State Administration of Taxation has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees related to their share options or restricted shares. If the employees fail to pay, or the PRC subsidiaries fail to withhold applicable income taxes, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC government authorities.

Under the New 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 a New Enterprise Income Tax Law, or the New EIT Law, which became effective on January 1, 2008. Under the New 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 New 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. In addition, a circular issued by the State Administration of Taxation on April 22, 2009 clarified that dividends and other income paid by such resident enterprises will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This recent circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities.

Although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise. However, if the PRC tax authorities determine that we are a 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 interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares.

Restrictions under PRC law on our PRC subsidiaries' ability to pay dividends and make other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our business.

Our revenues are generated by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to pay dividends and make other payments to their offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required under PRC laws and regulations to allocate at least 10% of their annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of their registered capital. Allocations to these statutory reserve funds can be used only for specific purposes and are not transferable to us in the form of loans, advances, or cash dividends. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Any failure to comply with PRC environmental laws may require us to incur significant costs.

We carry on our business in an industry that is subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing and construction that may cause environmental waste to adopt effective measures to control such waste. In addition, such enterprises are required to pay fines, or to cease operations entirely under extreme circumstances, should they discharge waste substances. The Chinese government may also change the existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant capital expenditures, which we may be unable to pass on to our customers through higher prices for our products.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from making prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in mainland China. If any of our non-U.S. listed competitors that are not subject to the Foreign Corrupt Practices Act engage in these practices, they may receive preferential treatment and secure business from government officials in a way that is unavailable to us. Furthermore, although we inform our personnel that such practices are illegal, we cannot assure you that our employees or other agents will not engage in illegal conduct for which we might be held responsible under U.S. law. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

Because our funds are held in banks that do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue our business operations.

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. The Chinese government implemented the bank deposit insurance program on May 1, 2015. Financial institutions are required to pay insurance premiums into a fund that is managed by an agency appointed by the State Council. The program is designed to return bank clients' deposits if their bank suffers insolvency or bankruptcy. The reimbursement is drawn from the new fund in the case of the deposit being RMB 500,000 (approximately \$72,852 as of December 31, 2018) or less. However, the implementation and impact of this program are uncertain. As a result, in the event of a bank failure, we may not have access to funds on deposit. Depending upon the amount of money we maintain in a bank that fails, our inability to have access to our cash could impair our operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue our business operations.

If relations between the United States and China worsen, investors may be unwilling to hold or buy our ordinary shares and our share price may decrease.

At various times during recent years, the United States and China have had significant disagreements over political and economic issues, which may result in or intensify potential conflicts in relation to territorial, regional security and trade disputes. In 2018, the United States implemented certain trade policies, tariffs, other trade actions against China relating to the import and export of certain products, and negotiations with respect thereto, may have a negative effect on our business, financial condition, and results of operations in China. China has imposed, or threatened to impose, tariffs on U.S. imports or to take other actions in retaliation to actions taken by the United States. These developments may have a material adverse effect on the economy, financial markets, and currency exchange rates in China and the United States. Any continuing or worsening trade relations between the United States and China could significantly reduce domestic growth in China and therefore adversely affect our business, financial condition and results of operations.

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

In past years, U.S. public companies that have substantially all of their operations in China, particularly companies that have completed reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the United States Securities and Exchange Commission. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many 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, or were in the recent past, subject to shareholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our Company. This situation will be costly and time consuming and distract our management from growing our Company. If such allegations are not proven to be groundless, our Company and business operations will be severely impacted and your investment in our stock could be rendered worthless.

The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory bodies in the PRC. Accordingly, our public disclosure should be reviewed in light of the fact that no governmental agency that is located in China where substantially all of our operations and business are located have conducted any due diligence on our operations or reviewed or cleared any of our disclosures.

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Unlike public reporting companies whose operations are located primarily in the United States, however, substantially all of our operations are located in China. Since substantially all of our operations and business take place in China, it may be more difficult for the Staff of the SEC to overcome the geographic and cultural obstacles that are present when reviewing our disclosures. These same obstacles are not present for similar companies whose operations or business take place entirely or primarily in the United States. Furthermore, our SEC reports and other disclosures and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review of China Securities Regulatory Commission, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any due diligence on our Company and with the understanding that none of our SEC reports, other filings or any of our other public pronouncements has been reviewed or otherwise been scrutinized by any local regulator.

The audit report included in this annual report is prepared by auditors who are not inspected fully by the Public Company Accounting Oversight Board, or the PCAOB, and, as such, our shareholders are deprived of the benefits of such inspection.

As an auditor of companies that are publicly traded in the United States and a firm registered with the PCAOB, BDO China Shu Lun Pan Certified Public Accountants LLP is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because we have substantial operations within the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese government authorities, our auditor and its audit work is not currently inspected fully by the PCAOB.

Inspections of other auditors conducted by the PCAOB outside China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, shareholders may be deprived of the benefits of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs is highly volatile and subject to wide fluctuations in response to various factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results and revisions to our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for our products;
- changes in the economic performance or market valuations of companies specializing in our industry or our customers or their industries;
- changes in market valuations of U.S. listed companies headquartered in China, and in particular small capitalization companies;
- announcements by us or our competitors of new products, acquisitions, strategic relationships, joint ventures or capital commitments;
- addition or departure of our senior management and key personnel;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- litigation related to our intellectual property;
- release or expiry of transfer restrictions on our outstanding ordinary shares; and
- sales or perceived potential sales of our ADSs.

In addition, the securities market has from time to time, and to an even greater degree over the past several years, experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs. In the event that market price of our ADSs is below \$1 for more than 30 consecutive business days we will fail to meet the requirements of NASDAQ listing rules. Furthermore, in the past, following periods of volatility in the market price of a public company's securities, shareholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

We may be precluded from paying any dividends on our ADSs.

Under British Virgin Islands law, we may pay dividends if the directors declare that the company is able to satisfy the provisions of Section 57 of the BVI Act. Pursuant to this provision, the company, immediately after the distribution, must satisfy the solvency test, in so far as its assets exceeds its liabilities, and the company must be able to pay its debts as they become due. Our ability to pay dividends will therefore depend on our ability to generate sufficient profits. Even if we are able to pay dividends, we cannot give any assurance that we will declare dividends of any amounts, at any rate or at all in the future. We have not paid any dividends in the past. Future dividends, if any, will be at the discretion of our board of directors, subject to the approval of our shareholders, and will depend upon our results of operations, our cash flows, our financial condition, the payment of our subsidiaries of cash dividends to us, our capital needs, future prospects and other factors that our directors may deem appropriate. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Holders of our ADSs may not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs appoint the depositary or its nominee as their representative to exercise the voting rights attached to the ordinary shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise your right to vote.

Your right to participate in any rights offering may be limited, which may cause dilution to your holdings, and you may not receive cash dividends if it is impractical to make them available to you.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights, and the securities to which the rights relate, under the Securities Act, or unless an exemption from registration is available. Under the deposit agreement, the depositary will not make rights available to you unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act or exempt from registration. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective and we may not be able to establish a necessary exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings as a result.

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property to you.

You may be subject to limitations on transfer of your ADSs.

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

If we are classified as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of our assets (generally based on average value determined on a quarterly basis) are held for the production of, or produce, passive income, we may be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to our U.S. shareholders, including gain realized on the disposition of our ADSs or ordinary shares being treated as ordinary income rather than capital gain and in punitive interest charges being applied to such sales proceeds. Rules similar to those applicable to dispositions apply to amounts treated as “excess distributions.”

We do not believe that we were a PFIC for our previous taxable year. However, because the determination of our PFIC status is based on such factual matters as the composition of our income and assets, the valuation of our assets, and our market capitalization, there is no assurance that the United States Internal Revenue Service (“IRS”) will agree with our position. In addition, there can be no assurance that we will not become a PFIC for current taxable year or in future taxable years. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ADSs or ordinary shares if we were to become a PFIC. See “Taxation — United States Federal Income Taxation — Tax Consequences if We Are a Passive Foreign Investment Company.”

If equity research analysts do not publish research or reports about our company or if they issue unfavorable commentary or downgrade our ADSs, the price of our ADSs could decline.

The trading market for our ADSs relies in part on the research and reports that equity research analysts publish about us and our company. We do not control these analysts. The price of our ADSs could decline if one or more equity analysts downgrade our ordinary shares or if they issue other unfavorable commentary, or cease publishing reports, about us or our company.

ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

We were incorporated under the laws of the British Virgin Islands as Ultra Glory International Ltd., or Ultra Glory, in 2010. We operate under the BVI Business Companies Act, 2004, or the BVI Act. Our registered office is located at Akara Bldg., 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. The telephone number of the registered office is +86 (21) 51192951. Our World Wide Web address is <http://www.osseninnovation.com>. Information contained on our website does not constitute a part of this annual report.

Our agent for service of process in the United States is CT Corporation System, 111 Eighth Avenue, New York, New York 10011. The telephone number of our agent for service is (212) 894-8940.

Business Combination

On July 7, 2010, Ultra Glory and its sole shareholder entered into a share exchange agreement with Ossen Innovation Group, a British Virgin Islands limited liability company organized on April 30, 2011 under the BVI Act and the shareholders of Ossen Innovation Group. Pursuant to the share exchange agreement, Ultra Glory acquired from the shareholders of Ossen Innovation Group all of the issued and outstanding shares of Ossen Innovation Group, in exchange for an aggregate of 10,000,000 newly issued ordinary shares issued by Ultra Glory to the shareholders of Ossen Innovation Group. In addition, the sole shareholder of Ultra Glory sold all of the 5,000,000 ordinary shares of Ultra Glory that were issued and outstanding prior to the business combination, to the shareholders of Ossen Innovation Group for cash, at a price of \$0.03 per share. As a result, the individuals and entities that owned shares of Ossen Innovation Group prior to the business combination acquired 100% of the equity of Ultra Glory, and Ultra Glory acquired 100% of the equity of Ossen Innovation Group. Ossen Innovation Group is now a wholly owned subsidiary of Ultra Glory. In conjunction with the business combination, Ultra Glory filed an amended charter, pursuant to which Ultra Glory changed its name to Ossen Innovation Co., Ltd., changed its fiscal year end to December 31, changed the par value of its ordinary shares to \$0.01 per share and increased its authorized shares to 100,000,000. Upon the consummation of the business combination, we ceased to be a shell company.

Capital Expenditures

We incurred capital expenditures of approximately \$72,305 and \$37,848 for the years ended December 31, 2018 and 2017, respectively, primarily in connection with maintenance and repair of current production lines. These capital expenditures were financed by proceeds from bank financing and cash provided by operating activities.

We expect to incur further capital expenditures in fiscal year 2019 in connection with our production lines.

4B. Business Overview

Overview

We manufacture and sell an array of plain surface prestressed steel materials and rare earth coated and zinc coated prestressed steel materials, which we believe is the most comprehensive array among our competitors in China. Our materials are used in the construction of bridges, highways and other infrastructure projects in the PRC and internationally. Our facilities are located in Maanshan City, Anhui Province and in Jiujiang City, Jiangxi Province, in the People's Republic of China. Based on our extensive experience in the industry, we believe that Ossen is one of the leading enterprises in the PRC in the design, engineering, manufacture and sale of customized prestressed steel materials used in the construction of bridges, highways, and other infrastructure projects in China.

During the year ended December 31, 2018, we generated revenue of approximately \$103.4 million, or 76.0% of our total revenue (as compared to \$112.4 million, or 84.9% of our total revenue, in 2017), from sales of our rare earth coated PC wires and PC strands.

While we believe that our rare earth coating capabilities provide us with a competitive advantage among our competitors due to higher strength and higher quality, however, it is likely that our competitors may develop similar competing products. We intend to continue to expand research and development efforts to advance our rare earth coating applications even further including improving the product's corrosion-resistant level and increasing the product's strength and life span. However, there can be no assurance that our initial competitive advantage will be retained and that one or more competitors will not develop products that are equal or superior to ours in quality or are better priced than our rare earth coated products.

The primary characteristics of coated prestressed products, which are used in infrastructure projects, most notably, the construction of new bridges and the renovation of older bridges in need of repair, are as follows:

- Superior corrosion resistance;
- Superior toughness and plasticity;
- Endurance against extreme heat;
- Smooth and appealing coating; and
- Easily coated.

Our products are marketed under the “Ossen” brand name both domestically and internationally. We handle all aspects of market research, product design, engineering, manufacturing, sales and marketing. We conduct our manufacturing operations in our ISO 9001 manufacturing facilities in Maanshan City and Jiujiang City, in the PRC.

In 2013, the Chinese market began to adopt zinc-aluminum alloy coated PC wires and PC strands, which have more corrosion-resistance and stronger protective effect than zinc coated PC wires and PC strands. Our research and development department is currently developing a method to apply rare earth materials to the zinc-aluminum alloy coating process. We have made progress in developing such product so far and we will continue our research and development efforts in 2019. We anticipate that additional time will be necessary for such products to pass government inspection and to gain acceptance in the market.

Ossen Materials, our operating subsidiary, was founded in 2004. In 2005, we expanded our manufacturing capabilities by acquiring a facility in Jiujiang City in the PRC and forming Ossen Jiujiang. The senior management team of Ossen were among the first in China to introduce and promote the use of prestressed steel materials in construction projects. They have been involved in producing prestressed materials since 1994 and each has accumulated nearly 25 years of experience in the prestressed materials industry.

Competitive Advantages

Our management believes that the following competitive strengths differentiate us from other domestic and international competitors and are the key factors to our success:

We are taking advantage of industry trends in the bridge infrastructure sectors in the PRC and other international markets

We believe that the Chinese central government will continue to maintain economic growth rate at approximately 6.0% in the next few years by optimizing economic structure and reforming the supply-side and funding infrastructure investment to maintain stable GDP growth. While we do not believe that the Chinese government will initiate another large scale, comprehensive capital injection, we believe that infrastructure spending will be selectively targeted at developing regions in Central or Western China. Furthermore, through the “One Belt, One Road” initiatives, announced in late 2013, and the Asian Infrastructure Investment Bank launched in December 2015, investments are expected to be made during the next decade to construct new bridges and new railroads. In addition, the safety and technical requirements for building construction are higher, resulting in an increase in the demand of prestressed materials. We believe that these developments should create opportunities for us and we expect the market will continue to grow gradually in 2019 and beyond.

Leading provider of customized prestressed steel materials

Based on our extensive experience in the industry, we believe that Ossen is one of the leading enterprises in the PRC in the design, engineering, manufacture and sale of customized prestressed steel materials used in the construction of bridges, highways, and other infrastructure projects in China. We manufacture and sell an array of plain surface prestressed steel materials and rare earth coated and zinc coated prestressed steel materials, which we believe is the most comprehensive array among our competitors in China and which are used in the construction of bridges, highways and other infrastructure projects in the PRC and internationally. Our facilities are located in Maanshan City, Anhui Province and in Jiujiang City, Jiangxi Province, in the People's Republic of China.

Strong in-house research and development capabilities

Our research and development team consists of members recognized as industry experts in China, and each member of our senior management team has extensive experience in prestressed materials industry. We have built a recognized brand name in the industry by introducing innovative solutions to the prestressed materials industry, and particularly coated prestressed materials, in China and internationally. Our engineering team works closely with our customers in order to understand their requirements. We have been able to introduce new equipment to enhance cost saving and time reduction in the construction of bridges, highways, railways and buildings, as well as numerous other projects.

Efficient proprietary production technology

We continually pursue technological improvements to our manufacturing processes via our strong in-house development teams. We own forty-two patents granted by the State Intellectual Property Office of the PRC, including seven invention patents and thirty-five utility model patents as of April 1, 2019. These patents and patent applications are intended to protect our technologies, including production processes of various wire ropes, pickling methods for steel wire materials, the quality control methods for certain steel wire products and devices designed for the production of steel wire. Our research and development efforts have generated technological improvements that have been instrumental in controlling our production costs and increasing our operational efficiency, most notably with respect to the development of our rare earth coated materials.

Strong recognition from domestic and international customers for supplying materials for infrastructure projects

The solid reputation that our management team has developed over the past nearly 25 years in the prestressed material industry in China and in other countries such as Canada, the United States, Japan, South Korea, Bangladesh, South Africa, Italy and Spain, including an established track record for consistently providing quality products at competitive prices, has enabled us to develop a strong customer base and to be involved in major building projects.

We generated approximately 3.3% and 4.1%, respectively, of our revenue during the years ended December 31, 2018 and 2017 from sales to customers in international markets including primarily Vietnam, South Korea, Japan, New Zealand, Australia, Bangladesh, Brunei, Costa Rica, South Africa, Egypt, and Amman, primarily for use in the construction of bridges. Due to the anti-dumping measures imposed by the United States and European Union in 2008 and 2009 and recent stiff trade measures imposed by the United States government in 2018, we do not intend to reestablish a presence in the United States or the European Union at the levels we experienced in 2008 in the near future. However, if opportunities arise in the U.S. or EU markets or in other international markets for us to win bids on projects or to reengage with former customers or establish relationships with new customers, we would pursue such opportunities. Although we have not generated any sales from the United States since the anti-dumping duties were imposed in 2010, these measures imposed in 2018 may also have a negative impact on our business and results of operations because Chinese-based steel product exporters may now focus their marketing efforts on the Chinese domestic market.

Rigorous quality control standards

Consistent with our continuing commitment to quality, we impose rigorous quality control standards at various stages of our production process. We strictly comply with various national and international quality standards with respect to the manufacture of prestressed materials. Our certifications and accreditations include the Japanese Industrial Standards (JIS) certification, United Kingdom Accreditation Service (UKAS), the Korean Standards Association (KS) certification from South Korea and an ISO 9001 certification. We believe that these certifications, together with the numerous national awards that we have been awarded demonstrate our commitment to producing high-quality products as well as providing us with a competitive advantage over some of our competitors in certain international markets and in China.

Experienced management and operational teams with domestic PRC international market knowledge

Our senior management team and key operating personnel have extensive management skills, relevant operating experience and industry knowledge. In particular, Dr. Tang, our Chairman, is a Doctor of Economics, Senior Engineer and Professor of Finance and Statistics at the School of East China Normal University, and has extensive experience managing and operating companies in the prestressed steel industry. We believe our management team's experience and in depth knowledge of the market in China and internationally will enable us to continue to successfully execute our expansion strategies. In addition, we believe our management team's strong track record will enable us to continue to take advantage of market opportunities that may arise.

Our Products

Our prestressed steel materials are categorized as plain surface products and coated products.

Plain Surface Products

Our plain surface products, which term refers to our uncoated plain surfaced and stabilized products, are characterized as follows:

- Plain surface prestressed concrete, or PC, strands. These products consist of PC wires that are twisted into a bundle and used in precast concrete plates on the riding surface of bridges. These products are categorized based on size, strength and structure. Sizes range from 9.3mm to 17.8mm. Strength level ranges from 1570MPa (megapascal) to 2000MPa. The number of strands in the products varies between 3 and 7.
- Unbonded plain surface PC strands. These products consist of plain surface PC strands that are coated with grease and extruded with high-density polyethylene. These products are used primarily in the construction of bridges and buildings.
- PC wires, also referred to as stabilized materials. These products are further divided among the following three categories:
 - § Plain surface PC wires. This product consists of an individual round wire used in the construction of buildings.
 - § Indented PC wires. This product consists of an individual round wire that contains an indentation used in the construction of buildings.
 - § Helical (spiral) rib PC wires. This product consists of an individual round wire whose surface is pulled out into a helical rib pattern used in the construction of railway ties, or sleepers, and buildings.

PC wires are categorized based on size, strength and structure. Sizes range from 4.0mm to 9.0mm. Strength level ranges from 1570MPa to 2000MPa. The number of strands in the products varies between 3 and 7.

Coated Prestressed Products

Our coated prestressed products included zinc coated PC products and rare earth coated PC products. Rare earth coated prestressed products are plain surface materials that are coated with a rare earth or rare earth alloy protective layer so as to produce materials that are more corrosion-resistant and long-lasting. The purpose of coating is to generate a surface layer to protect the materials from erosion, abrasion and oxidization, without changing the elements of the basic materials or weakening the basic material's strength or other functionality through any techniques that utilize physical chemistry or electrochemistry. The coating process can cause loss of strength in regular steel materials, but the loss of strength in rare earth coated prestressed products is reduced.

For steel wires and strands, coating can provide a protective layer to improve the product's corrosion-resistant level and increase its life span. Traditional technology uses zinc as the coating material and such products are called zinc coated PC wires and PC strands. The introduction of rare earth in the coating process adds more benefits to the final products. When rare earth is added into the coating material and form a new alloy with zinc, it increases further the life span of the product. More importantly, it reduces the loss of strength compared to traditional zinc coating process.

The coating process happens in an environment with very high temperature. Because of the high temperature, there will be some loss of product strength during the coating process. For example, if the steel wires to be used as raw material have a strength level of 2000 MPa (mega pascal), its strength level will lose about 300 MPa after going through the traditional coating process. When zinc forms a new alloy with rare earth and is used as a coating layer, the requirement of high temperature for processing could be lowered. Processing with lower temperature results in less loss of product strength during the coating process. Therefore, the same raw material, if using rare earth coating, could deliver higher strength final product. Compared with better corrosion-resistant level, longer life span, higher strength level may be the most important benefit rare earth coated products bring to customers, as compared to zinc coated products. Higher strength means less steel is needed to build the bridge. The bridge cables could be slimmer, quantity of steel required for construction could be less and overall construction cost could be reduced.

Applications of zinc coated PC wires and PC strands are primarily in the construction of bridges.

Customers that purchase our prestressed materials also purchase other supporting products, such as anchorage devices and ripple tubes, to complement our materials. These supplementary products are produced by anchorage manufacturing factories that are unaffiliated with us.

Competition

China is one of the world's largest producers and markets for prestressed steel materials. In 2017 and 2018, our sales were predominantly to customers located in the PRC, and as a result, our primary competitors were PRC domestic companies.

We believe that being located in China provides us with a number of competitive factors within our industry, including the following:

- *Pricing.* Flexibility to control pricing of products and the ability to use economies of scale to secure competitive pricing advantages;
- *Technology.* Ability to manufacture products efficiently, utilize low-cost raw materials, and to achieve better production quality; and
- *Barriers to entry.* Technical knowledge, access to raw materials, local market knowledge and established relationships with suppliers and customers to support the development of commercially viable production facilities and products.

Competition among manufacturers of plain surface steel products in China can be characterized as fragmented, with many large and small companies competing with each other. Our primary competitors for these products are Guizhou Steel Wire Co., Ltd. and Silvery Dragon Co., Ltd.

Competition among PRC manufacturers of zinc coated prestressed products in China is limited to only several companies. Our main competitors for these products are Baosteel Group Nantong Wire Products Co., Ltd., Shuangyou Eaststeel and Jiangyin Walsin Steel Cable Co. Ltd. Furthermore, While we believe that our rare earth coating capabilities provide us with a competitive advantage among our competitors, however, it is likely that our competitors may develop similar competing products. We intend to continue to expand research and development efforts to advance our coating applications even further, including improving the products' corrosion-resistant level and increasing the products' strength and life span. However, there can be no assurance that our initial competitive advantage will be retained and that one or more competitors will not develop products that are equal or superior to ours in quality or are better priced than our rare earth coated products.

We believe that we differentiate ourselves because we have built a recognized brand name in the industry and because we offer superior product quality, timely delivery and high value. We believe that we have the following advantages over many of our competitors:

- the performance and cost effectiveness of our products;
- our ability to manufacture and deliver products in required volumes, on a timely basis, and at competitive prices;
- superior quality and reliability of our products;
- our after-sale support capabilities, from both an engineering and an operational perspective;
- effectiveness of customer service and our ability to send experienced operators and engineers as well as a seasoned sales force to assist our customers; and
- overall management capability.

Seasonality

Demand for our products is slightly affected by seasonality and is usually low during the first quarter of every year, as February is the Chinese New Year holiday and the winter weather in Northern China is cold, which results in a slowdown of construction.

Our Raw Materials and Supply

Raw Materials

High carbon steel wire rods are the primary raw material required to manufacture prestressed steel materials. The quality and cost of the rods we purchase differ between our plain surface products and our rare earth and zinc coated products. Rare earth and zinc coated products require higher-priced rods that are higher in purity and durability. The price for certain rods needed for coated products is higher than rods needed for plain surface products.

Our Supply Sources

We select our suppliers by assessing criteria such as the quality of materials supplied, the duration of the supplier's business relationship with us, pricing, delivery reliability and response time to orders placed by us. To minimize purchasing costs, we use a limited number of suppliers. Because we purchase substantial quantities from these suppliers, we are often able to procure these products at competitive prices. We usually enter into a one-year purchase agreement with each supplier and then order on a spot basis for each delivery. We negotiate pricing with our suppliers on an arm's length basis prior to the delivery of these supplies to us, based upon the prevailing market prices at such time.

The suppliers that supplied us with a significant percentage of our raw materials for the past three years were Jiangsu Shagang Group Co., Ltd., Shanghai Chemical Industry Supply and Marketing Co., Ltd., Jiangxi Yigeer Technology Co., Ltd., and Baosteel Group Nantong Wire Products Co., Ltd. and all are based in China.

Purchases from our five largest suppliers accounted for 99.8% and 99.7% of our raw material purchases in 2018 and 2017, respectively.

We are not dependent on any one of our suppliers, as we are able to source raw materials from alternative vendors should the need arise. We have not experienced significant production disruptions due to a supply shortage from our suppliers, nor have we had any major dispute with a material supplier.

Volatility of Price of Raw Materials

We have no long-term, fixed-price steel purchase contracts. When steel prices increase competitive conditions will influence how much of the price increase we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the revenues and profitability of our business could be adversely affected. When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices, lower margins and inventory valued at the lower of cost or market adjustments as we use existing steel inventory. Significant or rapid declines in steel prices or reductions in sales volumes could result in us incurring inventory or goodwill impairment charges. Therefore, changing steel prices could significantly impact our revenues, gross margins, operating income and net income. In 2018, the Chinese government continued to focus on addressing the overcapacity in the steel industry and strengthening supply-side structural reform to drive sustained growth. As of December 2018, China has lowered steel production by about 150 million tons, according to reports issued by the Chinese government. As a result, the average price of steel products, including our products and principal raw materials, increased in 2018. According to industry consultant Frost & Sullivan, the Chinese central government will focus on strictly controlling steel capacity increases in 2019. However, due to the slowdown of economic growth, local governments in Northern China, the most important steel production base, could increase allowable production levels of steel products, including our products and principal raw materials. As a result, we expect the average price of our principal raw materials will decrease in 2019. This could adversely impact our results of operations due to lower sale prices of our coated and plain surface products in the market.

