

Orient Paper Inc.
Form 10-K
April 17, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from _____ to _____

Commission file number **001-34577**

ORIENT PAPER, INC.

(Exact name of registrant as specified in its charter)

Nevada **20-4158835**
State or other jurisdiction of (I.R.S. Employer
Incorporation or organization Identification No.)
Science Park, Juli Road,

Xushui District, Baoding City

Hebei Province, The People's Republic of China 072550

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(86) 312-8698215**

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

Title of each class Name of each exchange on which registered

Common Stock NYSE MKT LLC

Securities registered pursuant to section 12(g) of the Act:

Common Stock

(Title of class)

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates as of June 30, 2017 was approximately \$16,651,262, based upon 16,010,829 shares of common stock held by non-affiliates and the closing price of the common stock of \$1.04 on June 30, 2017.

As of April 17, 2018, there were 21,450,316 shares of the registrant's common stock, par value \$0.001, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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INTRODUCTION

In this annual report, “Orient Paper,” “the Company,” “we,” “our” or “us” refer to Orient Paper, Inc., and unless the context requires otherwise, includes its subsidiaries and its controlled entity, Hebei Baoding Orient Paper Milling Company Limited. “Orient Paper Shengde” means our PRC subsidiary Baoding Shengde Paper Co., Ltd. “Orient Paper HB” means Hebei Baoding Orient Paper Milling Company Limited.

All references to “RMB” or “Renminbi” refer to the legal currency of China; all references to “US\$,” “dollars,” “U.S. dollars” and “\$” refer to the legal currency of the United States.

This annual report on Form 10-K includes our audited consolidated statements of income and comprehensive income and our audited consolidated balance sheets as of December 31, 2016 and 2017.

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terms such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, our anticipated revenues from the corrugating medium paper business segment and offset printing paper business, our ability to implement the planned capacity expansion of tissue paper, our ability to introduce new products, market acceptance of new products, general economic and business conditions, the ability to attract or retain qualified senior management personnel and research and development staff, and those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. We undertake no obligation, beyond any than as required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even though our situation changes in the future.

We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

PART I

Item 1. Business

Corporate History

Orient Paper, Inc. was incorporated in the State of Nevada on December 9, 2005, under the name “Carlatelateral, Inc.” Through the steps described immediately below, we became the holding company for Hebei Baoding Orient Paper Milling Company Limited (“Orient Paper HB”), a producer and distributor of paper products in China, on October 29, 2007, and effective December 21, 2007, we changed our name to “Orient Paper, Inc.” to more accurately describe our business.

On October 29, 2007, pursuant to an agreement and plan of merger (the “Merger Agreement”), the Company acquired Dongfang Zhiye Holding Limited (“Dongfang Holding”), a corporation formed on November 13, 2006 under the laws of the British Virgin Islands, and issued the shareholders of Dongfang Holding an aggregate of 7,450,497 (as adjusted for a four-for-one reverse stock split effected in November 2009) shares of our common stock, which shares were distributed pro-rata to the shareholders of Dongfang Holding in accordance with their respective ownership interests in Dongfang Holding. At the time of the Merger Agreement, Dongfang Holding owned all of the issued and outstanding stock and ownership of Orient Paper HB and such shares of Orient Paper HB were held in trust with Zhenyong Liu, Xiaodong Liu and Shuangxi Zhao, for Mr. Liu, Mr. Liu and Mr. Zhao (the original shareholders of Orient Paper HB) to exercise control over the disposition of Dongfang Holding’s shares in Orient Paper HB on Dongfang Holding’s behalf, until Dongfang Holding successfully completed the change in registration of Orient Paper HB’s capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of Orient Paper HB’s shares. As a result of the merger transaction, Dongfang Holding became a wholly owned subsidiary of the Company, and Dongfang Holding’s wholly owned subsidiary, Orient Paper HB, became an indirectly owned subsidiary of the Company.

Dongfang Holding, as the 100% owner of Orient Paper HB, was unable to complete the registration of Orient Paper HB’s capital under its name within the required time limits set forth under PRC law. In connection with the consummation of the restructuring transactions described below, Dongfang Holding directed the trustees to return the shares of Orient Paper HB to the original shareholders of Orient paper HB, and the original shareholders entered into certain agreements with Baoding Shengde Paper Co., Ltd. (“Orient Paper Shengde”) to transfer the control of Orient Paper HB to Orient Paper Shengde.

On June 24, 2009, the Company consummated a number of restructuring transactions pursuant to which it acquired all of the issued and outstanding shares of Shengde Holdings Inc., a Nevada corporation. Shengde Holdings Inc. was incorporated in the State of Nevada on February 25, 2009, and holds a wholly-owned subsidiary, Orient Paper Shengde, a limited liability company organized under the laws of the PRC on June 1, 2009. Because Orient Paper Shengde is a wholly-owned subsidiary of Shengde Holdings Inc., it is regarded as a wholly foreign-owned entity under PRC law.

Effective June 24, 2009, Orient Paper Shengde, Orient Paper HB and the original shareholders of Orient Paper HB entered into a number of contractual arrangements, as subsequently amended on February 10, 2010, pursuant to which Orient Paper Shengde acts as the management company for Orient Paper HB, and Orient Paper HB conducts the principal operations of the business. The contractual arrangements, as amended, effectively transferred the preponderance of the economic benefits of Orient Paper HB to Orient Paper Shengde, and Orient Paper Shengde assumed effective control and management over Orient Paper HB. The contractual arrangements, as amended, include the following:

(i) Exclusive Technical Service and Business Consulting Agreement

The exclusive technical service and business consulting agreement, entered into by and between Orient Paper Shengde and Orient Paper HB, provides that Orient Paper Shengde shall provide exclusive technical, business and management consulting services to Orient Paper HB, in exchange for service fees including a fee equivalent to 80% of Orient Paper HB's total annual net profits. The agreement is terminable upon mutual written agreement.

(ii) Call Option Agreement

The call option agreement, entered into by and between Orient Paper Shengde, Orient Paper HB and the shareholders of Orient Paper HB, provides that the shareholders of Orient Paper HB irrevocably grant to Orient Paper Shengde an option to purchase all or part of each shareholder's equity interest in Orient Paper HB. The exercise price for the options shall be RMB1 yuan for each of the shareholders' equity interests, or if at any time there are PRC laws regulating the minimum exercise price of such options, then to the extent permitted under PRC Law. The call option agreement contains covenants from Orient Paper HB and its shareholders that they will refrain from taking certain actions without Orient Paper Shengde's consent that would materially affect Orient Paper HB's operations and asset value, including (i) supplementing or amending its articles of association or bylaws, (ii) changing Orient Paper HB's registered capital or shareholding structure, (iii) selling, transferring, mortgaging or disposing of any interests in Orient Paper HB's assets or income, or encumbering Orient Paper HB's assets or income in a way that would approve a security interest on such assets, (iv) incurring or guaranteeing any debts not incurred in its normal business operations, (v) entering into any material contract or urging Orient Paper HB management to dispose of any Orient Paper HB assets, unless it is within the company's normal business operations; (vi) providing any loan or guarantee to any third party; (vii) appointing or removing any management personnel or directors that can be changed upon Orient Paper HB shareholder approval; (viii) declaring or distributing any dividends to the stockholders. The agreement remains

effective until Orient Paper Shengde or its designees have acquired 100% of the equity interests of Orient Paper HB underlying the options.

(iii) Share Pledge Agreement

The share pledge agreement entered into by and between Orient Paper Shengde, Orient Paper HB and the shareholders of Orient Paper HB, provides that the Orient Paper HB shareholders will pledge all of their equity interests in Orient Paper HB to Orient Paper Shengde as security for their obligations under the other management agreements described in this section. Specifically, Orient Paper Shengde is entitled to dispose of the pledged equity interests in the event that the Orient Paper HB shareholders or Orient Paper HB fails to pay the service fees to Orient Paper Shengde pursuant to the exclusive technical service and business consulting agreement or fails to perform their other obligations under the other management agreement. The agreement contains covenants from Orient Paper HB's shareholders that they will refrain from taking certain actions without Orient Paper Shengde's prior written consent, such as transferring or assigning their equity interests, or creating or permitting the creation of any pledges which may have an adverse effect on the rights or benefits of Orient Paper Shengde under the agreement. The Orient Paper HB shareholders also promise to comply with the laws and regulations relevant to the pledges under the agreement and to facilitate in good faith the protection of the ability of Orient Paper Shengde to exercise its rights under the agreement. The terms of the share pledge agreement remains in effect until all the obligations under the other management agreements have been fulfilled, whether or not the terms of the other management agreements have expired.

(iv) Proxy Agreement

The proxy agreement, entered into by and between Orient Paper Shengde, Orient Paper HB and the shareholders of Orient Paper HB, provides that the Orient Paper HB shareholders shall irrevocably entrust a designee of Orient Paper Shengde with such shareholder's voting rights and the right to represent such shareholder to exercise his or her rights at any shareholder's meeting of Orient Paper HB or with respect to any shareholder action to be taken in accordance with the laws and Orient Paper HB's Articles of Association. The terms of the agreement are binding on the parties for as long as the Orient Paper HB shareholders continue to hold any equity interest in Orient Paper HB. An Orient Paper HB shareholder will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Orient Paper Shengde.

On June 24, 2009, Zhao Tianqing, the sole shareholder of Shengde Holdings Inc., assigned to Orient Paper, for good and valuable consideration, 100 shares representing 100% of the issued and outstanding shares of Shengde Holdings Inc. As a result of this assignment and the restructuring transactions described above, Shengde Holdings Inc., Orient Paper Shengde, and Orient Paper HB became directly and indirectly controlled by Orient Paper, and Orient Paper HB continued to function as the Company's operating entity.

In addition to controlling the operations and beneficial ownership of Orient Paper HB, Orient Paper Shengde also acquired a digital photo paper production line (including two photo paper coating lines and ancillary equipment) in an asset acquisition transaction on November 25, 2009 and began directly conducting business in the PRC. We suspended production of photo paper in June 2016 and now are upgrading the production line to produce more competitive photo paper products. We expect to resume our digital photo paper production in the near future.

An agreement was entered into among Orient Paper Shengde, Orient Paper HB and the shareholders of Orient Paper HB on December 31, 2010, reiterating that Orient Paper Shengde is entitled to the distributable profit of Orient Paper HB, pursuant to the above mentioned Exclusive Technical Service and Business Consulting Agreement. In addition, Orient Paper HB and the shareholders of Orient Paper HB agreed that they would not declare any of Orient Paper HB's unappropriated earnings, including any earnings of Orient Paper HB from its establishment to 2010 and thereafter, as dividend.

The following diagram sets forth the current corporate structure of Orient Paper:

100% ownership
Controlled by contractual arrangements

Our Business

We engage in production and distribution of three categories of paper products: corrugating medium paper, offset printing paper and tissue paper products.

In late January, 2018, the company temporarily suspended its production due to a government-mandated restriction on the natural gas supply, which is the energy resource we need for production. As of March 14, 2018, the company resumed production at its manufacturing facilities.

Our principal executive offices are located at Science Park, Juli Road, Xushui District, Baoding City, Hebei Province, People's Republic of China. Our telephone number is (86) 312-869-8215. Our website is located at <http://www.orientpaperinc.com>

Manufacturing Process

Corrugating Medium Paper and Offset Printing Paper

Our current products (excluding tissue paper products) generally undergo two stages of manufacturing: (1) creating pulp from recycled paper products, and (2) treating the pulp and molding it into the desired types of paper products. A brief overview of the pulp and papermaking process is provided below.

Pulping

The recycled waste paper is first sorted by machine, and then broken down and beaten or smashed into small pieces using water and mechanical energy. It is then put through a course screening drum, followed by a fine screening drum to separate different grades of pulp, a process that we refer as “concentration”. In order to purify the pulp further, an approach flow system is used to filter out any impurities or inconsistencies, such as sand, in the pulp.

Paper Making

The pulp is sieved to remove the excess water and molded into a specific size. The moisture content is further reduced by applying hydraulic pressure to the pulp. The pulp then enters the drying section where it is rolled over by heated cylinders. The dried paper is then coated with a mixture of clay, white pigment and binder to produce a surface on which ink can sit without being fully absorbed, enabling crisper, more consistent print quality.

The paper goes through a process called calendaring, which flattens and smoothens the paper into long sheets. The paper is then wound onto a reel that is mounted in a roll-slitting machine for rewinding, during which cutters are used to cut the paper into the desired widths. Upon completion, the rolls are fitted with sleeves and labeled, and then sent to quality control before shipment or storage.

Base Tissue Paper

While we make tissue paper products, we currently do not manufacture base tissue paper.

Products

Corrugating medium paper

Corrugating medium paper, or CMP is used in the manufacturing of cardboard. Since the launch of our new Paper Machine (“PM6”) production line in December 2011, corrugating medium paper has become a major product of the Company. For the year ended December 31, 2017, corrugating medium paper comprised approximately 87.9% of our total paper production quantities and roughly 82.02% of our total revenue. Raw materials used in the production of corrugating medium paper include recycled paper board (or Old Corrugating Cardboard or “OCC,” as it is commonly referred to in the United States) and certain supplementary agents. In January 2013, we suspended the operation of our PM1 production line for renovation, which was then used to produce corrugating medium paper. In May 2014, we launched the commercial production of the newly renovated PM1 production line. The new PM1 production line produces light-weight corrugating medium paper with a specification of 40 to 80 grams per square meter (“g/s/m”). PM1’s light-weight corrugating medium paper products have a wide range of commercial applications. For example, they can be used as a construction material for wall and floor insulation or to manufacture moisture-proof packaging materials for the transportation of books and magazines by the publishing industry. It can also be used as corrugating medium to make corrugating cardboard for packaging that requires light-weight boxes. The manufacturing process of light-weight corrugating medium paper is similar to that of the regular corrugating medium paper and also uses recycled paper boards as a major source of raw material. We now have two corrugating medium paper production lines, PM6 and PM1. We refer to products produced from the PM6 production line as Regular CMP and products produced from the PM1 production line as Light-Weight CMP.

Offset printing paper

Offset printing paper is used for offset printing in the publishing industry. Offset printing paper comprised approximately 11.3% of our total paper production quantities and approximately 15.97% of our total sales revenue for the year ended December 31, 2017. Raw materials used in making offset printing paper include recycled white scrap paper, fluorescent whitening agent and sizing agent. We currently have two production lines, PM2 and PM3, for the production of offset printing paper.

Tissue Paper Products

We began the commercial production of tissue paper products in Wei County Industry Park in June 2015. We process base tissue paper purchased from long-term cooperative third party and produce finished tissue paper products, including toilet paper, boxed and soft-packed tissues, handkerchief tissues and paper napkins, as well as bathroom and kitchen paper towels that are marketed and sold under the Orient Paper brand. We sold 1,804 tonnes of tissue paper products for \$2,356,856 in 2017. We expect to continue to increase production of our tissue paper products in the near future.

Market for our Products

The PRC Paper Making Industry

According to the 2016 China Paper Industry Annual Report, issued by the China Paper Association, there were approximately 2,800 paper and paper board manufacturers (down from 3,700 in 2010) in China, with a total output of 108.55 million tonnes, up by 1.35% from 107.10 million tonnes in 2015. Total domestic consumption was 104.19 million tonnes in 2016, up by 0.65% from 103.52 million tonnes in 2015.

Compared with 2007, output in 2016 increased by approximately 47.69% and consumption grew by approximately 42.92%. The output of paper and paper board maintained an average growth rate of approximately 4.43% during the ten-year period from 2007 to 2016, while consumption increased at an average annual rate of 4.05%. The growth is expected to continue. It is estimated that China currently has the largest paper and paper board products output and consumption in the world. (*Data source: 2016 Annual Report of China Paper Manufacturing, September 2017, China Paper Association*)

Data source: 2016 Annual Report of China Paper Manufacturing, September 2017, China Paper Association

Corrugating medium paper production in China totaled 22.70 million tonnes in 2016, a 2.02% increase from 2015. Consumption of corrugating medium paper in China amounted to 22.71 million tonnes in 2016, an increase of 1.93% as compared to 2015.

Uncoated offset printing paper production in China totaled 1,770 million tonnes in 2016, a 1.43% increase from 2015. Consumption of uncoated offset printing paper in China amounted to 16.89 million tonnes in 2016, an increase of 0.54% as compared to 2015.

The paper making industry in China is concentrated in the east coast provinces. The largest paper production capacities by province for 2015 and 2016 (the most recent year for which relevant information is available) are summarized in the table below. The six provinces with largest capacities showed moderate increases in paper production capacities; provinces with smaller capacities, such as, Hebei, Hunan, Jiangsu and Chongqing, showed noticeable decreases.

| Province | 2015 Capacity (10k tonnes) | 2016 Capacity (10k tonnes) | Change (10k tonnes) | % Change |
|-----------|-------------------------------|-------------------------------|------------------------|-------------|
| Shandong | 1,780 | 1,850 | 70 | 3.93 |
| Guangdong | 1,820 | 1,840 | 20 | 1.10 |
| Zhejiang | 1,650 | 1,690 | 40 | 2.42 |
| Jiangsu | 1,305 | 1,285 | (20) | (1.53) |
| Fujian | 665 | 705 | 40 | 6.02 |
| Henan | 600 | 610 | 10 | 1.67 |
| Hunan | 320 | 310 | (10) | (3.13) |
| Anhui | 265 | 295 | 30 | 11.32 |
| Chongqing | 290 | 280 | (10) | (3.45) |
| Hebei | 305 | 275 | (30) | (9.84) |

Data Sources: 2016 Annual Report of China Paper Manufacturing, September 2017, China Paper Association

Industry Consolidation

Historically, the paper and pulp industry in China was comprised of numerous small-scale production enterprises, many of which used low-technology production processes that produce significant pollution. In 1996, China's State Council issued "Decisions on Environmental Protection Issues," setting forth strict rules and regulations intended to reduce pollution, including a directive for the closure of all paper plants with an annual output of less than 50,000 tonnes. Recognizing that China constitutes one of the largest markets for paper consumption in the world and with potential for continued expansion, the PRC government continues its efforts to consolidate, modernize, and promote the environmental sustainability of the industry.

As part of its 11th "Five Year Economic Development Plan," the PRC State Council announced on May 5, 2010 that up to 530,000 tonnes of inefficient/polluting paper production capacity was to be eliminated or shut down in 2010. On August 5, 2010, the Ministry of Industry and Information Technology (the "MIIT") published a list of mandatory capacity closures and ordered the shutdown of a total of 4.6 million tonnes of capacity by September 2010. Following the first wave of mandatory capacity closures in 2010, the MIIT announced on July 11, 2011 that 8.2 million tonnes of outdated paper milling capacity at 599 paper companies across China were required to close down in 2011, of which

72 companies with a total capacity of 1.07 million tonnes that accounts for 13% of total closures were located in the province of Hebei.

According to “*The Twelfth ‘Five-Year Plan’ for the Chinese Paper Industry*,” published jointly by the National Development and Reform Commission, the MIIT and the National Forestry Bureau in December 2011, the central government of China determined to eliminate more than 10 million tonnes of paper production capacity during the five-year period ended 2015. The goal, through mandatory capacity elimination and industry consolidation, was to transform the paper industry landscape into one where the number of one-million-tonnes-and-above manufacturers would increase from 10 to more than 20. According to the MIIT announcement on September 6, 2012, a total of 9.9 million tonnes of outdated paper production capacity was ordered to close in 2012. On July 25, 2013, the MIIT announced a list of outdated paper facilities slated for closure in 2013. According to MIIT, a total of 6.21 million tonnes of paper manufacturing capacity on the July 25, 2013 list across the country was required to be shut down by the end of 2013, including 930,800 tonnes in the Hebei Province. In September 2013, the second batch of closures targeting 1.2 million tonnes nationwide was announced by the MIIT. The closure of outdated facilities continued in 2014 and a total of 4.92 million tonnes of paper manufacturing capacity was shut down. On July 24, 2014, the MIIT announced that facilities producing 3.97 million tonnes of paper and pulp, including 500,000 tonnes in Hebei Province, were mandated to be retired by the end of 2014. On August 18, 2014, MIIT announced another list of outdated paper facilities that were required to be closed by the end of 2014. The August 18, 2014 list shut down 0.66 million tonnes of paper manufacturing capacity, including 5,000 tonnes in Hebei Province. Unlike the mandatory closures in previous years when, most of the closures involved small-scale local mills, usually with less than 50,000 tonnes of production capability and without proper water treatment practices, the 2013 and 2014 mandatory closure lists included a number of large capacity paper machines (up to 226,000 tonnes per line) that failed to meet the environmental and energy savings standards.

The mandatory closure of outdated capacity is expected to continue to in the next few years. As a result, we estimate that the average selling prices for corrugating medium paper and other packaging paper will remain relatively stable in 2018, and the paper industry will witness increased competition and higher standards for environmental protection measures. See “Risk Factors - Risks Related to Our Business -We might be negatively affected by the industry capacity elimination mandated by the government.”

Customers

We generally sell our corrugating medium paper to companies making corrugating cardboards and offset printing paper to printing companies. Five of our top 10 customers in 2017 are printing companies. The largest customer being a printing company in Langfang city, Hebei Province. Our total corrugating medium and offset printing paper revenue in 2017 was primarily derived from customers in Beijing, Tianjin and Hebei Province.

For the year ended December 31, 2017, five major customers who individually accounted for more than 5% of our total sales revenue are as follows:

| | 2017 Sales Amount (\$USD, net of applicable VAT) | % of Total Revenue | |
|-----------------------|--|--------------------------|---|
| Company A (Langfang) | 6,670,252 | 5.70 | % |
| Company B (Tianjin) | 6,551,879 | 5.60 | % |
| Company C (Tianjin) | 6,551,547 | 5.60 | % |
| Company D (Baoding) | 6,193,236 | 5.29 | % |
| Company E (Baoding) | 5,899,262 | 5.04 | % |
| Total Major Customers | 31,866,176 | 27.23 | % |

Eight of our top-ten customers of 2017 are also in the top-ten customer list in 2016, representing 82.8% of the 2016 top-ten customer sales.

Target Market

We target corporate customers in the middle range of the marketplace, where, with solid quality and competitive pricing, we see potential for high volume growth for corrugating medium paper and offset printing paper. Our primary market has been the region of North China, especially in the province of Hebei.