Manufacturing Process

Equipment

Our production facilities use innovative equipment and machinery imported from France and Italy and, we believe, is of the highest quality in metal wire drawing, wire stranding, zinc plating and finishing. Our production lines produce prestressed steel materials that meet quality standards mandated by numerous countries, including Japan, the United Kingdom and South Korea.

We own cutting edge technologies in over 20 high-tech fields, including oil-immersion preservation technology, new coating production technology, skin pass coating technology, coating stabilization technology, zinc rare earth alloy plating technology, new high-temperature phosphorization heating technology, new material traction technology, rare earth alloy technology, new fixed scoring technology, new high-temperature low-speed thread stripping technology, and double coating stabilization, among others. We believe that we are the leading company in our industry with respect to the implementation of innovative technologies in the manufacture of prestressed steel materials.

Production Process

The production of our products involves various steps, including inspection, pickling, washing, rinsing, phosphatizing, boronizing, surface treatment, plating, baking, coating, cooling, polishing, inspection and packaging. The technology and procedures used in the above processes vary among the different products that we manufacture and depend upon the product specifications prescribed by a particular customer.

Generally, the manufacturing process involves the following:

- Cleaning steel wire rods or other similar raw materials by chemical pickling, mechanical de-scaling or a similar process. The materials are then cold drawn and reduced until the desired diameter and resistance characteristics are achieved. This process is what provides the material with its strength.
- In the production of strands, the individual wires (either 3 or 7 wires) are braided together to form a strand.
- The final step is to subject the steel material to a thermo-chemical process which endows the material with mechanical properties, such as low relaxation, which enable the material to last over time.

Processing Lines

We currently have 18 processing lines, consisting of the following:

- Two surface treatment lines, one located in our Maanshan facility and one in our Jiujiang facility, each composed of an acid pickling bath, rinsing bath, high pressure water rinsing bath, phosphating bath, saponification (boronizing) bath and cleaning bath.
- Seven wire drawing production lines, four located in our Maanshan facility and three in our Jiujiang facility, each composed of a pay-off machine, drawn can and take-up machine. Each of our half-finished products is processed on a wire drawing production line.
- Three PC strand stabilization treatment lines, two located in our Maanshan facility and one in our Jiujiang facility, each composed of stranding machines, straightening wheels, jockey wheels, medium frequency furnace, cooling tank, take-up and pay-off machines, a wire arraying machine and a layer winding machine. The PC strand stabilization product lines in our Jiujiang facility produce plain surface PC strands and zinc coated PC strands of various specifications.
- One zinc galvanization line, located in our Jiujiang facility, composed of a pay-off machine, degreasing furnace, acid rinsing pickling tank, assistant plating tank, drying furnace, galvanizing furnace, drawing tower and take-up machine. Half-finished products needed for different series of zinc coated PC wires and strands are produced on this line.
- Two surface finishing lines, both located in our Jiujiang facility, each composed of a pay-off machine, a finishing machine and a take-up machine. These production lines are used to produce half-finished products of zinc coated PC wires and strands.
- Two PC wire stabilization treatment lines, both located in our Jiujiang facility, each composed of a pay-off machine, jockey wheel, straightening machine, indent marking machine, medium frequency furnace, cooling tank, towing machine, shearing machine and take-up machine. Zinc coated PC wires, round PC wires, indented PC wires and helical rib PC wires are produced on these production lines.
- One unbonded PC strand line, located in our Jiujiang facility, composed of a pay-off machine, oiling machine, high-density polyethylene plastic injection machine, water tank, towing machine and take-up machine. This line is used to produce different series of unbonded plain surface PC strands and unbonded zinc coated PC strands.

Quality Control

Consistent with our continuing commitment to quality, we impose rigorous quality control standards at various stages in the production process. In addition, our facilities are equipped with first-class testing equipment, such as a tensile strength tester and a relaxation tester, which guarantee the high quality and safety of our products.

We strictly comply with various national and international quality standards with respect to the manufacture of pre-stressed materials. Our certifications and accreditations include the Japanese Industrial Standards (JIS) certification, United Kingdom Accreditation Service (UKAS), the Korean Standards Association (KS) certification from South Korea and an ISO 9001 certification.

Our procedure when discovering any product quality problem in the production process includes immediate shut down for inspection. Once the problem is solved, we continue with production. If a problem occurs with a product, the product inspector stamps a nonconformity seal and hangs a nonconformity label on the problematical product. The nonconforming product is moved to a separate area and is not transferred to the next procedure. We do not deliver nonconforming products to users.

Sales, Marketing and Distribution

Sales and Marketing

We have been successful to date in maintaining long-term relationships with numerous customers by satisfying their commercial needs. In addition, our marketing team monitors the market and responds accordingly in order to increase our customer base. We have a dedicated marketing and sales team of six employees that proactively follows up on new sales leads.

Our marketing team develops strategies for the short-term and long-term by obtaining first-hand information about our products' market positioning, monitoring national macro-economic policies, inquiring about current and future market needs, following the progress of existing projects and the satisfaction of existing customers. In addition, our technicians and marketing specialists regularly visit governmental departments, construction development companies, design institutes, supervision institutions, national construction quality inspection institutions and builders to promote new products. We have also joined the PRC national bridge exhibition for marketing purposes.

Distribution

Both of our manufacturing plants are equipped with facilities for cargo lifting, shipment and distribution. Products for domestic customers are distributed to the destination designated by our customers. Products for international customers are delivered either to carriers at various ports of exit in China or delivered to a designated destination overseas.

Technical After-Sales Services

Our team of experienced engineers and technicians provides after-sales services to our customers. After the delivery of our materials, our engineers train our customers to install and identify and address safety and maintenance concerns. After a sale of our product, we introduce and advertise the company brand position, distribute a guide application method process, issue regulation manuals, and explain and solve general and difficult problems. All technical after-sales services are provided to our customers free of charge.

Our Customers

We sell the vast majority of our products domestically in China. Since our inception, we have also exported our products to foreign countries, including the United States, Canada, Spain, Japan, South Korea, Taiwan, Australia, South Africa and Saudi Arabia, among others. Our customers are diverse in nature, as we sell our products directly to end users, to other manufacturers and to distributors, in each case depending on the nature of the product and the utilization of the product.

While we value our relationship with each of our customers, we believe that generally the loss of any particular customer, including our largest customers, would not materially impact our business in the long-term. Many of our customer contracts relate to designated infrastructure projects which are performed during a defined period of time, and are not necessarily long-term in nature. Accordingly, if any of our customers were to discontinue purchasing our products, we would actively seek new customers, which we have been successful doing in the past.

In 2017 and 2018, sales to our six largest customers, in the aggregate, accounted for approximately 68.3% and 74.8% of our total sales, respectively. The following table provides the name of each customer that contributed to more than 10% of our revenues in each of 2017 and 2018 and the percentage of our revenues generated from such customers during these periods.

Name of Customer	2018 Revenues (%)	2017 Revenues (%)
Zhangjiagang Shajing Iron and Steel Trading Co., Ltd.	*	30.4
Jiangsu Jinrun Steel Cable Co., Ltd.	13.6	10.4
Zhangjiagang OVM Machinery Co., Ltd.	14.1	*
Shanghai Hanghe Metal Products Co., Ltd.	*	*
Zhejiang Kexin Engineering Material Co., Ltd.	14.6	10.9
Liuzhou OVM Machinery Co., Ltd.	10.2	*

* Less than 10% of our annual revenues.

The following table describes the breakdown of our sales in 2018 and 2017 between our domestic and international customers.

	For the Year Ended December 31,	
	2018	2017
Domestic Sales	\$ 131,642,673	\$ 126,930,386
International Sales	\$ 4,462,194	\$ 5,445,529
Total Sales	<u>\$ 136,104,867</u>	<u>\$ 132,375,915</u>

Research and Development

Our research and development efforts are focused on three objectives:

- Superior product safety and quality;
- Reduction of operating costs; and
- Sustaining growth through the development of new products.

We have a research and development team at each of our facilities. In total, sixteen employees are dedicated to research and development. We spent \$3.3 million and \$4.3 million in 2018 and 2017, respectively, on our research and development activities to customize products for new or existing customers and develop new products. The nature of our research and development activities needed for our product development is generally not cash intensive. In addition, a portion of the work is conducted by organizations and universities with which we have a collaborative relationship.

We regularly train the members of our research and development department in order to consistently enhance our research and development capabilities in the field of coating technology. We have developed a business model that involves a very close interrelationship between our research and development department and our product development and marketing departments. As a result, we focus our research and development activities on projects that would enable us to branch out our products into new desired markets. In addition, we conduct research and development activities that enable us to increase our market share in existing markets in the PRC and internationally. We also focus certain of our research and development activities on higher margin products that can be sold to customers in international markets.

Specifically, we have entered into cooperation agreements with Jiujiang Institute pursuant to which the institute assists us in our efforts to improve the comprehensive function and manufacturing technique of our high strength, anti-erosion zinc coated prestressed strands. These high strength products, which have high endurance against erosion, are sold domestically and internationally. Pursuant to a two-year research cooperation agreement with Jiujiang Institute in 2017, Ossen Jiujiang agreed to provide its research and development resources such as the research and development team and testing laboratories for facilitating students of Jiujiang Institute to develop new technology know-how on certain galvanised prestressed technology with a view to reducing unit costs, improving production efficiency, upgrading product quality. In addition, we are cooperating with other steel manufacturers in research efforts regarding zinc coated PC wires, which serve as raw materials for our zinc coated PC strands, indented PC wires and helical rib PC wires with high performance and are designed for our international customers.

In addition, our Jiujiang facility received the recognition of Jiujiang Municipal Enterprise Technology Center by Jiujiang Municipal Government in 2012 and our Maanshan facility received Maanshan Municipal Projects Technology Research Center by Maanshan Municipal Science and Technology Bureau in 2014.

We believe that our research and development activities and production technology for rare-earth zinc coated materials have enhanced our market position. By using rare earth-alloy-plating technology, we are able to lower the temperature for the stabilizing treatment during the production process and thereby minimize the loss of strength during the stabilizing process. As a result, this technology reduces the level of strength required of our raw materials under circumstances of unvaried finished product strength requirement and enables us to produce materials with greater strength under circumstances in which the strength of raw materials remains firm. We can produce zinc rare earth alloy coated pre-stressing materials of 1,860 mega pascal (“mPa”) strength level and 15.20 mm diameter, as a result of our rare earth alloy-plating technology. We will continue our research and development efforts to improve the strength and stability of such product.

We plan to continue our research and development efforts to strengthen our leading position in our industry. In 2014, we developed 12.7 mm 2060 mPa ultra high strength and low relaxation prestressed strands. Our research and development team also upgraded the heating method of acid pickling process, the circulating cooling water system of steel wire stabilization production line, and the winding system of coated steel wire. We also own or lease various technologies that improve the quality of our products and reduce our operating costs, including coating polished technology, stabilizing treatment technology for dual tension gear zinc coated prestressing material, warning technology for missing plating of coating production line, stranded wire greasing technology, water cut-off technology by strander infrared temperature detection and other core technologies.

Intellectual Property

We rely on a combination of patents, trademarks, domain names and confidentiality agreements to protect our intellectual property. Our manufacturing processes are based on technology developed primarily in-house by our research and development and engineering personnel.

With respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on, among other things, trade secret protection and confidentiality agreements to safeguard our interests. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our associates to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. We are not aware of any material infringement of our intellectual property rights.

Patents

As of April 1, 2019, we have forty-two patents registered with the State Intellectual Property Office of the PRC, including seven invention patents and thirty-five utility model patents.

Between January 1, 2018 to April 1, 2019, five previously-pending utility model patents and three previously-pending invention patents were approved by the State Intellectual Property Office.

Actual examination times for patent applications in China vary, but examinations of similar patent applications have taken approximately one year. These patents and patent applications are intended to protect the production processes of various wire ropes, pickling methods of materials of steel wire, the quality control methods for certain steel wire products and devices designed for the steel wire production. The term of all of the utility model patents is ten years from the filing of the application and the term of all of the invention patents is twenty years from the filing of the application. We currently do not have any patents registered or pending in any jurisdiction outside of the PRC.

The following table provides the name, the application number or patent number, the name of the applicant or patent holder and the status of our registered invention patents and each of our invention patent applications, and the expiration date of our registered invention patent:

Name	Application No. /Patent No.	Applicant /Patent Holder	Status	Expiration Date
Stabilizing Process of Indented Wire	ZL200710157149.0	Ossen Jiujiang	Registered	11/22/2027
Method to Change the Length of Waste of Stranded Wire Joint	ZL200910144241.2	Ossen Materials	Registered	7/26/2029
Production Process of Zinc Coated Steel Wire	ZL201010105179.9	Ossen Jiujiang	Registered	2/2/2030
Re-processing Technology of Galvanized Steel Wire	ZL201310137387.0	Ossen Jiujiang	Registered	4/18/2033
Prestressed Galvanized Steel Wire Joint Stabilizing Processing Production Method	ZL201610567857.0	Ossen Jiujiang	Registered	7/18/2036
High-strength prestressed steel wire drawing and matching method	ZL201610567616.6	Ossen Jiujiang	Registered	7/18/2036
Prestressed steel strand aeration pickling tank and pickling method	ZL201510161287.0	Ossen Materials	Registered	4/6/2035


The following table provides the name, the application number or patent number, the name of the applicant or patent holder and the status of each of our registered utility model patents and utility model patent applications, and the expiration dates of our registered utility model patents:

Name	Application No. /Patent No.	Applicant /Patent Holder	Status	Expiration Date
Device Designed to Control Water Temperature When Phosphatizing the PC Strand	ZL200920233724.5	Ossen Materials	Registered	07/29/2019
Device for Testing Center Steel Wire Broken for Stranded Wire	ZL200920233725.x	Ossen Materials	Registered	07/29/2019
Device Designed to Test Temperature of Steel Wire When Drawing the Stranded Wire	ZL200920233726.4	Ossen Materials	Registered	07/29/2019
Steel Wire Joint Machine with Pressure Detecting Function	ZL200920233728.3	Ossen Materials	Registered	07/29/2019
Automatic Paper Rolling Device of Asphalt Paper	ZL200920233729.8	Ossen Materials	Registered	07/29/2019
Aerial Overhaul Platform for Forklift	ZL200920233730.0	Ossen Materials	Registered	07/29/2019
Skid Used When Packing PC Strand	ZL200920233731.5	Ossen Materials	Registered	07/29/2019
Inductive Water Saving Device	ZL201220218155.4	Ossen Materials	Registered	06/25/2021
Anti-Impact Gear	ZL201220217756.3	Ossen Materials	Registered	06/23/2021
Lock Device for PC Strand Production Wheel	ZL201220218156.9	Ossen Materials	Registered	06/25/2021
New Dies for Wire Drawing	ZL201320723167.7	Ossen Materials	Registered	12/24/2022
Energy-saving Device for Acid Mist Drainage	ZL201320722838.8	Ossen Materials	Registered	12/24/2022
Cold Assembly Mould	ZL201420023335.0	Ossen Materials	Registered	1/14/2024
Prestressed Strand Spreader	ZL201420023447.6	Ossen Materials	Registered	1/14/2024

Name	Application No. /Patent No.	Applicant /Patent Holder	Status	Expiration Date
Pickling Pool Electric Heating Control System	ZL201620087931.4	Ossen Materials	Registered	1/26/2026
Air Compressor Motor Protection System	ZL201620087953.0	Ossen Materials	Registered	1/26/2026
Prestressed Steel Wire Ultrasonic Vibration Pickling Pool	ZL201621197903.4	Ossen Materials	Registered	11/6/2026
Prestressed Strand Online Water Removal Device	ZL201720979882.X	Ossen Materials	Registered	8/6/2027
Prestressed Steel Strand Production Spiral Air Cylinder	ZL201621197904.9	Ossen Materials	Registered	11/6/2026
Closed Soot Filter System for Strand Production	ZL201721178282.X	Ossen Materials	Registered	9/13/2027
Strand Take-up Machine	ZL201721177583.0	Ossen Materials	Registered	9/13/2027
Steel Wire On-line Oil Coating Device	ZL201721178741.4	Ossen Materials	Registered	9/13/2027
Prestressed Steel Strand Packaging Structure	ZL201720976708.X	Ossen Materials	Registered	8/6/2027
Furnace for Zinc Coating Process	ZL201320200197.4	Ossen Jiujiang	Registered	4/18/2023
Actinomycetes Machine Discharge Line Protection Devices	ZL201320200077.4	Ossen Jiujiang	Registered	4/18/2023
Strand Actinomycetes Devices	ZL201320200171.X	Ossen Jiujiang	Registered	4/18/2023
Cooling Device with Distilled Water for Medium Frequency Furnace	ZL201320199776.1	Ossen Jiujiang	Registered	4/18/2023
U-shape Hot Galvanizing Furnace	ZL201420532006.9	Ossen Jiujiang	Registered	9/16/2024
Plastic Particle Drying Mixer	ZL201420798062.7	Ossen Jiujiang	Registered	12/16/2024
Multi-functional Line Traction Machine for Steel Wire Stabilization Processing Production Line	ZL201420798307.6	Ossen Jiujiang	Registered	12/16/2024
Dust Removing Device for Surface Treatment for Drawing Steel Wire	ZL201420798232.1	Ossen Jiujiang	Registered	12/16/2024
An Oil Weight Control Device for Unbonded Steel Strand	ZL201620720468.2	Ossen Jiujiang	Registered	7/10/2026
A Dedusting and Dedusting Device for A Prestressed Steel Strand Joint Machine	ZL201620720466.3	Ossen Jiujiang	Registered	7/10/2026
A Galvanized Steel Wire Fixture for Tensile Testing Machine	ZL201620720452.1	Ossen Jiujiang	Registered	7/10/2026
A Trapezoid Mold for Wire Rod Drawing of Carbon Steel	ZL201620720451.7	Ossen Jiujiang	Registered	7/10/2026

Trademarks

We have been granted a total of five trademarks, three of which are registered trademarks in the PRC and two of which are registered with the World Intellectual Property Organization (WIPO) in accordance with Madrid Agreement. The five trademarks which are described in the table below were transferred by Shanghai Ossen Investment Co., Ltd. to Ossen Materials in 2008 and 2009.

Name of Trademark	Application No. /Trademark No.	Applicant /Trademark Holder	Status
A Figurative Trademark (Registered under Madrid Agreement)	0973552	Ossen Innovation Materials	Registered
“OSSEN” (Registered under Madrid Agreement)	0945308	Ossen Innovation Materials	Registered
A Figurative Trademark (PRC Domestic Registered)	4396898	Ossen Innovation Materials	Registered
“OSSEN” (PRC Domestic Registered)	4396895	Ossen Innovation Materials	Registered
“  ” (PRC Domestic Registered)	4396896	Ossen Innovation Materials	Registered

Environmental Matters

The Environmental Protection Law, promulgated by the National People's Congress on December 26, 1989, is the primary law for environmental protection in China. The law establishes basic principles for coordinated advancement of economic growth, social progress and environmental protection, and defines the rights and duties of governments at all levels. Local environmental protection bureaus may set stricter local standards than the national standards and enterprises are required to comply with the stricter of the two sets of standards. Due to the nature of our business, we produce certain amounts of waste water, gas and solid waste materials during the course of our production. We believe that we are in compliance in all material respects with applicable PRC laws and regulations. All of our products meet the relevant environmental requirements under PRC laws and during the three years ended December 31, 2018 and 2017, we were not subject to any fines or legal action involving non-compliance with any relevant environmental regulation, nor are we aware of any threatened or pending action, including by any environmental regulatory authority.

Governmental Regulations

Business license

Any company that conducts business in the PRC must have a business license that covers a particular type of work. Our business license covers our present business of manufacturing, processing, procuring and selling metallic materials, metallic products, new alloy materials, rare earth application products, building materials, general machinery and related products. Prior to expanding our business beyond that of our business license, we are required to apply and receive approval from the PRC government.

Employment laws

We are subject to laws and regulations governing our relationship with our employees, including: wage and hour requirements, working and safety conditions, citizenship requirements, work permits and travel restrictions. These include local labor laws and regulations, which may require substantial resources for compliance. China's National Labor Law, which became effective on January 1, 1995, and China's National Labor Contract Law, which became effective on January 1, 2008, permit workers in both state and private enterprises in China to bargain collectively. The National Labor Law and the National Labor Contract Law provide for collective contracts to be developed through collaboration between the labor union (or worker representatives in the absence of a union) and management that specify such matters as working conditions, wage scales, and hours of work. The laws also permit workers and employers in all types of enterprises to sign individual contracts, which are to be drawn up in accordance with the collective contract.

Patent protection in China

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

- Convention establishing the World Intellectual Property Organization (WIPO Convention) (June 4, 1980);
- Paris Convention for the Protection of Industrial Property (March 19, 1985);
- Patent Cooperation Treaty (January 1, 1994); and
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) (November 11, 2001).

Patents in the PRC are governed by the China Patent Law and its Implementing Regulations, each of which went into effect in 1985. Amended versions of the China Patent Law and its Implementing Regulations came into effect in 2001 and 2003, respectively.

The PRC is signatory to the Paris Convention for the Protection of Industrial Property, in accordance with which any person who has duly filed an application for a patent in one signatory country shall enjoy, for the purposes of filing in the other countries, a right of priority during the period fixed in the convention (12 months for inventions and utility models, and 6 months for industrial designs).

The Patent Law covers three kinds of patents - patents for inventions, utility models and designs. The Chinese patent system adopts the principle of first to file, which means that a patent may be granted only to the person who first files an application. Consistent with international practice, the PRC allows the patenting of inventions or utility models that possess the characteristics of novelty, inventiveness and practical applicability only. For a design to be patentable it cannot be identical with, or similar to, any design which, before the date of filing, has been publicly disclosed in publications in the country or abroad or has been publicly used in the country, and should not be in conflict with any prior right of another.

Value added tax

Pursuant to the Provisional Regulation of China on Value Added Tax and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 16.0% or 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Since May 1, 2018, the VAT rate is 16% which applies to the manufacturing sector in China. Furthermore, when exporting goods, the exporter is entitled to a portion, or in some instances all, of the VAT refund that the exporter previously paid.

Foreign currency exchange

Under the PRC foreign currency exchange regulations applicable to us, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, and trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE. Foreign-invested enterprises may buy, sell and/or remit foreign currencies only at those banks authorized to conduct foreign exchange business, after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the State Reform and Development Commission.

Mandatory statutory reserve and dividend distributions

Under applicable PRC regulations, foreign-invested enterprises in China may pay dividends out of their accumulated profits only, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a foreign-invested enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year for its general reserve until the cumulative amount of such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

Employees

As of December 31, 2018 and 2017, we had 184 and 190 full-time employees. As of April 1, 2019, we had 184 full-time employees.

The following table shows the breakdown in numbers and percentages of employees by department as of December 31, 2018:

Functions	Number of employees	% of total
Manufacturing	102	55%
Research & Development	16	9%
Quality Control	6	3%
General Administration, Purchasing, Sales and Marketing	60	33%
Total	184	100%

We have not experienced any significant labor disputes and consider our relationship with our employees to be good. Our employees are not covered by any collective bargaining agreement.

We have established an employee welfare plan in accordance with the relevant PRC laws and regulations. Our total expenses for this plan were approximately \$265,491 and \$249,491 in 2018 and 2017, respectively.

As we continue to expand our business, we believe it is critical to hire and retain top talent, especially in the areas of marketing, metal surface treatment, materials science, and technology engineering. We believe we have the ability to attract and retain high quality engineering talent in China based on our competitive salaries, annual performance-based bonus system, and equity incentive program for senior employees and executives. In addition, we have a training program for entry-level engineers that allows them to work closely with an experienced mentor to gain valuable hands-on experience and provide other professional development opportunities, including seminars where experienced engineers give lectures on specific engineering topics and new methods that can be applied to various projects.

4C. Organizational Structure

Our Majority Shareholders

Pursuant to securities purchase agreements dated August 7, 2018, on August 8, 2018 and August 14, 2018, Effectual Strength Enterprises Limited (“Effectual”), a British Virgin Islands company controlled by Liang Tang, purchased:

- 600,000 shares from Fascinating Acme Development Limited, an entity controlled by the spouse of Wei Hua, our Chief Executive Officer, at a price of \$2.582 per ADS, each ADS representing three Ordinary Shares; and
- 600,000 shares from Gross Inspiration Development Limited, an entity controlled by the spouse of Xufeng Zhou, our senior manager, at a price of \$2.582 per ADS.

On October 2, 2018, Acme Innovation Limited, a British Virgin Islands company (“Acme”) wholly owned by Pujiang International Group Limited, a Cayman Islands company (“Pujiang”) controlled by Dr. Liang Tang, purchased 13,050,000 of our ordinary shares from Effectual, in exchange for the issuance of 54,404 shares of Pujiang to Elegant Kindness Limited (“Elegant”), a British Virgin Islands company wholly owned by Dr. Liang Tang. Consequently, Acme now holds 13,050,000 of our ordinary shares.

On December 11, 2018, Pujiang, the parent entity of Acme, submitted an application to the Hong Kong Stock Exchange (the “HK Exchange”), seeking approval of a potential listing of Pujiang’s shares on the HK Exchange following a proposed initial public offering of Pujiang’s shares. Such application is subject to the review of the HK Exchange. The terms of such offering have not yet been set. Furthermore, the timing of the consummation of such potential offering and listing is unknown, and there is no guarantee that such listing and offering will be consummated at all. This filing shall not be deemed an offering of the securities of Pujiang or the Company.

Our Subsidiaries

British Virgin Islands Companies

Ossen Innovation Group, our wholly owned subsidiary, is the sole shareholder of two holding companies organized in the British Virgin Islands: Ossen Group (Asia) Co., Ltd., or Ossen Asia, and Topchina Development Group Ltd., or Topchina. All of the equity of Ossen Asia and Topchina had been held by Dr. Tang, our Chairman, since inception. In May 2010, Dr. Tang transferred these shares to Ossen Innovation Group in anticipation of the public listing of our company's shares in the United States.

Ossen Asia is a British Virgin Islands limited liability company organized on February 7, 2002. Ossen Asia has one direct operating subsidiary in China, Ossen Innovation Materials Co. Ltd., or Ossen Materials. Ossen Asia owns 81% of the equity of Ossen Materials.

Topchina is a British Virgin Islands limited liability company organized on November 3, 2004. Ossen Materials and Topchina directly own an operating subsidiary in China, Ossen (Jiujiang) Innovation Materials Co., Ltd., or Ossen Jiujiang. As of December 31, 2016, Ossen Materials owns 20.5% of the equity of Ossen Jiujiang and Topchina owns 79.5%.

Ossen Materials

Ossen Materials was formed in China on October 27, 2004 as a Sino-foreign joint venture limited liability company under the name Ossen (Maanshan) Steel Wire and Cable Co., Ltd. On May 8, 2008, Ossen Materials was restructured from a Sino-foreign joint venture limited liability company to a corporation. The name of the entity was changed at that time to Ossen Innovation Materials Co., Ltd.

Ossen Asia owns 81% of the equity of Ossen Materials. The remaining 19% is held in the aggregate by three third-party Chinese entities, two of which are controlled by Chinese governmental entities, one of which is controlled by Zhonglu Co. Ltd., a company whose shares are listed on the Shanghai Stock Exchange, and Ossen Group PRC, which is ultimately controlled by Chinese citizens.

Through Ossen Materials, we have manufactured and sold plain surface PC strands, rare earth coated PC steel wires and PC wires in our Maanshan City facility since 2004. The primary markets for the products manufactured at our Maanshan facility are Anhui Province, Jiangsu Province, Zhejiang Province and Shanghai City, each in the PRC.

Ossen Jiujiang

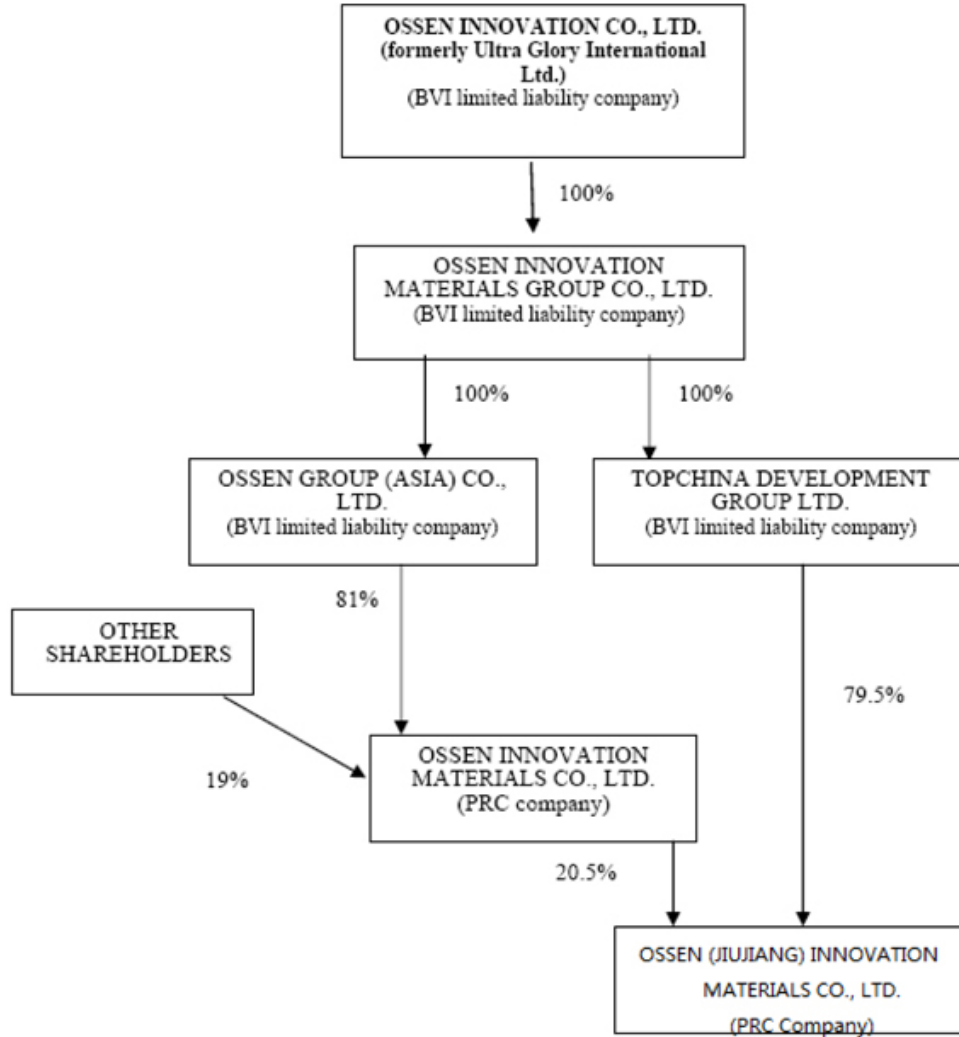
On April 6, 2005, Shanghai Ossen Investment Holdings (Group) Co., Ltd., or Ossen Shanghai, acquired a portion of the bankruptcy assets of Jiujiang Steel & Iron Company, including equipment, land use rights and inventory, for approximately RMB 20,000,000 (approximately \$2.9 million). Ossen Jiujiang was formed by Ossen Shanghai in the PRC as a Sino-foreign joint venture limited liability company on April 13, 2005. Ossen Shanghai then transferred the newly acquired assets to Ossen Jiujiang. At its inception, Ossen Jiujiang was owned by two entities: 33.3% of its equity was held by Ossen Asia and 66.7% by Ossen Shanghai. In June 2005, Ossen Shanghai transferred its entire interest in Ossen Jiujiang to Topchina in exchange for approximately \$2.9 million. In October 2007, Topchina transferred 41.7% of the equity in Ossen Jiujiang to Ossen Asia for no consideration. On December 17, 2007, Ossen Asia transferred all of its shares in Ossen Jiujiang to Ossen Materials.

On November 19, 2010, the Department of Commerce of Jiujiang City approved an increase in the registered capital of Ossen Jiujiang by approximately \$29.2 million, which capital must be paid in full by November 2013. On November 5, 2012, the Department of Commerce of Jiujiang City approved a decrease in the registered capital of Ossen Jiujiang by approximately \$9.2 million. As of December 31, 2014, Topchina paid approximately \$20 million of the increased registered capital to Ossen Jiujiang. As a result, 79.5% of Ossen Jiujiang is currently held by Topchina and 20.5% by Ossen Materials. On April 9, 2014, Ossen (Jiujiang) Steel Wire & Cable Co., Ltd. changed its name to Ossen (Jiujiang) Innovation Materials Co., Ltd.

Through Ossen Jiujiang, we manufacture zinc or rare earth coated PC wires and strands, plain surface PC strands, unbonded PC strands, helical rib PC wires, sleeper PC wires and indented PC wires. The primary markets for the PC strands manufactured in our Jiujiang facility are Jiangxi Province, Hubei Province, Hunan Province, Fujian Province and Sichuan Province, each in the PRC.

Organizational Structure Chart

The following chart reflects our organizational structure:



4D. Property, Plants and Equipment

Under PRC law, land is owned by the state. “Land use rights” are granted to an individual or entity after payment of a land use right fee is made to the applicable state or rural collective economic organization. Land use rights allow the holder the right to use the land for a specified long-term period.

We have land-use rights for facilities at two locations in the PRC, one in Maanshan City, Anhui Province and one in Jiujiang City, Jiangxi Province, which are utilized for production, research and development and employee living quarters. We have paid all amounts relating to these properties. The land-use rights for our Maanshan facility expires in 2058 and the rights for our Jiujiang facilities expire at different intervals, ranging from 2055 to 2057. Our facilities cover an aggregate of approximately 106,136 square meters.

As of December 31, 2018, our production facility and office in Maanshan City had a total gross floor area of approximately 14,668 square meters and we employed 49 production personnel at that facility. Our Maanshan facility contained seven processing lines. As of December 31, 2018, our production facility and office in Jiujiang City had a total gross floor area of approximately 20,810 square meters and we employed 53 production personnel at that facility. Our Jiujiang facility contained eleven processing lines. The production volume of our Maanshan facility and Jiujiang facility was 193,174 tons in 2018. Historically, we did not experience any form of disruption in our production facilities. However, from July 2018 to December 2018, due to a local government's construction accident affecting a high-voltage transmission line near Ossen Jiujiang production facility, the power supply to some of our zinc coating processing lines was interrupted, resulting in the inoperability of several equipment. We were able to overcome this temporary interruption by purchasing semi-finished zinc coated products to produce finished zinc coated products. The total annual production of our two facilities decreased in 2018 compared to 2017 due to less demand of our rare earth coated products and the interrupted power supply in Jiujiang facility, partially offset by the increase in demand of our zinc coated products in 2018.

We believe that our current property rights are sufficient for our current operations.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our consolidated financial statements, the notes to those financial statements and other financial data that appear elsewhere in this annual report. In addition to historical information, the following discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those set forth in "Risk Factors" and elsewhere in this report. Our consolidated financial statements are prepared in conformity with U.S. GAAP.

5A. Operating Results

Overview

General

We manufacture and sell an array of plain surface prestressed steel materials and rare earth coated and zinc coated prestressed steel materials, which we believe is the most comprehensive array among our competitors in China. Our materials are used in the construction of bridges, highways and other infrastructure projects in the PRC and internationally. Our facilities are located in Maanshan City, Anhui Province and in Jiujiang City, Jiangxi Province, in the People's Republic of China. Based on our extensive experience in the industry, we believe that Ossen is one of the leading enterprises in the PRC in the design, engineering, manufacture and sale of customized prestressed steel materials used in the construction of bridges, highways, and other infrastructure projects in China.

Important Factors Affecting our Results of Operations and Existing Trends

Migration of Our Business to the Domestic PRC Market

Our results of operations depend in part on the proportion of international sales to domestic sales that we attain during a particular financial reporting period. We have historically collected a significant percentage of revenues generated by international sales by letter of credit, which enables us to convert accounts receivable into cash more quickly. Between 2013 and 2015, the Chinese government followed a prudent monetary policy and was conservative in lending to certain industries, including steel industry and our domestic customers. In 2018, the Chinese government's policy in lending is more conservative compared to 2016 and 2017. As a result, our domestic customers had to pay our accounts receivables slower than 2016 and 2017, and our average Days Sales Outstanding was approximately 150, 123 and 126 days in 2018, 2017 and 2016, respectively.

Our current business model is to continue focusing on the domestic PRC market, while selectively pursuing international opportunities when appropriate. Under existing PRC governmental policies, especially the "One Belt, One Road" initiatives, significant investments are expected to be made during the next decade to construct many new bridges and new railroads.

We generated approximately 3.3% and 4.1%, respectively, of our revenue during the years ended December 31, 2018 and 2017 from sales to customers in international markets including primarily Vietnam, South Korea, Japan, New Zealand, Australia, Bangladesh, Brunei, Costa Rica, South Africa, Egypt, Costa Rica and Amman, primarily for use in the construction of bridges. In 2018, we increased our efforts to develop new customers in Africa, South America and the Middle East, while at the same time maintaining relationships with existing foreign customers. Due to the anti-dumping measures imposed by the United States and European Union in 2008 and 2009 and recent stiff trade measures imposed by the United States government in 2018, we do not intend to reestablish a presence in the United States or the European Union at the levels we experienced in 2008 in the near future. However, if opportunities arise in the U.S. or EU markets or in other international markets for us to win bids on projects or to reengage with former customers or establish relationships with new customers, we would pursue such opportunities. Although we have not generated any sales from the United States since the anti-dumping duties were imposed in 2010, these measures imposed in 2018 may also have a negative impact on our business and results of operations because Chinese-based steel product exporters may now focus their marketing efforts on the Chinese domestic market.

Product Mix and Industry Trends

Our results of operations also depend in part on the product mix that we attain during a particular financial reporting period. We produce and sell products according to customer orders. As an overall percentage of sales, sales of our coated products increased from 94.0% in 2017 to 95.7% in 2018.

Overall gross margin of our products were 13.8%, 11.1% and 15.1% respectively in 2016, 2017 and 2018. The decrease of gross margin in 2017 compared to 2016 was primarily due to the increase of the price of raw materials and because the orders for plain surface products were mainly wholesale orders, which normally have lower gross profit margin than the retail orders we had in 2016. The increase of gross margin in 2018 was primarily due to the increase of the prices of our steel products.

As an overall percentage of sales, sales of our coated products increased from 94.0% in 2017 to 95.7% in 2018 and 79.4% and 90.4%, respectively, of our coated product sales in the years ended December 31, 2018 and December 31, 2017 were sales of rare earth coated products and the remaining 20.6% and 9.6%, respectively, were zinc coated products.

Favorable price and terms for supply of principal raw materials

Our principal raw material is high carbon steel wire rods that we typically purchase from multiple primary steel producers. The steel industry as a whole is cyclical and, at times, pricing and availability of steel can be volatile due to numerous factors beyond our control, including general domestic and international economic conditions, labor costs, sales levels, competition, levels of inventory held by us and other steel service centers, consolidation of steel producers, higher raw material costs for steel producers, import duties and tariffs and currency exchange rates. This volatility can significantly affect the availability and cost of raw materials for us.

We, like many other steel product manufacturers, maintain substantial inventories of steel to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase steel in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, supply agreements with customers and market conditions. Our key suppliers usually dedicate portions of their inventories as reserves to meet our manufacturing requirements. These key suppliers are generally provided a prepayment and in return, they give us discounts compared to prevailing market prices.

We have no long-term, fixed-price steel purchase contracts. When steel prices increase, competitive conditions will influence how much of the price increase we can pass on to our customers. To the extent we are unable to pass on future price increases in our raw materials to our customers, the net sales and profitability of our business could be adversely affected.

When steel prices decline, customer demands for lower prices and our competitors' responses to those demands could result in lower sale prices and, consequently, lower margins. Significant or rapid declines in steel prices or reductions in sales volumes could result in us incurring inventory or goodwill impairment charges. Changing steel prices therefore could significantly impact our net sales, gross margins, operating income and net income. In 2014 and 2015, steel supply outpaced demand as China's economic growth slowed and growth in steel demand in China remained weak. The price of all of our principal raw materials decreased in 2014 and 2015 due to the market condition of steel industry in China. However, since raw materials purchased for our rare earth and zinc coated products are produced by only a select few steel manufacturers, the average price of these raw materials was not as volatile as other steel products, and the decline is not as much as those that are mass produced such as raw materials for plain surface products in 2014 and 2015. In 2016, 2017 and 2018, Chinese Government continued its policy to cut excessive industrial capacity and reform the supply-side of its economy, while strictly controlling steel capacity increases. As a result, the average price of steel products, including our products and principal raw materials, increased in 2016, 2017 and 2018. We expect that the Chinese central government will focus on strictly controlling steel capacity increases in 2019. However, due to the slowdown of economic growth, local governments in Northern China, the most important steel production base, are expected to increase allowable production levels of steel products, including our principal raw materials. As a result, according to industry consultant Frost & Sullivan, the average price of our principal raw materials is expected to decrease in 2019.

We currently purchase almost all of our new materials from a very small number of suppliers. Purchases from our five largest suppliers amounted to 99.8%, 99.7% and 99.1% of our total raw material purchases in 2018, 2017 and 2016, respectively. To date, we have been able to obtain favorable pricing and delivery terms from these suppliers. However, if we were to increase the scale of our production, we may need to further diversify our supplier network and, as a result, may not be able to obtain favorable pricing and delivery terms from new suppliers.

Slow Growth of the Chinese Economy

We operate our manufacturing facilities in China and derive the majority of our revenues from sales to customers in China. As such, economic conditions in China affect virtually all aspects of our operations, including the demand for our products, the availability and prices of our raw materials and our other expenses. Although the economy in China has grown significantly in the past decades, any slow-down of economic growth in China could reduce expenditures for infrastructure, which in turn may adversely affect our operating results and financial condition. For example, the weakness in the economy could reduce the investment in infrastructure, which, in turn, could result in demand for our products and our revenues may decline. Furthermore, any financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

Level of income tax and preferential tax treatment

Our net income is affected by the income tax that we pay and any preferential tax treatment that we are able to receive. Our operating subsidiaries are subject to the PRC enterprise income tax, or EIT. According to the relevant laws and regulations in the PRC, foreign invested enterprises established prior to January 1, 2008 are entitled to full exemption from income tax for two years beginning with the first year in which such enterprise is profitable and a 50% income tax reduction for the subsequent three years. Ossen Materials was entitled to an EIT exemption during the two years ended December 31, 2006 and was subject to a 50% income tax reduction during the three years ended December 31, 2009. Ossen Jiujiang was entitled to the EIT exemption during the two years ended December 31, 2008, and a 50% income tax reduction during the three years ended December 31, 2012.

Ossen Materials was subject to a 15% tax rate through 2012 as the result of its being designated a high-tech enterprise. In 2012, Ossen Materials renewed its status of high-tech enterprise, and would be subject to a 15% tax rate through 2015. In 2015, Ossen Materials renewed its status of high-tech enterprise again, and was subject to a 15% tax rate through 2018. In 2018, Ossen Materials renewed its status of high-tech enterprise again and will be subject to a 15% tax rate through 2020. Ossen Jiujiang was subject to a 15% tax rate through 2011 as the result of its being designated a high-tech enterprise. Since January 1, 2012, Ossen Jiujiang has enjoyed a tax rate of 15% as it is considered as a high-tech enterprise. In 2015, Ossen Jiujiang successfully renewed its status of high-tech enterprise, and was subject to a 15% tax rate through 2018. In 2018, Ossen Jiujiang renewed its status of high-tech enterprise again and will be subject to a 15% tax rate through 2021. In the event that our income tax obligations increase over time, our net income will be affected.

Foreign currency translation

Our financial statements are expressed in U.S. dollars but the functional currency of our operating subsidiaries is RMB. Our results of operations are translated at average exchange rates during the relevant financial reporting periods, assets and liabilities are translated at the unified exchange rate at the end of these periods and equity is translated at historical exchange rates. Adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income.

Description of Selected Income Statement Items

Revenues. We generate revenue from sales of our prestressed steel products, including plain surface products and rare earth coated products. We also derive an insignificant amount of revenue from providing services to select customers. Service revenues account for less than 2% of total revenues for all periods presented and is recognized upon delivery and acceptance of the finished products by the customer, or when pick up occurs.

Cost of goods sold. Cost of goods sold includes direct and indirect production costs, as well as freight and handling costs for products sold.

Selling expenses. Selling expenses consist of sales commissions, payroll, traveling expenses, transportation expenses and advertising expenses. For example, we typically pay our international distribution customers a commission ranging from 0.5% to 5% of invoiced amounts (including VAT) actually paid to us.

General and administrative expenses. General and administrative expenses consist primarily of research and development expense, management and office salaries and employee benefits, depreciation for office facility and office equipment, travel and entertainment, legal and accounting, consulting fees and other office expenses.

Financial expenses. Financial expenses consist of interest expense on bank loans, interest income.

Other Income. Our other income consisted of government grants and revenue from sales of scrap materials.

Income Taxes. Ossen Materials and Ossen Jiujiang have been recognized by their respective local government agencies as high-tech enterprises. As a result, both subsidiaries were subject to an income tax rate of 15% under relevant PRC income tax laws in 2016, 2017 and 2018.

Results of Operations

The following table sets forth the key components of our results of operations for the periods indicated, in dollars and as a percentage of revenue.

	For the Year Ended December 31,					
	2018	% of Revenue	2017	% of Revenue	2016	% of Revenue
Revenues	136,104,867	100.0%	132,375,915	100.0%	117,029,154	100.0%
Cost of Goods Sold	115,585,803	84.9%	117,721,799	88.9%	100,932,528	86.2%
Gross profit	20,519,064	15.1%	14,654,116	11.1%	16,096,626	13.8%
Selling expenses	327,365	0.2%	598,832	0.5%	734,159	0.6%
General and administrative expenses	5,263,914	3.9%	6,002,121	4.5%	6,376,383	5.4%
Total operating expenses	5,591,279	4.1%	6,600,953	5.0%	7,110,542	6.1%
Income from operation	14,927,785	11.0%	8,053,163	6.1%	8,986,084	7.7%
Financial expenses, net	(1,621,486)	-1.2%	(1,610,337)	-1.2%	(2,827,138)	-2.4%
Other income, net	208,071	0.2%	147,108	0.1%	90,584	0.1%
Income before income taxes	13,514,370	9.9%	6,589,934	5.0%	6,249,530	5.3%
Income Taxes	(2,129,387)	-1.6%	(691,556)	-0.5%	(926,048)	-0.8%
Net Income	11,384,983	8.64%	5,898,378	4.5%	5,323,482	4.5%
Less: net income attributable to non-controlling interest	1,005,530	0.7%	553,067	0.4%	499,509	0.4%
Net income attributable to controlling interest	10,379,453	7.6%	5,345,311	4.0%	4,823,973	4.1%
Other comprehensive income- Foreign currency translation gain (loss)	(6,272,303)	-4.6%	6,606,207	5.0%	(6,975,100)	-6.0%
Total other comprehensive income (loss)	(6,272,303)	-4.6%	6,606,207	5.0%	(6,975,100)	-6.0%
Comprehensive Income	4,107,150	3.0%	11,951,518	9.0%	(2,151,127)	-1.8%

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues. During the year ended December 31, 2018, we had revenues of approximately \$136.1 million as compared to revenues of approximately \$132.4 million during year ended December 31, 2017, an increase of approximately \$3.7 million, or 2.8%. The increase in our revenues during the year ended December 31, 2018 was mainly attributable to a 124.0% increase in sales of zinc coated PC wires and PC strands, partially offset by an 8.1% decrease in rare earth coated products, a 20.3% decrease in plain surface products and a 43.4% decrease in other products.

The following table provides a breakdown of our revenues during the years ended December 31, 2018 and 2017, respectively:

	Year ended December 31,		Year ended December 31,		Difference
	2018		2017		
	Revenue (\$)	% of Total Revenue	Revenue (\$)	% of Total Revenue	
Products:					
Plain surface PC strands	4,812,541	3.5%	6,037,207	4.6%	-20.3%
Zinc coated PC wires and PC strands	26,834,870	19.7%	11,978,159	9.0%	124.0%
Rare earth coated PC wires and PC strands	103,368,148	76.0%	112,437,410	84.9%	-8.1%
Others	1,089,308	0.8%	1,923,138	1.5%	-43.4%
Total	136,104,867	100%	132,375,915	100%	2.8%

The market demand for our rare earth coated PC wires and PC strands decreased in 2018, which motivated us to focus on the production and sale of zinc coated products. As a result, the sales of rare earth coated PC wires and PC strands decreased by \$9.1 million, or 8.1%, to \$103.4 million for the year of 2018.

The sales of zinc coated PC wires and PC strands were \$26.8 million during the year ended December 31, 2018, an increase of 124.0%, compared to the year ended December 31, 2017. The increase of sales generated by zinc coated products in 2018 was primarily due to our efforts to focus on the production and sale of zinc coated products and increased market demand for such products in 2018.

The sales of plain surface PC strands and PC wires were \$4.8 million during the year ended December 31, 2018, a decrease of \$1.2 million, or 20.3%, compared to the year ended December 31, 2017. This decrease of sales generated by plain surface PC strands and PC wires was primarily due to decreased market demand during the period.

Other sales were \$1.1 million during the year ended December 31, 2018, a decrease of \$0.8 million, or 43.4%, compared to the year ended December 31, 2017. This decrease was primarily due to fewer scrap materials sold in 2018 compared to 2017 and the decrease of service revenue.

Cost of Goods Sold. Cost of goods sold was approximately \$115.6 million during the year ended December 31, 2018, as compared to approximately \$117.7 million during the year ended December 31, 2017, representing a decrease of 1.8%, or approximately \$2.1 million. This decrease occurred mainly because the total sales volume decreased in 2018 and the average price of raw materials did not increase as much as the average sale price of our products. As a percentage of revenues, cost of goods sold decreased from 88.9% to 84.9% during the year ended December 31, 2018.

Gross Profit and Gross Margin. Our gross profit is equal to the difference between our revenues and our cost of goods sold. Our gross profit increased 40.0% to approximately \$20.5 million during the year ended December 31, 2018, from approximately \$14.7 million for the same period in 2017. For the years ended December 31, 2018 and 2017, our gross margin was 15.1% and 11.1%, respectively. The increase of gross margin was primarily due to the increase of the prices of our steel products.

Selling Expenses. Selling expenses totaled \$0.3 million for the year ended December 31, 2018, as compared to \$0.6 million for the year ended December 31, 2017, a decrease of 45.3%. This decrease was primarily due to lower freight and sales commission for export sales and lower transportation cost for domestic sales as more projects were in closer proximity in 2018.

General and Administrative Expenses. General and administrative expenses totaled \$5.3 million for the year ended December 31, 2018, as compared to \$6.0 million for the year ended December 31, 2017, a decrease of 12.3%. The decrease in 2018 was primarily due to lower research and development cost for customized products in 2018.

Operating Income. As a result of the foregoing, operating income for the year ended December 31, 2018 was approximately \$14.9 million, an increase of 85.4% as compared to approximately \$8.1 million for the same period in 2017. As a percentage of net sales, operating income increased from 6.1% to 11.0% during the year ended December 31, 2018. This increase was primarily due to higher gross profit and lower operating expenses.

Income Taxes. We incurred income tax expenses of \$2.1 million and \$0.7 million in the fiscal years ended December 31, 2018 and 2017, respectively. Ossen Materials and Ossen Jiujiang were subject to a 15% tax rate as the result of being designated as high-tech enterprises through 2018.

Net Income. As a result of the foregoing, our net income totaled approximately \$11.4 million for the year ended December 31, 2018, as compared to approximately \$5.9 million for the year ended December 31, 2017, an increase of 93.0%.

Net Income Attributable to Non-controlling Interest. We own 81% of Ossen Materials and 96.1% of Ossen Jiujiang in the aggregate. Net income attributable to non-controlling interest represents the net income attributable to the holders of the remaining shares. Our net income attributable to non-controlling interest totaled approximately \$1.0 million for the year ended December 31, 2018, as compared to approximately \$0.6 million for the year ended December 31, 2017.

Foreign Currency Income (Loss). For the year ended December 31, 2018, foreign currency exchange loss was \$6.3 million, compared to foreign currency exchange gain of \$6.6 million, for the year ended December 31, 2017. The loss was due to the weakening of the exchange rate of the RMB versus the US dollar in 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues. During the year ended December 31, 2017, we had revenues of approximately \$132.4 million as compared to revenues of approximately \$117.0 million during year ended December 31, 2016, an increase of approximately \$15.4 million, or 13.1%. The increase in our revenues during the year ended December 31, 2017 was mainly attributable to a 10.9% increase in sales of rare earth coated PC wires and PC strands, a 46.1% increase in zinc coated PC wires and PC strands, and a 14.9% increase in plain surface PC strands, partially offset by a 13.2% decrease in other products.