Our Production Lines

During the year ended December 31, 2017, we had six PM production lines in operation and are in the process of launching three more that are tentatively designated as PM7, PM8 and PM9. These production lines include the followings:

| PM# | Paper Product Produced | Designed Capacity (tonnes/year) | Owned by | Operated by | Status as of December 31, 2017 |
|-----|---------------------------|---------------------------------------|----------|----------------|--------------------------------|
| PM1 | | 60,000 | | | In production |

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| | | | | | |
|------|--------------------------|---------|----------------------|----------------------|--|
| | Corrugating Medium Paper | | Orient Paper HB | Orient Paper HB | |
| PM2 | Offset Printing Paper | 50,000 | Orient Paper HB | Orient Paper HB | In production |
| PM3 | Offset Printing Paper | 40,000 | Orient Paper HB | Orient Paper HB | In production |
| PM4 | Digital Photo Paper | ** | Orient Paper Shengde | Orient Paper Shengde | Suspended in June 2016 due to low market demand |
| PM5 | Digital Photo Paper | ** | Orient Paper Shengde | Orient Paper Shengde | Suspended in June 2016 due to low market demand |
| PM6 | Corrugating Medium Paper | 360,000 | Orient Paper Shengde | Orient Paper HB*** | In production |
| PM7* | Specialty paper | 10,000 | Orient Paper HB | Orient Paper HB | Under renovation and preparing for launch by the end of 2018 |
| PM8* | Tissue paper | 15,000 | Orient Paper HB | Orient Paper HB | Launched commercial production of packaging paper products in June 2015; base tissue paper production lines under installation and expected to be completed in the first half of 2018. |
| PM9* | Tissue paper | 15,000 | Orient Paper HB | Orient Paper HB | Paper machine construction agreement expected to be signed in late 2018 |

*:Paper machines under renovation, under construction, or in the planning stage.

**:PM4 and PM5 have an aggregated coating capacity of 2,500 tonnes per year.

***: PM6 is funded and owned by Orient Paper Shengde; ancillary facilities that support the PM6 operation are built and owned by Orient Paper HB.

On December 31, 2009, we acquired a digital photo paper production line, including two coating lines that are designated as PM4 and PM5 and ancillary equipment, for a total purchase price of approximately \$13.6 million. We suspended production of photo paper in June 2016 and now are upgrading the production line to produce more competitive photo paper products. We expect to resume our digital photo paper production in the near future.

In order to meet the growing domestic demand for paper, which we believe currently exceeds domestic supply in the case of corrugating medium paper, especially in the region of North China, we installed a corrugating medium paper production line (PM6) with a designed capacity of 360,000 tonnes per year. We completed the installation of the new PM6 production line in November 2011 and began commercial production in December 2011.

We have implemented a plan to renovate one of the old production lines that has been idle since the end of 2007. We previously made paper with anti-counterfeit features from that production line. When the renovation is completed, we intend to use the renovated production line to produce high-profit margin specialty papers. Our current plan is to complete the renovation project, put in place a new production and marketing team and launch the renovated production line as PM7 by the end of 2018.

On November 27, 2012, we signed a 15-year lease relating to approximately 49.4 acres of land in the Economic Development Zone in Wei County, Hebei Province, China for the purpose of developing a new tissue paper production plant. We plan to build two tissue paper production lines, each with 15,000 tonnes/year capacity, and other packaging facilities and infrastructures on the leased land. In December 2012, we signed a contract with an equipment contractor in Shanghai to build PM8, the first of our two tissue paper production lines in Wei County. We expect the construction of PM8 to be completed in the first half of 2018. Total estimated cost of the PM8 tissue paper project (not including the construction cost of our infrastructures in the Wei County Industrial Park) is estimated to be up to \$22.0 million, of which \$21.0 million has been incurred thus far.

We voluntarily renovated our 150,000 tonnes/year corrugating medium paper PM1 in anticipation of increased regulatory concerns on energy efficiencies as well as to improve the quality of our corrugating medium products. Rather than converting PM1 to a regular corrugating medium paper machine, we decided in 2013 that, based on the market conditions and our waste water treatment capability, the better option was to convert PM1 to produce Light-Weight CMP with a specification of 40 to 80 grams per square meter (“g/s/m”) with a designed capacity of 60,000 tonnes/year. We started the renovation in January 2013 and launched commercial production of the newly renovated PM1 production line in May 2014.

Raw Materials and Principal Suppliers

The supplies used in our production processes are comprised mainly of recycled paper board and unprinted recycled white scrap paper, both of which are ready-to-use items and available from multiple domestic and foreign sources. We currently purchase all of our recycled paper supplies from some domestic recycling stations and do not rely on imported recycled paper. We also purchase coal and chemical agents from nearby suppliers. Ongoing inflationary pressures and higher demand for recycled paper could lead to an increase in our costs of raw materials and production, which we may or may not be able to pass to our customers.

We sign annual raw materials supplier contracts with our suppliers. Although we have contracts with our suppliers, these contracts do not lock-in the purchase price of our raw materials or provide hedge against the fluctuation in the market price of these raw materials. For the year ended December 31, 2017, we had two large suppliers which accounted for approximately 69% and 8% of our total purchases, respectively.

For the years ended December 31, 2017, two major suppliers who individually accounted for more than 5% of our total purchase are as follows:

| | 2017 Purchase Amount (\$USD, net of applicable VAT) | % of Total Purchase | |
|-----------------------|---|---------------------------|---|
| Company A (Baoding) | 56,963,706 | 68.94 | % |
| Company B (Tianjin) | 6,450,914 | 7.80 | % |
| Total Major Suppliers | 63,414,620 | 76.74 | % |

Competition

Orient Paper HB's main competitors are: Chenming Paper Group Limited, Huatai Group Limited, Nine Dragons Paper (Holdings) Limited and Sun Paper Group Limited. A number of our competitors are public entities with larger capacities, broader customer bases and greater financial resources than those available to us. The businesses of our primary competitors are briefly described below:

Chenming Paper Group, Ltd. ("Chenming"), based in Shandong Province (located in northeast China), produces primarily newsprint paper and art paper (high quality, heavy and two-side coated printing paper). Chenming is believed to be the first company to have listed on all three stock exchanges in China: Renminbi A-shares and foreign currency B-shares in Shenzhen, the smaller of the mainland's two stock exchanges, and H-shares in Hong Kong. Chenming has annual production capacity of 8.5 million tonnes for its coated wood-free paper product and is believed to rank among the top 500 enterprises in China.

Huatai Group, Ltd. ("Huatai"), based in Shandong Province (located in the northern part of the eastern coastal region of China), primarily produces newsprint, fine paper, special printing paper, coated board and tissue paper. Huatai is the first Shandong papermaker to publicly list its stock and has become a famous brand in China. Its annual paper production is estimated to have reached 4 million tonnes.

Nine Dragons Paper (Holdings) Limited ("ND Paper"), based in Guangdong Province (located in southern China), is the largest paper manufacturer in China and primarily produces kraft paper and high-strength corrugating medium paper with annual capacity of 13 million tonnes. ND Paper has reported that it has five production lines in the city of Tianjin

with a total designed capacity of 2.15 million tonnes, producing products such as kraft paper, high strength corrugating medium paper and grey-back duplex board.

Sun Paper Group, Ltd., based in Shandong Province, primarily produces card paper, whiteboard paper and art paper. It also produces alkaline peroxide mechanical pulp, sourced in part from woodchips harvested by the company's poplar plantations. This company has reported that it has an aggregate annual production capacity of paper and pulp of approximately 5.7 million tonnes and has been listed on the Shenzhen Stock Exchange since 2006.

With the exceptions of Chenming and ND Paper, which may compete directly with us in the offset printing paper market and the corrugating medium paper market, respectively, in the Beijing/Tianjin/greater Hebei regions, we believe that we face only indirect competition from the above-listed companies, either because we have a different product assortment from these companies, or because, to the extent they do offer products similar to ours, the transportation costs and storage costs make it difficult for these companies to compete effectively with us on pricing.

Our Competitive Edge

Regional advantage (North China). We believe that Orient Paper HB is one of the leading papermaking enterprises in Hebei Province. Our proximity to large urban centers in northern China, Beijing and Tianjin, gives us access to a large market to sell our products.

There are other paper manufacturers that are also located in Hebei Province (and close to metropolitan Beijing and Tianjin areas), but most of these other manufacturers are small in scale and unable to compete with us effectively. We also compete with other large printing paper manufacturers for Beijing printing company customers. We believe that we have cost and geographical advantages over these larger competitors.

Cost advantage. Unlike some of our out-of-province competitors who must set up interim warehouses and ship products from their production base to such interim warehouses close to their customer base in Beijing, there is no need for us to set up interim warehouses, because we are approximately 60 miles (100 kilometers) from Beijing, the cultural center of China and our largest target market. While we do not separately pay for transportation cost on raw material purchases, the transportation cost included in the raw material purchase prices from our recycled paper suppliers is lower than the transportation cost paid by our competitors in the province of Shandong. We also enjoy lower transportation costs for coal, a major source of energy used in our production process. Similarly, our customers pay lower transportation cost to pick up their orders from our finished goods warehouse in Baoding than what they would pay if they had to pick up goods from locations further away from Beijing. Tianjin, another large urban center, is also approximately 60 miles from our facilities. Baoding city itself is also home to numerous printing and packaging companies. Our geographical advantage and easy access to low-cost raw materials allow us to implement a more flexible inventory purchase policy, lower our purchase prices and inventory management expenses and reduce our production cost. As such, we have lower freight costs and other associated costs of sales, which enable us to charge lower prices, if necessary, for our products. Additionally, because we buy all recycled paper raw materials from Beijing and Tianjin, rather than from the United States or Japan, our purchase lead time is shorter as compared to manufacturers who rely on imported recycled paper.

Research and Development

Our R&D activities are carried out by a task force led by a group of senior managers (in charge of product development and quality control) and by a group of selected engineers and technicians. The Company charged the time spent on the R&D projects (manufacturing waste discharge recycling, digital photo paper and tissue paper manufacturing) to R&D expenses and incurred \$31,922 and \$21,598 in R&D expenses for the years ended December 31, 2017 and 2016, respectively. Our R&D efforts in 2017 has focused on evaluating and developing new products that are in the pipeline for 2017 and included developing and improving the manufacturing process of Light-Weight CMP and the production and packaging technology of tissue paper.

One of our production lines, PM7, is under renovation. Since the fourth quarter of 2010, we have spent approximately \$1.57 million in machine parts and new components to renovate this production line, with which we expect to produce certain specialty papers, including wood-grain deco and furniture paper, wallpaper and paper with security features (for anti-counterfeiting purposes). While we are optimistic about the prospect of the renovation project, we cannot guarantee the launch of the specialty paper production (which is tentatively scheduled by the end of 2018) or the success of such renovation.

Intellectual Property

Orient Paper HB has registered three trademarks with the Trademark Bureau under the State of Administration for Industry & Commerce.

| Trademark | Certificate No. | Category | Registrant | Valid Term |
|------------------|------------------------|--|-------------------|---|
| Shuangxing | 3298963 | Fax paper, thermal paper, blueprint paper, sensitized paper, spectrum sensitized paper, blueprint cloth, photographic paper, cyanotype solution, diazo paper | Orient Paper HB | April 7, 2014 through April 6, 2024 |
| Fangmenglai | 12955328 | Toilet paper, handkerchief tissues, tissues, paper napkins, paper mats, beer mats, paper place mats, printing paper (including offset paper, newsprint, books paper, bond paper, plate paper and halftone paper), coated paper | Orient Paper HB | December 28, 2014 through December 27, 2024 |
| Fangqingxin | 12955235 | Toilet paper, handkerchief tissues, tissues for makeup remover, paper napkin, tissues, paper duster cloth, paper face towels, paper table cloth, paper tablecloths, drawer liner (with or without flavor) | Orient Paper HB | December 28, 2014 through December 27, 2024 |

Domain names

Orient Paper has registered the internet domain name, www.orientpaperinc.com.

Government Regulation

The testing, approval, manufacturing, labeling, advertising and marketing, post-approval safety reporting and export of our products are extensively regulated by governmental authorities in the PRC. We are also subject to various other regulations and permit requirements by the Chinese government. These regulations and their impact on our business are set forth in more details below.

Environmental Regulation

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and the local environment protection bureaus in the PRC.

Since the implementation of the State Council's "Decisions on Environmental Protection Issues" in 1996, the PRC paper industry has been subject to more rigorous environmental standards. Effective January 1, 2015, a new law promulgated by the National People's Congress of the People's Republic of China makes certain violations of the environmental laws a criminal offense. We believe that we are one of the few major paper manufacturers in Hebei Province that have obtained a Pollution Discharge Permit. We initially received the permit in September 1996 and, we have successfully renewed the permit each year by complying with applicable environmental requirements.

Waste Water Treatment

Orient Paper HB uses a multi-level water recycling process. Waste water from the pulping process is fed into collection pools, where it is divided into two parts, water and recovered pulp fiber. The latter is returned to the pulping process.

Chemical agents are added to the waste water, and the waste water is fed into a biogas reactor and filtering pools, producing purified water and depositing sludge. Most of the purified water is recycled to produce corrugating medium paper and the sludge is pumped into a sludge pool, condensed and dehydrated. We then use the sludge as a raw material in the manufacture of corrugating medium paper.

We maintain computerized controls at our production facilities on a 24-hour basis to monitor compliance with environmental rules and regulations. We are not aware of any environmental investigations, prosecutions, disputes, claims or other environmental proceedings, nor have we been subject to any action by any environmental administration authorities of the PRC. To our knowledge, our operations meet or exceed the existing environmental requirements of the PRC.

Employees

As of December 31, 2017, we have approximately 527 full time employees. The Company provides private insurance coverage for any workplace accident or injury for all the operators of paper milling machinery in the workshops. These employees are organized into a labor union under the labor laws of the PRC and have collective bargain power against us. We generally maintain good relations with our employees and the labor union.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission (“SEC”). The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers like our Company that file electronically with the SEC at <http://www.sec.gov>.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are also available free of charge on our Internet site at <http://www.orientpaperinc.com> as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Executive Officers

For information regarding our executive officers as of April 17, 2018, see Part III, Item 10, “Directors, Executive Officers and Corporate Governance.”

Item 1A. Risk Factors

Risks Relating to our Business

In the past, our ability to continue as a going concern was in doubt. Although we do not currently doubt our ability to continue as a going concern, our liquidity position poses risk to our operations, especially our capacity expansion projects.

As of December 31, 2017, we had current assets of approximately \$19.99 million and current liabilities of approximately \$21.75 million, resulting in a working capital deficiency of approximately \$1.76 million. We are currently seeking to restructure the term of our liabilities by raising funds through long-term loans to pay off liabilities with shorter terms. In the event that we fail to raise funds or negotiate terms of the current liabilities sufficient to meet our liquidity needs, we may be forced to substantially curtail our operations or otherwise take measures that would materially and adversely affect our business, results of operations and business prospects.

In addition, from time to time, we investigate financing opportunities with banks and other financial institutions and investors both inside and outside of China, and we may seek long-term financings to pay off liabilities with shorter terms. We may seek additional funds through public and private financing, including equity and debt offering. As of the date of this report, we have not entered into any material binding agreement for additional long-term financing. There can be no assurance that we will be able to secure such financing either from banks or through debt or equity investments from investors.

If we are unable to obtain sufficient banking facilities or generate sufficient operating cash flow internally, the progress of the construction or renovation may slow down. We may also have to curtail the scope of the capital expenditure projects or to shelf some components of the projects (for example, delay the installation of PM9 until additional capital resources are available).

In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership.

We do not have direct or indirect equity ownership of Orient Paper HB which operates a majority of our business. Although we have entered into contractual arrangements with Orient Paper HB and its individual owners pursuant to which we receive an economic interest in Orient Paper HB, and exert a controlling influence over Orient Paper HB, in a manner substantially similar to a controlling equity interest, these contractual arrangements are not as effective in

providing control over Orient Paper HB as direct ownership. For example, Orient Paper HB may be unwilling or unable to perform their contractual obligations under our commercial agreements, including payment of consulting fees under the Exclusive Technical Service and Business Consulting Agreement as they become due. If that were to occur, we would not be able to conduct our operations in the manner currently planned. In addition, we may not succeed in enforcing our rights under the contractual arrangements insofar as our contractual rights and legal remedies under Chinese law may be inadequate. Furthermore, Orient Paper HB may seek to renew their agreements on terms that are disadvantageous to us. If we are unable to renew these agreements on favorable terms when these agreements expire, or to enter into similar agreements with other parties, we will lose control of Orient Paper HB.

Because we rely on the consulting services agreement with Orient Paper HB for essentially all of our revenue and cash flows, any difficulty for Orient Paper HB to pay consulting fees to Orient Paper Shengde under the consulting agreement may have a material adverse effect on our operations.

We are a holding company and currently conduct business through Orient Paper HB. As a result, we rely on payments from the consulting services agreement which forms a part of the contractual arrangements between Orient Paper Shengde and Orient Paper HB. Since Orient Paper Shengde is not a legal shareholder of Orient Paper HB under PRC statutes, the arrangement for Orient Paper HB to pay a substantial portion of its net income to Orient Paper Shengde may be challenged by the PRC government, which could prevent us from receiving required funds or making required payments to some of our service providers.

If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.

Although we believe the restructuring transaction and our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would share the same view. If we are determined not to be in compliance, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

The shareholders of Orient Paper HB may have potential conflicts of interests with us, which may adversely affect our business.

We operate most of our businesses through Orient Paper HB. Our Chairman, Chief Executive Officer and 25.12% shareholder, Zhenyong Liu, owns 93.39% of the equity interest in Orient Paper HB. Conflicts of interests between his duties to us and to Orient Paper HB may arise. We cannot assure you that when conflicts of interest arise, he will act in the best interests of our Company or that any conflict of interest will be resolved in our favor. These conflicts may result in management decisions that could negatively affect our operations and potentially result in the loss of opportunities.

Our arrangements with Orient Paper HB and its shareholders may be subject to a transfer pricing adjustment by the PRC tax authorities which could have an adverse effect on our income and expenses.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contracts with Orient Paper HB and its shareholders were not entered into based on arm's length negotiations. If the PRC tax authorities determine that these contracts were not entered into on an arm's length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. Such an adjustment may require that we pay additional PRC taxes plus applicable penalties and interest, if any.

The exercise of our option to purchase part or all of the equity interests in Orient Paper HB under the Call Option Agreement might be subject to approval by the PRC government. Our failure to obtain this approval may impair our ability to substantially control Orient Paper HB and could result in actions by Orient Paper HB that conflict with our interests.

Our Call Option Agreement with Orient Paper HB and its shareholders gives our Chinese subsidiary, Orient Paper Shengde or its designated entity or natural person, the option to purchase all or part of the equity interests in Orient Paper HB. The option may not be exercised by Orient Paper Shengde if the exercise would violate any applicable laws and regulations in China or cause any license or permit held by, and necessary for the operation of Orient Paper HB, to be cancelled or invalidated. Under the laws of China, if a foreign entity, through a foreign investment company that it invests in, acquires a domestic related company, China's regulations regarding mergers and acquisitions may technically apply to the transaction. If these regulations apply, an examination and approval of the transaction by China's Ministry of Commerce ("MOFCOM"), or its local counterparts would be required. In addition, an appraisal of the equity interest or the assets to be acquired would also be mandatory. Since the scope of business activities (making of cultural paper products) as defined in the business license of Orient Paper Shengde does not involve the MOFCOM approval and monitoring, we do not believe at this time that an approval or an appraisal is required for Orient Paper Shengde to exercise its option to acquire Orient Paper HB. In light of the different views on this issue, however, it is possible that the central MOFCOM office in Beijing will issue a standardized opinion imposing the approval and appraisal requirement. If we are not able to purchase the equity of Orient Paper HB, then we will lose a substantial portion of our ability to control Orient Paper HB and our ability to ensure that Orient Paper HB will act in our interests.

We anticipate to incur significant capital expenditures in 2018.

We expect to incur significant capital expenditures in the tissue paper production line project in 2018 and possibly beyond. We have substantially increased our debt leverage to fund these projects. As of December 31, 2017, we had approximately \$11.0 million in capital expenditure commitments that were mainly related to the construction costs of manufacturing equipment and other facilities in a new industrial park in Wei County of Hebei, China, where we expect to build two tissue paper production lines, PM8 and PM9, and install other paper production machinery in the future. If we cannot fund or effectively manage our capital expenditures or if our capital expenditures do not lead to the results we anticipate, our business, financial position and operating performance may be materially and adversely affected. An increased debt burden may also materially and adversely affect our liquidity, financial condition and our business. If we are unable to obtain sufficient funding through banking borrowings or generate sufficient operating cash flow internally, the progress of the construction or renovation may be slowed down. We may also have to curtail the scope of the capital expenditure projects or to shelf some components of the projects (for example, delay the

installation of PM9 until additional capital resources are available).

Our operating history may not serve as an adequate basis to judge our future prospects and results of operations.

Orient Paper HB commenced its current line of business operations in 1996 and received its initial Pollution Discharge Permit in September 1996, which must be renewed every year for Orient Paper HB to stay in business. Although we have never had problem renewing the Pollution Discharge Permit, we cannot guarantee automatic renewal every year. In addition, Orient Paper Shengde commenced its current line of business operations in 2009. Therefore, our operating history may not provide a meaningful basis on which to evaluate its business. We cannot assure you that Orient Paper HB or Orient Paper Shengde will maintain this profitability or that we will not incur net losses in the future. We expect that operating expenses of Orient Paper HB and Orient Paper Shengde will increase as they expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- raise adequate capital for expansion and operations;
- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brand name, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses; or
- anticipate and adapt to changing conditions in paper markets in which we operate as well as the impact of any changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

Orient Paper HB and Orient Paper Shengde's failure to compete effectively may adversely affect our ability to generate revenue.

Through Orient Paper HB and Orient Paper Shengde, we compete in a highly developed market with companies that have significantly greater experience and history in our industry. If we do not compete effectively, we could lose market share and experience reduced selling prices, adversely affecting our financial results. Our competitors will expand in the key markets and implement new technologies making them more competitive. There is also the possibility that competitors will be able to offer additional products, services, lower prices, or other incentives that we cannot or will not offer or that will make our products less profitable. We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not harm our business.

We might be negatively affected by the industry capacity elimination mandated by the government.

As described under the heading “Industry Consolidation” in “Business” section, the government has been requiring outdated paper facilities to close since 2010 and is expected to continue to strictly reinforce the mandatory closure of outdated capacity in the next few years. We have continued to focus on updating our production facilities to improve the operating and energy efficiency and reduce pollution. Based on our consultations with the regulators, we believe that none of our production facilities are currently targeted for mandatory capacity reduction. Based on information currently available to us, we do not expect that we would be ordered to reduce or shut down our production capacities. However, the Chinese government has broad discretion in determining the facilities subject to its production elimination mandate, and we cannot assure you that the government would not require us to shut down some or all of our production capacities. If we were forced to shut down one or more of our production facilities, our business, prospectus, financial condition and results of operations may materially and adversely affected. Depending on the scope of the government capacity elimination order, we could be forced to cease some or all of our operations.

If Orient Paper HB fails to comply with covenants in its loan agreements, its lenders may allege a breach of a covenant and seek to accelerate the loan or exercise other remedies, which could strain our cash flow and harm our business, liquidity and financial condition.

Orient Paper HB received loans from commercial banks to fund its operations. Typically, these loans are made pursuant to customary loan agreements which contain representations and warranties about its business, financial covenants to which Orient Paper HB must adhere and other negative covenants in respect of its operations. Under some of these agreements, Orient Paper HB may be required to obtain the consent of its lenders prior to entering into its contractual arrangement with us but Orient Paper HB did not receive such prior consent. To date, our lenders have not given us any notice of default or otherwise objected to our contractual arrangements with Orient Paper HB. If any lender raises any concern in this regard, we intend to secure a waiver from our lenders, but cannot assure you that we will successfully do so. If we cannot obtain such a waiver and Orient Paper HB’s lenders declare it to be in default under the loan agreements, they may accelerate Orient Paper HB’s indebtedness to them which would negatively affect our cash flows and business operations.

We may not be able to effectively control and manage our growth.

If our business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. An expansion would increase demands on existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations and cause delay in production and delivery of our paper products, as well as administrative inefficiencies.

We, through our subsidiaries, may engage in future acquisitions that could dilute the ownership interests of our stockholders and cause us to incur debt and assume contingent liabilities.

We, through our subsidiaries, may review acquisition and strategic investment prospects that we believe would complement the current product offerings of Orient Paper HB, augment its market coverage or enhance its technical capabilities, or otherwise offer growth opportunities. From time to time we review investments in new businesses and we, through our subsidiaries, expect to make investments in, and to acquire, businesses, products, or technologies in the future. We expect that when we raise funds from investors for any of these purposes we will be either the issuer or the primary obligor while the proceeds will be forwarded to Orient Paper HB. In the event of any future acquisitions, we could:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock. Moreover, even if we do obtain benefits in the form of increased sales and earnings, there may be a lag between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which Orient Paper HB has no or limited prior experience;
- the potential loss of key employees of acquired organizations; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We cannot ensure that we will be able to successfully integrate any businesses, products, technology, or personnel that we might acquire in the future and our failure to do so could have a material adverse effect on our and/or Orient Paper HB's business, operating results and financial condition.

We are responsible for the indemnification of our officers and directors.

Our Articles of Incorporation provides for the indemnification and/or exculpation of our directors, officers, employees, agents and other entities which deal with us to the maximum extent provided, and under the terms provided, by the laws and decisions of the courts of the state of Nevada. Although we do maintain professional error and omission insurance for the officers and directors, due to limitations of the insurance coverage these indemnification provisions could still result in substantial expenditures which we may be unable to recoup through the insurance and could adversely affect our business and financial conditions. Zhenyong Liu, our Chairman of the Board and Chief Executive Officer, Jing Hao, our Chief Financial Officer, Dahong Zhou, our Secretary, and Marco Ku Hon Wai, Wenbing Christopher Wang, Lusha Niu, and Fuzeng Liu, our directors, are key personnel with rights to indemnification under our Articles of Incorporation.

We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success is, to a certain extent, attributable to the management, sales and marketing, and paper factory operational expertise of key personnel. Zhenyong Liu, our Chief Executive Officer and Chairman of the Board, Jing Hao, our Chief Financial Officer, Dahong Zhou, our Secretary, and Shuting Liang, Orient Paper HB's General Engineer, Gengqi Yang, Orient Paper HB's Vice President of Sales and Marketing, Xuetao Chen, Orient Paper HB's Vice President of Environmental Protection and Xiaodong Liu, Orient Paper Shengde's General Manager, perform key functions in the operation of our business. There can be no assurance that Orient Paper or Orient Paper HB or Orient Paper Shengde will be able to retain these officers after the term of their employment contracts expire. The loss of these officers could have a material adverse effect upon our business, financial condition, and results of operations. We do not carry key man life insurance for any of our key personnel or personnel nor do we foresee purchasing such insurance to protect against a loss of key personnel and personnel.

We are dependent upon the services of Mr. Zhenyong Liu for the continued growth and operation of our Company because of his experience in the industry and his personal and business contacts in the PRC. Although Mr. Liu has entered into an employment agreement with Orient Paper Shengde, our wholly owned subsidiary and a PRC company, and that we have no reason to believe that Mr. Liu will discontinue his services with us or Orient Paper HB, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operations.

We may not be able to hire and retain qualified personnel to support our growth and if we are unable to retain or hire these personnel in the future, our ability to improve our products and implement our business objectives could be adversely affected.

We must attract, recruit and retain a sizeable workforce of technically competent employees. Competition for senior management and senior personnel in the PRC is intense, the pool of qualified candidates in the PRC is very limited, and we may not be able to retain the services of our senior executives or senior personnel, or attract and retain high-quality senior executives or senior personnel in the future. This failure could materially and adversely affect our future growth and financial condition.

Our operating results may fluctuate as a result of factors beyond our control.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are beyond our control. These factors include:

- the costs of paper products and development;
- the relative speed and success with which we can obtain and maintain customers, merchants and vendors for our products;
- capital expenditure for equipment;
- marketing and promotional activities and other costs;
- changes in our pricing policies, suppliers and competitors;
- the ability of our suppliers to provide products in a timely manner to their customers;
- changes in operating expenses;
- increased competition in the paper markets; and
- other general economic and seasonal factors.

We face risks related to product liability claims.

We presently do not maintain product liability insurance. We face the risk of loss because of adverse publicity associated with product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. Although product liability lawsuits in the PRC are rare, and we have not, to date, experienced significant failure of our products, there is no guarantee that we will not face such liability in the future. This liability could be substantial and the occurrence of such loss or liability may have a material adverse effect on our business, financial condition and prospects.

Our operating results also depend on the availability and pricing of energy and raw materials.

In addition to our dependence upon wood pulp, recycled white scrap paper and paperboard costs, our operating results depend on the availability and pricing of energy and other raw materials. An interruption in the supply of supplemental chemical agents could cause a material disruption at our mill. In addition, an interruption in the supply of natural gas could cause a material disruption at our facilities. At present, our raw materials including natural gas are purchased from a number of suppliers, of which the three largest suppliers account for over 80% of all purchases. If any of these contracts were to be terminated for any reason, or not renewed upon expiration, or if market conditions were to substantially change creating a significant increase in the price of natural gas and recycled paper, we may not be able to find alternative, comparable suppliers or suppliers capable of providing coal to us on terms or in amounts satisfactory to us.

We have replaced all the coal boilers with natural gas boiler in September 2017, but due to the gas consumption rise significantly, the government will from time to time issue mandated restriction/suspension of natural gas supply for all natural gas consumption industries, including the paper manufacturing industry in order to secure adequate natural gas to households uses in urban and rural areas. We are subject to the risks of natural gas supply restriction and above-mentioned factors. As a result, our business, financial condition and operating results could suffer.

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales, and/or negatively affect our net income.

Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- maintenance outages;
- prolonged power failures;
- an equipment failure, including any malfunction of our waste water treatment facilities;
- disruption in the supply of raw materials, such as wood fiber, energy, or chemicals;
- a chemical spill or release;
- closure because of environmental-related concerns;
- explosion of a boiler;
- the effect of a drought or reduced rainfall on our water supply;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels;
- fires, floods, earthquakes, hurricanes, or other catastrophes;
- terrorism or threats of terrorism;
- labor difficulties; or
- other operational problems.

If any of the abovementioned events were to occur, we may be unable to meet customer demand, which may adversely affect our sales and net income.

Our certificates, permits, and licenses related to our papermaking operations are subject to governmental control and renewal and failure to obtain renewal will cause all or part of our operations to be terminated.

In 1988, the National Environmental Protection Bureau issued Interim Measures on the Administration of Water Pollutants Discharge Permits, requiring all companies discharging pollution into the water as a direct or indirect byproduct of production to adhere to certain caps on pollution discharge. Additionally, such companies were required to obtain and annually renew a Pollution Discharge Permit in order to conduct their operations. The PRC government has the authority to shut down a company's operations for failure to maintain a valid permit. We renewed our Pollution Discharge Permit in August 2016. Our latest permit is effective from August 8, 2016 through August 7, 2019. An application to renew will be filed with the local environment protection agency before the expiration.

The failure by us to obtain any certificate, permit, and license necessary for our operations or failure by us to obtain the renewal of any such certificate, permit or license may materially and adversely affect our business, prospects, financial condition and results of operation.

Compliance with environmental regulations is expensive, and noncompliance may result in adverse publicity and potentially significant monetary damages and fines or suspension of our business operations.

We are required to comply with all Chinese national and local regulations regarding the protection of the environment. Compliance with environmental regulation is expensive. The Chinese government is adopting even more stringent environmental protection and operational safety regulations and the costs of complying with these regulations are expected to increase. Although we have obtained all of the necessary approvals and permits for our production facilities currently existing, we cannot assure you that we will be able to comply with all applicable environmental protection and operational safety requirements, and obtain all of the required governmental approvals and permits that may be or may become applicable to us on a timely basis, or at all, or will be able to complete all our registrations and filings with the government, in time for our future projects. The relevant governmental authorities may impose on us fines for any non-compliance, set deadlines for rectification, and order us to cease construction or production if we fail to comply with their requirements.

If we are unable to respond to pricing pressures, our business may be harmed.

In order to remain competitive, from time to time we have to adjust the prices of our products to remain competitive. We may not have available sufficient financial or other resources to continue to make investments necessary to maintain our competitive position.

If we fail to introduce enhancements to our existing products or to develop new products, our business and results of operations could be adversely affected.

We believe that our future success depends in part on our ability to enhance our existing products and develop new products in order to continue to meet customer demand. Our failure to introduce new or enhanced products on a timely and cost-competitive basis, or the development of processes that make our existing products obsolete, could harm our business and results of operations.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. On May 24, 2013, the PCAOB announced that it had signed a Memorandum of Understanding (“MOU”) with Chinese securities regulators that would enable the PCAOB under certain circumstances to obtain audit work papers of China-based audit firms. The MOU establishes a framework under which the PCAOB can request and obtain audit papers and permits the PCAOB to share the work papers it obtains with the SEC, subject to certain requirements. But the MOU, which is non-binding, is also limited by its own terms. For instance, Chinese regulators may refuse to produce documents in specified circumstances, including where production would violate Chinese law or run contrary to the public interest. Moreover, the MOU does not provide the PCAOB with the ability to conduct on-the-ground inspections of auditors in China, an important part of the Board’s oversight function. As a result, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB in the same way that PCAOB requests independent registered public accounting firms operating outside China. Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct regular inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB regular inspections.

We have limited insurance coverage and may incur losses resulting from product liability claims or business interruptions.

As the insurance industry in China is still in an early stage of development, insurance companies in China currently offer limited business insurance products. We do not have any product liability insurance or business interruption insurance. Based on the insurance products available in China, even if we decide to take out business interruption coverage, such insurance as currently available offers limited coverage compared to that offered in many other jurisdictions. Any business disruption, natural disaster, or product liability claim could result in our incurring substantial costs and diversion of resources, which would have an adverse effect on our business and results of operations.

Risks Related To Doing Business in the PRC

Changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the middle of the 20th century and is controlled by the Communist Party of China. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1978. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, including the paper industry, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Policies of the PRC government can have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm our business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, Orient Paper HB, and its shareholders, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. Our major operating entity, Orient Paper HB, conducts its operations in China, and as a result, we are required to comply with PRC laws and regulations. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking Orient Paper HB's business and other licenses;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

Among the material laws that we are subject to are the Price Law of The People's Republic of China, Measurement Law of The People's Republic of China, Tax Law, Environmental Protection Law, Contract Law, Patent Law, Accounting Laws and Labor Law.

A slowdown, inflation or other adverse developments in the PRC economy may harm our customers and the demand for our services and products.

All of our operations are conducted in the PRC and all of our revenue is generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that this growth will continue. In 2017, China's Gross Domestic Product ("GDP") growth rate was 6.9% as compared to 6.7% in 2016. A slowdown in overall economic growth, an economic downturn, a recession or other adverse economic developments in the PRC could significantly reduce the demand for our products and harm our business. With the slowdown of GDP growth rate, sales revenue for our offset printing paper and tissue paper in 2017 decreased by approximately 44.03% and 61.18%, respectively, as compared to 2016.

Additionally, while the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may harm our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth.

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

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also in the future restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

The fluctuation of the Renminbi may harm your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the Bureau of the Fiscal Service, as of December 31, 2017, \$1 is converted into 6.5342 Yuan (RMB). As we rely entirely on revenues earned in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for Orient Paper HB's operations, appreciation of the Renminbi against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm our business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the Renminbi. Thus, if we raise 1,000,000 dollars and the Renminbi appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB5,554,070 as opposed to RMB 6,534,200 prior to the appreciation. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus, if Orient Paper HB has RMB1,000,000 in assets and Renminbi is depreciated against the U.S. dollar by 15%, then the assets will be valued at \$133,079 as opposed to \$153,041 prior to the depreciation.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 32.63% appreciation of the Renminbi against the U.S. dollar as of December 31, 2016. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may materially adversely affect us.

The PRC State Administration of Foreign Exchange, or SAFE, has promulgated regulations, including the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, effective on July 14, 2014, and its appendixes, that require PRC residents, including PRC institutions and individuals, to register with local branches of the 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 No. 37 as a "special purpose vehicle." SAFE Circular No. 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 their ability to contribute additional capital into its PRC subsidiary. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

Because of uncertainty over the interpretation of Circular 37, we cannot assure you that, if challenged by government agencies, the structure of our organization has fully complied with all applicable registrations or approvals required by Circular 37. Moreover, because of uncertainty over how Circular 37 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. A failure by such PRC resident beneficial holders or future PRC resident stockholders to comply with Circular 37, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

The PRC's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in the PRC. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in the PRC lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the PRC judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by

a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. However, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. A change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, may affect the PRC government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the foreign invested enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to foreign invested enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC's accounting laws require that an annual "statutory audit" be performed in accordance with PRC accounting standards and that the books of account of foreign invested enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, foreign invested enterprises and wholly foreign-owned enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of foreign invested enterprises.

Because our principal assets are located outside of the United States and most of our directors and officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. federal securities laws against us and our officers or to enforce U.S. court judgment against us or them in the PRC.

All of our directors and officers reside outside the United States. In addition, our operating company is located in the PRC and substantially all of our assets are located outside of the United States. It may therefore be difficult for investors in the United States to enforce their legal rights based on the civil liability provisions of the U.S. Federal securities laws against us in the courts of either the U.S. or the PRC and, even if civil judgments are obtained in U.S. courts, to enforce such judgments in PRC courts. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties, under the U.S. Federal securities laws or otherwise.

We may be required to broaden the coverage of the mandatory social security insurance programs under the New Labor Law of the PRC.

The PRC New Labor Law, effective January 1, 2008, requires that employers enroll in the following social security insurance programs and offer certain employer-sponsored premium benefits to eligible employees: (1) retirement endowment, (2) healthcare insurance, (3) unemployment insurance, (4) workers' compensation insurance, and (5) pregnancy insurance. Of these insurance programs, the retirement endowment fund requires employee withholdings of 4% to 8% of the gross compensation, while the employer's matching contribution varies from 16% to 20% of such compensation. While the Company is enrolled in the retirement endowment fund and is withholding employees' portion and the employer's portion of the endowment contribution, many of the Company's employees have elected to waive their coverage under these mandatory social security insurance programs in favor of certain other low-cost, local government-sponsored social security insurance programs for residents in non-urban districts. Although we have verified with the local government agencies for the validity of the employee waivers and reasonably believe that we are not required to cover the employees who waived the benefits, the local government may change its policy and ask us to broaden our insurance coverage to those who have specifically waived their rights.

Risks Related to Our Common Stock

Our officers and directors control us through their positions and stock ownership and their interests may differ from other stockholders.

As of December 31, 2017, there were 21,450,316 shares of our common stock issued and outstanding. Mr. Zhenyong Liu, our Chief Executive Officer, beneficially owns approximately 25.12% of our common stock. As a result, he is

able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. Yet Mr. Liu's interests may differ from those of other stockholders. Furthermore, ownership of 25.12% of our common stock by Mr. Liu reduces the public float and liquidity, and may affect the market price, of our common stock as traded on the NYSE MKT.

We may not continue to pay cash dividends and any return on investment may be limited to the value of our common stock.

While we intend to retain the majority of any future earnings for use in the operation and expansion of our business, we did declare four quarterly cash dividends in April 2012 and November 2013. Although it is likely that our Board of Directors will continue the quarterly cash dividend as a regular dividend policy in the coming years, there is no guarantee that the cash dividend will not be discontinued or reduced. Should we decide to continue the cash dividend, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

If we fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of U.S. public companies' internal control over financial reporting. The standards that must be met for management to assess the internal control over financial reporting as effective are complex, and require significant documentation, testing and possible remediation to meet the detailed standards. While we have not detected any significant deficiency or material weakness in our internal control and with respect to the assessment of the internal control for the year ended December 31, 2017, we cannot guarantee the implementation of controls and procedures in future years to be without any significant deficiency or material weakness.

Our common stock may be affected by limited trading volume and may fluctuate significantly.

Our common stock is traded on the NYSE MKT. Although a trading market has developed for our common stock, there can be no assurance that the trading market for our common stock will be sustained. Failure to maintain a trading market for our common stock may adversely affect our shareholders' ability to sell our common stock in short time periods, or at all. Our common stock has experienced, and may experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock.

Future financings may dilute stockholders or impair our financial condition.

In the future, we may need to raise additional funds through public or private financing, which might include the sale of equity securities. The issuance of equity securities could result in financial and voting dilution to our existing stockholders. The issuance of debt could result in effective subordination of stockholders' interests to the debt, create the possibility of default, and limit our financial and business alternatives.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located at Hebei Baoding Orient Paper Milling Company Limited, Juli Road, Xushui District, Baoding City, Hebei Province, China. We have two main production bases, one production base located approximately 4 kilometers away from our headquarters, and the second production base located in Wei County, Xingtai City, Hebei province.

All land in the PRC is owned by the government and cannot be sold to any individual or entity. Instead, the government grants landholders a "land use right" after a purchase price for such "land use right" is paid to the government. The "land use right" allows the holder the right to use the land for a specified long-term period of time and enjoys all the incidents of ownership of the land. The following are the details regarding Orient Paper HB's land use rights with regard to the land that it uses in its business.

The land of our first production base (the "Xushui Paper Mill"), comprising 200 mu, or approximately 33 acres, of land, is leased from the local government pursuant to a 30 year lease that expires December 31, 2031. The lease requires an annual payment of approximately \$17,798 (RMB 120,000) due by June 30 every year.

The land of the second production base (the "Xingtai Paper Mill"), comprising 300 mu, or approximately 50 acres, of land, is leased from Hebei Tengsheng Paper Co., Ltd. pursuant to a 15 year lease that expires November 27, 2027. The lease requires an annual payment of approximately \$533,942 (RMB 3,600,000) due by November 27 every year.

The office building and essentially all industrial-use buildings at our headquarters (the "Industrial Buildings") are leased to us by a related party Hebei Fangsheng Real Estate Development Co. Ltd. ("Hebei Fangsheng"), for a term of up to three years starting August 2013, with an annual rental payment of approximately \$148,317 (RMB1,000,000). The lease agreement expired in August 2016. On August 9, 2016, the Company paid off the rental for the first lease agreement and entered into a supplementary agreement with Hebei Fangsheng, who agreed to extend the lease term for another two years, with the same rental payment as original lease agreement. See "Item 13. Certain Relationships and Related Transactions, and Director Independence - Sale of Headquarters Real Properties to a Related Party."

In the spring of 2010, we initiated the process of acquiring approximately 667,000 square meters of land adjacent to our first production base, Xushui Paper Mill and have received governmental approval for our capacity expansion plan. On April 13, 2012, we closed our acquisition of 58,566 square meters of land and secured all associated land use right permits (the “Xushui Mill Annex”). For land acquisition of the Xushui Mill Annex, we paid a total of \$7.5 million for various payments of compensation, taxes, and recording fees to the sellers and the local government. On October 26, 2012, we made a prepayment in the amount of \$1,404,460 for the purchase of land use right from the local residents’ council for approximately 65,023 square meters of land located inside of our Xushui Paper Mill. In December 2016, the Company completed the purchase of land use right, with lease terms of 50 years expiring in 2066.

As of December 31, 2017, our facilities include a total of 8 production lines (PM7 is currently idle and under renovation, and production on PM4 and PM5 (both for digital photo paper) has been suspended), nine warehouses, two office buildings, two cafeterias, and five dormitories.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Market Information

Orient Paper's common stock is traded on the NYSE MKT exchange under the symbol "ONP".

The range of high and low bid prices by quarter from January 1, 2016 through December 31, 2017 is listed below. The quotations are taken from the NYSE MKT. They reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transaction prices.

| Calendar Quarter | High Bid | Low Bid |
|---|----------|---------|
| 2016 First Quarter | 1.47 | 1.17 |
| 2016 Second Quarter | 1.29 | 1.00 |
| 2016 Third Quarter | 1.40 | 0.97 |
| 2016 Fourth Quarter | 1.54 | 1.02 |
| 2017 First Quarter | 1.21 | 0.93 |
| 2017 Second Quarter | 1.17 | 0.90 |
| 2017 Third Quarter | 1.05 | 0.78 |
| 2017 Fourth Quarter | 2.45 | 0.75 |
| 2018 First Quarter (through March 15, 2018) | 1.83 | 1.22 |

As of April 17, 2018, we had approximately 3,100 shareholders of record of our common stock.

Dividends

On June 1, 2012, the Company's Board of Directors approved a quarterly cash dividend of \$0.0125 per share for each of the next four quarters. The first quarterly dividend was declared on June 1, 2012 to shareholders of record as of June 15, 2012. The dividends were paid on July 2, 2012.

On September 4, 2012, the Company declared another quarterly dividend of \$0.0125 per share to shareholders of record as of September 14, 2012. The dividends were paid on October 1, 2012.

On December 6, 2012, the Company declared a third quarterly cash dividend of \$0.0125 per share to shareholders of record as of December 17, 2012. The dividend was paid on December 31, 2012. Total dividends declared and paid for the year ended December 31, 2012 were \$692,242.

On April 4, 2013, the Company declared another quarterly dividend of \$0.0125 per share to shareholders of record as of April 16, 2013. The dividend was paid on April 30, 2013.

On November 21, 2013, the Company declared another quarterly dividend of \$0.005 per share to shareholders of record as of November 29, 2013. The dividend was paid on December 10, 2013. Total dividends declared and paid for the year ended December 31, 2013 were \$323,032.

We do not expect to pay dividends in the near future. Future declaration of dividends will depend on, among other things, the Company's results of operations, capital requirements, financial condition and on such other factors as the Company's Board of Directors may in its discretion consider relevant and in the best long term interest of the shareholders.

Equity Compensation Plan Information

On August 28, 2011, the Company's Annual General Meeting approved the 2011 Incentive Stock Plan (the "2011 ISP") as previously adopted by the Board of Directors on July 5, 2011. Under the 2011 ISP, the Company may grant an aggregate of 375,000 shares of the Company's common stock to the Company's directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Non-statutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2011 ISP's administration. On January 11, 2012, the Compensation Committee granted 109,584 shares of restricted common stock to certain officers and directors of the Company. On December 31, 2013, the Compensation Committee granted remaining 265,416 shares of restricted common stock to 39 recipients who are employees, officers and directors of the Company.