The following table provides a breakdown of our revenues during the years ended December 31, 2017 and 2016, respectively:

	Year ended December 31,				Difference
	2017		2016		
Products:	Revenue (\$)	% of Total Revenue	Revenue (\$)	% of Total Revenue	
Plain surface PC strands	6,037,207	4.6%	5,256,109	4.5%	14.9%
Zinc coated PC wires and PC strands	11,978,159	9.0%	8,195,801	7.0%	46.1%
Rare earth coated PC wires and PC strands	112,437,410	84.9%	101,361,992	86.6%	10.9%
Others	1,923,138	1.5%	2,215,252	1.9%	-13.2%
Total	132,375,915	100%	117,029,154	100%	13.1%

The demand for our rare earth coated PC wires and PC strands continue to improve in 2017. However, the demand for lower strength coated materials was greater than demand for higher strength coated materials. We used lower grade raw materials for some of our rare earth coated products to improve margins without sacrificing product strength or quality. As a result, the sales of rare earth coated PC wires and PC strands increased by \$11.1 million, or 10.9%, to \$112.4 million for the year of 2017.

The sales of zinc coated PC wires and PC strands were \$12.0 million during the year ended December 31, 2017, an increase of 46.1%, compared to the year ended December 31, 2016. The increase of sales generated by zinc coated products in 2017 was primarily due to our efforts to take advantage of the improved market condition and customer demand and promoting the products in 2017.

The sales of plain surface PC strands and PC wires were \$6.0 million during the year ended December 31, 2017, an increase of \$0.8 million, or 13.9%, compared to the year ended December 31, 2016. This increase of sales generated by plain surface PC strands and PC wires was primarily due to favorable wholesale market demand during the period.

Other sales were \$1.9 million during the year ended December 31, 2017, a decrease of \$0.3 million, or 13.2%, compared to the year ended December 31, 2016. This decrease was primarily due to fewer spare raw materials sold in 2017 compared to 2016 and the decrease of service revenue.

Cost of Goods Sold. Cost of goods sold was approximately \$117.7 million during the year ended December 31, 2017, as compared to approximately \$100.9 million during the year ended December 31, 2016, representing an increase of 16.6%, or approximately \$16.8 million. This increase mainly resulted from the increase of revenues and the increase of raw material costs. As a percentage of revenues, cost of goods sold increased from 86.2% to 88.9% during the year ended December 31, 2017.

Gross Profit and Gross Margin. Our gross profit is equal to the difference between our revenues and our cost of goods sold. Our gross profit decreased 9.0% to approximately \$14.7 million during the year ended December 31, 2017, from approximately \$16.1 million for the same period in 2016. For the years ended December 31, 2017 and 2016, our gross margin was 11.1% and 13.8%, respectively. The decrease of gross margin was primarily due to the increase of the price of raw materials and because the orders for plain surface products were mainly wholesale orders, which normally have lower gross profit margin than the retail orders we had in 2016.

Selling Expenses. Selling expenses totaled \$0.6 million for the year ended December 31, 2017, as compared to \$0.7 million for the year ended December 31, 2016, a decrease of 18.4%. This decrease was primarily due to lower sales commission and lower transportation cost in 2017.

General and Administrative Expenses. General and administrative expenses totaled \$6.0 million for the year ended December 31, 2017, as compared to \$6.4 million for the year ended December 31, 2016, a decrease of 5.9%. The decrease in 2017 was primarily due to lower bad-debt provision, partially offset by higher research and development cost in 2017.

Operating Income. As a result of the foregoing, operating income for the year ended December 31, 2017 was approximately \$8.1 million, a decrease of 10.4% as compared to approximately \$9.0 million for the same period in 2016. As a percentage of net sales, operating income decreased from 7.7% to 6.1% during the year ended December 31, 2017. This decrease was primarily due to lower gross profit partially offset by lower operating expenses.

Income Taxes. We incurred income tax expenses of \$0.7 million and \$0.9 million in the fiscal years ended December 31, 2017 and 2016, respectively. Ossen Materials and Ossen Jiujiang were subject to a 15% tax rate as the result of being designated as high-tech enterprises through 2018.

Net Income. As a result of the foregoing, our net income totaled approximately \$5.9 million for the year ended December 31, 2017, as compared to approximately \$5.3 million for the year ended December 31, 2016, an increase of 10.8%.

Net Income Attributable to Non-controlling Interest. We own 81% of Ossen Materials and 96.1% of Ossen Jiujiang in the aggregate. Net income attributable to non-controlling interest represents the net income attributable to the holders of the remaining shares. Our net income attributable to non-controlling interest totaled approximately \$0.6 million for the year ended December 31, 2017, as compared to approximately \$0.5 million for the year ended December 31, 2016.

Foreign Currency Income (Loss). For the year ended December 31, 2017, foreign currency exchange gain was \$6.6 million, compared to foreign currency exchange loss of \$6.9 million, for the year ended December 31, 2016. The gain was due to the strengthening of the exchange rate of the RMB versus the US dollar in 2017.

Critical Accounting Policies and Estimates

Our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Our financial statements reflect the selection and application of accounting policies, which require management to make significant estimates and judgments. See Note 2 to our consolidated financial statements for “Summary of Significant Accounting Policies.” We believe that the following paragraphs reflect the most critical accounting policies that currently affect our financial condition and results of operations.

Use of Estimates

The preparation of the consolidated and combined financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. Actual results could differ from those estimates.

Revenue Recognition

In accordance with the ASC Topic 606, “Revenue Recognition”, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller’s price to the buyer is fixed or determinable, and collectability is reasonable assured.

The Company derives revenues from the processing, distribution and sale of own products. The Company recognizes its revenues net of value-added taxes (“VAT”). The Company was subject to VAT which was levied on the rate of 17% on the invoiced value of sales before May 1, 2018. After May 1, 2018, the Company’s VAT rate is 16% which applies to the manufacturing sector in China. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales.

The Company will recognize revenue for domestic sales based on the terms defined in the contract as long as risk of loss has transferred to the customers and each of the criteria under ASC 606 have been met. Contracts terms may require the Company to deliver the finished goods to the customers’ location or the customer may pick up the finished goods at the Company’s factory. International sales are recognized when shipment clears customs and leaves the port.

Contracts with distributors do not offer any chargeback or price protection. The Company experienced no product returns and recorded no reserve for sales returns for the years ended December 31, 2018, 2017 and 2016.

Research and Development

Research and development costs are expensed as incurred and totaled approximately \$3,345,097, \$4,269,512 and \$3,869,277 for the years ended December 31, 2018, 2017 and 2016, respectively. Research and development costs are included in general and administrative expenses in the accompanying statements of operations. Research and development costs are incurred on a project specific basis.

Income Taxes

The Company accounts for income taxes following the liability method pursuant to FASB ASC 740 "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in income in the period that includes the enactment date.

The Company also follows FASB ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2016, the Company did not have a liability for unrecognized tax benefits. It is unlikely that the amount of liability for unrecognized tax benefits will significantly change over the next 12 months. It is the Company's policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary. The Company's historical tax years will always remain open for examination by the local authorities.

The Company has not provided for income taxes on accumulated earnings amounting \$68,673,561 that are subject to the PRC dividend withholding tax as of December 31, 2018, since these earnings are intended to be permanently reinvested.

Fair Value of Financial Instruments

The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, to the financial instruments that are required to be carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company uses a three-tier fair value hierarchy based upon observable and non-observable inputs that prioritizes the information used to develop our assumptions regarding fair value. Fair value measurements are separately disclosed by level within the fair value hierarchy. FASB ASC 820 (formerly SFAS No. 157 Fair Value Measurements) establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market

These tiers include:

- Level 1—defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2—defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3—defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The company's financial instruments primarily consist of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, other payables and accrued liabilities, short-term bank loans, and bond payable.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short term nature of these items. The estimated fair values of short-term bank loans were not materially different from their carrying value as presented due to the short maturities and that the interest rates on the borrowing approximate those that would have been available for loans of similar remaining maturity and risk profile. As the carrying amounts are reasonable estimates of the fair value, these financial instruments are classified within Level 1 of the fair value hierarchy.

Accounts Receivable

Accounts receivable are carried at net realizable value. The Company reviews its accounts receivables on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. Balance of allowance of doubtful accounts was \$939,535 and \$868,973 at December 31, 2018 and 2017, respectively. The increase was mainly due to the increase of accounts receivable as of December 31, 2018.

Inventories

Inventories are stated at the lower of cost or net realizable value, which is based on estimated selling prices less any further costs expected to be incurred for completion and disposal. Cost of raw materials is calculated using the weighted average method and is based on purchase cost. Work-in-progress and finished goods costs are determined using the weighted average method and comprise direct materials, direct labor and an appropriate proportion of overhead. The Company considers a provision for excess, obsolete, or slow-moving inventory based on changes in customer demand, technology developments or other economic factors. At December 31, 2018 and 2017, the Company has \$121,370 and \$127,766 reserve for inventories, respectively.

Advance to Suppliers

Advance to Suppliers represents interest-free cash paid in advance to suppliers for purchases of raw materials. The balance of advance to suppliers was \$69,986,656 and \$71,280,903 at December 31, 2018 and 2017, respectively. Among the balance of \$69,986,656, the aging of \$36,913,322 was within 60 days, \$25,541,361 was between 60-180 days and \$7,531,973 was over 180 days. High carbon steel wire rods are the primary raw material required to manufacture prestressed steel materials. Most suppliers of high carbon steel wire rods require advance payment. Advance to suppliers at December 31, 2018 decreased from 2017 due to the strengthening of the U.S. dollar at the end of 2018 as compared to the end of 2017. Advance to suppliers in RMB at December 31, 2018 increased slightly from 2017 in order to secure favorable treatment in terms of supply of raw materials. No allowance was provided for the prepayments balance at December 31, 2018.

In 2018, the PRC steel industry completed the process of reducing overcapacity which resulted in the increase of the average steel price. However, we were able to receive raw materials delivered by our suppliers in 2018 at a discounted price, locked in by prepayments. We expect to continue using the advance payment to suppliers to lock a discounted price of raw materials and the balance of advance to suppliers may fluctuate depending on the market development.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation, and include expenditure that substantially increases the useful lives of existing assets.

Depreciation is provided over their estimated useful lives, using the straight-line method. Estimated useful lives are as follows:

Plant, buildings and improvements	5 ~ 20 years
Machinery and equipment	5 ~ 20 years
Motor vehicles	5 years
Office Equipment	5 ~ 10 years

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is recognized in the period of disposition as an element of other income. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and betterments are capitalized.

Land Use Rights

According to the PRC laws, the government owns all the land in the PRC. Companies or individuals are authorized to possess and use the land only through land use rights granted by the Chinese government. The land use rights granted to the Company are being amortized using the straight-line method over the lease term of fifty years.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with FASB ASC 360, "Property, Plant and Equipment".

In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with FASB ASC 360-10-15. To the extent that estimated future, undiscounted cash inflows attributable to the asset, less estimated future, undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

No impairment loss is subsequently reversed even if facts and circumstances indicate recovery. There was no impairment loss recognized for the years ended December 31, 2018, 2017 and 2016.

Related Party

In general, related parties exist when there is a relationship that offers the potential for transactions at less than arm's-length, favorable treatment, or the ability to influence the outcome of events different from that which might result in the absence of that relationship. A related party may be any of the followings: a) affiliate, a party that directly or indirectly controls, is controlled by, or is under common control with another party; b) principle owner, the owner of record or known beneficial owner of more than 10% of the voting interest of an entity; c) management, persons having responsibility for achieving objectives of the entity and requisite authority to make decision; d) immediate family of management or principal owners; e) a parent company and its subsidiaries; d) other parties that has ability to significant influence the management or operating policies of the entity.

FASB issued authoritative guidance that clarifies considerations relating to the consolidation of certain entities. The guidance requires identification of the Company's participation in variable interest entities ("VIE"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operation on a standalone basis, or whose equity holders lack certain characteristics of a controlling financial interest. That, for entities identified as a VIE, the guidance sets forth a model to evaluate potential consolidation based on an assessment of which party to a VIE, if any, bears a majority of the exposure to expected losses, or stand to gain from majority of its expected returns. The guidance also sets forth certain disclosure regarding interests in a VIE that are deemed significant even if consolidation is not required. This item is discussed in further detail in Note 10 – Related Party Transactions.

Recently adopted Accounting Pronouncements

In May 2014, the FASB issued a new standard on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step principles-based approach to recognizing revenue. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive. The new standard also requires additional qualitative and quantitative information about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." This ASU amends existing guidance to require that deferred income tax assets and liabilities be classified as non-current in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax assets and liabilities into a current amount and a non-current amount in a classified balance sheet. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory, which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash," ("ASU 2016-18"). This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 - Leases (Topic 842). Under the new guidance, a lessee is required to recognize lease liabilities and corresponding right-of-use assets, initially measured at the present value of lease payments, on the balance sheet for operating leases with terms greater than one year. Lessor accounting remains largely unchanged from existing lease accounting. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. If the lessee makes the election, the lessee would recognize lease expense on a straight-line basis over the lease term. This ASU is effective in annual reporting periods beginning after December 15, 2018 and the interim periods within that fiscal year. The Company is still evaluating the potential impacts that the implementation of ASU 2016-02 may have on its financial position, operational results, or cash flows.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments", to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. Subsequently, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, to clarify that receivables arising from operating leases are within the scope of lease accounting standards. The ASUs are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASUs is modified retrospective. We are currently obtaining an understanding of the ASUs and plan to adopt them on January 1, 2020.

In January 2017, the FASB issued ASU No. 2017-04 (Topic 350) Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment, which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU will be applied on a prospective basis and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In February 2018, the FASB released ASU 2018-2, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This standard update addresses a specific consequence of the Tax Cuts and Jobs Act (“U.S. tax reform”) and allows a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from U.S. tax reform. Consequently, the update eliminates the stranded tax effects that were created as a result of the historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The Company is required to adopt this standard in the first quarter of fiscal year 2020, with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has finished the evaluation and determined there is no impact of on its Consolidated Financial Statements.

In June 2018, the FASB issued ASU No. 2018-07 – Compensation – Stock Compensation (Topic 718). The ASU was issued as part of its Simplification Initiative to reduce costs and complexities of financial reporting. ASU No. 2018-07 simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. Currently, share-based payments transactions to nonemployees are measured at fair value and remeasured at each reporting date through the date of final vesting. This ASU changes the guidance related to the determination of the measurement date. Under the new guidance, equity-classified awards would be measured at the grant date. This ASU is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early adoption is permitted if financial statements have not yet been issued. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. The new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

5B. Liquidity and Capital Resources

We have historically met our working capital and capital expenditure requirements by using both net cash flow from operations and by bank borrowings, including loans from banks and bank acceptance notes. We expect to finance our operations and working capital needs in the near future from cash generated from operations and short-term borrowings, including lines of credit from local banks, which can be utilized to fund our short term operation and fulfill liabilities.

Our cash and cash equivalents, and restricted cash which are denominated in RMB, were approximately \$3.4 million and \$4.1 million at December 31, 2018, as compared to \$1.0 million and \$7.2 million at December 31, 2017. The increase in cash and cash equivalents and the decrease in restricted cash were mainly because the decrease in bank acceptance notes. For the years ended December 31, 2017 and 2018, we used a significant portion of our cash reserve to purchase raw materials to satisfy our production needs and to maintain satisfactory levels of inventory. In 2016, 2017 and 2018, Chinese central bank, the People's Bank of China, maintained a prudent and neutral monetary policy and local banks have generally maintained tight lending policies, in addition to the Chinese government's policy to reduce the country's steel capacity which resulted in further tightened lending to steel companies, thereby limiting our ability to borrow funds for working capital purpose. In 2016, we were able to generate net profits and positive cash flow from operating activities. In 2017, we had net profits, but net cash used in operating activities was \$3.0 million. In 2018, we had net profits and positive cash flow from operating activities. We believe that our cash reserves, together with expected cash flow from operations and short-term loans, are sufficient to allow us to continue to operate for the next 12 months. For details of our bank loans and notes payables please see "Bank Loans and Bank Acceptance Notes" below.

We had \$5.0 million of accounts receivable aged over 180 days as of December 31, 2017. We had \$5.8 million of accounts receivable aged over 180 days as of December 31, 2018. As of April 1, 2019, we have collected approximately \$29.4 million of the \$60.6 million of accounts receivable outstanding as of December 31, 2018. The remaining approximately \$31.2 million of uncollected accounts receivable are mainly from construction companies that have long-term business relationship with us. Based on our historical experience, most of these projects are government sponsored programs and we are confident that we will be able to collect the balance when the projects are completed.

We believe that current cash balances, future cash provided by operations, and amounts available under our line of credit or bank borrowings will be sufficient to cover our operating and capital needs in the ordinary course of business for the foreseeable future. If we experience an adverse operating environment or unanticipated and unusual capital expenditure requirements, additional financing may be required. No assurance can be given, however, that additional financing, if required, would be available at all or on favorable terms. We might also require or seek additional financing for the purpose of bidding new projects growing our existing markets, or for other reasons. Such financing may include the use of additional debt or the sale of additional equity securities. Any financing which involves the sale of equity securities or instruments that are convertible into equity securities could result in immediate and possibly significant dilution to our existing shareholders.

Accounts Receivable

In 2016, 2017 and 2018, the accounts receivable collection period of our domestic customers was approximately 126, 123 and 150 days after receiving the materials at their construction site, respectively. As of December 31, 2018, our accounts receivable increased to \$60.6 million from \$51.7 million at December 31, 2017 as a result of slower collection of accounts receivable in 2018.

The average Days Sales Outstanding ("DSO") of 2016, 2017 and 2018 were 126, 123 days and 150 days, respectively. The DSO as of December 31, 2016, 2017 and 2018 were 116, 142 and 162 days, respectively. The increase in DSO as of December 31, 2018 was primarily due to the slower payments from our customers during 2018.

The following table describes the aging of our accounts receivable during 2016, 2017 and 2018:

As of Date	Account Receivables				
	Balance (in US Dollars)	<60 days	60-90 days	90-180 days	>180 days
December 31, 2018	60,586,869	40,328,956	7,571,838	6,900,964	5,785,111
December 31, 2017	51,699,930	37,801,468	0	8,854,564	5,043,898
December 31, 2016	37,298,465	24,914,390	8,698,708	951,302	2,734,065

As of April 1, 2019, we have collected approximately \$29.4 million or 48.5% of the \$60.6 million of accounts receivable outstanding as of December 31, 2018 in cash. See Note 2 to our audited financial statements for a schedule of our valuation account.

Major Customers

During the years ended December 31, 2018, 2017 and 2016, our six largest customers contributed 68.3%, 74.8% and 81.4% of our total sales, respectively. See “Business—Our Customers” above. As a result of our reliance on a limited number of customers, we may face pricing and other competitive pressures, which may have a material adverse effect on our profits and our revenues. The volume of products sold for specific customers varies from year to year, especially since we are not the exclusive supplier for any customers. In addition, there are a number of factors, other than our performance, that could cause an unpredictable loss of a customer or substantial reduction in the business. For example, our customers may decide to reduce spending on our products due to insufficient funding or delay of the project, or a customer may no longer need our products following the completion of a project. The loss of any one of our major customers, a decrease in the volume of sales to these customers or a decrease in the price at which we sell our products to them could materially adversely affect our profits and our revenues.

In addition, this customer concentration may subject us to perceived or actual leverage that our customers may have in negotiations with us, given their relative size and importance to us. If our customers seek to negotiate their agreements on terms less favorable to us and we accept such unfavorable terms, such unfavorable terms may have a material adverse effect on our business, financial condition and results of operations. Accordingly, unless and until we diversify and expand our customer base, our future success will significantly depend upon the timing and volume of business from our largest customers and the financial and operational success of these customers.

Bank Loans and Bank Acceptance Notes

At December 31, 2018, we had approximately \$13.6 million of short-term bank loans and \$8.7 million of bank acceptance notes outstanding, as compared to approximately \$13.9 million of short-term bank loans and \$10.3 million of bank acceptance notes outstanding at December 31, 2017 and \$16.9 million and \$9.6 million at December 31, 2016, respectively. In 2018, Chinese government and Chinese banks were still conservative in lending to certain industries including steel industry and our domestic customers.

Our notes payable of \$9.6 million at December 31, 2016, \$10.3 million at December 31, 2017 and \$8.7 million at December 31, 2018 represented the amount of bank acceptance notes our suppliers received from us for our purchases of raw materials. These notes were issued by financial institutions, typically by banks, that entitle our suppliers to receive the full face amount from the bank or financial institution at maturity. Our notes payable are interest-free and range from six months to one year from the date of issuance. These notes are subject to bank charges of 0.05% of the principal amount as commission on each issuance and in total were secured by \$6.7 million, \$7.2 million and \$4.1 of restricted cash as of December 31, 2016, 2017 and 2018, respectively. Bank acceptance notes are commonly used in domestic China due to their enhanced credibility and the liquidity it provides to the bearer. The bearer always has the option to cash the bank acceptance notes before maturity at its issuing bank and receive a discounted amount in cash. We expect that bank acceptance notes will continue to account for a material portion of our total receivables and payables in the near future.

Short-term bank loans were obtained from local banks in China. All short-term bank loans are repayable within one year and are secured by a portion of our property, plant and equipment and land use rights, or guaranteed by related parties. None of our short-term bank loans have financial covenants. However, each loan contains a covenant that restricting our use of the funds to either purchases of raw materials or working capital.

The weighted average annual interest rate of our short-term bank loans was 5.71%, 6.41% and 6.11% as of December 31, 2018, 2017 and 2016, respectively. Interest expense was \$0.9 million, \$0.9 million and \$1.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Due to the Chinese government’s policy to reduce the country’s steel capacity, Chinese banks further tightened lending to steel companies. We were also affected by this policy and we had to repay a portion of our short term bank loans in 2017 without being able to roll-over such loans into new short-term loans. However, we did not experience difficulties in the rollover of the remaining short-term bank loans that we use to fund our daily operations in 2017. In 2018, we were able to rollover substantially all short-term bank loans and we anticipate rollovers of substantially all current facilities that are set to mature in 2019. We also anticipate a slight reduction in the availability of short-term bank loans in 2019 but we do not anticipate any difficulties to fund our operations. In the past, our affiliates, namely Ossen Material Research (formerly Shanghai ZFX), Shanghai Ossen, and Ossen Shanghai, have provided guarantees for certain of our short-term bank loans for no consideration. There can be no assurance that they will be willing or able to continue to provide similar guarantees on this basis with respect to future borrowings. We usually maintain lines of credit with several local banks, which will be utilized to fund our short term operation and fulfill liabilities.

Working Capital

Our working capital was approximately \$113.1 million at December 31, 2018, as compared to \$114.7 million at December 31, 2017 and \$101.6 million at December 31, 2016.

The working capital decrease of \$1.6 million in 2018 as compared with 2017 was due primarily to the increase of the current portion of long-term bank loans and customer deposits, partially offset by the increase in accounts receivable and inventories. The working capital increase of \$13.1 million in 2017 as compared with 2016 was due primarily to the increase of accounts receivable and advance to suppliers, partially offset by the decrease in note receivable and inventories.

Inventories

We, like many other steel product manufacturers, maintain substantial inventories of steel to accommodate the short lead times and just-in-time delivery requirements of our customers. Accordingly, we purchase steel in an effort to maintain our inventory at levels that we believe to be appropriate to satisfy the anticipated needs of our customers based upon historic buying practices, supply agreements with customers and market conditions.

Cash Flows

In 2017, our cash flow from operations was negative primarily due to the increase in advance to suppliers and accounts receivable. In 2018, our cash flow from operations was positive primarily due to the increases in net income and customer deposits, and a decrease in advance to suppliers, partially offset by the increases in accounts receivable and inventories.

Years Ended December 31, 2018 and 2017

The following table sets forth a summary of our net cash flow information for the periods indicated:

	Year Ended December 31,	
	2018	2017
Net cash provided by (used in) operating activities	\$ 7,619,314	\$ (3,019,725)
Net cash used in investing activities	(72,305)	(37,848)
Net cash used in financing activities	(700,151)	(3,808,613)

Operating Activities

Net cash provided in operating activities was approximately \$7.6 million in 2018, as compared to \$3.0 million of net cash used in operating activities in 2017. This was the result of a \$5.5 million increase in net income due to higher revenue, a \$1.3 million decrease in advance to suppliers due to the stronger U.S. dollar, a \$4.8 million increase in customer deposits and a \$1.3 million increase in due to shareholder, partially offset by a \$8.9 million increase in accounts receivable due to slower payment from our customers and a \$3.7 million increase in inventories due to lower consumption of raw materials at the end of 2018.

Investing Activities

Net cash used in investing activities was \$72,305 in 2018, as compared to \$37,848 of net cash used in investing activities in 2017 as the result of more spending in maintenance and repair of production lines in 2018.

Financing Activities

Net cash used in financing activities in 2018 was approximately \$0.7 million, as compared to approximately \$3.8 million of net cash used in financing activities in 2017. The decrease in cash used in financing activities was the result of an increase in proceeds from short-term bank loans, a decrease in repayment of notes payable, partially offset by a decrease in proceeds from notes payable.

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

See the discussion under the headings “Research and Development”, “Intellectual Property” and “Patents” in Item 4 above.

5D. Trend Information

See discussion in Parts A and B of this item.

5.E. Off-Balance Sheet Arrangements

As of December 31, 2018 we guaranteed \$74.1 million short-term debt and \$2.9 million of notes payable for Shanghai Pujiang. We do not have any other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

5.F. Tabular Disclosure of Contractual Obligations

Our contractual obligations consist of short-term and long-term debt obligations. The following table sets forth a breakdown of our contractual obligations as of December 31, 2018:

CONTRACTUAL OBLIGATIONS	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt obligations ⁽¹⁾	22,315,912	22,315,912	-	-	-
Interest Commitments – Short-term bank loans	448,746	448,746	-	-	-
Long-term debt obligations ⁽²⁾	7,269,027	7,269,027	-	-	-
Interest Commitments – Long-term bank loans	404,196	404,196	-	-	-
Total	30,437,881	30,437,881	-	-	-

(1) Attributable to short-term bank loans and bank acceptance notes.

(2) Attributable to long-term bank loans. Less than 1 year is the current portion of long-term bank loans.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors, Executive Officers and Key Employees

The following table sets forth the name, age, positions and a brief description of the business experience of each of our directors, executive officers and key employees as of the date hereof.

<u>Name</u>	<u>Position(s)</u>	<u>Age</u>
Liang Tang	Chairman of the Board	51
Wei Hua	Chief Executive Officer, Chief Financial Officer and Director	57
Junhong Li	Director	53
Xiaobing Liu	Director	60
Yingli Pan	Director	63
Zhongcai Wu	Director	70

There are no family relationships among our directors and officers. There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management, except as disclosed in Note 10 in the “accompanying consolidated financial statements”. The address of each of our directors and executive officers is c/o Ossen Innovation Co., Ltd., 518 Shangcheng Road, Floor 17, Shanghai, 200120, People’s Republic of China.