On September 10, 2012, the Company's Annual General Meeting approved the 2012 Incentive Stock Plan (the "2012 ISP"). Under the 2012 ISP, the Company may grant an aggregate of 200,000 shares of the Company's common stock to

the Company's directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Non-statutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2012 ISP's administration. On December 31, 2013, the Compensation Committee granted 31,584 shares of restricted common stock under the 2012 ISP to 39 recipients who are employees, officers and directors of the Company.

On August 29, 2015, the Company's Annual General Meeting approved the 2015 Omnibus Equity Incentive Plan (the "2015 ISP"). Under the 2015 ISP, the Company may grant an aggregate of 1,500,000 shares of the Company's common stock to the directors, officers, employees and/or consultants of the Company and its subsidiaries. The 2015 ISP provides for the granting of non-qualified stock options, incentive stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards, performance unit awards, unrestricted stock awards, distribution equivalent rights or any combination of the foregoing. The 2015 ISP is administered by the Compensation Committee of the Board of Directors. Subject to the provisions of the 2015 ISP, the Compensation Committee has the sole authority, in its discretion, to make all determinations under the plan, including but not limited to (i) determining which employees, directors or consultants shall receive an award, (ii) the time or times when an award shall be made, (iii) what type of award shall be granted, (iv) the term of an award, (v) the date or dates on which an award vests, (vi) the form of any payment to be made pursuant to an award, (vii) the terms and conditions of an award, (viii) the restrictions under a restricted stock award, (ix) the number of shares which may be issued under an award, (x) performance goals applicable to any award and certification of the achievement of such goals, and (xi) the waiver of any restrictions or performance goals, subject in all cases to compliance with applicable laws. On January 12, 2016, the Company granted an aggregate of 1,133,916 shares of common stock under its compensatory incentive plans to nine officers, directors and employees of and a consultant when the stock was at \$1.25 per share, as compensation for their services in the past years, of which 168,416 shares of common stock were granted under the 2012 Incentive Stock Plan and 965,500 shares were granted under the 2015 Omnibus Equity Incentive.

The total number of shares of common stock under the 2011, 2012 and 2015 ISPs, including shares originally authorized by equity holders and shares remaining for future issuance as of December 31, 2017, is as follows:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) | |
|--|--|---|--|---|
| Equity compensation plans approved by security holders | - | - | 534,500 | * |
| Equity compensation plans not approved by security holders | - | - | - | |
| Total | - | - | 534,500 | * |

* All shares remaining available for future issuance are under the 2012 and 2015 ISPs.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data

The selected financial data set forth below is derived from the consolidated financial statements of the Company. The selected consolidated statements of income and comprehensive income data for the years ended December 31, 2016 and 2017, and the selected consolidated balance sheet data as of December 31, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this annual report. Our selected consolidated statements of income and comprehensive income data for the year ended December 31, 2013, 2014 and 2015 and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, the consolidated financial statements and notes thereto and the other information contained in this Form 10-K. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

| | Year Ended December 31, | | | | |
|---|---------------------------------------|-------------|-------------|-------------|-------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME DATA | (in thousands, except per share data) | | | | |
| Revenues | \$117,024 | \$134,745 | \$135,303 | \$137,041 | \$125,718 |
| Gross profit | \$19,956 | \$25,532 | \$27,861 | \$22,778 | \$23,326 |
| Selling, general and administrative expenses | \$11,307 | \$12,402 | \$9,664 | \$4,859 | \$4,567 |
| Gain (Loss) from impairment and disposal of property, plant and equipment | \$(3,968) | \$(178) | \$- | \$(710) | \$85 |
| Gain from disposal of assets held for sale (1) | \$- | \$- | \$- | \$204 | \$- |
| Income from operations | \$4,680 | \$12,952 | \$18,197 | \$17,413 | \$18,843 |
| Depreciation | \$14,634 | \$15,288 | \$13,399 | \$8,289 | \$7,795 |
| Interest expense | \$2,434 | \$2,621 | \$3,158 | \$1,446 | \$996 |
| Net income | \$1,660 | \$7,313 | \$11,542 | \$11,706 | \$13,015 |
| Basic and Diluted Earnings per Share | \$0.08 | \$0.34 | \$0.57 | \$0.61 | \$0.71 |
| CONSOLIDATED BALANCE SHEETS DATA | | | | | |
| Cash and bank balances | \$2,896 | \$2,333 | \$2,642 | \$3,891 | \$3,131 |
| Accounts receivable, net | \$1,844 | \$3,894 | \$1,904 | \$3,730 | \$3,327 |
| Inventories | \$8,474 | \$5,632 | \$9,205 | \$7,140 | \$11,428 |
| Property, plant, and equipment, net | \$189,389 | \$187,690 | \$206,191 | \$208,213 | \$178,535 |
| Total assets | \$218,989 | \$208,378 | \$238,627 | \$239,768 | \$209,526 |
| Total liabilities | \$33,664 | \$35,622 | \$62,817 | \$64,822 | \$48,473 |
| Total stockholders' equity | \$185,325 | \$172,755 | \$175,809 | \$174,945 | \$161,053 |

(1) The gain from disposal of assets held for sale in 2014 was related to the gain from sales of three employee dormitory buildings previously classified as assets held for sale to a related party controlled by our Chairman and

Chief Executive Officer Mr. Zhenyong Liu.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the selected financial data, the financial statements, and the notes to those statements that are included elsewhere in this annual report.

Recent Developments

In late January 2018, the Company temporarily suspended its production due to a government-mandated restriction on the natural gas supply, which is the energy resource we need for production. As of March 14, 2018, the company resumed production at its manufacturing facilities. Therefore, the Company's revenues in the first quarter ended March 31, 2018 and the year ended December 31, 2018 are expected to be significantly impacted.

Results of Operations

Revenue for the year ended December 31, 2017 was \$117,023,578, a decrease of \$17,721,022, or 13.15%, from \$134,744,600 for the previous year.

Revenue of Offset Printing Paper, Corrugating Medium Paper and Tissue Paper Products

Revenue from sales of offset printing paper, CMP and tissue paper products for the year ended December 31, 2017 was \$117,023,578, a decrease of \$17,063,688, or 12.73%, from \$134,087,266 for the year ended December 31, 2016. This was mainly due to the decrease in sales volume of regular CMP and offset printing paper, which was partially offset by the increase in ASP of these products.

Total quantities of offset printing paper, CMP and tissue paper products sold during the year ended December 31, 2017 amounted to 235,503 tonnes, a decrease of 99,892 tonnes, or 29.78%, compared to 335,395 tonnes sold in 2016. Total quantities of CMP and offset printing paper sold decreased by 96,779 tonnes in 2017 as compared to 2016. We sold 1,804 tonnes of tissue paper products in 2017 as opposed to 4,917 tonnes in 2016. Production of tissue paper was suspended in September and October for the replacement of coal boilers, and began intermittent production in the following months. In addition, we decreased the production volume of regular CMP, light-Weight CMP and offset printing paper and sales of these products due to environmental conditions in Northern China. The government

strengthened its pollution control and rectification measures, resulting in restrictions on production in the manufacturing industry. As a result, the production volume of regular CMP, light-Weight CMP and offset printing paper and sales of these products decreased in 2017 as compared to 2016. The changes in revenue and quantity sold for the year ended December 31, 2017 and 2016 are summarized as follows:

| Sales Revenue | Year Ended December 31, 2017 | | Year Ended December 31, 2016 | | Change in | | Percentage Change | | |
|--|------------------------------------|---------------|------------------------------------|---------------|---------------------|----------------|----------------------|--------|---|
| | Quantity (Tonne) | Amount | Quantity (Tonne) | Amount | Quantity (Tonne) | Amount | Quantity | Amount | |
| Regular CMP | 173,399 | \$80,378,784 | 230,382 | \$77,888,753 | (56,983) | \$2,490,031 | -24.73 % | 3.20 | % |
| Light-Weight CMP | 33,690 | \$15,600,281 | 47,841 | \$16,736,488 | (14,151) | \$(1,136,207) | -29.58 % | -6.79 | % |
| Total CMP | 207,089 | \$95,979,065 | 278,223 | \$94,625,241 | (71,134) | \$1,353,824 | -25.57 % | 1.43 | % |
| Offset Printing Paper | 26,610 | \$18,687,657 | 52,255 | \$33,390,812 | (25,645) | \$(14,703,155) | -49.08 % | -44.03 | % |
| Tissue Paper Products | 1,804 | \$2,356,856 | 4,917 | 6,071,213 | (3,113) | \$(3,714,357) | -63.31 % | -61.18 | % |
| Total CMP, Offset Printing Paper and Tissue Paper Revenue | 235,503 | \$117,023,578 | 335,395 | \$134,087,266 | (99,892) | \$(17,063,688) | -29.78 % | -12.73 | % |

Monthly revenue (excluding revenue of digital photo paper and tissue paper products) for the 24 months ended December 31, 2017, are summarized below:

The average selling price, or ASP, for our major products for the years ended December 31, 2017 and 2016 are summarized as follows:

| | Offset Printing Paper ASP | Regular CMP ASP | Light-Weight CMP ASP | Tissue Paper Products ASP |
|--|------------------------------------|-----------------------|-------------------------|------------------------------------|
| Year Ended December 31, 2016 | \$ 639 | \$338 | \$ 350 | \$ 1235 |
| Year Ended December 31, 2017 | \$ 702 | \$464 | \$ 463 | \$ 1306 |
| Increase from comparable period in the previous year | \$ 63 | \$126 | \$ 113 | \$ 71 |
| Increase by percentage | 9.86 % | 37.28 % | 32.29 % | 5.75 % |

The following is a chart showing the month-by-month ASPs (excluding the ASPs of digital photo paper and tissue paper products) for the 24 month period ended December 31, 2017:

Corrugating Medium Paper

Revenue from CMP amounted to \$95,979,065 (82.02% of the total offset printing paper, CMP and tissue paper products revenues) for the year ended December 31, 2017, representing an increase of \$1,353,824, or 1.43%, from \$94,625,241 during 2016.

We sold 207,089 tonnes of CMP in the year ended December 31, 2017 as compared to 278,223 tonnes in the year ended December 31, 2016, representing a 25.57% decrease in quantity sold.

ASP for regular CMP increased from \$338/tonne in 2016 to \$464/tonne in 2017, representing a 37.28% increase. ASP in RMB for regular CMP in 2016 and 2017 was RMB2,249 and RMB3,125, respectively, representing a 38.95% increase. The quantity of regular CMP sold decreased by 56,983 tonnes, from 230,382 tonnes in 2016 to 173,399 tonnes in 2017.

ASP for light-weight CMP increased from \$350/tonne in 2016 to \$463/tonne in 2017, representing a \$32.29% increase. ASP in RMB for light-weight CMP in 2016 and 2017 was RMB2,327 and RMB3,122, respectively, representing a 34.16% increase. The quantity of light-weight CMP sold decreased by 14,151 tonnes, from 47,841 tonnes in 2016, to 33,690 tonnes in 2017.

Our production was suspended in September and October 2017 due to boiler replacement. Our production volume was also restricted temporarily by the government due to environmental concerns. The government has been requiring outdated paper facilities to close since 2010 and is expected to continue to force the closure of outdated facilities in the next few years. We estimate that the market demand and ASPs for CMP and other packaging paper will remain stable in 2018.

Our PM6 production line, which produces regular CMP, has a designated capacity of 360,000 tonnes /year. The utilization rates for the year ended December 31, 2017 and 2016 were 48.01% and 63.61%, respectively, representing a decrease of 15.60%.

Quantities of sold CMP that was produced by the PM6 production line from January 2016 to December 2017 are as follows:

Offset Printing Paper

Revenue from offset printing paper was \$18,687,657 (15.97% of the total offset printing paper, CMP and tissue paper products revenues) for the year ended December 31, 2017, representing a decrease of \$14,703,155, or 44.03%, from \$33,390,812 in 2016. We sold 26,610 tonnes of offset printing paper in the year ended December 31, 2017, compared to 52,255 tonnes in 2016, a decrease of 25,645 tonnes, or 49.08%. ASPs for offset printing paper in the year ended December 31, 2016 and 2017 was \$639/tonne and \$702/tonne, respectively, representing a 9.86% increase. We estimate that the market demand and ASP of offset printing paper will remain stable in 2018.

Tissue Paper Products

We began the commercial production of tissue paper products in Wei County Industry Park in June 2015. We process base tissue paper purchased from a long-term supplier and produce finished tissue paper products, including toilet paper, boxed and soft-packed tissues, handkerchief tissues and paper napkins, as well as bathroom and kitchen paper towels, that are marketed and sold under the Orient Paper brand. We sold 1,804 tonnes of tissue paper products and generated revenues of \$2,356,856 for the year ended December 31, 2017. We expect to continue to increase production of tissue paper products in the near future.

Revenue of Digital Photo Paper

Revenue generated from selling digital photo paper were \$nil for the year ended December 31, 2017. In June 2016, we suspended the production of digital photo paper due to low market demand for our products and now are upgrading the production line to produce more competitive photo paper products. We expect to resume our digital photo paper production in the near future.

Changes in revenues and quantities sold of our digital photo paper for the years ended December 31, 2017 and 2016 are summarized as follows:

| | Year Ended December 31, 2017 | | Year Ended December 31, 2016 | | Change in | Percentage Change | |
|---------------------|------------------------------------|--------|------------------------------------|-----------|-----------|----------------------|-------------------|
| | Quantity (Tonne) | Amount | Quantity (Tonne) | Amount | | Quantity | Amount |
| Digital Photo Paper | - | \$ - | 372 | \$657,334 | (372) | (657,334) | -100.00% -100.00% |

Cost of Sales

Total cost of sales for CMP, offset printing paper and tissue paper products in the year ended December 31, 2017 was \$97,067,627, a decrease of \$11,101,613, or 10.26%, from \$108,169,240 for the year ended December 31, 2016. This was mainly a result of the decrease in volume sold, partially offset by increase in cost of recycled paper board. Cost of sales for CMP was \$79,411,534 for the year ended December 31, 2017, as compared to \$77,014,583 in 2016. The increase in the cost of sales of \$2,396,951 for CMP was mainly due to the increase in cost of recycled paper board, partially offset by the decrease in the quantities of regular CMP and light-weight CMP sold in the year of 2017. Average cost of sales per tonne for CMP increased by 38.27%, from \$277 for the year ended December 31, 2016, to \$383 in 2017. The increase was mainly attributable to the higher average unit purchase costs (net of applicable value added tax) of recycled paper board in 2017 compared to 2016. Cost of sales for offset printing paper was \$15,451,146 for the year ended December 31, 2017, as compared to \$25,799,916 in 2016. Average cost of sales per tonne of offset printing paper increased by 17.61%, from \$494 in the year ended December 31, 2016, to \$581 in 2017. Cost of sales for tissue paper products was \$2,204,947 for the year ended December 31, 2017. Average cost of sales per tonne of tissue paper products was \$1,222 for the year ended December 31, 2017.

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Changes in cost of sales and cost per tonne by product for the year ended December 31, 2017 and 2016 are summarized below:

| | Year Ended December 31, 2017 | | Year Ended December 31, 2016 | | Change in | | Change in percentage | | |
|--|------------------------------------|----------------------|------------------------------------|----------------------|-----------------------|----------------------|-------------------------|---------------------|---------------|
| | Cost of Sales | Cost per Tonne | Cost of Sales | Cost per tonne | Cost of Sales | Cost per Tonne | Cost of Sales | Cost per Tone | |
| Regular CMP | \$66,763,206 | \$385 | \$64,540,961 | \$280 | \$2,222,245 | \$105 | 3.44 | % | 37.50% |
| Light-Weight CMP | \$12,648,328 | \$375 | \$12,473,622 | \$261 | \$174,706 | \$114 | 1.40 | % | 43.68% |
| Total CMP | \$79,411,534 | \$383 | \$77,014,583 | \$277 | \$2,396,951 | \$106 | 3.11 | % | 38.27% |
| Offset Printing Paper | \$15,451,146 | \$581 | \$25,799,916 | \$494 | \$(10,348,770) | \$87 | -40.11 | % | 17.61% |
| Tissue Paper Products | \$2,204,947 | \$1,222 | \$5,354,741 | \$1,089 | \$(3,149,794) | \$133 | -58.82 | % | 12.21% |
| Total CMP, Offset Printing Paper and Tissue Paper Revenue | \$97,067,627 | \$n/a | \$108,169,240 | \$n/a | \$(11,101,613) | \$n/a | -10.26% | n/a | % |

Our average unit purchase costs (net of applicable value added tax) of recycled paper board and recycled white scrap paper for the year ended December 31, 2017 were RMB 1,655/tonne (approximately \$245/tonne) and RMB 2,848/tonne (approximately \$422/tonne), respectively, as compared to RMB 1,100/tonne (approximately \$165/tonne) and RMB 2,323/tonne (approximately \$349/tonne) for the year ended December 31, 2016, respectively. These changes (in US dollars) represent a year-over-year increase of 48.48% for the recycled paper board and a year-over-year increase of 20.92% for the recycled white scrap paper. We use domestic recycled paper (sourced mainly from the Beijing-Tianjin metropolitan area) exclusively. Although we do not rely on imported recycled paper, the pricing of which tends to be more volatile than domestic recycled paper, our experience suggests that the pricing of domestic recycled paper bears some correlation to the pricing of imported recycled paper. The average unit purchase costs (net of applicable value added tax) of recycled scrap binding margin was RMB 2,415/tonne (approximately \$358/tonne) in 2017, as compared to RMB 1,566/tonne (approximately \$235/tonne) in 2016.

The pricing trends of our major raw materials for the 24-month period from January 2016 to December 2017 are shown below:

Electricity and gas are our two main energy sources. In order to reduce carbon emissions, we have been required to reduce coal consumption by the local government. After replacing some of the coal burning boilers with gas boilers, we started using natural gas in December 2016 and liquefied gas in February 2017, which accounted for approximately 4% of total sales in 2017. Electricity and coal accounted for approximately 7% and 3% of total sales in 2017, respectively, compared to 8% and 4% of total sales in 2016. As all the coal boilers were replaced in September 2017, we won't be using coal in the future. The monthly energy cost (electricity, coal and gas) as a percentage of total monthly sales of our main paper products for the 24 months ended December 31, 2017 are summarized as follows:

Gross Profit

Gross profit for December 31, 2017 was \$19,955,951 (17.05% of the total revenue), representing a decrease of \$5,575,932, or 21.84%, from the gross profit of \$25,531,883 (18.95% of the total revenue) for the year ended December 31, 2016. The decrease was mainly due to (i) the decrease in quantities sold and (ii) the increase of material purchase price of CMP, partially offset by the increase of ASP of regular CMP.

Corrugating Medium Paper, Offset Printing Paper and Tissue Paper Products

Gross profit for offset printing paper, CMP and tissue paper products for the year ended December 31, 2017 was \$19,955,951, a decrease of \$5,962,075, or 23.00%, from the gross profit of \$25,918,026 for the year ended December 31, 2016. The decrease was mainly the result of the factors discussed above.

The overall gross profit margin for offset printing paper, CMP and tissue paper products decreased by 2.28 percentage points, from 19.33% for the year ended December 31, 2016, to 17.05% for the year ended December 31, 2017.

Gross profit margin for regular CMP for the year ended December 31, 2017 was 16.94%, or 0.20 percentage points lower, as compared to gross profit margin of 17.14% for the year ended December 31, 2016.

Gross profit margin for light-weight CMP for the year ended December 31, 2017 was 18.92%, or 6.55 percentage points lower, as compared to gross profit margin of 25.47% for the year ended December 31, 2016.

Gross profit margin for offset printing paper was 17.32% for the year ended December 31, 2017, a decrease of 5.41 percentage points, as compared to 22.73% for the year ended December 31, 2016.

Gross profit margin for tissue paper products for the year ended December 31, 2017 was 6.45%, a decrease of 5.35 percentage points, as compared to 11.80% for the year ended December 31, 2016.

Monthly gross profit margins for our corrugating medium paper and offset printing paper for the 24-month period ended December 31, 2017 are as follows:

Digital Photo Paper

Profit for digital photo paper for the year ended December 31, 2017 was \$nil, compared with a loss of \$386,143 for the year ended December 31, 2016. In June 2016, we suspended the production of digital photo paper due to low market demand for our products and now are upgrading the production line to produce more competitive photo paper products. We expect to resume our digital photo paper production in the near future.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2017 were \$11,307,395, a decrease of \$1,094,463, or 8.82% from \$12,401,858 for the year ended December 31, 2016. The expenses were higher in 2016 because the Company issued 1,133,916 shares of common stock, valued at \$1,417,395, pursuant to the Company's compensatory incentive plans in January 2016.

Income from Operations

Operating income for the year ended December 31, 2017 was \$4,680,267, a decrease of \$8,271,452, or 63.86%, from \$12,951,719 for the year ended December 31, 2016. The decrease in operating income was primarily due to the decrease in gross profit and loss from impairment of fixed assets and disposal of coal burning boilers, partially offset by the decrease in selling, general and administrative expenses.

Other Income and Expenses

Interest expense for the year ended December 31, 2017 decreased by \$187,377, from \$2,621,147 in the year ended December 31, 2016, to \$2,433,770. The Company had short-term and long-term interest-bearing loans and related party loans that aggregated \$25,466,009 as of December 31, 2017, as compared to \$28,766,346 as of December 31, 2016. The interest incurred during the year ended December 31, 2017 and 2016, were \$nil and \$53,535 (a portion of interest related to the sale-leaseback arrangement with CNFTFL), respectively, and were capitalized as soft-cost of construction-in-progress.

Net Income

As a result of the above, net income was \$1,659,788 for the year ended December 31, 2017, representing a decrease of \$5,653,188, or 77.30%, from \$7,312,976 for year ended December 31, 2016.

Accounts Receivable

Net accounts receivable decreased by \$2,050,754, or 52.66%, to \$1,843,682 as of December 31, 2017, as compared with \$3,894,436 as of December 31, 2016. We usually collect accounts receivable within 30 days of delivery and completion of sales.

Inventories

Inventories consist of raw materials (accounting for 88.37% of total value of inventory as of December 31, 2017) and finished goods. As of December 31, 2017, the recorded value of inventory increased by 50.46% to \$8,474,165 from \$5,632,030 as of December 31, 2016. As of December 31, 2017, the inventory of recycled paper board, which is the main raw material for the production of CMP, was \$6,337,374, approximately \$2,999,725, or 89.88%, higher than the balance as of December 31, 2016. The increase was mainly due to the increase of unit cost of recycled paper board in 2017. We made additional purchases of paper board as a hedge against further increases in cost.