Executive Officers and Directors

Dr. Liang Tang was appointed as our Chairman following our business combination. Dr. Tang has been the Chairman and President of Ossen Materials, our subsidiary, since 2008. Dr. Tang has also been President of Shanghai Ossen Investment Holding (Group) Co., Ltd. since 2001. He has more than 20 years of experience in the steel industry. Prior to joining our Company in 2004, Dr. Tang first worked as an officer of the enterprise management office at Baosteel Group Shanghai Ergang Co., Ltd. from July 1988 to March 1993 and then promoted and worked as the deputy director of the enterprise management office from March 1993 to November 1994. He then served as the deputy head of the enterprise administrative division of the Shanghai Municipal Metallurgical Industry Bureau from November 1994 to May 1998. From May 1998 to May 2001, Dr. Tang served as an officer of the China Association of Social Workers, previously known as China Union of Social Workers. Thereafter, Dr. Tang served as the general manager of Innovation Material Research Institute from May 2001 to April 2004. Dr. Tang graduated from Shanghai University in the PRC, previously Shanghai University of Technology, with a Bachelor’s degree in Metallurgy and Materials Engineering (Metal Pressure Processing Discipline) in July 1988. He then obtained a Master of Business Administration degree jointly organized by Peking University in the PRC and Fordham University in the USA in May 2002, and obtained a Doctoral degree in World Economics from East China Normal University in the PRC in July 2007.

Mr. Wei Hua was appointed as our CEO and a director of ours following our business combination. In January 1, 2017, Mr. Hua was appointed as our CFO. Mr. Hua has served as Chairman of the Board of Directors of Ossen Jiujiang since 2007. Since 2000, he has been the Assistant Chief Executive Officer for the Steel Department of Ossen Group. Before joining Ossen Group in 2000, from 1988 until 2000, Mr. Hua was a vice supervisor of the department of technology and quality supervision at Baosteel Group Shanghai Ergang Co., Ltd. From 1985 until 1988, Mr. Hua worked at Shanghai No. 5 steel factory. He graduated from Shanghai University with a degree in Business Management.

Mr. Junhong Li has been one of our directors since July 2010. Mr. Li has been the Senior Partner and Deputy Chief Accountant at Continental Certified Public Accountants since 2008. Prior to joining Continental Certified Public Accountants in 2008, from 2007 until 2008, Mr. Li was the Executive Director and Chief Financial Officer of ZMAY Holdings Limited. From 2004 until 2007, Mr. Li was Chief Financial Officer of Zhongmin On Line Technology Co. Ltd. Mr. Li has more than 20 years of experience in mergers and acquisitions, reorganizations and management consulting. Mr. Li received a bachelor's degree from Central University of Finance and Economics and he is qualified as a certified public accountant.

Mr. Xiaobing Liu has been one of our directors since July 2010. Mr. Liu has served as Chairman of the Board of Huachen Trust since 2009. From 2005 until 2009, Mr. Liu was Chairman of the Board of Directors of Shanghai Dingfeng Technology Co., Ltd. Since 2002, he has also been an independent director of Southern Building Material Co., Ltd. Mr. Liu graduated from the University of Shanghai for Science and Technology with a bachelor's degree in optical instruments.

Ms. Yingli Pan has been one of our directors since July 2010. Professor Pan has been a professor in the Department of Finance at Antai College of Economics & Management of Shanghai since 2005. Prior to being appointed professor at Antai College of Economics & Management of Shanghai in 2005, from 1994 until 2005, Professor Pan was a professor in the Finance Department at East China Normal University. Professor Pan received a bachelor's degree in economics from East China Normal University, a master's degree in economics from Shanghai University of Finance and Economics and a doctoral degree in economics from East China Normal University.

Mr. Zhongcai Wu has been one of our directors since July 2010. Mr. Wu has been Chief Engineer in the Communications Department of Yunnan Province since 2002. Mr. Wu received a bachelor's degree in road and bridge engineering from Hunan University.

Each of our directors will serve as a director until our next annual general meeting and until their successors are duly elected and qualified.

6.B. Compensation

For the year ended December 31, 2018, the aggregate cash compensation that we paid to our executive officers and directors was approximately \$86,300. For the year ended December 31, 2017, the aggregate cash compensation that we paid to our executive officers and directors was approximately \$86,300. There are no service contracts between us and any of our directors, except for those directors who are also our executive officers. Pursuant to PRC law, 25% of our executive officers' salaries have been set aside for pension and retirement.

Employment Agreements

We have entered into an employment agreement with Dr. Liang Tang. Dr. Tang is employed as Chairman of the Board of our Company. The term of his agreement is set to expire on December 31, 2021. We may terminate the employment agreement for cause as specified in the agreement. Dr. Tang may terminate the employment agreement with thirty days written notice. The employment agreement may be renewed upon the mutual agreement of the parties.

Each executive officer has agreed to hold in confidence any confidential information that he has obtained about the Company.

6.C. Board Practices

Terms of Directors and Officers

Expiration of Term of Directors

Pursuant to our memorandum and articles of association, the business of our company is managed by our board of directors. Commencing with the first annual meeting of the shareholders, directors are elected for a term of office to expire at the next succeeding annual meeting of the shareholders after their election. Each director will hold office until the expiration of his or her term of office and until his or her successor has been elected and qualified, or until his or her earlier death, resignation or removal by the shareholders or a resolution passed by the majority of the remaining directors.

In the interim between annual meetings of shareholders, or special meetings of shareholders called for the election of directors, any vacancy on the board of directors may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director. A director elected to fill a vacancy resulting from death, resignation or removal of a director will serve for the remainder of the full term of the director whose death, resignation or removal will have caused such vacancy and until his successor will have been elected and qualified.

Director Remuneration Upon Termination

The directors may receive such remuneration as our board of directors may determine from time to time. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. Currently, our directors are not entitled to receive any remuneration upon termination of employment.

Audit Committee

Our audit committee consists of Junhong Li, Yingli Pan and Xiaobing Liu, each of whom satisfies the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and Rule 5605 of the NASDAQ rules. The audit committee oversees our accounting and financial reporting processes and audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all audit and non-audit services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K;
- discussing our annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies; and
- meeting separately and periodically with management and our independent auditors.

Compensation Committee

Our compensation committee consists of Xiaobing Liu, Yingli Pan and Junhong Li, each of whom satisfies the independence requirements of Rule 5605 of the NASDAQ rules. The compensation committee assists the Board in reviewing and approving the compensation structure, including all forms of compensation relating to our directors and executive officers. Our Chief Executive Officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our senior executives; and
- reviewing periodically, and approving, any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Yingli Pan, Zhongcai Wu and Xiaobing Liu, each of whom satisfies the independence requirements of Rule 5605 of the NASDAQ rules. The corporate governance and nominating committee assists the board in selecting individuals qualified to become members of our board and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board qualified candidates to be nominated for the election or re-election to the board of directors and committees of the board of directors, or for appointment to fill any vacancy;

- reviewing annually with the board of directors the current composition of the board of directors with regards to characteristics such as independence, age, skills, experience and availability of service to us; and
- advising the board of directors periodically with regard to significant developments in the law and practice of corporate governance as well as our compliance with these laws and practices, and making recommendations to the board of directors on all matters of corporate governance and on any remedial actions to be taken, if needed.

6.D. Employees

See the section entitled “Employees” in Item 4.B above.

6.E. Share Ownership

As of April 1, 2019, 19,791,110 of our ordinary shares were outstanding. Holders of our ordinary shares are entitled to vote together as a single class on all matters submitted to shareholders for approval. No holder of ordinary shares has different voting rights from any other holders of ordinary shares. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. Approximately 6,741,110 of our ordinary shares represented by American Depositary Receipts are held by an aggregate of 1 record holder in the United States.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. The percentages of shares beneficially owned in the table below are based on 19,791,110 ordinary shares outstanding as of April 1, 2019.

The following table sets forth information with respect to the beneficial ownership of our common shares as of April 1, 2019 by:

- each of our directors and executive officers; and
- each person known to us to beneficially own more than 5% of our outstanding ordinary shares.

Unless otherwise noted below, the address for each listed shareholder, director or executive officer is 518 Shangcheng Road, Floor 17, Shanghai, 200120, People’s Republic of China.

Name	Number of Shares	Percentage
Directors, Executive Officers and 5% Shareholders ⁽¹⁾ :		
Liang Tang ⁽²⁾	13,050,000	65.9%
Wei Hua	-	-
Junhong Li	-	-
Xiaobing Liu	-	-
Yingli Pan	-	-
Zhongcai Wu	-	-

(1) Beneficial ownership is determined in accordance with the rules and regulations of the SEC. Percentage of beneficial ownership of each listed person is based on ordinary shares outstanding as of the date of this filing, including ordinary shares convertible from all outstanding preferred shares, and the ordinary shares underlying any options and warrants exercisable by such person within 60 days of the date of this filing. Percentage of beneficial ownership of each listed person is based on ordinary shares outstanding as of April 1, 2019 and the ordinary shares underlying any options and warrants exercisable by such person within 60 days of the date of this filing.

(2) Acme holds such shares. Pujiang is the parent entity of Acme and is controlled by Dr. Tang. See Item 4C above.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

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

7.B. Related Party Transactions

Transfers of Shares Between Related Parties

Several of our subsidiaries and affiliates which are, or at one time were, controlled by our chairman, transferred shares with other entities controlled by Dr. Tang. See the discussion under Item 4.C above for a description of these transactions.

Purchases from a Related Party

Historically, we purchased a significant percentage of our raw materials from an affiliated entity, Ossen Material Research (formerly Shanghai ZFX), an agent that supplies steel wire rods to prestressed concrete manufacturers in China such as our company. Ossen Material Research is controlled by our chairman, Dr. Tang. We have not procured any steel wire rods from Ossen Materials Research since 2014.

Sales to a Related Party

In 2018, we sold \$2.8 million of our products to Shanghai Pujiang Cable Co., Ltd., a subsidiary Shanghai Ossen acquired in September 2010. We sold \$2.9 million of our products to Zhejiang Pujiang Cable Co., Ltd., a subsidiary of Shanghai Pujiang in 2018. In 2018 and 2017, we generated approximately 4.2% and 0% of our revenue from sales to Shanghai Pujiang and Zhejiang Pujiang.

Guarantees

During the years ended December 31, 2018, 2017 and 2016, Ossen Material Research (formerly Shanghai ZFX), an affiliate of ours, and Ossen Shanghai, an affiliate of ours, and Shanghai Pujiang, an affiliate of ours, provided guarantees for certain of our short-term and long-term bank loans. The term of each of the short-term loans is within one year. The term of the long-term loans is within three years. The purpose of these loans is to fund our working capital needs. Local banks have required guaranties pursuant to their standard regulations.

Ossen Material Research guaranteed loans in the amount of \$0, \$3.7 million and \$1.3 million in 2018, 2017 and 2016, respectively. Ossen Shanghai guaranteed loans in the amount of \$0.6 million in 2018, \$0 in 2017 and \$0 in 2016. Shanghai Pujiang guaranteed loans in the amount of \$9.4 million in 2018, \$3.7 million in 2017 and \$0 in 2016. These guarantees in 2018, 2017 and 2016 were provided for no consideration. In addition, in 2018, 2017 and 2016, we guaranteed loans in the amount of \$74.1 million, \$5.4 million and \$59.8 million and notes payable in the amount of \$2.9 million, \$0 and \$7.2 million for Shanghai Pujiang, we guaranteed loans in the amount of \$0, \$18.8 million and \$70.6 million for Ossen Material Research, we guaranteed loans in the amount of \$0, \$0 and \$28.5 million and notes payable in the amount of \$0, \$0 and \$2.2 million for Ossen Shanghai, and we guaranteed loans in the amount of \$0, \$25.4 million and \$0 for Zhejiang Pujiang.

There can be no assurance that Ossen Material Research, Shanghai Pujiang and Ossen Shanghai will be willing or able to continue to provide similar guarantees on this basis with respect to future borrowings. The loans that have come due have been repaid by us in full.

The terms of the loan guarantees between the guarantor and the bank provide for the following: if the borrower does not repay its loan, the bank may seek the principal and interest of the loan from the guarantor; the guarantee period is typically one or two years from the date the guaranteed loan is due, as determined by the lending bank; the bank may change the terms of the loan with the borrower without receiving the consent of the guarantor; the guarantor indemnifies the bank for actual damage or loss because of any fraudulent misrepresentations made by the guarantor and if the guarantor causes the contract to become invalid, the guarantor indemnifies the bank for damages and losses.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

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

Legal Proceedings

We are not currently, and have not recently been, a party to any material legal or administrative proceedings. We are not aware of any material legal or administrative proceedings threatened against us. From time to time, we are subject to various legal or administrative proceedings arising in the ordinary course of our business.

Dividends

We have never declared or paid any dividend on our ordinary shares and we do not anticipate paying any dividends on our ordinary shares in the future. We currently intend to retain all future earnings to finance our operations and to expand our business.

No Significant Changes

No significant changes to our financial condition have occurred since the date of the annual financial statements contained herein.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and Listing Details

Our ADS's are listed for trading on the NASDAQ Capital Market under the symbol "OSN." The shares began trading on December 21, 2010 on the NASDAQ Global Market. The listing of our ADS's was transferred to the NASDAQ Capital Market on July 30, 2013. The closing price for the ADSs was \$1.75 on April 1, 2019.

On December 11, 2018, Pujiang, the parent entity of Acme, our controlling shareholder, submitted an application to the HK Exchange, seeking approval of a potential listing of Pujiang's shares on the HK Exchange following a proposed initial public offering of Pujiang's shares. Such application is subject to the review of the HK Exchange. The terms of such offering have not yet been set. Furthermore, the timing of the consummation of such potential offering and listing is unknown, and there is no guarantee that such listing and offering will be consummated at all. This filing shall not be deemed an offering of the securities of Pujiang or the Company.

9.B. Plan of Distribution

Not Applicable.

9.C. Markets

Our ADS's are currently traded on the NASDAQ Capital Market.

9.D. Selling Shareholders

Not Applicable.

9.E. Dilution

Not Applicable.

9.F. Expenses of the Issuer

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not Applicable.

10.B. Memorandum and Articles of Association

We are a British Virgin Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association and the BVI Business Companies Act, 2004 (as amended from time to time) which is referred to as the BVI Act below. The following description of certain provisions of our memorandum and articles of association does not propose to be complete and is qualified in its entirety by our memorandum and articles of association.

Ordinary Shares

Certificates representing our ordinary shares are issued in registered form. Our shareholders who are nonresidents of the British Virgin Islands may freely hold and vote their shares. We are currently authorized to issue 100,000,000 ordinary shares. We do not have the power to issue bearer shares.

Charter

Our charter documents consist of our amended and restated memorandum of association and our amended and restated articles of association, or the memorandum and articles of association. We may amend our memorandum and articles of association generally by a special resolution of our shareholders.

Corporate Powers

Ultra Glory was incorporated under the BVI Act on January 21, 2010. Pursuant to our memorandum of association, the objects for which we were established are unrestricted and we have full power and authority to carry out any objects not prohibited by the BVI Act, as the same may be revised from time to time, or any other law of the British Virgin Islands, except that we have no power to carry on banking or trust business, business as an insurance or reinsurance company, insurance agent or insurance broker, the business of company management, the business of providing the registered office or the registered agent for companies incorporated in the British Virgin Islands, or business as a mutual fund, mutual fund management or mutual fund administrator, unless we obtain certain licenses under the laws of the British Virgin Islands.

Board Composition

Pursuant to our memorandum and articles of association, the business of our company is managed by our board of directors. Commencing with the first annual meeting of the shareholders, directors are elected for a term of office to expire at the next succeeding annual meeting of the shareholders after their election. Each director will hold office until the expiration of his or her term of office and until his or her successor has been elected and qualified, or until his or her earlier death, resignation or removal by the shareholders or a resolution passed by the majority of the remaining directors.

In the interim between annual meetings of shareholders, or special meetings of shareholders called for the election of directors, any vacancy on the board of directors may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director. A director elected to fill a vacancy resulting from death, resignation or removal of a director will serve for the remainder of the full term of the director whose death, resignation or removal will have caused such vacancy and until his successor will have been elected and qualified.

There is no cumulative voting by shareholders for the election of directors. We do not have any age-based retirement requirement and we do not require our directors to own any number of shares to qualify as a director.

Board Meetings

Board meetings may be held at the discretion of the directors at such times and in such manner as the directors may determine upon not less than three days notice having been given to all directors. Decisions made by the directors at meetings shall be made by a majority of the directors. There must be at least a majority of the directors (with a minimum of two) at each meeting.

Directors Interested in a Transaction

A director must, immediately after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by us, disclose such interest to the board of directors. A director who is interested in a transaction entered into, or to be entered into, by the company, may vote on a matter related to the transaction, attend a meeting of directors at which a matter relating to the transaction arises and be included among the directors present at the meeting for the purposes of a quorum and sign a document on behalf of the company, or do any other thing in his capacity as a director, that relates to the transaction. A director is not required to disclose his interest in a transaction or a proposed transaction to our board of directors if the transaction or proposed transaction is between the director and us, or the transaction or proposed transaction is or is to be entered into the ordinary course of our business and on usual terms and conditions.

The directors may exercise all powers of our company to borrow money, mortgage or charge our undertakings and property, issue debentures, debenture shares and other securities whenever money is borrowed or as security for any debt, liability or obligation of the company or of any third party.

Our directors may, by resolution, fix the compensation of directors in respect of services rendered or to be rendered in any capacity to us.

A director may attend and speak at any meeting of the shareholders and at any separate meeting of the holders of any class of our shares.

Rights of Shares

We are currently authorized to issue 100,000,000 ordinary shares. The shares are made up of one class and one series, namely ordinary shares with a par value of \$0.01 per share. The ordinary shares have one vote each and have the same rights with regard to dividends paid by the company and distributions of the surplus assets of the company.

We may purchase, redeem or acquire our shares, provided that we obtain the consent of the member whose shares are being purchased, redeemed or otherwise acquired.

Issuance of Shares; Variation of Rights of Shares

Our articles of association provide that directors may, without limiting or affecting any right of holders of existing shares, offer, allot, grant options over or otherwise dispose of our unissued shares to such persons at such times and for such consideration and upon such terms and conditions as the directors may determine.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, we may issue shares, with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting or otherwise, as the directors from time to time may determine.

If we issue shares of more than one class, we will further amend and restate our Memorandum and Articles of Association to reflect the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) as may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class and the holders of not less than three-fourths of the issued shares of any other class of shares which may be affected by such variation. The rights conferred upon the holders of the shares of any class issued with preferred or other rights will not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Shareholders Meetings

Under our memorandum and articles of association, we are required to hold an annual meeting of shareholders each year at such date and time determined by our directors. Meetings of shareholders may be called pursuant to board resolution or the written request of shareholders holding more than 30% of the votes of our outstanding voting shares. Written notice of meetings of shareholders must be given to each shareholder entitled to vote at a meeting not fewer than 10 days prior to the date of the meeting, with certain limited exceptions. The written notice will state the place, time and business to be conducted at the meeting. The shareholders listed in our share register on the date prior to the date the notice is given shall be entitled to vote at the meeting, unless the notice provides a different date for determining the shareholders who are entitled to vote.

A meeting of shareholders held without proper notice will be valid if shareholders holding 90% majority of the total number of shares entitled to vote on all matters to be considered at the meeting, or 90% of the votes of each class or series of shares where shareholders are entitled to vote thereon as a class or series, together with an absolute majority of the remaining votes, have waived notice of the meeting and, for this purpose, presence of a shareholder at the meeting is deemed to constitute a waiver. The inadvertent failure of the directors to give notice of a meeting to a shareholder, or the fact that a shareholder has not received notice, will not invalidate a meeting.

Shareholders may vote in person or by proxy. No business may be transacted at any meeting unless a quorum of shareholders is present. A quorum consists of the presence in person or by proxy of holders entitled to exercise at least 50% of the voting rights of the shares of each class or series of shares entitled to vote as a class or series thereon and the same proportion of the votes of the remaining shares entitled to vote thereon.

Changes in the Maximum Number of Shares the Company is Authorized to Issue

Subject to the provisions of the BVI Act, we may, by a resolution of shareholders, amend our memorandum and articles of association to increase or decrease the number of shares authorized to be issued. Our directors may, by resolution, authorize a distribution by us at a time, of an amount, and to any shareholders they think fit if they are satisfied, on reasonable grounds, that we will, immediately after the distribution, satisfy the solvency test as set forth in the BVI Act, which requires that the value of a company's assets exceeds its liabilities, and the company is able to pay its debts as they fall due.

Indemnification

Subject to the provisions of the BVI Act, we may indemnify any person who (a) is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director of our company; or (b) is or was, at our request, serving as a director of, or in any other capacity is or was acting for, another company or a partnership, joint venture, trust or other enterprise, against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings.

Material Differences between U.S. Corporate Law and British Virgin Islands Corporate Law

The BVI Act differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of the material differences between the provisions of the BVI Act applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Differences in Corporate Law

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt memorandum of association and articles of association that will provide shareholders with rights that do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws applicable to companies incorporated in Delaware and their shareholders.

Director's Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its stockholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to stockholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its stockholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the stockholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

British Virgin Islands law provides that every director of a British Virgin Islands company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account, but without limitation, the nature of the company, the nature of the decision, the position of the director and the nature of his responsibilities. In addition, British Virgin Islands law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes British Virgin Islands law or the memorandum association or articles of association of the company.

Amendment of Governing Documents

Under Delaware corporate law, with very limited exceptions, a vote of the stockholders is required to amend the certificate of incorporation. Under British Virgin Islands law, no article or regulation shall be amended, rescinded or altered, and no new article shall be made, without the approval of the members pursuant to a special resolution, unless the memorandum of association and articles of association provide otherwise.

Written Consent of Directors

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Under British Virgin Islands law, directors' consents need only a majority of directors signing to take effect.

Written Consent of Shareholders

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of stockholders of a corporation, may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take such action at a meeting. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum of association and articles of association provide that, other than changes to our memorandum of association and articles of association, shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon. Changes to our memorandum of association and articles of association require the approval of 66 2/3% of the votes of shareholders.

Shareholder Proposals

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum of association and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested.

Sale of Assets

Under Delaware corporate law, a vote of the stockholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the company's total assets by value are being disposed of or sold.

Dissolution; Winding Up

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum of association and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities and we are able to pay our debts as they fall due.

Redemption of Shares

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option or at the option of the holders of such stock provided there remains outstanding shares with full voting power. Such stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of such stock. As permitted by British Virgin Islands law, and our memorandum of association and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. Our directors must determine that immediately following the redemption or repurchase we will be able to satisfy our debts as they fall due and the value of our assets exceeds our liabilities.

Variation of Rights of Shares

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law, and our memorandum of association and articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the consent in writing of holders of not less than three-fourths of the issued shares of that class and holders of not less than three-fourths of the issued shares of any other class of shares which may be affected by the variation.

Removal of Directors

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate provides otherwise. As permitted by British Virgin Islands law and our memorandum of association and articles of association, directors may be removed by resolution of directors or resolution of shareholders, with or without cause.

Mergers

Under the BVI Act, two or more companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders.

Shareholders not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

Inspection of Books and Records

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under the BVI Act, members, upon giving written notice to us, are entitled to inspect the register of members, the register of directors and minutes of resolutions of members, and to make copies of these documents and records.

Conflict of Interest

The BVI Act provides that a director shall forthwith, after becoming aware that he is interested in a transaction entered into or to be entered into by the company, disclose that interest to the board of directors of the company. The failure of a director to disclose that interest does not affect the validity of a transaction entered into by the director or the company. A transaction entered into by us, in respect of which a director is interested, is voidable by us unless the director's interest was disclosed to the board prior to the company's entry into the transaction or was not required to be disclosed. A transaction is not voidable if the material facts of the director's interest are known by the members entitled to vote or if the transaction is approved or ratified by a resolution of members. As permitted by British Virgin Islands law and our memorandum of association and articles of association, a director interested in a particular transaction may vote on it, attend meetings at which it is considered, and sign documents on our behalf which relate to the transaction.

Transactions with Interested Shareholders

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or group who or that owns or owned 15% or more of the target’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

British Virgin Islands law has no comparable provision.

Independent Directors

There are no provisions under Delaware corporate law or under the BVI Act that require a majority of our directors to be independent.

Cumulative Voting

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the company’s certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder’s voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

Anti-takeover Provisions in Our Memorandum of Association and Articles of Association

Some provisions of our memorandum of association and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares.

10.C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in this annual report.

10.D. Exchange Controls

British Virgin Islands

There are currently no exchange control regulations in the British Virgin Islands applicable to us or our shareholders.

The PRC

China regulates foreign currency exchanges primarily through the following rules and regulations:

- Foreign Currency Administration Rules of 1996, as amended; and
- Administrative Rules of the Settlement, Sale and Payment of Foreign Exchange of 1996.

As we disclosed in the risk factors above, Renminbi is not a freely convertible currency at present. Under the current PRC regulations, conversion of Renminbi is permitted in China for routine current-account foreign exchange transactions, including trade and service related foreign exchange transactions, payment of dividends and service of foreign debts. Conversion of Renminbi for most capital-account items, such as direct investments, investments in PRC securities markets and repatriation of investments, however, is still subject to the approval of SAFE.

Pursuant to the above-mentioned administrative rules, foreign-invested enterprises may buy, sell and/or remit foreign currencies for current account transactions at banks in China with authority to conduct foreign exchange business by complying with certain procedural requirements, such as presentment of valid commercial documents. For capital-account transactions involving foreign direct investment, foreign debts and outbound investment in securities and derivatives, approval from SAFE is a pre-condition. Capital investments by foreign-invested enterprises outside China are subject to limitations and requirements in China, such as prior approvals from the PRC Ministry of Commerce or SAFE.

10.E. Taxation

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

British Virgin Islands Taxation

All dividends, interests, rents, royalties, compensations and other amounts paid by us are exempt from all forms of taxation in the British Virgin Islands and any capital gains realized with respect to any of our shares, debt obligations, or other securities are not subject to any form of taxation in the British Virgin Islands. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable under BVI law by persons who are not persons resident in the British Virgin Islands with respect to any of our shares, debt obligation or other securities. There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to us or our shareholders. Currently, there is no income tax treaty, convention or reciprocal tax treaty regarding withholdings currently in effect between the United States and the British Virgin Islands. We will only be liable to pay payroll tax with respect to employees employed and working in the British Virgin Islands. We do not currently have, and do not intend to have in the near future, any employees in the British Virgin Islands.

People's Republic of China Taxation

Under the former Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, any dividends payable by foreign-invested enterprises to non-PRC investors were exempt from PRC withholding tax. In addition, any dividends payable, or distributions made, by us to holders or beneficial owners of our shares would not be subject to any PRC tax, provided that such holders or beneficial owners, including individuals and enterprises, were not deemed to be PRC residents under the PRC tax law and were not otherwise subject to PRC tax.