A summary of changes in major inventory items is as follows:

| | December 31, 2017 | December 31, 2016 | \$ Change | % Change | |
|--|-------------------------|-------------------------|-----------|-------------|---|
| Raw Materials | | | | | |
| Recycled paper board | \$6,337,374 | \$3,337,649 | 2,999,725 | 89.88 | % |
| Recycled white scrap paper | 862,734 | - | 862,734 | - | |
| Recycled scrap binding margin | - | 547,803 | -547,803 | -100.00 | % |
| Tissue base paper | 25,236 | 87,641 | -62,405 | -71.21 | % |
| Coal & gas | 71,674 | 242,307 | -170,633 | -70.42 | % |
| Digital photo base paper and other raw materials | 191,419 | 177,823 | 13,596 | 7.65 | % |
| Total Raw Materials | 7,488,437 | 4,393,223 | 3,095,214 | 70.45 | % |

| | | | | | |
|----------------|-------------|-------------|-----------|--------|---|
| Finished Goods | 985,728 | 1,238,807 | -253,079 | -20.43 | % |
| Totals | \$8,474,165 | \$5,632,030 | 2,842,135 | 50.46 | % |

Accounts Payable and Notes Payable

Accounts payable and notes payable was \$6,544,342 as of December 31, 2017, an increase of 3,822,072, or 140.40%, from \$2,722,270 as of December 31, 2016. Accounts payable was \$422,705 and \$559,952 as of December 31, 2017 and December 31, 2016, respectively. We have been relying on the bank acceptance notes issued under our credit facilities with Bank of Hebei and Bank of Cangzhou to make the majority of our raw materials payments to our vendors. Our notes payable to Bank of Cangzhou and Bank of Hebei were \$6,121,637 and \$2,162,318 as of December 31, 2017 and December 31, 2016, respectively. We have paid off bank acceptance notes of \$2,295,614 in February 2017. We also acquired additional bank acceptance notes of \$6,121,637 from Bank of Cangzhou in January 2017, which we paid off in January 2018.

Liquidity and Capital Resources

Overview

As of December 31, 2017, we had a net working capital deficit of \$1,770,736, a decrease of \$4,337,533, from the net working capital deficit of \$6,108,269 at December 31, 2016. Total current assets as of December 31, 2017 amounted to \$19,986,797. Substantially all cash and cash equivalents are cash deposits in bank accounts. Restricted cash of \$6,121,637 was included in our current assets as of December 31, 2017. Restricted cash is deposited at the Bank of Cangzhou for purpose of securing the bank acceptance notes from the bank. The acceptance notes were due and paid off in January 2018.

Current liabilities as of December 31, 2017 totaled \$21,757,533, an increase of \$1,171,942, from the December 31, 2016 balance of \$20,585,591. We use bank acceptance notes, which are typically 6-to-12 month notes, to guarantee the payments to our vendors. Notes payable was \$6,121,637 as of December 31, 2017, representing an increase of \$3,959,319, or 183.11%, from \$2,162,318 as of December 31, 2016. Most of our current short-term bank loans are either revolving or term loans. We expect to renew these loans with the banks on similar terms at or before maturity. All of our short-term loans (with the exception of the notes payable, which carry no interest but require a deposit equal to a portion of the credit facilities at the issuing banks) have interest-only monthly payments, with a balloon payment for the entire principal amount upon maturity of the loan. The long term loans from the credit union require monthly and quarterly interest payments, with one large balloon payment upon maturity.

From time to time, we investigate financing opportunities with banks and other financial institutions and investors both inside and outside of China, and we may seek long-term financings to pay off liabilities with shorter terms. We may seek additional funds through public and private financing, including equity and debt offering. As of the date of this report, we have not entered into any material binding agreement for additional long-term financing. There can be no assurance that we will be able to secure such financing either from banks or through debt or equity investments from investors. If we are unable to obtain sufficient outside financing, whether short-term or long-term, or generate sufficient operating cash flow internally, the progress of our construction or renovation projects may slow down or may otherwise be negatively affected. We may also have to curtail the scope of our capital expenditure projects or shelve some components of such projects, such as, delaying the installation of PM9 until additional capital resources are available.

Financing with Sale-Leaseback

The Company entered into a sale-leaseback arrangement (the “Lease Financing Agreement”) with CNFTFL on June 16, 2013, for a total financing proceeds in the amount of RMB 150 million (approximately US\$23 million). Pursuant to the Lease Financing Agreement, Orient Paper HB sold some equipment to CNFTFL for RMB 150 million (approximately US\$23 million). Concurrent with the sale of equipment, Orient Paper HB leases back all of the equipment sold to CNFTFL for a lease term of three years. At the end of the lease term, Orient Paper HB may pay a nominal purchase price of RMB 15,000 (approximately \$2,296) to CNFTFL to buy back all of the Leased Equipment.

On July 1, 2015, Orient Paper HB, China Orient, and other guarantors of Lease Financing Agreement, entered into an agreement (the “2015 Agreement”), to amend and restate the Lease Financing Agreement entered into in 2013 (the “2013 Agreement”) with the final repayment date extended to June 21, 2017. Orient Paper HB made install payments at revised schedule until it was fully paid off in August 2017. All the Lease Equipment was bought back at the nominal price according to the agreement. The balance of the long-term obligations under capital lease were \$nil as of December 31, 2017 and December 31, 2016, and its current portion in the amount of \$nil and \$8,786,528, respectively.

Total interest expenses for the sale-leaseback arrangement for the years ended December 31, 2017 and 2016 were \$795,163 and \$749,867, respectively.

As a result of the sale and leaseback of equipment on June 16, 2013, a deferred gain in the amount of \$1,379,282 was recorded. The deferred gain was amortized over the lease term and as an offset to depreciation of the Leased Equipment. In term of the extension of the new payment schedule, the deferred gain was amortized over the remaining lease term through June 21, 2017.

Renewal of operating lease

On August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the land use right of the Headquarters Compound (the "LUR"), the office building and essentially all industrial-use buildings in the Headquarters Compound (the "Industrial Buildings"), and three employee dormitory buildings located within the Headquarters Compound (the "Dormitories") to Hebei Fangsheng for cash prices of approximately \$2.77 million, \$1.15 million, and \$4.31 million respectively. In connection with the sale of the Industrial Buildings, Hebei Fangsheng agreed to lease the Industrial Buildings back to the Company for its original use for a term of up to three years, with an annual rental payment of approximately \$148,317 (RMB1,000,000). The lease agreement expired in August 2016. On August 9, 2016, the Company paid off the rental for the first lease agreement and entered into a supplementary agreement with Hebei Fangsheng, who agreed to extend the lease term for another two years, with the same rental payment as original lease agreement. The accrued rental owed to Hebei Fangsheng was approximately \$60,378 and \$56,872, which was recorded as part of the current liabilities as of December 31, 2017 and December 31, 2016, respectively.

Capital Expenditure Commitment as of December 31, 2017

We finance our daily operations mainly by cash flows generated from our business operations and loans from banking institutions (including leasing companies) and our major shareholders. Major capital expenditures 2017 were primarily financed by cash generated from business operations. As of December 31, 2017, we had approximately \$11 million in capital expenditure commitments that were mainly related to the construction costs of building equipment and other facilities in a new industrial park in Wei County of Hebei, China, where we expect to build two tissue paper production lines (PM8 and PM9), and install other paper production machinery. These commitments are expected to be financed by bank loans and cash flows generated from our business operations and loans.

Capital Expenditures

Our committed capital expenditures for the next 12 months are approximately \$11 million, which mainly includes budgeted costs for the projects described below.

New Production Lines at the Wei County Industrial Park

In November 2012, we entered into a 15-year land lease with a land investment company in Wei County for the purpose of developing the 49.4 acres of land into the base of our next capacity expansion. In December 2012, we signed a contract with an equipment contractor in Shanghai to build the first of our two tissue paper production lines in Wei County. The two production lines, each having production capacity of 15,000 tonnes/year, will be designated as PM8 and PM9 upon completion. Total estimated cost of the Wei County tissue paper project is up to approximately \$124 million (of which \$116 million has been incurred thus far), including the estimated costs of general infrastructure and administrative facilities such as warehouses, offices, dorms and landscaping, of up to \$103 million (of which \$94 million has been incurred thus far) and the estimated costs for the two paper machines and related packaging equipment of up to \$22 million (of which \$22 million has been incurred thus far). We had previously estimated that the installation and test operations of the PM8 production line would be completed in the second half of 2014. Our current estimated completion time of the PM8 production line is the first half of 2018. We have experienced delays resulting from our inability to obtain approval for a coal burning boiler in the PM8 production line from the Hebei Provincial Government. According to the latest regulation announced by the Hebei Provincial Government, coal burning boilers are no longer allowed for new plants. We will use gas boilers and launch biomass co-generation projects to replace the coal burning boilers. We are consulting with relevant government departments on this solution. The delay of completion of the PM8 production line did not have any major financial impact on our current period earnings, as we did not previously budget significant revenue or net earnings from the PM8 production line tissue paper for 2017.

We plan to build a second 15,000 tonnes/year tissue paper production line (designated as PM9) at an estimated cost of \$7.8 million after the PM8 production line is put into production.

Digital Photo Paper PM4 and PM5 Production Lines

On December 31, 2009, we acquired a digital photo paper production line, including two coating lines that are designated as PM4 and PM5 and ancillary equipment, for a total purchase price of approximately \$13.6 million. We suspended production of photo paper in June 2016 and now are upgrading the production line to produce more competitive photo paper products. We expect to resume our digital photo paper production in the near future.

Cash, Cash Equivalents and restricted cash

Our cash, cash equivalents and restricted cash as of December 31, 2017 was \$9,017,427, an increase of \$4,522,463, from \$4,494,964 as of December 31, 2016. The increase of cash and cash equivalents for the year ended December 31, 2017 was attributable to a number of factors:

i. Net cash provided by operating activities

Net cash provided by operating activities was \$18,151,788 for the year ended December 31, 2017. The balance represented an increase of cash of \$2,874,266, or 18.81%, from \$15,277,522 provided for the year ended December 31, 2016. Net income for the year ended December 31, 2017 was \$1,659,788, representing a decrease of \$5,653,188, or 77.30%, from a net income of \$7,312,976 for the year ended December 31, 2016. Changes in various asset and liability account balances throughout the year ended December 31, 2017 also contributed to the net change in cash from operating activities in year ended December 31, 2017. Chief among such changes is the decrease of accounts receivable in the amount of \$2,265,428 during the year of 2017 and the increase of notes payable in the amount of \$3,707,933. There was also an increase of \$2,417,942 in the ending inventory balance as of December 31, 2017 (a decrease to net cash for the year ended December 31, 2017 cash flow purposes). In addition, the Company had non-cash expenses relating to depreciation and amortization in the amount of \$14,633,780. The Company also had a net increase of \$79,264 in prepayment and other current assets (a decrease to net cash) and a net decrease of \$1,495,164 in other payables and accrued liabilities and due to a related party (a decrease to net cash), as well as a decrease in income tax payable of \$839,047 (a decrease to net cash) during the year ended December 31, 2017.

ii. Net cash used in investing activities

We incurred \$9,321,636 in net cash expenditures for investing activities during the year ended December 31, 2017, as compared to \$11,545,029 for the year ended December 31, 2016. Expenditures in the year ended December 31, 2017 were for the progress payments for the construction of our first tissue paper production line PM8 and related facilities, including three paper mill workshops and maintenance workshops and four warehouses at the Wei County industrial park in Wei County, Hebei province.

iii. Net cash used in financing activities

Net cash used in financing activities was \$8,624,970 for the year ended December 31, 2017, as compared to net cash used in financing activities in the amount of \$3,681,346 for the year ended December 31, 2016. The increase was mainly attributable to (i) repayment of short-term and long-term loans and capital leases during the year ended December 31, 2017, and (ii) cash outflow of \$3,707,933 from the increase of restricted deposits for notes payables to Bank of Cangzhou.

Short-term bank loans

| | December 31, 2017 | December 31, 2016 |
|---|-------------------------|-------------------------|
| Bank of Hebei | (a) \$- | \$2,162,318 |
| Industrial and Commercial Bank of China ("ICBC") Loan 1 | (b) - | 2,883,091 |
| ICBC Loan 2 | (c) 4,285,145 | - |
| ICBC Loan 3 | (d) 2,907,778 | - |
| Total short-term bank loans | \$7,192,923 | \$5,045,409 |

(a) On July 8, 2016, the Company entered into a working capital loan agreement with the Bank of Hebei, with a balance of \$2,162,318 as of December 31, 2016. The loan bears a fixed interest rate of 5.22% per annum. The working capital loan was guaranteed by the CEO and Hebei Tengsheng with its land use right and real property pledged by Hebei Tengsheng as collateral for the benefit of the bank. The loan was due and repaid on July 6, 2017.

(b) On September 13, 2016, the Company entered into a working capital loan agreement with ICBC, with a balance of \$2,883,091 as of December 31, 2016. The loan bears a fixed interest rate of 4.5675% per annum. The working capital loan was guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. The loan was due and repaid on September 7, 2017.

(c) On January 10, 2017, the Company entered into a working capital loan agreement with the ICBC, with a balance of \$4,285,145 as of December 31, 2017. The working capital loan is guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. The loan bears a fixed interest rate of 4.5675% per annum. The loan was due and repaid on January 8, 2018.

(d) On October 18, 2017, the Company entered into a working capital loan agreement with the ICBC, with a balance of \$2,907,778 as of December 31, 2017. The working capital loan is secured by the Company's land use right as collateral for the benefit of the bank. The loan bears a fixed interest rate of 4.945% per annum. The loan will be due on October 12, 2018.

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As of December 31, 2017, there were guaranteed short-term borrowings of \$7,192,923 and unsecured bank loans of \$nil. As of December 31, 2016, there were guaranteed short-term borrowings of \$5,045,409 and unsecured bank loans of \$nil.

The average short-term borrowing rates for the years ended December 31, 2017 and 2016 were approximately 5.27% and 8.05%, respectively.

Long-term loans from credit union

As of December 31, 2017 and 2016, loans payable to Rural Credit Union of Xushui County, amounted to \$7,560,221 and \$4,843,592, respectively.

On April 16, 2014, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 5 years, which is payable in various installments from June 21, 2014 to November 18, 2018. The loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.72% per month. In August 2015, after giving the required notice to the Rural Credit Union of Xushui County in accordance with the terms on the agreement, the Company prepaid a portion of the loan in an amount of \$191,301, of which \$68,868 was paid ahead of its original repayment schedule. As of December 31, 2017 and 2016, total outstanding loan balance was \$1,316,152 and \$1,239,729, respectively. Out of the total outstanding loan balance, current portion amounted were \$1,316,152 and \$nil as of December 31, 2017 and December 31, 2016, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$nil and \$1,239,729 are presented as non-current liabilities in the consolidated balance sheet as of December 31, 2017 and December 31, 2016 respectively.

On July 15, 2013, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 5 years, which is due and payable in various installments from December 21, 2013 to July 26, 2018. The loan is secured by certain of the Company's manufacturing equipment with net book value of \$7,963,285 and \$9,813,294 as of December 31, 2017 and December 31, 2016, respectively. Interest payment is due quarterly and bears a fixed rate of 0.72% per month. In August 2015, after giving the required notice to the Rural Credit Union of Xushui County in accordance with the terms on the agreement, the Company prepaid a portion of the loan in an amount of \$198,953, of which \$61,216 was paid ahead of its original repayment schedule. As of December 31, 2017 and 2016, the total outstanding loan balance was \$3,826,022 and \$3,603,863, respectively. Out of the total outstanding loan balance, current portion amounted were \$3,826,022 and \$nil as of December 31, 2017 and December 31, 2016, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$nil and \$3,603,863 are presented as non-current liabilities in the consolidated balance sheet as of December 31, 2017 and December 31, 2016 respectively.

On April 20, 2017, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 2 years, which is due and payable in various installments from August 26, 2017 to April 19, 2019. The loan is guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. Interest payment is due quarterly and bears a fixed rate of 0.6% per month. As of December 31, 2017 the total outstanding loan balance was \$2,418,047, out of which \$1,224,328 and \$1,193,719 are presented as current and non-current liabilities in the consolidated balance sheet respectively.

Total interest expenses for the short-term bank loans and long-term loans for the years ended December 31, 2017 and 2016 were \$1,196,814 and \$1,411,731, respectively.

Shareholder Loans

Mr. Zhenyong Liu has loaned money to Orient Paper HB for working capital purposes over a period of time. On January 1, 2013, Orient Paper HB and Mr. Zhenyong Liu renewed the three-year term loan previously entered on January 1, 2010, and extended the maturity date further to December 31, 2015. On December 31, 2015, the Company paid off the loan of \$2,249,279, together with interest of \$391,374 for the period from 2013 to 2015. Approximately \$392,296 of interest is still outstanding to Mr. Zhenyong Liu and is recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet as of December 31, 2017.

On December 10, 2014, the CEO provided an unsecured loan to the Company of \$ 9,182,455 (RMB 60,000,000) , for working capital purpose with an interest rate of 4.35% per annum, which was based on the primary lending rate of People's Bank of China. The loan will be due on December 2, 2020. The Company repaid \$6,012,416 to Mr. Zhenyong Liu in 2016. As of December 31, 2017, the outstanding loan balance was \$3,060,818 and the accrued interest was \$45,912 which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

On March 1, 2015, the Company entered an agreement with the CEO which allows Orient Paper HB to borrow from the CEO an amount up to \$18,364,911 (RMB120,000,000) for working capital purposes. The advances or funding under the agreement are due three years from the date each amount is funded. The loan is unsecured and carry an annual interest rate set on the basis of the primary lending rate of the People's Bank of China at the time of the borrowing. On July 13, 2015, an unsecured amount of \$4,324,636 was drawn from the facility. On October 14, 2016 an unsecured amount of \$2,883,091 was drawn from the facility. The loan matures on July 12, 2021. As of December 31, 2017 and 2016, the outstanding loan balance were \$7,652,047 and \$7,207,727, respectively, and the accrued interest was \$110,476 and \$104,062, respectively, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

As of December 31, 2017 and 2016, total amount of loans due to the CEO were \$10,712,865 and \$10,090,817, respectively. The interest expense incurred for such related party loans are \$451,626, \$513,084 and \$740,150 for the years ended December 31, 2017, 2016 and 2015, respectively. The accrued interest owe to the CEO was approximately \$548,684 and \$516,825, as of December 31, 2017 and December 31, 2016, respectively, which was recorded in other payables and accrued liabilities.

During the years ended December 31, 2017 and 2016, the Company borrowed \$nil and \$14,000, respectively, from a shareholder to pay for various expenses incurred in the U.S. The amount was due on demand with interest free. The Company repaid the entire balance by December 31, 2017.

Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates. The most critical accounting policies are listed below:

Revenue Recognition Policy

The Company recognizes revenue when goods are delivered and a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when the customer's truck picks up goods at our finished goods inventory warehouse.

Long-Lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining useful lives when events or circumstances lead management to believe that the carrying value of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Our judgments regarding the existence of impairment indicators are based on market conditions, assumptions for operational performance of our businesses, and possible government policy toward operating efficiency of the Chinese paper manufacturing industry. For the years ended December 31, 2017 and 2016, no events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required. We are currently not aware of any events or circumstances that may indicate any need to record such impairment in the future.

Foreign Currency Translation

The functional currency of Orient Paper HB and Orient Paper Shengde is the Chinese Yuan Renminbi ("RMB"). Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of December 31, 2017 and 2016 to

translate the Chinese RMB to the U.S. Dollars are 6.5342:1 and 6.9370:1, respectively. Revenues and expenses are translated using the prevailing average exchange rates at 6.7423:1, and 6.6529:1 for the years ended December 31, 2017 and 2016, respectively. Translation adjustments are included in other comprehensive income (loss).

Off-Balance Sheet Arrangements

We were the guarantor for Baoding Huanrun Trading Co., (formerly known as Dongfang Trading Co.,) for its long-term bank loans in an amount of \$8,570,292 (RMB56,000,000), which matures at various times in 2018. Baoding Huanrun Trading Co. is one of our major suppliers of raw materials. This helps us to maintain a good relationship with the supplier and negotiate for better terms in payment for materials. If Huanrun Trading Co. were to become insolvent, the Company could be materially adversely affected. Except as aforesaid, we have no material off-balance sheet transactions.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Gross versus Net), which is effective upon adoption of ASU 2014-09. This ASU clarifies the implementation guidance in ASU 2014-09 on principal versus agent considerations. These ASUs are effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of January 1, 2018. The Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. We do not expect the adoption of these ASUs to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that are required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating

leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). Financial Instruments-Credit Losses (Topic 326) amends guidelines on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, 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 amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements. The Company had \$6,121,637 and \$2,162,318 of restricted cash as of December 31, 2017 and December 31, 2016, respectively.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”), which clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted so long as the transaction has not been reported in financial statements that have been issued or made available for issuance. We do not expect the adoption of ASU 2017-01 to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), which provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Risk

While our reporting currency is the US dollar, almost all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. All of our assets are denominated in RMB except for some cash and cash equivalents and accounts receivables. As a result, we are exposed to foreign exchange risks as our revenues and results of operations may be affected by fluctuations in the exchange rate between US dollar and RMB. If the RMB depreciates against the US dollar, the value of our RMB revenues, earnings and assets as expressed in our US dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Inflation

Although we are generally able to pass along minor incremental cost inflation to our customers, inflation such as increases in the costs of our products and overhead costs may adversely affect our operating results. We do not believe that inflation in China has had a material impact on our financial position or results of operations to date, however, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling and distribution, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase in line with the increased costs.

Item 8. Financial Statements and Supplementary Data

Our audited financial statement for the fiscal year ended December 31, 2017 and 2016, together with the report of the independent certified public accounting firms thereon and the notes thereto, are presented beginning at page F-1.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: The Board of Directors and Stockholders of
Orient Paper, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Orient Paper, Inc. (the Company) as of December 31, 2017, and the related consolidated statement of income and comprehensive income (loss), statement of changes in stockholders' equity, and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ WWC, P.C.
WWC, P.C.
Certified Public Accountants

We have served as the Company's auditor since March 25, 2018.

San Mateo, California

April 17, 2018

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Orient Paper, Inc.