On March 16, 2007, the PRC National People's Congress approved and promulgated a new PRC Enterprise Income Tax Law, which took effect as of January 1, 2008. Under the new tax law, enterprises established under the laws of non-PRC jurisdictions but whose "de facto management body" are located in China are considered "resident enterprises" for PRC tax purposes. Under the implementation regulations issued by the State Council relating to the new tax law, "de facto management body" is defined as the body that has material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of "de facto management body" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. It remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents as is in our case. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. Since substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a "resident enterprise" for the PRC tax purposes, in which case, we will be subject to PRC income tax as to our worldwide income at a uniform income tax rate of 25%. In addition, the new tax law provides that dividend income between qualified "resident enterprises" is exempt from income tax.

Moreover, the new tax law provides that an income tax rate of 10% is normally applicable to dividends payable for earnings derived since January 1, 2008 to non-PRC investors who are “non-resident enterprises,” to the extent such dividends are derived from sources within China. We are a British Virgin Islands holding company and substantially all of our income is derived from dividends, if any, we receive from our operating subsidiaries located in China. Thus, dividends payable to us by our subsidiaries in China may be subject to the 10% withholding tax if we are considered as a “non-resident enterprise” under the new tax law.

Moreover, non-resident individual investors may be required to pay PRC individual income tax at a rate of 20% on interests or dividends payable to the investors or any capital gains realized from the transfer of ADSs or ordinary shares if such gains are deemed income derived from sources within the PRC. Under the Individual Income Tax Law or the IIT Law, non-resident individual refers to an individual who has no domicile in China and does not stay in the territory of China or who has no domicile in China and has stayed in the territory of China for less than one year. Pursuant to the IIT Law and its implementation rules, for purposes of the PRC capital gains tax, the taxable income will be the balance of the total income obtained from the transfer of the ADSs or ordinary shares minus all the costs and expenses that are permitted under PRC tax laws to be deducted from the income. Therefore, if we are considered as a PRC “resident enterprise” and dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares are considered income derived from sources within the PRC by relevant competent PRC tax authorities, such gains earned by non-resident individuals may also be subject to PRC withholding tax at a rate of 20%.

Under the currently available guidance of the new tax law, dividends payable by us to our shareholders should not be deemed to be derived from sources within China and therefore should not be subject to withholding tax at 10%, or a lower rate if reduced by a tax treaty or agreement. However, what will constitute income derived from sources within China is currently unclear. In addition, gains on the disposition of our shares should not be subject to PRC withholding tax. However, these conclusions are not entirely free from doubt. In addition, it is possible that these rules may change in the future, possibly with retroactive effect.

United States Federal Income Taxation

The following is a discussion of the material U.S. federal income tax considerations that may apply to an investor with respect to the acquisition, ownership and disposition of our ADSs or ordinary shares. This discussion does not purport to address all of the tax consequences of owning our ADSs or ordinary shares with respect to all categories of investors that acquire our ADSs or ordinary shares, some of which (such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, insurance companies, persons holding our ADSs or ordinary shares as part of a hedging, integrated, conversion, straddle or constructive sale transaction, traders in securities that have elected the mark-to-market method of accounting for their securities, persons liable for alternative minimum tax, persons who are investors in pass-through entities, grantor trusts, persons who own, directly or indirectly under applicable constructive ownership rules, 10% or more (by voting power) of our ADSs or ordinary shares, persons who received our ADSs or ordinary shares pursuant to the exercise of an option or otherwise as compensation, certain former citizens and long-term residents of the United States, dealers in securities or currencies and investors whose functional currency is not the U.S. dollar) may be subject to special rules. This discussion addresses only holders who purchase our ADSs or ordinary shares and hold such ADSs or ordinary shares as a capital asset (i.e., generally for investment). Moreover, this discussion is based on the Internal Revenue Code of 1986, as amended (or the Code), existing and proposed Treasury regulations promulgated under the Code, published rulings, and administrative and judicial interpretations of the Code, all as currently in effect as of the date of hereof, all of which are subject to change, possibly with retroactive effect. Investors should consult their own tax advisors regarding the tax consequences arising in their own particular situation under U.S. federal, state, local or foreign law or the United States – PRC income tax treaty with respect to the acquisition, ownership or disposition of our ADSs or ordinary shares.

For purposes of this discussion, the term “U.S. Holder” means (except as described in the preceding paragraph) a beneficial owner of our ADSs or ordinary shares that is, for United States federal income tax purposes, (i) an individual U.S. citizen or resident, (ii) a corporation (or other entity taxable as a corporation) created or organized under the laws of the United States or any political subdivision thereof, or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust if either (x) a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (y) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person. A beneficial owner of our ADSs or ordinary shares (other than a partnership or an entity treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is referred to below as a “Non-U.S. Holder.”

If a partnership, or an entity treated for U.S. federal income tax purposes as a partnership, such as a limited liability company, holds our ADSs or ordinary shares, the tax treatment of a partner in such partnership will depend on the status of the partner and upon the activities of the partnership. A partner in such a partnership holding our ADSs or ordinary shares, you should consult its tax advisor.

U.S. Federal Income Taxation of Non-U.S. Holders

Except as described in “Backup Withholding and Information Reporting” below, non-U.S. Holders will generally not be subject to U.S. federal income tax or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ADSs or ordinary shares unless, in the case of U.S. federal income taxes, the income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States (“effectively connected income”) (and, if an income tax treaty applies, the income is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States or, in the case of an individual, the income is attributable to a fixed place of business).

Non-U.S. Holders will generally not be subject to U.S. federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our ADSs or ordinary shares, unless either:

- the gain is effectively connected income (or, if a treaty applies, the gain is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States or, in the case of an individual, the income is attributable to a fixed place of business); or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met.

Effectively connected income may be subject to regular U.S. federal income tax in the same manner as discussed in the section above relating to the taxation of U.S. Holders, unless exempt under an applicable income tax treaty. In addition, effectively connected income of a corporate Non-U.S. Holder may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

Non-U.S. Holders may be subject to tax in jurisdictions other than the United States on dividends received from us on our ADSs or ordinary shares and on any gain realized upon the sale, exchange or other disposition of our ADSs or ordinary shares. Non-U.S. Holders should consult with their own tax advisors regarding such other jurisdictions.

Backup Withholding and Information Reporting

U.S. Holders (other than certain exempt recipients) may be subject to information reporting requirements with respect to the payment of dividends on, or proceeds from the disposition of, our ADSs or ordinary shares. In addition, a U.S. Holder may be subject, under certain circumstances, to backup withholding at a rate of up to 24% with respect to dividends paid on, or proceeds from the disposition of, our ADSs or ordinary shares unless the U.S. Holder provides proof of an applicable exemption or correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. A U.S. Holder of our ADSs or ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS.

Non-U.S. Holders are generally not subject to information reporting or backup withholding with respect to dividends paid on, or proceeds from the disposition of, our ADSs or ordinary shares, provided that the Non-U.S. Holder provides its taxpayer identification number, certifies to its foreign status, or establishes another exemption to the information reporting or back-up withholding requirements.

10.F. Dividends and Paying Agents

Not Applicable.

10.G. Statement by Experts

Not Applicable.

10.H. Documents on Display

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and will file reports, registration statements and other information with the SEC. The Company's reports, registration statements and other information can be inspected on the SEC's website at www.sec.gov. You may also visit us on the World Wide Web at <http://www.osseninnovation.com>. However, information contained on our website does not constitute a part of this annual report.

10.I. Subsidiary Information

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments that expose us to concentrations of credit risk primarily consist of cash and accounts receivables. The maximum amount of loss due to credit risk in the event of other parties failing to perform their obligations is represented by the carrying amount of each financial asset as stated in our consolidated balance sheets.

As of December 31, 2018 and 2017, substantially all of our cash included bank deposits in accounts maintained within the PRC where there is currently no rule or regulation in place for obligatory insurance to cover bank deposits in the event of bank failure. However, we have not experienced any losses in such accounts and we believe we are not exposed to any significant risks on our cash in bank accounts.

We are exposed to various types of market risks, including changes in foreign exchange rates, commodity prices and inflation in the normal course of business.

Interest rate risk

We are subject to risks resulting from fluctuations in interest rates on our bank balances. A substantial portion of our cash is held in China in interest bearing bank deposits and denominated in RMB. To the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates would increase the cost of new debt. We do not currently use any derivative instruments to manage our interest rate risk.

Commodity price risk

Certain raw materials used by us are subject to price volatility caused by supply conditions, political and economic variables and other unpredictable factors. The primary purpose of our commodity price management activities is to manage the volatility associated with purchases of commodities in the normal course of business. We do not speculate on commodity prices.

Foreign exchange risk

The RMB is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value of any dividends we declare.

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 in an effort to reduce our exposure to foreign currency exchange risk. 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.

Inflation risk

Inflationary factors such as increases in the cost of our products and overhead costs may adversely affect our operating results. A high rate of inflation may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase proportionately with these increased costs.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of \$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to \$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to \$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the ADR program are not known at this time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid.

At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

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

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this annual report. This conclusion was based on the material weakness in our internal control over financial reporting further described below.

(b) *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such item is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has conducted an assessment, including testing of the design and the effectiveness of our internal control over financial reporting as of December 31, 2018. In making its assessment, management used the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (2013)*.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected and corrected on a timely basis.

The Company identified deficiencies related to corporate governance, management's application of disclosure requirements for SEC reporting and documentation of our financial statement reporting process. Such deficiencies are common for companies of our size.

The Company identified deficiencies related to management's application of disclosure requirements for SEC reporting and documentation of our financial statement reporting process. Although our accounting staff employees are professional and experienced in accounting requirements and procedures generally accepted in the PRC, management has determined that they require additional training and assistance in U.S. GAAP methods and SEC reporting. Our management's assessment of the control deficiency over accounting and finance personnel as of December 31, 2018 considered the below factors, including:

- the number of adjustments proposed by our independent auditors during our quarterly review and annual audit processes;
- how adequately we complied with U.S. GAAP on transactions; and
- how accurately we prepared supporting information to provide to our independent auditors on a quarterly and annual basis.

Based on this assessment, management concluded that our internal controls over financial reporting were not effective as of December 31, 2018 due to the material weakness related to management's application of disclosure requirements for SEC reporting and documentation of our financial statement reporting process.

(c) *Attestation Report of Independent Registered Public Accounting Firm*

We are a non-accelerated filer under the rules of the Securities and Exchange Commission. Accordingly, we are not required to include in this annual report an attestation report of our independent registered public accounting firm.

(d) *Changes in Internal Control over Financial Reporting*

There were no changes in our internal controls over financial reporting during our fiscal year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(e) *Remediation Initiatives*

For 2019, we have prepared a preliminary remediation plan to address the underlying causes of the material weakness described above. The preliminary remediation plan includes:

- Reassessing the design and operation of internal controls over financial reporting, including interim and annual accruals cutoff procedures and review procedures related to information received from our outside consulting technical experts;
- Hiring and training of permanent accounting personnel to further educate the staff on U.S. GAAP methods and SEC reporting matters;
- Increasing staffing levels and expertise to implement this remediation plan.

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent or detect 100% of all errors and fraud that may occur. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Material Weakness Previously Identified for the year ended December 31, 2017

As previously reported in our annual report on Form 20-F for the year ended December 31, 2017, management concluded that, as of such date, our disclosure controls and procedures were not effective due to the existence of deficiencies in the design and operating effectiveness of an internal control related to management's application of disclosure requirements for SEC reporting and documentation of our financial statement reporting process. In connection with the audit of our financial statements as of and for the year ended December 31, 2017, we did not adequately and timely review the reporting and documentation. Management has concluded that there was a deficiency in the design of reporting and documentation controls and the management review controls were not designed with appropriate levels of precision and were not undertaken in a timely manner, which resulted in an extension to file our Annual Report on Form 20-F.

Remediation of Material Weakness for the year ended December 31, 2017

During fiscal 2018, management implemented a number of actions to remediate the prior deficiencies and strengthen our internal control and compliance environment, including the following:

- reviewed documented policies, procedures and controls related to the key processes we use to identify material information, prepare regulatory filings and other public documents, and communicate information to external parties to ensure they are complete and effective;
- reviewed documented controls and procedures to ensure they are properly implemented and effective to enhance the overall completeness, accuracy, consistency and timeliness of our disclosures;
- identified and assessed key risks that may impact our ability to disclose material information and prepare regulatory filings that are complete, accurate, consistent and timely;
- enhanced open and candid communication between all parties involved in operations, governance and financial and regulatory reporting, and a strong control and governance environment;
- created positions and allocate sufficient resources to achieve an effective disclosure controls and procedures; and
- established direct reporting procedures from the Chief Accounting Officer to the Chief Financial Officer to ensure a better overview of the Company's financial reporting system by the CFO.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of Junhong Li, Yingli Pan and Xiaobing Liu. Our board of directors has determined that Junhong Li, Yingli Pan and Xiaobing Liu are "independent directors" within the meaning of NASDAQ Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Rule 10A-3(b) of the Exchange Act. Junhong Li meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics. The purpose of the code is to promote ethical conduct and deter wrongdoing. The policies outlined in the Code are designed to ensure that our directors, executive officers and employees act in accordance with not only the letter but also the spirit of the laws and regulations that apply to our business. We expect our directors, executive officers and employees to exercise good judgment, to uphold these standards in their day-to-day activities, and to comply with all applicable policies and procedures in the course of their relationship with the company. Any amendment to or waivers of the Code for members of our board of directors and our executive officers that are required to be disclosed by the rules of the SEC or NASDAQ will be disclosed on our website at <http://www.osseninnovation.com> within four business days following the amendment or waiver. During fiscal year 2016, no amendments to or waivers from the Code were made or given for any of our executive officers.

Our code of business conduct and ethics are publicly available on our website at <http://www.osseninnovation.com>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

	Year Ended December 31, 2017	Year Ended December 31, 2018
Audit fees*	\$ 220,000	\$ 130,000

*Audit Fees – This category includes the audit of our annual financial statements, review of financial statements included in our quarterly reports and services that are normally provided by the independent registered public accounting firm in connection with engagements for those years and services that are normally provided by our independent registered public accounting firm in connection with statutory audits and Securities and Exchange Commission regulatory filings or engagements.

The policy of our audit committee and our board of directors is to pre-approve all audit and non-audit services provided by our principal auditors, including audit services, audit-related services, and other services as described above, other than those for de minimis services which are approved by the audit committee or our board of directors prior to the completion of the services.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

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

On May 6, 2015, we announced a share repurchase program for up to a total of 500,000 shares of our ADS's through May 2016 in accordance with applicable requirements of Rule 10b5-1 and/or Rule 10b-18 under the U.S. Securities Exchange Act of 1934, as amended. On April 28, 2016, we announced that our Board of Directors authorized the extension of its repurchase plan of up to 166,667 shares of the Company's ADSs for an additional twelve months to May 2017. In the fiscal years ended December 31, 2017 and 2018, no shares of our ADS's have been purchased under the repurchase program.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Our ADSs are listed on the NASDAQ Capital Market, or NASDAQ. As such, we are subject to corporate governance requirements imposed by NASDAQ. Under NASDAQ rules, listed non-US companies such as ourselves may, in general, follow their home country corporate governance practices in lieu of some of the NASDAQ corporate governance requirements. A NASDAQ -listed non-US company is required to provide a general summary of the significant differences to its US investors either on the company website or in its annual report distributed to its US investors. We are committed to a high standard of corporate governance. As such, we endeavor to comply with the NASDAQ corporate governance practices and there is no significant difference between our corporate governance practices and what the NASDAQ requires of domestic U.S. companies.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements and related notes required by this item are contained on pages F-1 through F-44.

ITEM 19. EXHIBITS

Exhibit Number	Description of Documents
1.1	Amended and Restated Memorandum of Association ⁽¹⁾
1.2	Amended and Restated Articles of Association ⁽¹⁾
2.1	Form of American Depositary Receipt (included in Exhibit 2.3)
2.2	Form of Amended and Restated Ordinary Share Certificate ⁽¹⁾
2.3	Form of Deposit Agreement ⁽³⁾
4.1	Share Exchange Agreement between Ultra Glory International Ltd., the shareholder of Ultra Glory International Ltd., Ossen Innovation Materials Group Co., Ltd. and the Shareholders of Ossen Innovation Materials Group Co., Ltd., dated July 7, 2010 ⁽²⁾
4.2	Employment Contract by and between Ossen Innovation Co., Ltd. and Liang Tang, dated January 1, 2014 ⁽⁴⁾
8.1	Subsidiaries of the Registrant*
12.1	CEO and CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
13.1	CEO and CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
101	Interactive Data File (XBRL).*

* Filed as an exhibit hereto.

** Furnished as an exhibit hereto.

(1) Incorporated by reference to our Registration Statement on Form F-1/A, filed on September 29, 2010.

(2) Incorporated by reference to our Shell Company Report on Form 20-F, filed on July 12, 2010.

(3) Incorporated by reference to Post-Effective Amendment No. 1 to our Registration Statement on Form F-6, filed on August 11, 2016.

(4) Incorporated by reference to our Annual Report on Form 20-F, filed on April 29, 2014.

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.

OSSEN INNOVATION CO., LTD.

/s/ Wei Hua

Name: Wei Hua
Title: Chief Executive Officer and Chief Financial Officer

Date: May 14, 2019

OSSEN INNOVATION CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Ossen Innovation Co., Ltd.
Shanghai, China

We have audited the accompanying consolidated balance sheets of Ossen Innovation Co., Ltd. as of December 31, 2018 and 2017 and the related consolidated statements of operations and other comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ossen Innovation Co., Ltd. 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.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

Shanghai, People's Republic of China
We have served as the Company's auditor since 2015.

May 14, 2019

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017

	December 31,	
	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,444,421	\$ 950,225
Restricted cash	4,070,655	7,192,928
Accounts receivable, net of allowance for doubtful accounts of \$939,535 and \$868,973 at December 31, 2018 and 2017, respectively	60,586,869	51,699,930
Inventories	17,177,926	13,479,473
Advance to suppliers	69,986,656	71,280,903
Other current assets	26,496	37,390
Total current assets	155,293,023	144,640,849
Property, plant and equipment, net	3,371,387	4,031,534
Land use rights, net	3,422,365	3,697,012
Deferred tax assets	159,136	149,511
TOTAL ASSETS	\$ 162,245,911	\$ 152,518,906

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017 (Continued)

	December 31,	
	2018	2017
Current Liabilities		
Notes payable-bank acceptance notes	\$ 8,722,832	\$ 10,253,742
Short-term bank loans	13,593,080	13,947,385
Accounts payables	289,954	359,927
Customer deposits	283,869	316,394
Taxes payable	1,547,882	450,711
Other payables and accrued liabilities	3,980,565	4,236,823
Customer deposits – related parties	4,800,384	-
Due to shareholder	1,695,259	351,499
Long-term bank loans – current portion	7,269,027	-
Total current liabilities	42,182,852	29,916,481
Long-term bank loans	-	7,652,046
TOTAL LIABILITIES	42,182,852	37,568,527
EQUITY		
Shareholders' Equity		
Ordinary shares, \$0.01 par value: 100,000,000 shares authorized; 20,000,000 shares issued; 19,791,110 shares outstanding as both of December 31, 2018 and 2017	200,000	200,000
Additional paid-in capital	33,971,455	33,971,455
Statutory reserve	7,764,813	6,672,254
Retained earnings	68,673,562	59,386,668
Treasury stock, at cost: 208,890 shares as both of December 31, 2018 and 2017	(192,153)	(192,153)
Accumulated other comprehensive income/(loss)	(4,044,969)	2,227,334
TOTAL SHAREHOLDERS' EQUITY	106,372,708	102,265,558
Non-controlling interest	13,690,351	12,684,821
TOTAL EQUITY	120,063,059	114,950,379
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 162,245,911	\$ 152,518,906

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018,
2017 AND 2016

	Year Ended December 31,		
	2018	2017	2016
REVENUES	\$ 136,104,867	\$ 132,375,915	\$ 117,029,154
COST OF GOODS SOLD	115,585,803	117,721,799	100,932,528
GROSS PROFIT	20,519,064	14,654,116	16,096,626
Selling expenses	327,365	598,832	734,159
General and administrative expenses	5,263,914	6,002,121	6,376,383
Total Operating Expenses	5,591,279	6,600,953	7,110,542
INCOME FROM OPERATIONS	14,927,785	8,053,163	8,986,084
Financial expenses, net	(1,621,486)	(1,610,337)	(2,827,138)
Other income, net	208,071	147,108	90,584
INCOME BEFORE INCOME TAX	13,514,370	6,589,934	6,249,530
INCOME TAX	(2,129,387)	(691,556)	(926,048)
NET INCOME	11,384,983	5,898,378	5,323,482
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	1,005,530	553,067	499,509
NET INCOME ATTRIBUTABLE TO OSSEN INNOVATION CO.,LTD AND SUBSIDIARIES	10,379,453	5,345,311	4,823,973
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation gain (loss)	(6,272,303)	6,606,207	(6,975,100)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(6,272,303)	6,606,207	(6,975,100)
COMPREHENSIVE INCOME/(LOSS)	\$ 4,107,150	\$ 11,951,518	\$ (2,151,127)
EARNINGS PER ORDINARY SHARE			
Basic and diluted	\$ 0.52	\$ 0.27	\$ 0.24
WEIGHTED AVERAGE ORDINARY SHARES OUTSTANDING			
Basic and diluted	19,791,110	19,791,110	19,804,164

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Total Ossen Innovation Co., Ltd. Shareholders' Equity										
	Ordinary Shares \$0.01 Par Value		Additional Paid-in Capital	Treasury stock		Accumulated Other		Statutory Reserve	Retained Earnings	Non Controlling Interest	Total
	Shares	Amount		Shares	Amount	Comprehensive Income/(loss)	-				
Balance at January 1, 2016	20,000,000	200,000	33,971,455	(171,210)	(155,343)	2,596,227	5,631,373	50,258,265	11,632,245	104,134,222	
Net income	-	-	-	-	-	-	-	4,823,973	499,509	5,323,482	
Transfer to statutory reserve	-	-	-	-	-	-	491,649	(491,649)	-	-	
Common shares repurchase	-	-	-	(37,680)	(36,810)	-	-	-	-	(36,810)	
Foreign currency translation adjustment	-	-	-	-	-	(6,975,100)	-	-	-	(6,975,100)	
Balance at December 31, 2016	20,000,000	\$ 200,000	\$ 33,971,455	(208,890)	\$ (192,153)	\$ (4,378,873)	\$ 6,123,022	\$ 54,590,589	\$ 12,131,754	\$ 102,445,794	
Net income	-	-	-	-	-	-	-	5,345,311	553,067	5,898,378	
Transfer to statutory reserve	-	-	-	-	-	-	549,232	(549,232)	-	-	
Foreign currency translation adjustment	-	-	-	-	-	6,606,207	-	-	-	6,606,207	
Balance at December 31, 2017	20,000,000	\$ 200,000	\$ 33,971,455	(208,890)	\$ (192,153)	\$ 2,227,334	\$ 6,672,254	\$ 59,386,668	\$ 12,684,821	\$ 114,950,379	
Net income	-	-	-	-	-	-	-	10,379,453	1,005,530	11,384,983	
Transfer to statutory reserve	-	-	-	-	-	-	1,092,559	(1,092,559)	-	-	
Foreign currency translation adjustment	-	-	-	-	-	(6,272,303)	-	-	-	(6,272,303)	
Balance at December 31, 2018	20,000,000	\$ 200,000	\$ 33,971,455	(208,890)	\$ (192,153)	\$ (4,044,969)	\$ 7,764,813	\$ 68,673,562	\$ 13,690,351	\$ 120,063,059	

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 11,384,983	\$ 5,898,378	\$ 5,323,482
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	641,647	796,566	883,755
Changes in operating assets and liabilities:			
(Increase) Decrease In:			
Accounts receivable	(8,886,939)	(14,401,465)	5,949,508
Inventories	(3,698,453)	12,519,709	1,277,040
Advance to suppliers	1,294,247	(24,551,618)	9,000,804
Other current assets	10,894	(6,023)	745,284
Deferred tax assets	(9,625)	16,440	(27,562)
Notes receivable - bank acceptance notes	-	15,280,381	(7,270,152)
Increase (Decrease) In:			
Accounts payable	(69,973)	(1,144,936)	(394,537)
Customer deposits	(32,524)	180,490	(173,243)
Income tax payable	1,097,171	(144,084)	180,545
Other payables and accrued expenses	(256,258)	2,496,349	70,804
Customer deposits - RPT	4,800,384	-	-
Due to related party	-	(3,912)	(61,883)
Due to shareholder	1,343,760	44,000	25,000
Net cash provided by/ (used in) operating activities	7,619,314	(3,019,725)	15,528,845
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of plant and equipment	(72,305)	(37,848)	(17,537)
Net cash used in investing activities	(72,305)	(37,848)	(17,537)

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016 (Continued)

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	17,900,302	13,497,882	20,422,885
Repayments of short-term bank loans	(17,543,051)	(17,380,550)	(20,068,975)
Proceeds from long-term bank loans	-	-	7,530,007
Proceeds from notes payable-bank acceptance notes	9,063,444	14,662,757	17,846,117
Repayment of notes payable-bank acceptance notes	(10,120,846)	(14,588,702)	(20,029,819)
Repurchase of common share	-	-	(36,810)
Repayments of bond payable	-	-	(15,273,177)
Net cash used in financing activities	(700,151)	(3,808,613)	(9,609,772)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH			
CASH	6,846,858	(6,866,186)	5,901,536
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(7,474,935)	8,088,466	(8,573,383)
Cash, cash equivalents and restricted cash at beginning of period	8,143,153	6,920,873	9,592,720
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 7,515,076	\$ 8,143,153	\$ 6,920,873
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the periods:			
Income taxes paid	\$ 1,019,270	\$ 840,670	\$ 740,873
Interest paid	\$ 1,388,283	\$ 1,397,635	\$ 2,311,039
Non-cash transactions:			
Appropriation to statutory reserve	\$ 1,092,559	\$ 549,232	\$ 491,649

See accompanying notes to the consolidated financial statements

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES

Ossen Innovation Co., Ltd., (“Ossen Innovation” or the “Company”) formerly known as Ultra Glory International, Ltd., or Ultra Glory, is a British Virgin Islands limited liability company organized on January 21, 2010 under the BVI Business Companies Act, 2004 (the “BVI Act”). Ultra Glory was a blank check company formed for the purpose of acquiring, through a share exchange, asset acquisition or other similar business combination, an operating business.

Business Combination

On July 7, 2010, Ultra Glory and its sole shareholder entered into a share exchange agreement with Ossen Innovation Materials Group, Co., Ltd, or Ossen Innovation Group, a British Virgin Islands limited liability company organized on April 30, 2010 under the BVI Act and the shareholders of Ossen Innovation Group. Pursuant to the share exchange agreement, Ultra Glory acquired from the shareholders of Ossen Innovation Group all of the issued and outstanding shares of Ossen Innovation Group, in exchange for an aggregate of 10,000,000 newly issued ordinary shares issued by Ultra Glory to the shareholders of Ossen Innovation Group. In addition, the sole shareholder of Ultra Glory sold all of the 5,000,000 ordinary shares of Ultra Glory that were issued and outstanding prior to the business combination, to the shareholders of Ossen Innovation Group for cash, at a price of \$0.03 per share. As a result, the individuals and entities that owned shares of Ossen Innovation Group prior to the business combination acquired 100% of the equity of Ultra Glory, and Ultra Glory acquired 100% of the equity of Ossen Innovation Group. Ossen Innovation Group is now a wholly owned subsidiary of Ultra Glory. In conjunction with the business combination, Ultra Glory filed an amended charter, pursuant to which Ultra Glory changed its name to Ossen Innovation Co., Ltd., changed its fiscal year end to December 31 and increased its authorized shares to 100,000,000. Upon the consummation of the business combination, the company ceased to be a shell company. Ossen Innovation, together with its subsidiaries, is referred to as the “Company,” unless specific reference is made to a company or entity.

The effect of the share exchange and the share sale is such that effectively a reorganization of the entities has occurred for accounting purposes and is deemed to be a reverse acquisition.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

The share exchange acquisition is accounted for as a “reverse acquisition” since, immediately following completion of the transaction, the shareholders of Ossen Innovation Group have had effective control of Ultra Glory. For accounting purposes, Ossen Innovation Group is deemed to be the accounting acquirer in the transaction and, consequently, the transaction is treated as a recapitalization of Ultra Glory, i.e., a capital transaction involving the issuance of shares by Ultra Glory for the shares of Ossen Innovation Group. Accordingly, the combined assets, liabilities and results of operations of Ossen Innovation Group and its subsidiaries, became the historical financial statements of Ultra Glory at the closing of the share exchange, and Ultra Glory’s assets (primarily cash and cash equivalents), liabilities and results of operations is consolidated with those of Ossen Innovation Group beginning on the share exchange date. No step-up in basis or intangible assets or goodwill is recorded in this transaction. As this transaction is being accounted for as a reverse acquisition, all direct costs of the transaction is charged to additional paid-in capital. All professional fees and other costs associated with transaction were expensed. The 15,000,000 shares of Ultra Glory, subsequent to the July 7, 2010 share exchange, are presented as if they are outstanding for all periods presented, as these are held 100% by the equity owners of Ossen Innovation Group as of the share exchange and the share sale.

The Company’s Shareholders

Dr. Tang, our chairman, owns 100% of the shares of Effectual Strength Enterprises Ltd., a British Virgin Islands company, which currently owns approximately 60.0% of our outstanding ordinary shares. The spouse of our chief executive officer, Wei Hua, owns 100% of the shares of Fascinating Acme Development Ltd., which owns approximately 3.0% of our outstanding ordinary shares. The spouse of the chief executive officer of Ossen Material Research (formerly Shanghai ZFX), which is an affiliated company of ours that supplies us with raw materials, owns 100% of the shares of Gross Inspiration Development Ltd., which owns approximately 3.0% of our outstanding ordinary shares. In December 2011, 5 million shares were issued in our initial public offering. Currently we have approximately 30.2% of our ordinary shares, or 5,988,290 shares, trading on NASDAQ in the form of ADS’s. The holders of the remaining approximately 3.8% of our shares are investors that are residents of the PRC and are unaffiliated with Ossen. In August 2018, Fascinating Acme Development Ltd and Gross Inspiration Development Ltd transferred its shares to Effectual Strength Enterprises Ltd. In October 2018, Effectual Strength Enterprises Ltd transferred its shares to Acme Innovation Ltd, which owned by Dr. Tang.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

The Company's Subsidiaries

British Virgin Islands Companies

Ossen Innovation Group, the Company's wholly owned subsidiary, is the sole shareholder of two holding companies organized in the British Virgin Islands: Ossen Group (Asia) Co., Ltd., or Ossen Asia, and Topchina Development Group Ltd., or Topchina. All of the equity of Ossen Asia and Topchina had been held by Dr. Tang since inception. In May 2010, Dr. Tang transferred these shares to Ossen Innovation Group in anticipation of the public listing of our Company's shares in the United States.

Ossen Asia is a British Virgin Islands limited liability company organized on February 7, 2002. Ossen Asia has one direct operating subsidiary in China, Ossen Innovation Materials Co. Ltd., or Ossen Materials. Ossen Asia owns 81% of the equity of Ossen Materials.

Topchina is a British Virgin Islands limited liability company organized on November 3, 2004. Ossen Materials and Topchina directly own an operating subsidiary in China, Ossen (Jiujiang) Steel Wire & Cable Co., Ltd., or Ossen Jiujiang. Ossen Materials owns 20.46% of the equity of Ossen Jiujiang and Topchina owns 79.54%.

Ossen Materials

Ossen Materials was formed in China on October 27, 2004 as a Sino-foreign joint venture limited liability company under the name Ossen (Maanshan) Steel Wire and Cable Co., Ltd. On May 8, 2008, Ossen Materials was restructured from a Sino-foreign joint venture limited liability company to a corporation. The name of the entity was changed at that time to Ossen Innovation Materials Co., Ltd.

Ossen Asia owns 81% of the equity of Ossen Materials. The remaining 19% is held in the aggregate by four Chinese entities, two of which are controlled by Chinese governmental entities, one of which is controlled by Zhonglu Co. Ltd., a company whose shares are listed on the Shanghai Stock Exchange, and one of which is controlled by Chinese citizens.

Through Ossen Materials, the Company has manufactured and sold plain surface PC strands, galvanized PC steel wires and PC wires in the Company's Maanshan City, PRC, facility since 2004. The primary products manufactured in this facility are the Company's plain surface PC strands. The primary markets for the products manufactured at the Company's Maanshan facility are Anhui Province, Jiangsu Province, Zhejiang Province and Shanghai City, each in the PRC.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Ossen Jiujiang

On April 6, 2005, Shanghai Ossen Investment Holdings (Group) Co., Ltd., or Ossen Shanghai, acquired a portion of the bankruptcy assets of Jiujiang Tianlong Galvanized Prestressing Steel Strand LLC, including equipment, land use rights and inventory for approximately \$2.9 million. Ossen Jiujiang was formed by Ossen Shanghai in the PRC as a Sino-Foreign joint venture limited liability company on April 13, 2005. Ossen Shanghai then transferred the newly acquired assets to Ossen Jiujiang. At its inception, Ossen Jiujiang was owned by two entities: 33.3% of its equity was held by Ossen Asia and 66.7% by Ossen Shanghai. In June 2005, Ossen Shanghai transferred its entire interest in Ossen Jiujiang to Topchina in exchange for approximately \$2.9 million. In October 2007, Topchina transferred 41.7% of the equity in Ossen Jiujiang to Ossen Asia for no consideration. On December 17, 2007, Ossen Asia transferred all of its shares in Ossen Jiujiang to Ossen Materials for no consideration. On December 27, 2010, the paid-in capital of Ossen Jiujiang increased from approximately \$6,048,509 (RMB 50,000,000) to approximately \$26,048,509 (RMB 183,271,074) and was injected by cash of approximately \$20,000,000 (RMB 133,271,074) from its shareholder Topchina. Since then, 20.46% of the equity interest of Ossen Jiujiang has been held by Ossen Materials and 79.54% by Topchina. On April 9, 2014, Ossen (Jiujiang) Steel Wire & Cable Co., Ltd. changed its name to Ossen (Jiujiang) New Materials Co., Ltd.

Through Ossen Jiujiang, the company manufactures galvanized PC wires, plain surface PC strands, galvanized PC strands, unbonded PC strands, helical rib PC wires, sleeper PC wires and indented PC wires. The primary products manufactured in this facility are the company's galvanized PC wires. The primary markets for the PC strands manufactured in the company's Jiujiang facility are Jiangxi Province, Wuhan Province, Hunan Province, Fujian Province and Sichuan Province, each in the PRC.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

At December 31, 2018, the subsidiaries of Ossen Innovation Co., Ltd were as follows:

Name	Domicile and Date of Incorporation	Paid-in Capital		Percentage of Effective Ownership	Principal Activities
Ossen Innovation Materials Group, Co., Ltd. ("Ossen Innovation Group")	BVI April 30, 2010	USD	-	100%	Investments holdings
Ossen Group (Asia) Co., Ltd. ("Ossen Asia")	BVI February 7, 2002	USD	-	100%	Investments holdings
Topchina Development Group Ltd. ("Topchina")	BVI November 3, 2004	USD	-	100%	Investments holdings
Ossen Innovation Materials Co., Ltd. ("Ossen Materials")	The PRC October 27, 2004	RMB	75,000,000	81%	Design, engineering, manufacture and sale of customized prestressed steel materials
Ossen (Jiujiang) New Materials Co., Ltd. (Formerly Ossen (Jiujiang) Steel Wire & Cable Co., Ltd.) ("Ossen Jiujiang")	The PRC April 13, 2005	RMB	183,271,074	96.11%	Design, engineering, manufacture and sale of customized prestressed steel materials

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Ossen Innovation Co., Ltd. and its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). Intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of the consolidated and combined financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. Actual results could differ from those estimates.

Non-controlling Interest

Non-controlling interests in the Company's subsidiaries are recorded in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification 810 Consolidation ("ASC 810") and are reported as a component of equity, separate from the parent's equity. Purchase or sale of equity interests that do not result in a change of control are accounted for as equity transactions. Results of operations attributable to the non-controlling interest are included in our consolidated results of operations and, upon loss of control, the interest sold, as well as interest retained, if any, will be reported at fair value with any gain or loss recognized in earnings.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

The accompanying consolidated financial statements are presented in United States dollars (“US\$” or “\$”). The functional currency of the Company is Renminbi (“RMB”). The consolidated financial statements are translated into United States dollars from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The resulting transaction adjustments are recorded as a component of shareholders’ equity. Gains and losses from foreign currency transactions are included in net income.

	2018	2017	2016
Year end RMB: US\$ exchange rate	6.8785	6.5342	6.9370
Average yearly RMB: US\$ exchange rate	6.6200	6.7518	6.6401

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at the rates used in translation.

Revenue Recognition

The Company adopted ASC Topic 606 Revenue from Contracts with Customers with a date of the initial application of January 1, 2018 using the modified retrospective method. As a result, the Company has changed its accounting policy for revenue recognition. The impact of the adoption of ASC Topic 606 on the Company’s consolidated financial statements is not material.

The Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company derives revenues from the processing, distribution and sale of own products. The revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the performance obligation is fulfilled, usually at the time of delivery, at the net sales price (transaction price). Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities. Shipping and handling costs for product shipments occur prior to the customer obtaining control of the goods are accounted for as fulfillment costs rather than separate performance obligations and recorded as sales and marketing expenses.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's contracts are predominantly short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Receivables are recorded when the Company has an unconditional right to consideration.

Cost of Sales

Cost of revenue includes direct and indirect production costs, as well as freight in and handling costs for products sold.

Selling Expenses

Selling expenses include operating expenses such as sales commissions, payroll, traveling expenses, transportation expenses and advertising expenses.

General and Administrative ("G&A") Expenses

General and administrative expenses include management and office salaries and employee benefits, depreciation for office facility and office equipment, travel and entertainment, legal and accounting, consulting fees and other office expenses.

Research and Development

Research and development costs are expensed as incurred and totaled approximately \$3,345,097, \$4,269,512 and \$3,869,277 for the years ended December 31, 2018, 2017 and 2016, respectively. Research and development costs are included in G&A in the accompanying statements of operations. Research and development costs are incurred on a project specific basis.

Retirement Benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged to operations as incurred. Retirement benefits of \$164,495, \$173,637 and \$160,656 were charged to operations for the years ended December 31, 2018, 2017 and 2016, respectively.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company accounts for income taxes following the liability method pursuant to FASB ASC 740 “Income Taxes”. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in income in the period that includes the enactment date.

The Company also follows FASB ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2018, the Company did not have a liability for unrecognized tax benefits.

The Company has not provided for income taxes on accumulated earnings amounting \$ 68,673,561 that are subject to the PRC dividend withholding tax as of December 31, 2018, since these earnings are intended to be permanently reinvested.

Value-Added Tax (“VAT”)

Enterprises or individuals, who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with Chinese Laws. The VAT standard rate is reduced from 17% to 16% after May 2018. The VAT standard rate is 16% of the gross sale price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company’s finished products can be used to offset the VAT due on the sales of the finished products.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statutory Reserve

In accordance with the PRC Regulations on Enterprises with Foreign Investment, an enterprise established in the PRC with foreign investment is required to provide for certain statutory reserves, namely (i) General Reserve Fund, (ii) Enterprise Expansion Fund and (iii) Staff Welfare and Bonus Fund, which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly-owned foreign enterprise ("WOFE") is required to allocate at least 10% of its annual after-tax profit to the General Reserve Fund until the balance of such fund has reached 50% of its respective registered capital. A non-wholly-owned foreign invested enterprise is permitted to provide for the above allocation at the discretion of its board of directors. Appropriations to the Enterprise Expansion Fund and Staff Welfare and Bonus Fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

As a result, \$1,092,559, \$549,232 and \$491,649 have been appropriated to the accumulated statutory reserves by the Company's PRC subsidiaries for the years ended December 31, 2018, 2017 and 2016 respectively.

Comprehensive Income

Comprehensive income is defined as the change in equity during the year from transactions and other events, excluding the changes resulting from investments by owners and distributions to owners, and is not included in the computation of income tax expense or benefit. Accumulated comprehensive income consists of foreign currency translation. The Company presents comprehensive income (loss) in accordance with ASC Topic 220, "Comprehensive Income". ASC Topic 220 states that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be reported in the consolidated financial statements.

Cash and Cash Equivalents

For financial reporting purposes, the Company considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents. The Company maintains no bank account in the United States of America. The Company maintains its bank accounts in Mainland China and Hong Kong. Balances at financial institutions or state-owned banks within the Mainland China are not covered by insurance. However, the Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts. According to the rules of Hong Kong Deposit Protection Board, in case a member bank of Deposit Protection Scheme ("DPS") fails, the DPS will pay compensation up to a maximum of HK\$500,000 to each depositor of the failed Scheme member.

**OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash represents amounts held by a bank as security for bank acceptance notes and therefore is not available for the Company’s use until such time as the bank acceptance notes have been fulfilled or expired, normally within twelve month period.

The Company adopted ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash” in the first quarter of 2018. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. The following represents a reconciliation of cash and cash equivalents in the condensed consolidated balance sheet to total cash, cash equivalents and restricted cash in the condensed consolidated statement of cash flows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	3,444,421	950,225
Restricted cash	4,070,655	7,192,928
Total cash, cash equivalents and restricted cash in the statement of cash flows	7,515,076	8,143,153

Certain amounts included in the 2017 and 2016 consolidated statement of cash flows have been reclassified to conform to the 2018 financial statement presentation as follows:

The Company has included restricted cash of \$6,703,242 and \$7,192,928, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2017. As a result, the total amount of cash, cash equivalents, and restricted cash at the beginning of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$217,631 to \$6,920,873; the total amount of cash, cash equivalents, and restricted cash at the end of the period on the statement of cash flows for the year ended December 31, 2017 has changed from \$950,225 to \$8,143,153.

The Company has included restricted cash of \$8,780,443 and \$6,703,242, respectively, with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows for the year ended December 31, 2016. As a result, the total amount of cash, cash equivalents, and restricted cash at the beginning of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$812,277 to \$9,592,720; the total amount of cash, cash equivalents, and restricted cash at the end of the period on the statement of cash flows for the year ended December 31, 2016 has changed from \$217,631 to \$6,920,873.

The Company has eliminated the line item of restricted cash of \$489,686 from the financing activities section on the statement of cash flows for the year ended December 31, 2017. As a result, net cash used in financing activities of \$4,298,299 on the statement of cash flows for the year ended December 31, 2017 has changed to net cash used in financing activities of \$3,808,613. Net decrease in cash, cash equivalents and restricted cash of \$7,355,872 on the statement of cash flows for the year ended December 31, 2017 has changed to net decrease in cash, cash equivalents and restricted cash of \$6,866,186.

The Company has eliminated the line item of restricted cash of \$2,077,201 from the financing activities section on the statement of cash flows for the year ended December 31, 2016. As a result, net cash used in financing activities of \$7,532,571 on the statement of cash flows for the year ended December 31, 2016 has changed to net cash used in financing activities of \$9,609,772. Net increase in cash, cash equivalents and restricted cash of \$7,978,737 on the statement of cash flows for the year ended December 31, 2016 has changed to net increase in cash, cash equivalents and restricted cash of \$5,901,536.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The Company applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, to the financial instruments that are required to be carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company uses a three-tier fair value hierarchy based upon observable and non-observable inputs that prioritizes the information used to develop our assumptions regarding fair value. Fair value measurements are separately disclosed by level within the fair value hierarchy.

- Level 1—defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2—defined as inputs other than quoted prices in active markets, that are either directly or indirectly observable; and
- Level 3—defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The company's financial instruments primarily consist of cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, other payables and accrued liabilities, short-term bank loans, and bond payable.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short term nature of these items. The estimated fair values of short-term bank loans were not materially different from their carrying value as presented due to the short maturities and that the interest rates on the borrowing approximate those that would have been available for loans of similar remaining maturity and risk profile. As the carrying amounts are reasonable estimates of the fair value, these financial instruments are classified within Level 1 of the fair value hierarchy.

Earnings per share

The Company calculates earnings per share in accordance with ASC Topic 260, "Earnings per Share." Basic earnings per share is computed by dividing the net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential ordinary shares equivalents had been issued and if the additional common shares were dilutive.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are carried at net realizable value. The Company reviews its accounts receivables on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. Balance of allowance of doubtful accounts was \$939,535 and \$868,973 at December 31, 2018 and 2017, respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value, which is based on estimated selling prices less any further costs expected to be incurred for completion and disposal. Cost of raw materials is calculated using the weighted average method and is based on purchase cost. Work-in-progress and finished goods costs are determined using the weighted average method and comprise direct materials, direct labor and an appropriate proportion of overhead. At December 31, 2018 and 2017, the Company has \$121,370 and \$127,766 reserve for inventories, respectively.

Advance to Suppliers

Advance to Suppliers represents interest-free cash paid in advance to suppliers for purchases of raw materials. The balance of advance to suppliers was \$69,986,656 and \$71,280,903 at December 31, 2018 and 2017, respectively. Among the balance of \$69,986,656, the aging of \$36,913,322 was within 60 days, \$25,541,361 was between 60-180 days and \$7,531,973 was over 180 days. No allowance was provided for the prepayments balance at December 31, 2018.

Customer Deposits and Customer Deposits – related parties

Customer deposits consist of amounts paid to the Company in advance for the sale of products in the PRC. The Company receives these amounts and recognizes them as a current liability until the revenue can be recognized when the goods are delivered. The balance of customer deposits was \$ 283,869 and \$316,394 at December 31, 2018 and 2017, respectively.

Customer deposits – related parties consist of amounts paid to the Company in advance for the sale of products in the PRC from related parties. The Company receives these amounts and recognizes them as a current liability until the revenue can be recognized when the goods are delivered. The balance of customer deposits – related parties was \$ 4,800,384 and nil at December 31, 2018 and 2017, respectively.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation, and include expenditure that substantially increases the useful lives of existing assets.

Depreciation is provided over their estimated useful lives, using the straight-line method. Estimated useful lives are as follows:

Plant, buildings and improvements	5 ~ 20 years
Machinery and equipment	5 ~ 20 years
Motor vehicles	5 years
Office Equipment	5 ~ 10 years

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the consolidated financial statements and any gain or loss resulting from their disposal is recognized in the period of disposition as an element of other income. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and betterments are capitalized.

Land Use Rights

According to the PRC laws, the government owns all the land in the PRC. Companies or individuals are authorized to possess and use the land only through land use rights granted by the Chinese government. The land use rights granted to the Company are being amortized using the straight-line method over the lease term of fifty years.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with FASB ASC 360, "Property, Plant and Equipment".

In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with FASB ASC 360-10-15. To the extent that estimated future, undiscounted cash inflows attributable to the asset, less estimated future, undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

No impairment loss is subsequently reversed even if facts and circumstances indicate recovery. There was no impairment loss recognized for the years ended December 31, 2018, 2017 and 2016.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segments and Related Information

ASC 280-10-50, “Operating Segments”, define the characteristics of an operating segment as a) being engaged in business activity from which it may earn revenue and incur expenses, b) being reviewed by the company's chief operating decision maker (CODM) for decisions about resources to be allocated and assess its performance and c) having discrete financial information. Although we indeed look at our product to analyze the nature of our revenue, other financial information, such as certain costs and expenses and net income are not captured or analyzed by these categories. Therefore discrete financial information is not available by product line and we have no CODM to make resource allocation decisions or assess the performance of the business based on these categories, but rather in the aggregate. Based on this, Management believes that it operates in one business segment.

In the analysis of product lines as potential operating segments, management also considered ASC 280-10-50-11, “Aggregation Criteria”, which allows for the aggregation of operating segments if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- The nature of the products and services;
- The nature of the production processes;
- The type or class of customer for their products and services;
- The methods used to distribute their products or provide their services; and
- The nature of the regulatory environment, if applicable.

We are engaged in the business of manufacturing and selling steel materials. Our manufacturing process is essentially the same for the entire Company and is performed in house at our facilities in China. Our customers primarily consist of entities in the steel industry. The distribution of our products is consistent across the entire Company. In addition, the economic characteristics of each customer arrangement are similar in that we maintain policies at the corporate level.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related Party

In general, related parties exist when there is a relationship that offers the potential for transactions at less than arm's-length, favorable treatment, or the ability to influence the outcome of events different from that which might result in the absence of that relationship. A related party may be any of the followings: a) affiliate, a party that directly or indirectly controls, is controlled by, or is under common control with another party; b) principle owner, the owner of record or known beneficial owner of more than 10% of the voting interest of an entity; c) management, persons having responsibility for achieving objectives of the entity and requisite authority to make decision; d) immediate family of management or principal owners; e) a parent company and its subsidiaries; d) other parties that has ability to significant influence the management or operating policies of the entity.

FASB issued authoritative guidance that clarifies considerations relating to the consolidation of certain entities. The guidance requires identification of the Company's participation in variable interest entities ("VIE"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operation on a standalone basis, or whose equity holders lack certain characteristics of a controlling financial interest. That, for entities identified as a VIE, the guidance sets forth a model to evaluate potential consolidation based on a assessment of which party to a VIE, if any, bears a majority of the exposure to expected losses, or stand to gain from majority of its expected returns. The guidance also sets forth certain disclosure regarding interests in a VIE that are deemed significant even if consolidation is not required. This item is discussed in further detail in Note 9 – Related Party Transactions.

Economic and Political Risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and 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 and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

Exchange Risk

The Company cannot guarantee that the current exchange rate will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of PRC Renminbi (RMB) converted to U.S. dollars on the date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently adopted Accounting Pronouncements

In May 2014, the FASB issued a new standard on revenue recognition related to contracts with customers. This standard supersedes nearly all existing revenue recognition guidance and involves a five-step principles-based approach to recognizing revenue. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive. The new standard also requires additional qualitative and quantitative about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. The Company adopted this standard in the first quarter of 2018 using the modified retrospective approach. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes.” This ASU amends existing guidance to require that deferred income tax assets and liabilities be classified as non-current in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax assets and liabilities into a current amount and a non-current amount in a classified balance sheet. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory, which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash,” (“ASU 2016-18”). This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The Company adopted this standard prospectively in the first quarter of 2018. The impact of adoption on its Consolidated Financial Statements for any period presented is not material.

Recently issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 - *Leases* (Topic 842). Under the new guidance, a lessee is required to recognize lease liabilities and corresponding right-of-use assets, initially measured at the present value of lease payments, on the balance sheet for operating leases with terms greater than one year. Lessor accounting remains largely unchanged from existing lease accounting. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. If the lessee makes the election, the lessee would recognize lease expense on a straight-line basis over the lease term. This ASU is effective in annual reporting periods beginning after December 15, 2018 and the interim periods within that fiscal year. The Company is still evaluating the potential impacts that the implementation of ASU 2016-02 may have on its financial position, operational results, or cash flows

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments”, to require financial assets carried at amortized cost to be presented at the net amount expected to be collected based on historical experience, current conditions and forecasts. Subsequently, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, to clarify that receivables arising from operating leases are within the scope of lease accounting standards. The ASUs are effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASUs is modified retrospective. We are currently obtaining an understanding of the ASUs and plan to adopt them on January 1, 2020.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2017, the FASB issued ASU No. 2017-04 (Topic 350) Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment, which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU will be applied on a prospective basis and is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In February 2018, the FASB released ASU 2018-2, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This standard update addresses a specific consequence of the Tax Cuts and Jobs Act (“U.S. tax reform”) and allows a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from U.S. tax reform. Consequently, the update eliminates the stranded tax effects that were created as a result of the historical U.S. federal corporate income tax rate to the newly enacted U.S. federal corporate income tax rate. The Company is required to adopt this standard in the first quarter of fiscal year 2020, with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company has finished the evaluation and determined there is no impact of on its Consolidated Financial Statements.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2018, the FASB issued ASU No. 2018-07 – *Compensation – Stock Compensation* (Topic 718). The ASU was issued as part of its Simplification Initiative to reduce costs and complexities of financial reporting. ASU No. 2018-07 simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. Currently, share-based payments transactions to nonemployees are measured at fair value and remeasured at each reporting date through the date of final vesting. This ASU changes the guidance related to the determination of the measurement date. Under the new guidance, equity-classified awards would be measured at the grant date. This ASU is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early adoption is permitted if financial statements have not yet been issued. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. The new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
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NOTE 3 – CONCENTRATION

Concentration of major customers and suppliers:

	Year ended December 31,					
	2018		2017		2016	
Major customers with revenues of more than 10% of the Company's sales						
Company A (3 rd Party)	\$ -	-	\$40,312,341	30%	\$51,033,356	44%
Company B (3 rd Party)	-	-	-	-	11,802,981	10%
Company C (3 rd Party)	18,566,897	14%	13,822,962	10%	-	-
Company D (3 rd Party)	-	-	-	-	11,962,597	10%
Company E (3 rd Party)	19,131,793	14%	-	-	-	-
Company F (3 rd Party)	19,845,886	15%	14,511,302	11%	-	-
Company G (3 rd Party)	13,832,333	10%	-	-	-	-
Total Revenues	<u>\$71,376,909</u>	<u>53%</u>	<u>\$68,646,605</u>	<u>51%</u>	<u>\$74,798,934</u>	<u>64%</u>

	Year ended December 31,					
	2018		2017		2016	
Major suppliers with purchases of more than 10% of the Company's purchases						
Company X (3 rd Party)	\$ 93,832,471	75%	\$ 82,189,241	76%	61,496,533	61%
Company Y (3 rd Party)	30,583,589	24%	24,907,251	23%	31,553,260	31%
Total Purchase	<u>\$124,416,060</u>	<u>99%</u>	<u>\$107,096,492</u>	<u>99%</u>	<u>\$93,049,793</u>	<u>92%</u>

Accounts receivable related to the Company's major customers comprised 43% and 37% of all accounts receivable as of December 31, 2018 and 2017, respectively.