We have audited the accompanying consolidated balance sheets of Orient Paper, Inc. (the “Company”) as of December 31, 2016 and the related consolidated statements of income and comprehensive income, changes in stockholders’ equity, and cash flows for the year ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits 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 the Company at December 31, 2016, and the results of its operations and its cash flows for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

BDO China Shu Lun Pan Certified Public Accountants LLP

Shenzhen, The People’s Republic of China

March 22, 2017 except for liquidity and going concern discussed in Note 2, as to which the date is April 17, 2018

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ORIENT PAPER, INC.**CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2017 AND 2016**

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and bank balances | \$2,895,790 | \$2,332,646 |
| Restricted cash | 6,121,637 | 2,162,318 |
| Accounts receivable (net of allowance for doubtful accounts of \$37,626 and \$79,478 as of December 31, 2017 and 2016, respectively) | 1,843,682 | 3,894,436 |
| Inventories | 8,474,165 | 5,632,030 |
| Prepayments and other current assets | 651,523 | 455,892 |
| Total current assets | 19,986,797 | 14,477,322 |
| Property, plant, and equipment, net | 189,388,709 | 187,689,880 |
| Value-added tax recoverable | 3,041,416 | 2,945,575 |
| Deferred tax asset non-current | 6,572,559 | 3,264,841 |
| Total Assets | \$218,989,481 | \$208,377,618 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Short-term bank loans | \$7,192,923 | \$5,045,409 |
| Current portion of long-term loans from credit union | 6,366,502 | - |
| Current obligations under capital lease | - | 8,786,528 |
| Accounts payable | 422,705 | 559,952 |
| Advance from customers | - | 28,831 |
| Notes payable | 6,121,637 | 2,162,318 |
| Due to a related party | 60,378 | 56,872 |
| Accrued payroll and employee benefits | 231,247 | 209,936 |
| Other payables and accrued liabilities | 836,337 | 2,424,778 |
| Income taxes payable | 525,804 | 1,310,967 |
| Total current liabilities | 21,757,533 | 20,585,591 |
| Loans from credit union | 1,193,719 | 4,843,592 |
| Loans from a related party | 10,712,865 | 10,090,817 |
| Deferred gain on sale-leaseback | - | 102,232 |

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| | | |
|---|---------------|---------------|
| Total liabilities (including amounts of the consolidated VIE without recourse to the Company of \$31,235,520 and \$35,618,995 as of December 31, 2017 and 2016, respectively) | 33,664,117 | 35,622,232 |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock, 500,000,000 shares authorized, \$0.001 par value per share, 21,450,316 shares issued and outstanding as of December 31, 2017 and 2016, respectively | 21,450 | 21,450 |
| Additional paid-in capital | 50,635,243 | 50,635,243 |
| Statutory earnings reserve | 6,080,574 | 6,080,574 |
| Accumulated other comprehensive income (loss) | 5,468,799 | (5,441,391) |
| Retained earnings | 123,119,298 | 121,459,510 |
| Total stockholders' equity | 185,325,364 | 172,755,386 |
| Total Liabilities and Stockholders' Equity | \$218,989,481 | \$208,377,618 |

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | Year Ended December 31, | |
|---|----------------------------|-----------------|
| | 2017 | 2016 |
| Revenues | \$ 117,023,578 | \$ 134,744,600 |
| Cost of sales | (97,067,627) | (109,212,717) |
| Gross Profit | 19,955,951 | 25,531,883 |
| Selling, general and administrative expenses | (11,307,395) | (12,401,858) |
| Loss on impairment of assets | (2,291,027) | - |
| Loss from disposal of property, plant and equipment | (1,677,262) | (178,306) |
| Income from Operations | 4,680,267 | 12,951,719 |
| Other Income (Expense): | | |
| Interest income | 34,590 | 96,976 |
| Subsidy income | 41,529 | - |
| Interest expense | (2,433,770) | (2,621,147) |
| Income before Income Taxes | 2,322,616 | 10,427,548 |
| Provision for Income Taxes | (662,828) | (3,114,572) |
| Net Income | 1,659,788 | 7,312,976 |
| Other Comprehensive Income (Loss) | | |
| Foreign currency translation adjustment | 10,910,190 | (11,784,410) |
| Total Comprehensive Income (Loss) | \$ 12,569,978 | \$ (4,471,434) |
| Earnings Per Share: | | |
| Basic and Diluted Earnings per Share | \$0.08 | \$0.34 |
| Outstanding – Basic and Diluted | 21,450,316 | 21,416,143 |

See accompanying notes to consolidated financial statements.

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ORIENT PAPER, INC.**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Statutory Earnings Reserve | Accumulated Other Comprehensive Income (loss) | Retained Earnings | Total |
|---|------------------------|------------------------|----------------------------------|----------------------------------|--|----------------------|---------------|
| Balance at January 1, 2016 | 20,316,400 | \$20,316 | \$49,218,982 | \$6,080,574 | \$6,343,019 | \$114,146,534 | \$175,809,425 |
| Issuance of shares to officer and directors | 1,133,916 | 1,134 | 1,416,261 | - | - | - | 1,417,395 |
| Foreign currency translation adjustment | - | - | - | - | (11,784,410) | - | (11,784,410) |
| Net income for the year of 2016 | - | - | - | - | - | 7,312,976 | 7,312,976 |
| Balance at December 31, 2016 | 21,450,316 | \$21,450 | \$50,635,243 | \$6,080,574 | \$(5,441,391) | \$121,459,510 | \$172,755,386 |
| Foreign currency translation adjustment | - | - | - | - | 10,910,190 | - | 10,910,190 |
| Net income for the year of 2017 | - | - | - | - | - | 1,659,788 | 1,659,788 |
| Balance at December 31, 2017 | 21,450,316 | \$21,450 | \$50,635,243 | \$6,080,574 | \$5,468,799 | \$123,119,298 | \$185,325,364 |

See accompanying notes to consolidated financial statements.

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ORIENT PAPER, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | Year Ended December 31, | |
|---|----------------------------|---------------|
| | 2017 | 2016 |
| Cash Flows from Operating Activities: | | |
| Net income | \$1,659,788 | \$7,312,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 14,633,780 | 15,287,509 |
| Loss from impairment and disposal of property, plant and equipment | 3,968,289 | 178,306 |
| (Recovery from) Allowance for bad debts | (45,309) | 44,938 |
| Share-based compensation expenses | - | 1,417,395 |
| Deferred tax | (3,010,577) | (1,959,494) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,265,428 | (2,246,882) |
| Prepayments and other current assets | (79,264) | 1,410,080 |
| Inventories | (2,417,942) | 3,112,465 |
| Accounts payable | (166,464) | 336,507 |
| Advance from customers | (29,663) | 26,173 |
| Notes payable | 3,707,933 | (11,273,279) |
| Due to a related party | - | (300,621) |
| Accrued payroll and employee benefits | 8,111 | (300,275) |
| Other payables and accrued liabilities | (1,503,275) | 1,509,196 |
| Income taxes payable | (839,047) | 722,528 |
| Net Cash Provided by Operating Activities | 18,151,788 | 15,277,522 |
| Cash Flows from Investing Activities: | | |
| Purchases of property, plant and equipment | (9,380,702) | (11,586,214) |
| Proceeds from sale of property, plant and equipment | 59,066 | 41,185 |
| Net Cash Used in Investing Activities | (9,321,636) | (11,545,029) |
| Cash Flows from Financing Activities: | | |
| Proceeds from related party loans | - | 3,020,208 |
| Repayments of related party loans | - | (6,026,416) |
| Proceeds from short term bank loans | 12,903,609 | 6,463,347 |
| Proceeds from credit union loans | 2,373,077 | - |
| Repayment of bank loans | (11,153,463) | (14,730,418) |
| Payment of capital lease obligation | (9,040,260) | (675,139) |
| (Increase in) Release of restricted cash | (3,707,933) | 8,267,072 |

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| | | |
|---|-------------|-------------|
| Net Cash Used in Financing Activities | (8,624,970) | (3,681,346) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 357,962 | (360,418) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 563,144 | (309,271) |
| Cash and Cash Equivalents - Beginning of Year | 2,332,646 | 2,641,917 |
| Cash and Cash Equivalents - End of Year | \$2,895,790 | \$2,332,646 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest, net of capitalized interest cost | \$2,103,340 | \$2,414,458 |
| Cash paid for income taxes | \$4,512,453 | \$4,351,538 |
| Cash and bank balances | 2,895,790 | 2,332,646 |
| Restricted cash | 6,121,637 | 2,162,318 |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | 9,017,427 | 4,494,964 |

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Business Background

Orient Paper, Inc. was incorporated in the State of Nevada on December 9, 2005, under the name “Carlateral, Inc.” Through the steps described immediately below, we became the holding company for Hebei Baoding Orient Paper Milling Company Limited (“Orient Paper HB”), a producer and distributor of paper products in China, on October 29, 2007, and effective December 21, 2007, we changed our name to “Orient Paper, Inc.” to more accurately describe our business.

On October 29, 2007, pursuant to an agreement and plan of merger (the “Merger Agreement”), the Company acquired Dongfang Zhiye Holding Limited (“Dongfang Holding”), a corporation formed on November 13, 2006 under the laws of the British Virgin Islands, and issued the shareholders of Dongfang Holding an aggregate of 7,450,497 (as adjusted for a four-for-one reverse stock split effected in November 2009) shares of our common stock, which shares were distributed pro-rata to the shareholders of Dongfang Holding in accordance with their respective ownership interests in Dongfang Holding. At the time of the Merger Agreement, Dongfang Holding owned all of the issued and outstanding stock and ownership of Orient Paper HB and such shares of Orient Paper HB were held in trust with Zhenyong Liu, Xiaodong Liu and Shuangxi Zhao, for Mr. Liu, Mr. Liu and Mr. Zhao (the original shareholders of Orient Paper HB) to exercise control over the disposition of Dongfang Holding’s shares in Orient Paper HB on Dongfang Holding’s behalf until Dongfang Holding successfully completed the change in registration of Orient Paper HB’s capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of Orient Paper HB’s shares. As a result of the merger transaction, Dongfang Holding became a wholly owned subsidiary of the Company, and Dongfang Holding’s wholly owned subsidiary, Orient Paper HB, became an indirectly owned subsidiary of the Company.

Dongfang Holding, as the 100% owner of Orient Paper HB, was unable to complete the registration of Orient Paper HB’s capital under its name within the proper time limits set forth under PRC law. In connection with the consummation of the restructuring transactions described below, Dongfang Holding directed the trustees to return the shares of Orient Paper HB to their original shareholders, and the original Orient Paper HB shareholders entered into certain agreements with Baoding Shengde Paper Co., Ltd. (“Orient Paper Shengde”) to transfer the control of Orient Paper HB over to Orient Paper Shengde.

On June 24, 2009, the Company consummated a number of restructuring transactions pursuant to which it acquired all of the issued and outstanding shares of Shengde Holdings Inc, a Nevada corporation. Shengde Holdings Inc was incorporated in the State of Nevada on February 25, 2009. On June 1, 2009, Shengde Holdings Inc incorporated

Orient Paper Shengde, a limited liability company organized under the laws of the PRC. Because Orient Paper Shengde is a wholly-owned subsidiary of Shengde Holdings Inc, it is regarded as a wholly foreign-owned entity under PRC law.

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ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To ensure proper compliance of the Company's control over the ownership and operations of Orient Paper HB with certain PRC regulations, on June 24, 2009, the Company entered into a series of contractual agreements (the "Contractual Agreements") with Orient Paper HB and Orient Paper HB Equity Owners via the Company's wholly owned subsidiary Shengde Holdings Inc ("Shengde Holdings") a Nevada corporation and Baoding Shengde Paper Co., Ltd. ("Orient Paper Shengde"), a wholly foreign-owned enterprise in the PRC with an original registered capital of \$10,000,000 (subsequently increased to \$60,000,000 in June 2010). Orient Paper Shengde is mainly engaged in production and distribution of digital photo paper and is 100% owned by Shengde Holdings. Prior to February 10, 2010, the Contractual Agreements included (i) Exclusive Technical Service and Business Consulting Agreement, which generally provides that Orient Paper Shengde shall provide exclusive technical, business and management consulting services to Orient Paper HB, in exchange for service fees including a fee equivalent to 80% of Orient Paper HB's total annual net profits; (ii) Loan Agreement, which provides that Orient Paper Shengde will make a loan in the aggregate principal amount of \$10,000,000 to Orient Paper HB Equity Owners in exchange for each such shareholder agreeing to contribute all of its proceeds from the loan to the registered capital of Orient Paper HB; (iii) Call Option Agreement, which generally provides, among other things, that Orient Paper HB Equity Owners irrevocably grant to Orient Paper Shengde an option to purchase all or part of each owner's equity interest in Orient Paper HB. The exercise price for the options shall be RMB1 which Orient Paper Shengde should pay to each of Orient Paper HB Equity Owner for all their equity interests in Orient Paper HB; (iv) Share Pledge Agreement, which provides that Orient Paper HB Equity Owners will pledge all of their equity interests in Orient Paper HB to Orient Paper Shengde as security for their obligations under the other agreements described in this section. Specifically, Orient Paper Shengde is entitled to dispose of the pledged equity interests in the event that Orient Paper HB Equity Owners breach their obligations under the Loan Agreement or Orient Paper HB fails to pay the service fees to Orient Paper Shengde pursuant to the Exclusive Technical Service and Business Consulting Agreement; and (v) Proxy Agreement, which provides that Orient Paper HB Equity Owners shall irrevocably entrust a designee of Orient Paper Shengde with such shareholder's voting rights and the right to represent such shareholder to exercise such owner's rights at any equity owners' meeting of Orient Paper HB or with respect to any equity owner action to be taken in accordance with the laws and Orient Paper HB's Articles of Association. The terms of the agreement are binding on the parties for as long as Orient Paper HB Equity Owners continue to hold any equity interest in Orient Paper HB. An Orient Paper HB Equity Owner will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Orient Paper Shengde. As the Company had controlled Orient Paper HB since July 16, 2007 through Dongfang Holding and the trust until June 24, 2009, and continues to control Orient Paper HB through Orient Paper Shengde and the Contractual Agreements, the execution of the Contractual Agreements is considered as a business combination under common control.

On February 10, 2010, Orient Paper Shengde and the Orient Paper HB Equity Owners entered into a Termination of Loan Agreement to terminate the abovementioned \$10,000,000 Loan Agreement. Because of the Company's decision to fund future business expansions through Orient Paper Shengde instead of Orient Paper HB, the \$10,000,000 loan contemplated was never made prior to the point of termination. The parties believe the termination of the Loan Agreement does not in itself compromise the effective control of the Company over Orient Paper HB and its businesses in the PRC.

An agreement was also entered into among Orient Paper Shengde, Orient Paper HB and the Orient Paper HB Equity Owners on December 31, 2010, reiterating that Orient Paper Shengde is entitled to 100% of the distributable profit of Orient Paper HB, pursuant to the above mentioned Contractual Agreements. In addition, Orient Paper HB and the Orient Paper HB Equity Owners shall not declare any of Orient Paper HB's unappropriated earnings as dividend, including the unappropriated earnings of Orient Paper HB from its establishment to 2010 and thereafter.

Orient Paper has no direct equity interest in Orient Paper HB. However, through the Contractual Agreements described above Orient Paper is found to be the primary beneficiary (the "Primary Beneficiary") of Orient Paper HB and is deemed to have the effective control over Orient Paper HB's activities that most significantly affect its economic performance, resulting in Orient Paper HB being treated as a controlled variable interest entity of Orient Paper in accordance with Topic 810 - Consolidation of the Accounting Standards Codification (the "ASC") issued by the Financial Accounting Standard Board (the "FASB"). The revenue generated from Orient Paper HB for the years ended December 31, 2017 and 2016 was accounted for 100% and 99.51%, respectively, of the Company's total revenue for the same years. Orient Paper HB also accounted for 87.96% and 86.23% of the total assets of the Company as of December 31, 2017 and 2016, respectively.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2017 and 2016, details of the Company's subsidiaries and variable interest entity are as follows:

| Name | Date of Incorporation or Establishment | Place of Incorporation or Establishment | Percentage of Ownership | Principal Activity |
|---|---|--|--------------------------------|-------------------------------------|
| <i>Subsidiary:</i> | | | | |
| Dongfang Holding | November 13, 2006 | BVI | 100 | % Inactive investment holding |
| Shengde Holdings | February 25, 2009 | State of Nevada | 100 | % Investment holding |
| Orient Paper Shengde | June 1, 2009 | PRC | 100 | % Paper Production and distribution |
| <i>Variable interest entity("VIE"):</i> | | | | |
| Orient Paper HB | March 10, 1996 | PRC | Control | * Paper Production and distribution |

* Orient Paper HB is treated as a 100% controlled variable interest entity of the Company

However, uncertainties in the PRC legal system could cause the Company's current ownership structure to be found to be in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through its subsidiary, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIE may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC law, the Company may be subject to penalties, which may include, but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required to restructure the Company's operations or being required to discontinue the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIE, which may result in deconsolidation of the VIE. The Company believes the possibility that it will no longer be able to control and consolidate its VIE will occur as a result of the aforementioned risks and uncertainties is remote.

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ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company has aggregated the financial information of Orient Paper HB in the table below. The aggregate carrying value of Orient Paper HB's assets and liabilities (after elimination of intercompany transactions and balances) in the Company's consolidated balance sheets as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 (Unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and bank balances | \$2,681,942 | \$2,005,288 |
| Restricted cash | 6,121,637 | 2,162,318 |
| Accounts receivable | 1,843,682 | 3,894,435 |
| Inventories | 8,431,972 | 5,592,230 |
| Prepayments and other current assets | 646,598 | 451,349 |
| Total current assets | 19,725,831 | 14,105,620 |
| Property, plant, and equipment, net | 167,727,768 | 162,779,492 |
| Deferred tax asset non-current | 5,167,288 | 2,804,019 |
| Total Assets | \$192,620,887 | \$179,689,131 |
| LIABILITIES | | |
| Current Liabilities | | |
| Short-term bank loans | \$7,192,923 | \$5,045,409 |
| Current portion of long-term loans from credit union | 5,142,175 | - |
| Current obligations under capital lease | | 8,786,528 |
| Accounts payable | 422,705 | 559,952 |
| Advance from customers | | 28,831 |
| Notes payable | 6,121,637 | 2,162,318 |
| Due to a related party | 60,378 | 56,872 |
| Accrued payroll and employee benefits | 227,163 | 206,642 |
| Other payables and accrued liabilities | 836,309 | 2,424,751 |
| Income taxes payable | 519,365 | 1,311,051 |
| Total current liabilities | 20,522,655 | 20,582,354 |

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| | | |
|---------------------------------|---------------|---------------|
| Loans from credit union | - | 4,843,592 |
| Loans from a related party | 10,712,865 | 10,090,817 |
| Deferred gain on sale-leaseback | - | 102,232 |
| Total liabilities | \$ 31,235,520 | \$ 35,618,995 |

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ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company and its consolidated subsidiaries are not required to provide financial support to the VIE, and no creditor (or beneficial interest holders) of the VIE have recourse to the assets of Company unless the Company separately agrees to be subject to such claims. There are no terms in any agreements or arrangements, implicit or explicit, which require the Company or its subsidiaries to provide financial support to the VIE. However, if the VIE does require financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to the VIE.

(2) Basis of Presentation and Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), and include the assets, liabilities, revenues, expenses and cash flows of all subsidiaries and variable interest entity. All significant inter-company balances, transactions and cash flows are eliminated on consolidation.

Liquidity and Going Concern

As of December 31, 2016, the Company had current assets of \$14,477,322 and current liabilities of \$20,585,591 (including amounts due to related parties of \$573,697), resulting in a working capital deficit of approximately \$6,108,269. In addition, included in the current liabilities, there was an overdue amount of RMB 20,000,000 (US\$3,006,208) in respect of the sale-leaseback arrangement (the “Lease Financing Agreement”) with China National Foreign Trade Financial & Leasing Co., Ltd (“CNFTFL”). See “Financing with Sale-Leaseback” under Note (7), Loans Payable, for details. Therefore, there was a substantial doubt about the ability of the Company to continue as a going concern that it may be unable to realize its assets and discharge its liabilities in the normal course of business as of December 31, 2016.

On August 24, 2017, the Company has paid off the total outstanding amount, including overdue amount, in respect of the Lease Financing Agreement with CNFTFL. As of December 31, 2017, the working capital deficit decreased by

\$4,337,533 to \$1,770,736 compared to December 31, 2016. The management evaluated that there is no conditions or events, considered in aggregate, that may raise substantial doubt about the Company's ability to continue as a going concern as of December 31, 2017.

Foreign Currency Translation

The Company accounts for foreign currency translation pursuant to ASC Topic 830, *Foreign Currency Matters*. The functional currency of Orient Paper HB and Orient Paper Shengde is the Chinese Yuan Renminbi ("RMB"). Monetary assets and liabilities denominated in currencies other than RMB are translated into RMB at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than RMB are converted into RMB at the applicable rates of exchange prevailing the transactions occurred. Transaction gains and losses are recognized in the consolidated statements of income. The functional currency of Orient Paper and Shengde Holdings is United States dollars. Monetary assets and liabilities denominated in currencies other than United States dollars are translated into United States dollars at the rates of exchange ruling at the balance sheet date. Translation in currencies other than United States dollars are converted into United States dollars at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains or losses are recognized in the consolidated statement of income.

Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of December 31, 2017 and 2016 to translate the Chinese RMB to the U.S. Dollars are 6.5342:1, and 6.9370:1, respectively. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective years at 6.7423:1 and 6.6529:1 for the years ended December 31, 2017 and 2016, respectively. Translation adjustments are included in other comprehensive income (loss).

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2017 and 2016, and revenues and expenses for the years ended December 31, 2017 and 2016. The most significant estimates relate to allowance for uncollectible accounts receivable, inventory valuation, useful lives and impairment for property, plant and equipment, valuation allowance for deferred tax assets and contingencies. Actual results could differ from those estimates made by management.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Cash and Cash Equivalents*

For purposes of reporting within the statements of cash flows, Orient Paper considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

Trade accounts receivable are recorded on shipment of products to customers. The trade receivables are all without customer collateral and interest is not accrued on past due accounts. Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. Additionally, the Company may identify additional allowance requirements based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates. As of December 31, 2017 and 2016, the balance of allowance for doubtful accounts was \$37,626 and \$79,478, respectively; and the movement of the provision of the doubtful accounts is as below. While management uses the best information available upon which to base estimates, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used for the purposes of analysis.

| | December 31, 2017 | December 31, 2016 |
|---------------------------------------|----------------------|----------------------|
| Allowance of doubtful accounts | | |
| Opening balance | \$ 79,478 | \$ 38,865 |
| Provision (Reversal) for the year | (45,309) | 44,938 |
| Exchange difference | 3,457 | (4,325) |
| Closing balance | \$ 37,626 | \$ 79,478 |

Inventories

Inventories consist principally of raw materials and finished goods, and are stated at the lower of cost (average cost method) or market. Cost includes labor, raw materials, and allocated overhead. No provision in inventories has been provided for the years ended December 31, 2017 and 2016.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any impairment losses. Major renewals, betterments, and improvements are capitalized to the asset accounts while replacements, maintenance, and repairs, which do not improve or extend the lives of the respective assets, are expensed to operations. At the time property, plant, and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation or amortization accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to operations.

Construction-in-progress is stated at cost and capitalized as expenses are incurred or as payments are made pursuant to relevant construction contracts. Contract retention is recorded as accrued liability. Construction in progress is not depreciated until project completion and the constructed property being placed in service, at which time the capitalized balance will be transferred to appropriate account of property, plant and equipment.

The Company depreciates property, plant, and equipment using the straight-line method as follows:

| | |
|---------------------------|---------------------|
| Land use right | Over the lease term |
| Building and improvements | 30 years |
| Machinery and equipment | 5-15 years |
| Vehicles | 15 years |

Valuation of long-lived asset

The Company reviews the carrying value of long-lived assets to be held and used when events and circumstances warrants such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset and intangible assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets and intangible assets to be disposed are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statutory Reserves

According to the laws and regulations in the PRC, the Company is required to provide for certain statutory funds, namely, a reserve fund by an appropriation from net profit after taxation but before dividend distribution based on the local statutory financial statements of the PRC subsidiary and variable interest entity prepared in accordance with the PRC accounting principles and relevant financial regulations.

Each of the Company's wholly owned subsidiary and variable interest entity in the PRC are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital.

Appropriations of additional reserve fund are determined at the discretion of its directors. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

For the years ended December 31, 2017 and 2016, Orient Paper made transfers of \$nil to this reserve fund. As a result of net loss in fiscal year 2017 and 2016 of Orient Paper Shengde, no statutory reserves were provided for the year ended December 31, 2017 and 2016. The Company's variable interest entity Orient Paper HB, the statutory reserve account of which has been fully funded for 50% of its registered capital in the amount of RMB 75,030,000 (or approximately \$11,811,470) since December 31, 2010, did not make any transfer to statutory reserves during the years ended December 31, 2017 and 2016.

Employee Benefit Plan

Full time employees of the PRC entities participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance and other welfare benefits are provided to employees. The total provision for such employee benefits was \$nil for the years ended December 31, 2017 and 2016.

Revenue Recognition Policy

The Company recognizes revenue when goods are delivered, when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when customer's truck picks up goods at our finished goods inventory warehouse.

Shipping Cost

Substantially all customers use their own trucks or hire commercial trucking companies to pick up goods from the Company. The Company usually incurs no shipping cost for delivery of goods to customers. For those rare situations where products are not shipped utilizing customer specified shipping services, the Company charges customers a shipping fee which is included in net revenues and was not material. Freight-in and handling costs incurred by the Company with respect to purchased goods are recorded as a component of inventory cost and charged to cost of sales when the inventory items are sold.

Advertising

The Company expenses all advertising and promotion costs as incurred. The Company incurred \$nil of advertising and promotion costs for the years ended December 31, 2017 and 2016.

Research and development costs

Research and development costs are expensed as incurred and included in selling, general and administrative expenses. Research and development expenses incurred \$31,922 and \$21,598 for the years ended December 31, 2017 and 2016, respectively.

Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalized. All other borrowing costs are recognized in interest expenses in the period in which they are incurred.

Government subsidies

A government subsidy is not recognized until there is reasonable assurance that: (a) the enterprise will comply with the conditions attached to the grant; and (b) the grant will be received. When the Company received the government subsidies but the conditions attached to the grants have not been fulfilled, such government subsidies are deferred and recorded under other payables and accrued expenses, and other long-term liability. The classification of short-term or long-term liabilities is depended on the management's expectation of when the conditions attached to the grant can be fulfilled. For the years ended December 31, 2017 and 2016, the Company received government subsidies of \$41,529 and \$nil, which are recognized as subsidy income in the consolidated statements of income in that fiscal year.

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ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lease Obligations

All non-cancellable leases with an initial term greater than one year are categorized as either capital or operating leases. For the lessee, a lease is a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases. Assets recorded under capital leases are amortized according to the same depreciation methods employed for property, plant and equipment or over the term of the related lease, if shorter.

The Company defers any profit or loss from a sale-leaseback transaction unless any of the following conditions exist: a) the seller-lessee relinquishes the right to substantially all of the remaining use of the property sold retaining only a minor portion of such use; b) the seller-lessee retains more than a minor part but less than substantially all of the use of the property through the leaseback and realizes a profit on the sale in excess of the recorded amount of the leased assets; or c) the fair value of the property at the time of the transaction is less than its undepreciated cost, in which circumstance a loss shall be recognized immediately.

Income Taxes

The Company accounts for income taxes pursuant to ASC Topic 740, Income Taxes. Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Any tax paid by subsidiaries during the year is recorded. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. ASC Topic 740 also requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry-forwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Realization of deferred tax assets, including those related to the U.S. net operating loss carry-forwards, are dependent upon future earnings, if any, of which the timing and amount are uncertain.

The Company adopted ASC Topic 740-10-05, *Income Tax*, which provides guidance for recognizing and measuring uncertain tax positions, it prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions.

The Company's policy on classification of all interest and penalties related to unrecognized income tax positions, if any, is to present them as a component of income tax expense.

Value Added Tax

Both the PRC subsidiary and variable interest entity of the Company are subject to value added tax ("VAT") imposed by the PRC government on its purchase and sales of goods. The output VAT is charged to customers who purchase goods from the Company and the input VAT is paid when the Company purchases goods from its vendors. VAT rate is 17% in general, depending on the types of products purchased and sold. The input VAT can be offset against the output VAT. Debit balance of VAT payable represents a credit against future collection of output VAT instead of a receivable due from government.

Comprehensive Income (Loss)

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. The components of comprehensive income (loss) were the net income for the years and the foreign currency translation adjustments.

Earnings Per Share

Basic earnings per share is computed by dividing the net income attributable to the common stockholders by the weighted average number of shares of common stock 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 common shares had been issued and if the additional common shares were dilutive.

Share-Based Compensation

The Company uses the fair value recognition provision of ASC Topic 718, *Compensation-Stock Compensation*, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments over the vesting period.

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ORIENT PAPER, INC.

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The Company also applies the provisions of ASC Topic 505-50, *Equity Based Payments to Non-Employees* to account for stock-based compensation awards issued to non-employees for services. Such awards for services are recorded at either the fair value of the consideration received or the fair value of the instruments issued in exchange for such services, whichever is more reliably measurable.

Fair Value Measurements

The Company has adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

It establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts that the Company could realize in a current market exchange. As of December 31, 2017 and 2016, the carrying value of the Company's short term financial instruments, such as cash and bank balances, accounts receivable, accounts and notes payable, short-term bank loans and balance due to a related party, approximate at their fair values because of the short maturity of these instruments; while loans from credit union, loans from a related party and obligation under capital lease approximate at their fair value as the interest rates thereon are close to the market rates of interest published by the People's Bank of China.

The Company does not have any assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016.

Non-Recurring Fair Value Measurements

The Company reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate the possibility of impairment. For the continuing operations, long-lived assets are measured at fair value on a nonrecurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. For discontinued operations, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell. The fair value of these assets were determined using models with significant unobservable inputs which were classified as Level 3 inputs, primarily the discounted future cash flow.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(3) Restricted Cash**

Restricted cash of \$6,121,637 as of December 31, 2017 was presented for the cash deposited at the Bank of Cangzhou for purpose of securing the bank acceptance notes from these banks (see Note (9)). The restriction will be lifted upon the maturity of the notes payable on January 5, 2018.

Restricted cash of \$2,162,318 as of December 31, 2016 was presented for the cash deposited at the Bank of Hebei for purpose of securing the bank acceptance notes from these banks. The restriction has been lifted upon the maturity of the notes payable on February 1, 2017.

(4) Inventories

Raw materials inventory includes mainly recycled paper and coal. Finished goods include mainly products of corrugating medium paper and offset printing paper. Inventories consisted of the following as of and December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|------------------------------------|----------------------|----------------------|
| Raw Materials | | |
| Recycled paper board | \$ 6,337,374 | \$ 3,337,649 |
| Recycled white scrap paper | 862,734 | - |
| Recycled scrap binding margin | - | 547,803 |
| Coal & gas | 71,674 | 242,307 |
| Base paper and other raw materials | 216,655 | 265,464 |
| | 7,488,437 | 4,393,223 |
| Finished Goods | 985,728 | 1,238,807 |
| Totals | \$ 8,474,165 | \$ 5,632,030 |

(5) Prepayments and other current assets

Prepayments and other current assets consisted of the following as of December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|--------------------------------------|----------------------|----------------------|
| Prepaid land lease | \$ 459,123 | \$ 432,464 |
| Prepayment for purchase of materials | 183,649 | 4,325 |
| Others | 8,751 | 19,103 |
| | \$ 651,523 | \$ 455,892 |

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ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(6) Property, plant and equipment**

As of December 31, 2017 and 2016, property, plant and equipment consisted of the following:

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Property, Plant, and Equipment: | | |
| Land use rights | \$ 12,479,814 | \$ 11,755,168 |
| Building and improvements | 98,866,703 | 92,927,111 |
| Machinery and equipment | 118,670,578 | 123,932,336 |
| Vehicles | 593,265 | 590,619 |
| Construction in progress | 36,077,498 | 25,084,416 |
| Totals | 266,687,858 | 254,289,650 |
| Less: accumulated depreciation and amortization | (77,299,149) | (66,599,770) |
| Property, Plant and Equipment, net | \$ 189,388,709 | \$ 187,689,880 |

As of December 31, 2017 and December 31, 2016, land use rights represented two parcel of state-owned lands located in Xushui County of Hebei Province in China, with lease terms of 50 years expiring from 2061 to 2066.

The Company entered into a sale-leaseback arrangement with a leasing company in China on June 16, 2013 for a total financing proceeds in the amount of RMB 150 million (approximately US\$23 million). Under the sale-leaseback arrangement, Orient Paper HB sold certain of its paper manufacturing equipment to the leasing company for an amount of RMB 150 million (approximately US\$23 million). Concurrent with the sale of equipment, Orient Paper HB leases back all of the equipment ("Leased Equipment") sold to the leasing company for a lease term of three years. At the end of the lease term, Orient Paper HB may pay a nominal purchase price of RMB 15,000 (approximately \$2,296) to the leasing company and buy back all of the Leased Equipment. The sale-leaseback was treated by the Company as a mere financing and capital lease transaction, rather than a sale of assets (under which gain or loss is immediately recognized) under ASC 840-40-25-4. All of the Leased Equipment was included as part of the property, plant and equipment of the Company during the lease period. As a result of the sale, a deferred gain on sale of Leased Equipment in the amount of \$1,379,282 was created at the closing of the transaction and presented as a non-current liability. The deferred gain has been amortized by the Company during the lease term and used to offset the depreciation of the Leased Equipment. See "Financing with Sale-Leaseback" under Note (7), Loans Payable, for details of the transaction and asset collaterals.

On July 1, 2015, Orient Paper HB, China Orient, and other guarantors of Lease Financing Agreement, entered into the 2015 Agreement, to amend and restate the Lease Financing Agreement entered into in 2013. The 2015 Agreement sets forth a modified and extended payment schedule with respect to the remaining payment obligation, with the final repayment date extended to June 21, 2017. In accordance with ASC 840-30-35, the present balances of the capital lease assets and obligations under capital lease were adjusted by an amount equal to the difference between the present value of the future minimum lease payments under the revised agreement (computed using the interest rate used to recognize the lease initially) and the present balance of the obligation, which was approximately \$1,617,574 at the date of the 2015 Agreement. As a result, the capital lease asset cost was recorded at the new cost of \$27,599,774 at the date of the 2015 Agreement.

On August 24, 2017, the Company made a final payment on outstanding obligations and bought back all of the Lease Equipment at nominal price according to the agreement. The lease assets were reclassified as own assets and capital lease cost were \$nil and \$24,328,940 as of December 31, 2017 and December 31, 2016, respectively.

Construction in progress mainly represents payments for the new 15,000 tonnes per year tissue paper manufacturing equipment PM8, the tissue paper workshops and general infrastructure and administrative facilities in the Wei County Industrial Park. The tissue paper development project at the Wei County Industrial Park is expected to be completed in 2018. For the years ended December 31, 2017 and 2016, the amount of interest capitalized is \$9,833 and \$53,535, respectively.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2017 and 2016, certain property, plant and equipment of Orient Paper HB with net values of \$7,963,285 and \$9,813,294, respectively, have been pledged pursuant to a long-term loan from credit union of Orient Paper HB. In addition, land use right of Orient Paper HB with net values of \$6,437,419 and \$nil as of December 31, 2017 and 2016 were pledged for the bank loan from Bank of Industrial & Commercial Bank of China. See "Short-term bank loans" under Note (7), Loans Payable, for details of the transaction and asset collaterals.

As of December 31, 2017 and 2016, land use right with net values of \$nil and \$6,200,401 was pledged for the saleleaseback financing. In addition, production equipment of Orient Paper Shengde with net value of \$nil and \$23,654,125 as of December 31, 2017 and 2016 has been pledged for the guarantee of Orient Paper HB's performance under the capital lease. See "Financing with Sale-Leaseback" under Note (8), Loans Payable, for details of the transaction and asset collaterals.

Depreciation and amortization of property, plant and equipment was \$14,633,780 and \$15,287,509 for the years ended December 31, 2017 and 2016, respectively.

(7) Loans Payable*Short-term bank loans*

| | | December 31, 2017 | December 31, 2016 |
|---|-----|----------------------|----------------------|
| Bank of Hebei | (a) | \$ - | \$ 2,162,318 |
| Industrial and Commercial Bank of China ("ICBC") Loan 1 | (b) | - | 2,883,091 |
| ICBC Loan 2 | (c) | 4,285,145 | - |
| ICBC Loan 3 | (d) | 2,907,778 | - |
| Total short-term bank loans | | \$ 7,192,923 | \$ 5,045,409 |

(a) On July 8, 2016, the Company entered into a working capital loan agreement with the Bank of Hebei, with a balance of \$2,162,318 as of December 31, 2016. The loan bears a fixed interest rate of 5.22% per annum. The

working capital loan is guaranteed by the Company's CEO and Hebei Tengsheng with its land use right and real property pledged by Hebei Tengsheng as collateral for the benefit of the bank. The loan was due and repaid on July 6, 2017.

(b) On September 13, 2016, the Company entered into a working capital loan agreement with ICBC, with a balance of \$2,883,091 as of December 31, 2016. The loan bears a fixed interest rate of 4.5675% per annum. The working capital loan was guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. The loan was due and repaid on September 7, 2017.

(c) On January 10, 2017, the Company entered into a working capital loan agreement with the ICBC, with a balance of \$4,285,145 as of December 31, 2017. The working capital loan is guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. The loan bears a fixed interest rate of 4.5675% per annum. The loan was due and repaid on January 8, 2018.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On October 18, 2017, the Company entered into a working capital loan agreement with the ICBC, with a balance of \$2,907,778 as of December 31, 2017. The working capital loan is secured by the Company's land use right as (d) collateral for the benefit of the bank. The loan bears a fixed interest rate of 4.945% per annum. The loan will be due on October 12, 2018.

As of December 31, 2017, there were guaranteed short-term borrowings of \$7,192,923 and unsecured bank loans of \$nil. As of December 31, 2016, there were guaranteed short-term borrowings of \$5,045,409 and unsecured bank loans of \$nil.

The average short-term borrowing rates for the years ended December 31, 2017 and 2016 were approximately 5.27% and 8.05%, respectively.

Long-term loans from credit union

As of December 31, 2017 and 2016, loans payable to Rural Credit Union of Xushui County, amounted to \$7,560,221 and \$4,843,592, respectively.

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Rural Credit Union of Xushui County Loan 1 | \$ 1,316,152 | \$ 1,239,729 |
| Rural Credit Union of Xushui County Loan 2 | 3,826,022 | 3,603,863 |
| Rural Credit Union of Xushui County Loan 3 | 2,418,047 | - |
| Total | 7,560,221 | 4,843,592 |
| Less: Current portion of long-term loans from credit union | (6,366,502) | - |
| Long-term loans from credit union | \$ 1,193,719 | \$ 4,843,592 |

As of December 31, 2017, the Company's long-term debt repayments for the next five years were as follows:

| | Amount |
|-------------|-------------|
| Fiscal year | |
| 2018 | \$6,366,502 |
| 2019 | 1,193,719 |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| Total | 7,560,221 |

On April 16, 2014, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 5 years, which is payable in various installments from June 21, 2014 to November 18, 2018. The loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.72% per month. In August 2015, after giving the required notice to the Rural Credit Union of Xushui County in accordance with the terms on the agreement, the Company prepaid a portion of the loan in an amount of \$191,301, of which \$68,868 was paid ahead of its original repayment schedule. As of December 31, 2017 and 2016, total outstanding loan balance was \$1,316,152 and \$1,239,729, respectively. Out of the total outstanding loan balance, current portion amounted were \$1,316,152 and \$nil as of December 31, 2017 and December 31, 2016, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$nil and \$1,239,729 are presented as non-current liabilities in the consolidated balance sheet as of December 31, 2017 and December 31, 2016 respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On July 15, 2013, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 5 years, which is due and payable in various installments from December 21, 2013 to July 26, 2018. The loan is secured by certain of the Company's manufacturing equipment with net book value of \$8,186,436 and \$9,813,294 as of December 31, 2017 and December 31, 2016, respectively. Interest payment is due quarterly and bears a fixed rate of 0.72% per month. In August 2015, after giving the required notice to the Rural Credit Union of Xushui County in accordance with the terms on the agreement, the Company prepaid a portion of the loan in an amount of \$198,953, of which \$61,216 was paid ahead of its original repayment schedule. As of December 31, 2017 and 2016, the total outstanding loan balance was \$3,826,022 and \$3,603,863, respectively. Out of the total outstanding loan balance, current portion amounted were \$3,826,022 and \$nil as of December 31, 2017 and December 31, 2016, respectively, which are presented as current liabilities in the consolidated balance sheet and the remaining balance of \$nil and \$3,603,863 are presented as non-current liabilities in the consolidated balance sheet as of December 31, 2017 and December 31, 2016 respectively.

On April 20, 2017, the Company entered into a loan agreement with the Rural Credit Union of Xushui County for a term of 2 years, which is due and payable in various installments from August 26, 2017 to April 19, 2019. The loan is guaranteed by Hebei Tengsheng with its land use right pledged as collateral for the benefit of the bank. Interest payment is due quarterly and bears a fixed rate of 0.6% per month. As of December 31, 2017 the total outstanding loan balance was \$2,418,047, out of which \$1,224,328 and \$1,193,719 are presented as current and non-current liabilities in the consolidated balance sheet respectively.

Total interest expenses for the short-term bank loans and long-term loans for the years ended December 31, 2017 and 2016 were \$1,196,814 and \$1,411,731, respectively.

Financing with Sale-Leaseback

The Company entered into a sale-leaseback arrangement (the "Lease Financing Agreement") with CNFTFL on June 16, 2013, for a total financing proceeds in the amount of RMB 150 million (approximately US\$23 million). Under the sale-leaseback arrangement, Orient Paper HB sold the Leased Equipment to CNFTFL for RMB 150 million (approximately US\$23 million). Concurrent with the sale of equipment, Orient Paper HB leases back all of the equipment sold to CNFTFL for a lease term of three years. At the end of the lease term, Orient Paper HB may pay a nominal purchase price of RMB 15,000 (approximately \$2,296) to CNFTFL and buy back all of the Leased Equipment. The sale-leaseback was treated by the Company as a mere financing and capital lease transaction, rather than a sale of assets (under which gain or loss is immediately recognized) under ASC 840-40-25-4. All of the Leased

Equipment were included as part of the property, plant and equipment of the Company for the periods presented; while the net present value of the minimum lease payment (including a lease service charge equal to 5.55% of the amount financed, i.e. approximately US\$1.36 million) was recorded as obligations under capital lease and was calculated with CNFTFL's implicit interest rate of 6.15% per annum and stated at \$25,750,170 at the inception of the lease on June 16, 2013.

Orient Paper HB made all payments due according to the schedule prior to December 15, 2014. On December 15, 2014, Orient Paper HB stopped making principal payments and entered into negotiations with the CNFTFL regarding a modified payment schedule for the remaining obligations. On July 1, 2015, Orient Paper HB, China Orient, and other guarantors of Lease Financing Agreement, entered into an agreement (the "2015 Agreement"), to amend and restate the Lease Financing Agreement entered into in 2013 (the "2013 Agreement"). The 2015 Agreement sets forth a modified and extended payment schedule with respect to the remaining payment obligation, with the final repayment date extended to June 21, 2017. Under the 2015 Agreement, the interest accrues at a rate of 15% per annum starting on June 16, 2015, and is payable on the 20th of every March, June, September and December until the principal is paid off, except for the first payment, which is due on July 31, 2015. Orient Paper HB made all payments due according to the modified schedule prior to June 20, 2016. Orient Paper HB made partial payments in the following payment obligations as well as interests on overdue balance in accordance with the 2015 Agreement until August 24, 2017, when the remaining overdue amount was fully paid off. All the Lease Equipment was bought back at the nominal price according to the agreement. The balance of the long-term obligations under capital lease were \$nil as of December 31, 2017 and 2016, and its current portion in the amount of \$nil and \$8,786,528, respectively.

Total interest expenses for the sale-leaseback arrangement for the years ended December 31, 2017 and 2016 were \$795,163 and \$749,867, respectively.

As a result of the sale and leaseback of equipment on June 16, 2013, a deferred gain in the amount of \$1,379,282 was recorded. The deferred gain was amortized over the lease term and as an offset to depreciation of the Leased Equipment. In term of the extension of the new payment schedule, the deferred gain was amortized over the remaining lease term up to June 21, 2017.

ORIENT PAPER, INC.

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(8) Related Party Transactions

The Company's CEO has loaned money to Orient Paper HB for working capital purposes over a period of time. On January 1, 2013, Orient Paper HB and Mr. Zhenyong Liu renewed the three-year term loan previously entered on January 1, 2010, and extended the maturity date further to December 31, 2015. On December 31, 2015, the Company paid off the loan of \$2,249,279, together with interest of \$391,374 for the period from 2013 to 2015. Approximately \$392,296 and \$369,517 of interest were outstanding to Mr. Zhenyong Liu, which were recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet as of December 31, 2017 and 2016, respectively.

On December 10, 2014, Mr. Zhenyong Liu provided a loan to the Company, amounted to \$9,182,455 and \$8,649,272 as of December 31, 2017 and 2016, to Orient Paper HB for working capital purpose with an interest rate of 4.35% per annum, which was based on the primary lending rate of People's Bank of China. The unsecured loan was provided on December 10, 2014, and would be originally due on December 10, 2017. During the year of 2016, the Company repaid \$6,012,416 to Mr. Zhenyong Liu, together with interest of \$288,596. Mr. Zhenyong Liu agreed to extend the loan for additional 3 years and the remaining balance will be due on December 2, 2020. As of December 31, 2017 and 2016, the outstanding loan balance was \$3,060,818 and \$2,883,090, respectively and the accrued interest was \$45,912 and \$43,246, respectively, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

On March 1, 2015, the Company entered an agreement with Mr. Zhenyong Liu which allows Orient Paper HB to borrow from the CEO an amount up to \$18,364,911 (RMB120,000,000) for working capital purposes. The advances or funding under the agreement are due three years from the date each amount is funded. The loan is unsecured and carries an annual interest rate set on the basis of the primary lending rate of the People's Bank of China at the time of the borrowing. On July 13, 2015, an unsecured amount of \$4,324,636 was drawn from the facility. On October 14, 2016 an unsecured amount of \$2,883,091 was drawn from the facility. The loan would be originally due on July 12, 2018. Mr. Zhenyong Liu agreed to extend the loan for additional 3 years and the remaining balance will be due on July 12, 2021. As of December 31, 2017 and 2016, the outstanding loan balance were \$7,652,047 and \$7,207,727, respectively and the accrued interest was \$110,476 and \$104,062, respectively, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet.