Accounts payable related to the Company's major suppliers comprised nil and 4% of all accounts payable as of December 31, 2018 and 2017, respectively.

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NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable is net of allowance for doubtful accounts.

	December 31,	
	2018	2017
Accounts receivable	\$ 61,526,404	\$ 52,568,903
Less: allowance for doubtful accounts	(939,535)	(868,973)
Accounts receivable, net	\$ 60,586,869	\$ 51,699,930

Changes in the allowance for doubtful accounts are as follows:

	December 31,	
	2018	2017
Beginning balance	\$ 868,973	\$ 985,990
Provision/(Reverse) for doubtful accounts	70,562	(117,017)
Ending balance	\$ 939,535	\$ 868,973

NOTE 5 – INVENTORIES

	December 31,	
	2018	2017
Raw materials	\$ 12,084,766	\$ 12,354,591
Work-in-progress	188,794	229,327
Finished goods	5,025,736	1,023,321
Less: reserve for inventories.	(121,370)	(127,766)
Inventories, net	\$ 17,177,926	\$ 13,479,473

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31,	
	2018	2017
Other receivables	\$ 26,496	\$ 37,390
	\$ 26,496	\$ 37,390

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	2018	2017
At Cost:		
Plant and buildings	\$ 3,885,849	\$ 4,090,603
Machinery and equipment	14,047,271	14,743,997
Motor vehicles	344,226	340,271
Office equipment	120,678	126,298
	18,398,024	19,301,169
Less: Accumulated depreciation		
Plant and buildings	(2,765,332)	(2,781,302)
Machinery and equipment	(11,216,276)	(12,080,380)
Motor vehicles	(292,464)	(298,219)
Office equipment	(759,186)	(109,734)
	(15,033,258)	(15,269,635)
Construction- in-progress	6,621	-
Property, plant and equipment, net	\$ 3,371,387	\$ 4,031,534

Unrealized foreign exchange translation gain/(loss) for the year ended December 31, 2018, 2017 and 2016 was (\$183,640), \$251,912 and (\$323,040), respectively, which has been included in other comprehensive income/(loss). Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was \$548,553, \$705,289 and \$793,844, respectively. As of December 31, 2018 and 2017, a net book value of nil and \$340,140, respectively, were used as collateral for the Company's short-term bank loans.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 – LAND USE RIGHTS

Land use rights consist of the following:

	December 31,	
	2018	2017
Cost of land use rights	\$ 4,479,896	\$ 4,715,951
Less: Accumulated amortization	(1,057,531)	(1,018,939)
Land use rights, net	\$ 3,422,365	\$ 3,697,012

Unrealized foreign exchange translation gain/(loss) for the year ended December 31, 2018, 2017 and 2016 was (\$181,553), \$217,105 and (\$247,088), respectively, which has been included in other comprehensive income/(loss). Amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$93,094, \$91,277 and \$89,911, respectively. As of December 31, 2018 and 2017, a net book value of nil and \$2,357,834, respectively, were used as collateral for the Company's long-term bank loans.

Amortization expense for the next five years and thereafter is as follows:

2019	\$ 89,598
2020	89,598
2021	89,598
2022	89,598
2023	89,598
Thereafter	2,974,375
Total	\$ 3,422,365

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 – RELATED PARTY TRANSACTIONS

(a) Names and Relationship of Related Parties:

	Existing Relationship with the Company
Dr. Tang	Chairman and controlling shareholder of the Company
Shanghai Ossen Material Research Institute Co., Ltd. (Formerly Shanghai Zhengfangxing Steel Co., Ltd.) (“Ossen Material Research”)	Under common control of Dr. Tang
Shanghai Ossen Investment Co., Ltd. (“SOI”)	Under common control of Dr. Tang
Shanghai Ossen Investment Holdings (Group) Co., Ltd. (“Ossen Shanghai”)	Under common control of Dr. Tang and Dr. Tang is the President
Shanghai Pujiang Cable Co., Ltd. (“Shanghai Pujiang”)	Subsidiary of Ossen Shanghai since September 2010
Zhejiang Pujiang Cable Co., Ltd. (“Zhejiang Pujiang”)	Subsidiary of Shanghai Pujiang since December 2010

(b) Summary of Balances with Related Parties:

	December 31,	
	2018	2017
Customer deposits – related parties		
Shanghai Pujiang	\$ 2,604,604	\$ -
Zhejiang Pujiang	\$ 2,195,780	\$ -
	\$ 4,800,384	\$ -

The balance of Customer deposits-related parties consist of amounts paid to the Company in advance from Shanghai Pujiang and Zhejiang Pujiang for the sale of products.

	December 31,	
	2018	2017
Due to shareholder:		
Dr. Tang	\$ 1,695,259	\$ 351,499
	\$ 1,695,259	\$ 351,499

Dr. Tang is the chairman and controlling interest shareholder of the Company. From time to time, Dr. Tang paid operating expenses on behalf of the Company to assist with the Company’s cash needs for business purposes.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
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NOTE 9 – RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Summary of Related Party Transactions:

		December 31,		
		2018	2017	2016
	Ossen Material Research provided guarantee together with Dr. Tang for the short-term bank loans borrowed by the Company	\$ -	\$ -	\$ 1,297,391
Ossen				
Material	Ossen Material Research provided guarantee together with Shanghai Pujiang and			
Research	Dr. Tang for the short-term bank loans borrowed by the Company	\$ -	\$ 3,749,502	\$ -
	Ossen Material Research provided guarantee together with Dr. Tang for the notes payable issued by the Company	\$ -	\$ 4,897,310	\$ -
	The Company provided guarantee for the short-term bank loans borrowed by Ossen Material Research	\$ -	\$ 18,824,034	\$ 70,635,721
	Ossen Shanghai provided guarantee together with Dr. Tang for the short-term bank loans borrowed by the Company	\$ 581,522	\$ -	\$ -
Ossen	The Company provided guarantee for the short-term bank loans borrowed by			
Shanghai	Ossen Shanghai	\$ -	\$ -	\$ 28,542,598
	The Company provided guarantee for the notes payable issued by Ossen Shanghai	\$ -	\$ -	\$ 2,162,318
	Shanghai Pujiang provided guarantee and together with Dr. Tang for the short-term bank loans borrowed by the Company	9,377,044	-	-
Shanghai	The Company provided guarantee for the short-term bank loans borrowed by			
Pujiang	Shanghai Pujiang	\$ 74,114,996	\$ 5,356,432	\$ 59,824,131
	The Company provided guarantee for the notes payable issued by Shanghai Pujiang	\$ 2,907,611	\$ -	\$ 7,207,727
	The Company sold products to Shanghai Pujiang	\$ 2,810,147	\$ -	\$ -

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NOTE 9 – RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Summary of Related Party Transactions (Continued):

	December 31,		
	2018	2017	2016
Zhejiang Pujiang The Company provided guarantee for the notes payable issued by Zhejiang Pujiang	\$ -	\$ 25,426,525	\$ -
The Company sold products to Zhejiang Pujiang	\$ 2,945,584	\$ -	\$ -

In accordance with ASC 810-10, “Consolidation”, the Company first evaluated that none of the related parties met the scope exceptions as outlined in the guidance. The Company then had to determine if it hold any variable interest in the related parties. The Company determined to have a variable interest in Shanghai Pujiang because the Company guarantees \$74,114,996 of the outstanding short term debt. Next, the Company evaluated if Shanghai Pujiang is variable interest entities. Using both qualitative and quantitative analysis, the Company does not have the power to direct Shanghai Pujiang’s activities that significantly impact its economic performance and does not have the obligation to absorb losses or the right to receive benefits from the entity. Thus, the Company is not the primary beneficiary of Shanghai Pujiang. As a result, the Company determined Shanghai Pujiang was not variable interest entities that require consolidation as defined in ASC 810. The Company determined Dr. Tang to be the primary beneficiary of Shanghai Pujiang because Dr. Tang is most closely associated with the Shanghai Pujiang. Dr. Tang had the power to direct the activities of Shanghai Pujiang that most significantly impact its economic performance and has the obligation to absorb losses of Shanghai Pujiang that could potentially be significant or the right to receive benefits from the related parties that could potentially be significant.

The Company also evaluated the remaining related parties and affiliated entities under ASC 810 and because the Company does not guarantee the debt, the holders of the equity were at risk and therefore determined to be the primary beneficiary and these entities are not variable interest entities that require consolidation.

NOTE 10 – OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses consist of the following:

	December 31,	
	2018	2017
Other taxes payable	\$ 3,548,227	\$ 2,845,393
Accrued payroll & welfare	13,805	33,977
Accrued expense & liability	365,304	1,283,660
Interest payable	4,148	15,747
Others	49,081	58,046
	\$ 3,980,565	\$ 4,236,823

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – NOTES PAYABLE

Bank acceptance notes:

	December 31,	
	2018	2017
Due September 28, 2019	\$ 726,903	\$ -
Due September 28, 2019	726,903	-
Due August 28, 2019	2,326,088	-
Due August 28, 2019	2,326,088	-
Due March 7, 2019, subsequently repaid on due date	828,669	-
Due March 6, 2019, subsequently repaid on due date	334,375	-
Due February 7, 2019, subsequently repaid on due date	726,903	-
Due February 6, 2019, subsequently repaid on due date	726,903	-
Due December 19, 2018, subsequently repaid on due date	-	1,530,409
Due October 13, 2018, subsequently repaid on due date	-	1,530,409
Due August 22, 2018, subsequently repaid on due date	-	2,448,655
Due August 22, 2018, subsequently repaid on due date	-	2,448,655
Due August 14, 2018, subsequently repaid on due date	-	765,205
Due June 27, 2018, subsequently repaid on due date	-	1,530,409
Total	\$ 8,722,832	\$ 10,253,742

The interest-free notes payable, ranging from six months to one year from the date of issuance, are secured by \$4,653,631 and \$7,192,928 restricted cash, as of December 31, 2018 and 2017, respectively.

All the notes payable are subject to bank charges of 0.05% of the principal amount as commission on each loan transaction.

NOTE 12 – CONTRACT BALANCES

Contract liabilities primarily represent the Company's obligation to transfer additional goods or services to a customer for which the Company has received consideration. The consideration received remains a contract liability until goods or services have been provided to the customer.

The following table provides information about contract liabilities from contracts with customers:

	December 31,	
	2018	2017
Customer deposits	\$ 283,869	\$ 316,394
Customer deposits – related parties	4,800,384	-
	\$ 5,084,253	\$ 316,394

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
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NOTE 13 – SHORT TERM BANK LOANS

Short-term loans are summarized as follows:

	Bank Name	Interest Rate per Annum	December 31,	
			2018	2017
Due on December 18, 2019, guaranteed by Shanghai Pujiang	Agricultural Bank of China ("ABC") Jiu Long Branch	5.8725%	\$ 3,198,372	\$ -
Due on October 9, 2019, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party	Anhui Commercial Bank ("ACB") Fei Cui Branch	6.50%	581,521	-
Due on July 25, 2019, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party	ACB Fei Cui Branch	5.655%	1,090,354	-
Due on July 23, 2019, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party	ACB Fei Cui Branch	6.00%	1,235,735	-
Due on June 27, 2019, guaranteed by Shanghai Pujiang and Dr. Tang	Bank SinoPac (China)	5.22%	2,907,611	-
Due on June 26, 2019, guaranteed by Shanghai Pujiang and Dr. Tang	Bank SinoPac (China)	5.22%	2,907,611	-
Due on May 21, 2019, guaranteed by Shanghai Pujiang and Dr. Tang	ABC Jiu Long Branch	5.6971%	363,451	-
Due on March 6, 2019, guaranteed by Ossen Shanghai, Dr. Tang and Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	Industrial Bank Ma An Shan Branch	5.22%	581,522	-
Due on January 27, 2019, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party subsequently repaid on due date	ACB Fei Cui Branch	6.00%	726,903	-
Due on December 26, 2018, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	Postal Savings Bank of China Ma An Shan Branch	6.09%	-	1,224,327
Due on December 7, 2018, guaranteed by Dr. Tang, subsequently repaid on due date	China Construction Bank ("CCB") Jiu Jiang Branch	5.4375%	-	2,448,655

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
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NOTE 13 – SHORT TERM BANK LOANS (CONTINUED)

	Bank Name	Interest Rate per Annum	December 31,	
			2018	2017
Due on December 6, 2018, guaranteed by Dr. Tang, subsequently repaid on due date	CCB Jiu Jiang Branch	5.4375%	-	765,205
Due on December 5, 2018, guaranteed by Ossen Material Research and Dr. Tang, subsequently repaid on due date	ABC Jiu Long Branch	5.8725%	-	3,366,900
Due on October 9, 2018, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	ACB Fei Cui Branch	6.00%	-	612,164
Due on July 14, 2018, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	ACB Fei Cui Branch	6.00%	-	1,530,409
Due on July 14, 2018, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	ACB Fei Cui Branch	6.00%	-	918,246
Due on May 11, 2018, Collateral by Fixed assets subsequently repaid on due date	Anhui Rural Commercial Bank (“ARCB”) Ma An Shan Branch	6.276%	-	250,222
Due on May 8, 2018, guaranteed by Ossen Material Research and Dr. Tang, subsequently repaid on due date	ABC Jiu Long Branch	5.65%	-	382,602
Due on April 18, 2018, Collateral by Fixed assets subsequently repaid on due date	ARCB Ma An Shan Branch	6.276%	-	156,102
Due on March 3, 2018, Collateral by Fixed assets subsequently repaid on due date	ARCB Ma An Shan Branch	6.276%	-	374,950
Due on February 10, 2018, Collateral by Fixed assets subsequently repaid on due date	ARCB Ma An Shan Branch	6.276%	-	127,024

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NOTE 13 – SHORT TERM BANK LOANS (CONTINUED)

	Bank Name	Interest Rate per Annum	December 31,	
			2018	2017
Due on January 7, 2018, guaranteed by Ma An Shan Pubang Financing guarantee co., Ltd, a 3 rd party, subsequently repaid on due date	ACB Hu Nan Road Branch	6.00%	-	1,530,409
Due on January 5, 2018, Collateral by Fixed assets subsequently repaid on due date	ARCB Ma An Shan Branch	6.276%	-	260,170
Total			\$ 13,593,080	\$ 13,947,385

All short term bank loans are obtained from local banks in China and are repayable within one year.

The average annual interest rate of the short-term bank loans was 5.71% and 6.41% as of December 31, 2018 and 2017, respectively. Interest expense, included in the financial expenses in the statement of operations, was \$897,840 \$932,596 and \$1,070,192 for the years ended December 31, 2018, 2017 and 2016, respectively. The Company was in compliance of their financial covenants at December 31, 2018 and 2017, respectively.

NOTE 14 – LONG TERM BANK LOANS

	Bank Name	Interest Rate per Annum	December 31,	
			2018	2017
Due on August 30, 2019, collateral by the Company's LUR	Anhui Commercial Bank ("ACB") Hui Tong Branch	8.00%	\$ 7,269,027	\$ 7,652,046
Less: current portion			7,269,027	-
Long term bank loans, net			\$ -	\$ 7,652,046

Interest expense, included in the financial expenses in the statement of operations, was \$612,622, \$600,663 and \$225,900 for the years ended December 31, 2018, 2017 and 2016, respectively.

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NOTE 15 – EARNINGS PER SHARES

Basic earnings per share are computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	December 31,		
	2018	2017	2016
Net income attribute to the Company	\$ 10,379,453	\$ 5,345,311	\$ 4,823,973
Weighted average ordinary shares outstanding - basic and diluted	19,791,110	19,791,110	19,804,164
Basic and diluted earnings per share	\$ 0.52	\$ 0.27	\$ 0.24

NOTE 16 – INCOME TAX

BVI

Ossen Innovation Co., Ltd, Ossen Innovation Group, Ossen Asia and Topchina are registered in the British Virgin Island and are exempt from income tax.

The PRC

According to the relevant laws and regulations in the PRC, foreign invested enterprises established prior to January 1, 2008 are entitled to full exemption from income tax for two years beginning with the first year in which such enterprise is profitable and a 50% income tax reduction for the subsequent three years. Ossen Materials was entitled to an exemption during the two years ended December 31, 2006 and was subject to a 50% income tax reduction during the three years ended December 31, 2009. Starting from January 1, 2010, Ossen Materials enjoys a tax rate of 15% as it is considered as a High and New Technology Enterprise by the PRC government. Ossen Jiujiang was entitled to the CIT exemption during the two years ended December 31, 2008, was subject to a 50% income tax reduction during the three years ended December 31, 2011. Starting from January 1, 2012, Ossen Jiujiang enjoys a tax rate of 15% as it is considered as a High and New Technology Enterprise by the PRC government.

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NOTE 16 – INCOME TAX-(CONTINUED)

Enterprises established under the laws of foreign countries or regions and whose “place of effective management” is located within the PRC territory are considered PRC resident enterprises and subject to the PRC income tax at the rate of 25% on worldwide income. The definition of “place of effective management” refers to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, etc. of an enterprise. As of December 31, 2018, no detailed interpretation or guidance has been issued to define “place of effective management”. Furthermore, as of December 31, 2018, the administrative practice associated with interpreting and applying the concept of “place of effective management” is unclear. If the Company’s non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax. The Company has analyzed the applicability of this law, as of December 31, 2018, and the Company has not accrued for PRC tax on such basis. The Company will continue to monitor changes in the interpretation or guidance of this law.

PRC tax law also imposes a 10% withholding income tax, subject to reduction based on tax treaty where applicable, for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. Such dividends were exempted from PRC tax under the previous income tax law and regulations. The foreign invested enterprise is subject to the withholding tax starting from January 1, 2008. There were no dividends distributed in the years ended December 31, 2018 and 2017.

Income tax expenses consist of the following:

	Year Ended December 31,		
	2018	2017	2016
Current:			
China	2,147,164	\$ 665,745	910,231
Foreign	\$ -	-	-
	<u>\$ 2,147,164</u>	<u>\$ 665,745</u>	<u>\$ 910,231</u>
Deferred:			
China	(17,777)	25,811	15,817
Foreign	-	-	-
	<u>\$ (17,777)</u>	<u>\$ 25,811</u>	<u>\$ 15,817</u>
Income tax expenses	<u>\$ 2,129,387</u>	<u>\$ 691,556</u>	<u>\$ 926,048</u>

Reconciliation from the expected income tax expenses calculated with reference to the statutory tax rate in the PRC of 25% is as follows:

	Year Ended December 31,		
	2018	2017	2016
Computed "expected" income tax expenses	\$ 3,378,592	\$ 1,647,484	\$ 1,562,382
Effect on tax incentive / holiday	(1,377,961)	(993,090)	(653,029)
Non-deductable / (taxable) expense	128,756	37,162	16,695
Income tax expenses	<u>\$ 2,129,387</u>	<u>\$ 691,556</u>	<u>\$ 926,048</u>

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

Components of net deferred tax assets are as follows:

	December 31,		
	2018	2017	2016
Provision of doubtful accounts	\$ 140,930	\$ 130,346	\$ 147,899
Reserve for inventories	18,206	19,165	18,052
Deferred tax assets	\$ 159,136	\$ 149,511	\$ 165,951
Valuation allowance	0	0	0
Net deferred tax assets	\$ 159,136	\$ 149,511	\$ 165,951

Realization of deferred tax assets is dependent upon future taxable earnings in related tax jurisdictions. In the past, management had established and maintained a full valuation allowance for the foreign, mainly for China deferred tax assets. During the fourth quarter of fiscal 2018, the Company assessed that it is more likely than not that it will realize the China deferred tax assets. The positive evidence, which existed at that time, that outweighed the negative evidence to release the valuation allowance included the fiscal 2018 and three year cumulative profitability driven by strong demand of certain new generation products, availability of resources to expand manufacturing capacity, and forecasted China operating profits in the future periods. The Company's valuation allowance was \$0 in fiscal 2018, 2017 and 2016, respectively.

As of December 31, 2018, the Company did not have a liability for unrecognized tax benefits. The Company records interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of 2018, 2017 and 2016, the Company had accrued \$0, respectively, for interest and penalties related to uncertain tax positions.

Income (loss) before income taxes from PRC and non-PRC sources for the year ended December 31, 2018, 2017 and 2016 are summarized as follows:

	Year Ended December 31,		
	2018	2017	2016
Income (loss) before income taxes consists of:			
PRC	13,778,524	6,738,581	6,530,295
Non- PRC	-264,154	-148,647	-280,765
Total	13,514,370	6,589,934	6,249,530

The Company's U.S. federal and state income tax returns are generally not subject to examination by the tax authorities for tax years before fiscal 2016. For all federal and state net operating loss and credit carryovers, the statute of limitations does not begin until the carryover items are utilized. The taxing authorities can examine the validity of the carryover items and if necessary, adjustments may be made to the carryover items. The Company's China income tax returns are generally not subject to examination by the tax authorities for tax years before 2014.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

NOTE 17 – GEOGRAPHICAL SALES AND SEGMENTS

Our management does not capture financial information or utilize operating segments to make decisions about the business. Management believes that it operates in one business segment. However, our management does rely on sales by geographical area as useful information in managing the business.

Information for the Company's sales by geographical area for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Year Ended December 31,		
	2018	2017	2016
Domestic Sales	\$ 131,642,673	\$ 126,930,386	\$ 112,119,286
International Sales	4,462,194	5,445,529	4,909,868
	\$ 136,104,867	\$ 132,375,915	\$ 117,029,154

NOTE 18 – SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date these financial statements were issued, and there were no material subsequent events requiring adjustments to the financial statements or disclosure.

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
SCHEDULE I
CONDENSED PARENT COMPANY FINANCIAL INFORMATION

OSSEN INNOVATION CO., LTD
CONDENSED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017

	December,31	
	2018	2017
ASSETS		
Current Assets		
Cash	\$ 4,796	\$ 2,967
Total Current Assets	4,796	2,967
Investments in subsidiaries	108,509,080	103,865,513
TOTAL ASSETS	\$ 108,513,876	\$ 103,868,480
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Other payables and accrued liabilities	\$ 205,000	\$ 1,251,423
Due to shareholder	1,663,022	351,499
Total Current Liabilities	1,868,022	1,602,922
TOTAL LIABILITIES	\$ 1,868,022	\$ 1,602,922
EQUITY		
Shareholders' Equity		
Ordinary shares, \$0.01 par value: 100,000,000 shares authorized; 20,000,000 shares issued; 19,791,110 shares outstanding as of December 31, 2018 and 2017	\$ 200,000	\$ 200,000
Additional paid-in capital	33,971,455	33,971,455
Statutory reserve	7,764,813	6,672,254
Retained earnings	68,959,065	59,386,668
Accumulated other comprehensive income/(loss)	(4,057,326)	2,227,334
Treasury stock, at cost: 208,890 shares as of December 31, 2018 and 2017	(192,153)	(192,153)
TOTAL SHAREHOLDERS' EQUITY	106,645,854	102,265,558
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 108,513,876	\$ 103,868,480

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
SCHEDULE I
CONDENSED PARENT COMPANY FINANCIAL INFORMATION

OSSEN INNOVATION CO., LTD CONDENSED STATEMENTS
OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December,31		
	2018	2017	2016
REVENUES	\$ -	\$ -	\$ -
COST OF GOODS SOLD	-	-	-
GROSS PROFIT	-	-	-
Selling expenses	-	-	-
General and administrative expenses	263,002	146,687	279,893
Total Operating Expenses	263,002	146,687	279,893
LOSS FROM OPERATIONS	(263,002)	(146,687)	(279,893)
Financial expenses, net	268	317	184
Equity in income of subsidiaries	10,927,690	5,492,315	5,104,050
INCOME BEFORE INCOME TAX	10,664,956	5,345,311	4,823,973
INCOME TAX	-	-	-
NET INCOME	10,664,956	5,345,311	4,823,973
OTHER COMPREHENSIVE INCOME			
Foreign currency translation gain (loss)	(6,284,660)	6,606,207	(6,975,100)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(6,284,660)	6,606,207	(6,975,100)
COMPREHENSIVE INCOME (LOSS)	\$ 4,380,296	\$ 11,951,518	\$ (2,151,127)

OSSEN INNOVATION CO., LTD. AND SUBSIDIARIES
SCHEDULE I
CONDENSED PARENT COMPANY FINANCIAL INFORMATION

OSSEN INNOVATION CO., LTD CONDENSED
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
DECEMBER 31, 2018, 2017 AND 2016

	Year Ended December,31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 10,664,956	\$ 5,345,311	\$ 4,823,973
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of subsidiaries	(10,927,690)	(5,492,315)	(5,104,050)
Other payables and accrued liabilities	(1,046,423)	102,517	213,909
Due to shareholder	1,311,523	44,000	25,000
Net cash provided by / (used in) operating activities	2,366	(487)	(41,168)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash provided by / (used in) investing activities	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Treasury stock purchased	-	-	(36,810)
Net cash used in financing activities	-	-	(36,810)
INCREASE / (DECREASE) IN CASH	2,366	(487)	(77,978)
Effect of exchange rate changes on cash	(537)	(7)	(54)
Cash at beginning of period	2,967	3,461	81,493
CASH AT END OF PERIOD	\$ 4,796	\$ 2,967	\$ 3,461

List of Subsidiaries of Ossen Innovation Co. Ltd.

Name	Country of Incorporation
Ossen Innovation Materials Group Co., Ltd.	British Virgin Islands
Ossen Group (Asia) Co., Ltd.	British Virgin Islands
Topchina Development Group Ltd.	British Virgin Islands
Ossen Innovation Materials Co. Ltd.	People's Republic of China
Ossen (Jiujiang) New Materials Co., Ltd.	People's Republic of China

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13A-14(A)/15D-14(A) AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Wei Hua, certify that:

1. I have reviewed this annual report on Form 20-F of Ossen Innovation Co., Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2019

/s/ Wei Hua

Wei Hua

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Ossen Innovation Co. Ltd. (the "Registrant") on Form 20-F for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 14, 2019

/s/ Wei Hua

Wei Hua

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)