As of December 31, 2017 and 2016, total amount of loans due to Mr. Zhenyong Liu were \$10,712,865 and \$10,090,817, respectively. The interest expense incurred for such related party loans are \$451,626 and \$513,084 for

the years ended December 31, 2017 and 2016, respectively. The accrued interest owe to the CEO was approximately \$548,684 and \$516,825, as of December 31, 2017 and December 31, 2016, respectively, which was recorded in other payables and accrued liabilities.

During the years ended December 31, 2017 and 2016, the Company borrowed \$nil and \$14,000, respectively, from a shareholder to pay for various expenses incurred in the U.S. The amount was due on demand with interest free. The Company repaid the entire balance by December 31, 2017.

Sale of Headquarters Compound Real Properties to a Related Party

On August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the land use right of the Headquarters Compound (the "LUR"), the office building and essentially all industrial-use buildings in the Headquarters Compound (the "Industrial Buildings"), and three employee dormitory buildings located within the Headquarters Compound (the "Dormitories") to Hebei Fangsheng for cash prices of approximately \$2.77 million, \$1.15 million, and \$4.31 million respectively. Sales of the LUR and the Industrial Buildings were completed in year 2013.

In connection with the sale of the Industrial Buildings, Hebei Fangsheng agreed to lease the Industrial Buildings back to the Company for its original use for a term of up to three years, with an annual rental payment of approximately \$148,317 (RMB1,000,000). The lease agreement expired in August 2016. On August 9, 2016, the Company paid off the rental for the first lease agreement and entered into a supplementary agreement with Hebei Fangsheng, who agreed to extend the lease term for another two years, with the same rental payment as original lease agreement.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(9) Notes payable**

As of December 31, 2017, the Company had bank acceptance notes of \$6,121,637 from the Bank of Cangzhou to one of its major suppliers for settling purchase of raw materials. The acceptance notes are used to essentially extend the payment of accounts payable and are issued under the banking facilities obtained from bank as well as the restricted bank deposit of \$6,121,637 in the bank as mentioned in Note (3). The bank acceptance notes from the bank bore interest rate at nil% per annum and 0.05% of notes amount as handling charge. The acceptance notes were due and paid off in January 2018.

As of December 31, 2016, the Company had bank acceptance notes of \$2,162,318 from the Bank of Hebei to one of its major suppliers for settling purchases of raw materials. The acceptance notes are used to essentially extend the payment of accounts payable and are issued under the banking facilities obtained from bank as well as the restricted bank deposit of \$2,162,318 in the bank as mentioned in Note (3). The bank acceptance notes from the bank bore interest rate at nil% per annum and 0.05% of notes amount as handling charge. The acceptance note was repaid in February 2017.

(10) Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|-------------------------|-------------------------|
| Accrued electricity | \$2,862 | \$335,169 |
| Value-added tax payable | 196,395 | 1,080,055 |
| Accrued interest to a related party | 548,684 | 516,825 |
| Payable for purchase of equipment | 49,585 | 223,143 |
| Accrued commission to salesmen | 16,992 | 160,014 |
| Others | 21,819 | 109,572 |
| Totals | \$836,337 | \$2,424,778 |

(11) Common Stock

Issuance of common stock to investors

On August 27, 2014, the Company issued 1,562,500 shares of our common stock and warrants to purchase up to 781,250 shares of our common stock (the “Offering”). Each share of common stock and accompanying warrant was sold at a price of \$1.60. Please refer to Note (12), Stock Warrants, for details.

Issuance of common stock pursuant to the 2012 Incentive Stock Plan and 2015 Omnibus Equity Incentive

On January 12, 2016, the Company granted an aggregate of 1,133,916 shares of common stock under its compensatory incentive plans to nine officers, directors and employees of and a consultant when the stock was at \$1.25 per share, as compensation for their services in the past years, of which 168,416 shares of common stock were granted under the 2012 Incentive Stock Plan and 965,500 shares were granted under the 2015 Omnibus Equity Incentive. Please see Note (15), Stock Incentive Plans for more details. Total fair value of the stock was calculated at \$1,417,395 as of the date of grant.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Stock warrants

On August 27, 2014, the Company issued 1,562,500 shares of our common stock and warrants to purchase up to 781,250 shares of our common stock. The warrants have an exercise price of \$1.70 per share. These warrants are exercisable immediately upon issuance on September 3, 2014 and have a term of exercise equal to five years from the date of issuance till September 2, 2019. The fair value of these shares amounted to \$780,000, is classified as equity at the date of issuance.

The fair value of the warrants issued was estimated by using the Binominal pricing model with the following assumptions:

| | |
|-------------------------|------------|
| Terms of warrants | 5 years |
| Expected volatility | 72.0 % |
| Risk-free interest rate | 1.69 % |
| Expected dividend yield | 0.81 % |

In connection with the Offering, the Company issued warrants to its placement agent of this Offering, which can purchase an aggregate of up to 2.50% of the aggregate number of shares of common stock sold in the Offering, i.e. 39,062 shares. These warrants have substantially the same terms as the warrants issued to purchaser in the Offering, except that the exercise price is \$2.00 per share and the expiration date is from September 3, 2014 to June 26, 2019. The fair value of these shares amounted to \$35,191, is classified in the equity at the date of issuance to net off the proceeds from the issuance of the shares and warrants.

The fair value of the warrants issued was estimated by using the Binominal pricing model with the following assumptions:

| | |
|---------------------|---------------|
| Terms of warrants | 4.81 years |
| Expected volatility | 69.8 % |

Risk-free interest rate 1.62 %
 Expected dividend yield 0.81 %

The Company applied judgment in estimating key assumptions in determining the fair value of the warrants on the date of issuance. The Company used historical data to estimate stock volatilities and expected dividend yield. The risk-free rates are consistent with the terms of the warrants and are based on the United States Treasury yield curve in effect at the time of issuance.

A summary of stock warrant activities is as below:

| | December 31, 2017 | | December 31, 2016 | |
|--|--------------------------|--|--------------------------|--|
| | Number | Weight average exercise price | Number | Weight average exercise price |
| Outstanding and exercisable at beginning of the year | 820,312 | \$ 1.71 | 820,312 | \$ 1.71 |
| Issued during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Cancelled or expired during the year | - | - | - | - |
| Outstanding and exercisable at end of the year | 820,312 | \$ 1.71 | 820,312 | \$ 1.71 |
| Range of exercise price | \$ 1.70 to \$2.00 | | \$ 1.70 to \$2.00 | |

No warrants were issued, exercised, cancelled or expired during the years ended December 31, 2017 and 2016. As of December 31, 2017 and 2016, the aggregated intrinsic value of warrants outstanding and exercisable was \$nil.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(13) Earnings Per Share**

For the years ended December 31, 2017 and 2016, basic and diluted net income per share are calculated as follows:

| | Year Ended December 31, | |
|---|----------------------------|-------------|
| | 2017 | 2016 |
| Basic income per share | | |
| Net income for the period - numerator | \$1,659,788 | \$7,312,976 |
| Weighted average common stock outstanding - denominator | 21,450,316 | 21,416,143 |
| Net income per share | \$0.08 | \$0.34 |
| Diluted income per share | | |
| Net income for the period- numerator | \$1,659,788 | \$7,312,976 |
| Weighted average common stock outstanding - denominator | 21,450,316 | 21,416,143 |
| Effect of dilution | - | - |
| Weighted average common stock outstanding - denominator | 21,450,316 | 21,416,143 |
| Diluted income per share | \$0.08 | \$0.34 |

For the years ended December 31, 2017 and 2016, 820,312 shares related to warrants are excluded from the calculations of dilutive net income per share as their effects would have been anti-dilutive since the average share price for the years ended December 31, 2017 and 2016 were lower than the warrants exercise price.

(14) Income Taxes

United States

Orient Paper and Shengde Holdings are incorporated in the State of Nevada and are subject to the U.S. federal tax and state statutory tax rates up to 34% and 0%, respectively. On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "2017 TCJAAct"), which significantly changed U.S. tax law. The Act 2017 TCJA lowered the Company's U.S. statutory federal income tax rate from the highest rate of 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income which requires companies to pay a one-time transition tax on previously unremitted earnings of non-U.S. subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The SEC staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for enactment effects of the 2017 TCJA. SAB 118 provides a measurement period of up to one year from the 2017 TCJA's enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the 2017 TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the 2017 TCJA.

In connection with the Company's initial analysis of the impact of the enactment of the 2017 TCJA, the Company recorded a net tax expense of approximately \$80,000 in the fourth quarter of 2017. For various reasons that are discussed more fully below, including the issuance of additional technical and interpretive guidance, the Company has not completed its accounting for the income tax effects of certain elements of the 2017 TCJA. However, with respect to the following, the Company was able to make reasonable estimates of the 2017 TCJA's effects and, as such, recorded provisional amounts:

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Transition tax: The transition tax is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of the Company's non-U.S. subsidiaries. To determine the amount of the transition tax, the Company must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. The Company was able to make a reasonable estimate of the transition tax and recorded a provisional obligation and additional income tax expense of approximately \$80,000 in the fourth quarter of 2017. However, the Company is continuing to gather additional information and will consider additional technical guidance to more precisely compute and account for the amount of the transition tax. This amount may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. The 2017 TCJA's transition tax is payable over eight years beginning in 2018. Hence, the Company only provided \$6,528 for the year ended 31 December 2017.

PRC

Orient Paper HB and Orient Paper Shengde are PRC operating companies and are subject to PRC Enterprise Income Tax. Pursuant to the PRC New Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.

The provisions for income taxes for the years ended December 31, 2017 and 2016 were as follows:

| | Year Ended December 31, | |
|----------------------------------|----------------------------|-------------|
| | 2017 | 2016 |
| Provision for Income Taxes | | |
| Current Tax Provision U.S. | \$6,528 | \$- |
| Current Tax Provision PRC | 3,519,311 | 5,074,066 |
| Deferred Tax Provision PRC | (2,863,011) | (1,959,494) |
| Total Provision for Income Taxes | \$662,828 | \$3,114,572 |

In addition to the reversible future PRC income tax benefits stemming from the timing differences of items such as recognition of asset disposal gain or loss and asset depreciation, Orient Paper, Inc. was incorporated in the United

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States and has incurred aggregate net operating losses of approximately \$nil and \$6,710,939 for U.S. income tax purposes for the years ended December 31, 2017 and 2016, respectively. The net operating loss carried forward may be available to reduce future years' taxable income. These carry forwards would expire, if not utilized, during the period of 2030 through 2035. As of December 31, 2016, management believes that the realization of all the U.S. income tax benefits from these losses, which generally would generate a deferred tax asset if it can be expected to be utilized in the future, appears not more than likely due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, As of December 31, 2016, the Company has provided a 100% valuation allowance on the U.S. deferred tax asset benefit to reduce the total deferred tax asset to the amount realizable for the PRC income tax purposes. Management reviews this valuation allowance periodically and will make adjustments as warranted. A summary of the otherwise deductible (or taxable) deferred tax items is as follows:

| | December 31, | |
|--|--------------|-------------|
| | 2017 | 2016 |
| Deferred tax assets (liabilities) | | |
| Depreciation and amortization of property, plant and equipment | \$5,123,762 | \$2,766,595 |
| Impairment of property, plant and equipment | 440,080 | 372,514 |
| Miscellaneous | 712,517 | (21,472) |
| Net operating loss carryover of PRC company | 296,200 | 147,204 |
| Net operating loss carryover for U.S. income tax purposes | - | 2,949,287 |
| Total deferred tax assets | 6,572,559 | 6,214,128 |
| Less: Valuation allowance | - | (2,949,287) |
| Total deferred tax assets, net | \$6,572,559 | \$3,264,841 |

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ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

| | Year ended December 31, | |
|--|----------------------------|--------|
| | 2017 | 2016 |
| PRC Statutory rate | 25.0 % | 25.0 % |
| Effect of the U.S. Transition Tax under the 2017 TCJA | 8.6 | - |
| Effect of different tax jurisdiction | (0.8) | (1.7) |
| Effect of expenses not deductible for PRC tax purposes | (6.2) | 0.1 |
| Effect of income not taxable for PRC tax purposes | - | - |
| (Over) Underprovision in previous year | (1.1) | 0.1 |
| Change in valuation allowance | 3.0 | 6.4 |
| Effective income tax rate | 28.5 % | 29.9 % |

As of December 31, 2017, except for the one-time transition tax under the 2017 TCJA which imposes a U.S. tax liability on all unrepatriated foreign E&Ps, the Company does not believe that its future dividend policy and the available U.S. tax deductions and net operating losses will cause the Company to recognize any other substantial current U.S. federal or state corporate income tax liability in the near future. Nor does it believe that the amount of the repatriation of the VIE's earnings and profits for purposes of paying dividends will change the Company's position that its PRC subsidiary Orient Paper Shengde and the VIE, Orient Paper HB are considered or are expected to be indefinitely reinvested offshore to support our future capacity expansion. If these earnings are repatriated to the U.S. resulting in U.S. taxable income in the future, or if it is determined that such earnings are to be remitted in the foreseeable future, additional tax provisions would be required.

During the years ended December 31, 2017 and 2016, the effective income tax rate was estimated by the Company to be 28.5% and 29.9%, respectively.

The Company has adopted ASC Topic 740-10-05, Income Taxes. To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. The Company performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given

quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2017 and 2016, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the years ended December 31, 2017 and 2016, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

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ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Stock Incentive Plans

Issuance of common stock pursuant to the 2011 Incentive Stock Plan and 2012 Incentive Stock Plan

On August 28, 2011, the Company's Annual General Meeting approved the 2011 Incentive Stock Plan of Orient Paper, Inc. (the "2011 ISP") as previously adopted by the Board of Directors on July 5, 2011. Under the 2011 ISP, the Company may grant an aggregate of 375,000 shares of the Company's common stock to the Company's directors, officers, employees or consultants. No stock or option was issued under the 2011 ISP until January 2, 2012, when the Compensation Committee granted 109,584 shares of restricted common stock to certain officers and directors of the Company when the stock was at \$3.45 per share, as compensation for their services in the past years. Total fair value of the stock was calculated at \$378,065 as of the date of issuance.

On September 10, 2012, the Company's Annual General Meeting approved the 2012 Incentive Stock Plan of Orient Paper, Inc. (the "2012 ISP") as previously adopted by the Board of Directors on July 4, 2012. Under the 2012 ISP, the Company may grant an aggregate of 200,000 shares of the Company's common stock to the Company's directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Non-statutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2012 ISP's administration. On December 31, 2013, the Compensation Committee granted restricted common shares of 297,000, out of which 265,416 shares were granted under the 2011 ISP and 31,584 shares under the 2012 ISP, to certain officers, directors and employees of the Company when the stock was at \$2.66 per share, as compensation for their services in the past years. Total fair value of the stock was calculated at \$790,020 as of the date of grant.

2015 Incentive Plan

On August 29, 2015, the Company's Annual General Meeting approved the 2015 Omnibus Equity Incentive Plan of Orient Paper, Inc. (the "2015 ISP") as previously adopted by the Board of Directors on July 10, 2015. Under the 2015 ISP, the Company may grant an aggregate of 1,500,000 shares of the Company's common stock to the directors, officers, employees and/or consultants of the Company and its subsidiaries. On January 12, 2016, the Compensation

Committee granted un-restricted common shares of 1,133,916, of which 168,416 shares were granted under the 2012 ISP and 965,500 shares under the 2015 ISP, to certain officers, directors, employees and a consultant of the Company as compensation for their services in the past years. Total fair value of the stock was calculated at \$1,417,395 as of the date of issuance at \$1.25 per share.

(16) Commitments and Contingencies

Operating Lease

Orient Paper leases 32.95 acres of land from a local government in Xushui County, Baoding City, Hebei, China through a real estate lease with a 30-year term, which expires on December 31, 2031. The lease requires an annual rental payment of approximately \$17,798 (RMB 120,000). This operating lease is renewable at the end of the 30-year term.

On November 27, 2012, Orient Paper entered into a 49.4 acres land lease with an investment company in the Economic Development Zone in Wei County, Hebei Province, China. The lease term of the Wei County land lease commences on the date of the lease and lasts for 15 years. The lease requires an annual rental payment of \$533,942 (RMB 3,600,000). The Company is currently building two new tissue paper production lines and future production facilities in the leased Wei County land.

As mentioned in Note (8) Related Party Transactions, in connection with the sale of Industrial Buildings to Hebei Fangsheng, Hebei Fangsheng agrees to lease the Industrial Buildings back to Orient Paper at an annual rental of \$148,317 (RMB 1,000,000), for a total term of up to five years.

Future minimum lease payments are as follows:

| December 31, | Amount |
|--------------------------------|-------------|
| 2018 | 658,586 |
| 2019 | 569,312 |
| 2020 | 569,312 |
| 2021 | 569,312 |
| 2022 | 569,312 |
| Thereafter | 2,414,986 |
| Total operating lease payments | \$5,350,820 |

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital commitment

As of December 31, 2017, the Company has signed several contracts for construction of equipment and facilities, including a new tissue paper production line PM8. Total outstanding commitments under these contracts were \$11,227,896 and \$13,921,168 as of December 31, 2017 and 2016, respectively. The Company expected to pay off all the balances within 1 year.

Guarantees and Indemnities

The Company agreed with Baoding Huanrun Trading Co. (formerly known as Dongfang Trading Co.), a major supplier of raw materials, to guarantee certain obligations of this third party, and as of December 31, 2017 and December 31, 2016, the Company guaranteed its long-term loan from financial institutions amounting to \$8,570,292 (RMB56,000,000) and \$8,072,654 (RMB56,000,000) that matured at various times in 2018. If Huanrun Trading Co., were to become insolvent, the Company could be materially adversely affected.

(17) Segment Reporting

Since March 10, 2010, Orient Paper Shengde started its operations and thereafter the Company manages its operations through two business operating segments: Orient Paper HB, which produces offset printing paper and corrugating medium paper, and Orient Paper Shengde, which produces digital photo paper. They are managed separately because each business requires different technology and marketing strategies.

The Company evaluates performance of its operating segments based on net income. Administrative functions such as finance, treasury, and information systems are centralized. However, where applicable, portions of the administrative function expenses are allocated between the operating segments based on gross revenue generated. The operating segments do share facilities in Xushui County, Baoding City, Hebei Province, China. All sales were sold to customers located in the PRC.

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Summarized financial information for the two reportable segments is as follows:

| | Year Ended December 31, 2017 | | | | |
|---|---------------------------------|-------------------------------------|---|---|--|
| | Orient Paper HB | Orient Paper Shengde | Not Attributable to Segments | Elimination of Inter-segment | Enterprise-wide, consolidated |
| Revenues | \$ 117,023,578 | \$ - | \$ - | \$ - | \$ 117,023,578 |
| Gross profit | 19,955,951 | - | - | - | 19,955,951 |
| Depreciation and amortization | 13,719,661 | 914,119 | - | - | 14,633,780 |
| Loss from impairment and disposal of property, plant and equipment | 1,896,320 | 2,071,969 | - | - | 3,968,289 |
| Interest income | 29,565 | 5,025 | - | - | 34,590 |
| Interest expense | 2,320,147 | 113,623 | - | - | 2,433,770 |
| Income tax expense(benefit) | 1,544,069 | (887,769) | 6,528 | - | 662,828 |
| Net income (loss) | 4,746,326 | (2,293,731) | (792,807) | - | 1,659,788 |
| Total Assets | 192,620,887 | 26,363,435 | 5,159 | - | 218,989,481 |

| | Year Ended December 31, 2016 | | | | |
|--|---------------------------------|-------------------------------------|---|---|--|
| | Orient Paper HB | Orient Paper Shengde | Not Attributable to Segments | Elimination of Inter-segment | Enterprise-wide, consolidated |
| Revenues | \$ 134,087,266 | \$ 657,334 | \$ - | \$ - | \$ 134,744,600 |
| Gross profit (loss) | 25,918,026 | (386,143) | - | - | 25,531,883 |
| Depreciation and amortization | 14,360,363 | 927,146 | - | - | 15,287,509 |
| Loss from disposal of property, plant and equipment | 178,306 | - | - | - | 178,306 |
| Interest income | 95,915 | 1,061 | - | - | 96,976 |
| Interest expense | 2,621,147 | - | - | - | 2,621,147 |
| Income tax expense(benefit) | 3,339,041 | (224,469) | - | - | 3,114,572 |
| Net income (loss) | 9,999,297 | (722,883) | (1,963,438) | - | 7,312,976 |
| Total assets | 179,689,131 | 28,687,027 | 1,460 | - | 208,377,618 |

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(18) Concentration and Major Customers and Suppliers

For the years ended December 31, 2017 and 2016, the Company had no single customer contributed over 10% of total sales. For the year ended December 31, 2017, the Company had two major suppliers that accounted for 69% and 8% of total purchases by the Company.

For the year ended December 31, 2016, the Company had two major suppliers that accounted for 62% and 8% of its total purchases.

(19) Concentration of Credit Risk

Financial instruments for which the Company is potentially subject to concentration of credit risk consist principally of cash. The Company places its cash in reputable financial institutions in the PRC and the United States. Although it is generally understood that the PRC central government stands behind all of the banks in China in the event of bank failure, there is no deposit insurance system in China that is similar to the protection provided by the Federal Deposit Insurance Corporation ("FDIC") of the United States as of December 31, 2017 and December 31, 2016. On May 1, 2015, the new "Deposit Insurance Regulations" was effective in the PRC that the maximum protection would be up to RMB500,000 (US\$76,520) per depositor per insured financial institution, including both principal and interest. For the cash placed in financial institutions in the United States, the Company's U.S. bank accounts are all fully covered by the FDIC insurance as of December 31, 2017 and 2016, respectively, while for the cash placed in financial institutions in the PRC, the balances exceeding the maximum coverage of RMB500,000 amounted to RMB56,768,856 (US\$8,687,958) as of December 31, 2017.

(20) Risks and Uncertainties

Orient Paper is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, foreign currency exchange rates, and operating in the PRC under its various laws and restrictions.

(21) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Gross versus Net), which is effective upon adoption of ASU 2014-09. This ASU clarifies the implementation guidance in ASU 2014-09 on principal versus agent considerations. These ASUs are effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The Company will adopt ASU 2014-09, and its related clarifying ASUs, as of January 1, 2018. The Company anticipates adopting the standard using the modified retrospective transition approach. Under this approach, the new standard would apply to all new contracts initiated on or after January 1, 2018. For existing contracts that have remaining obligations as of January 1, 2018, any difference between the recognition criteria in these ASUs and the Company’s current revenue recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. We do not expect the adoption of these ASUs to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The amendments in this update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that are required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public entities. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance discussed in ASU 2016-01, early adoption of the amendments in this update is not permitted. We do not expect the adoption of ASU 2016-01 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income

and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

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ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Financial Instruments-Credit Losses (Topic 326) amends guidelines on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, 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 amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements. The Company had \$6,121,637 and \$2,162,318 of restricted cash as of December 31, 2017 and December 31, 2016,

respectively.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”), which clarify the definition of a business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted so long as the transaction has not been reported in financial statements that have been issued or made available for issuance. We do not expect the adoption of ASU 2017-01 to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), which provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

(22) Subsequent Event

On January 2, 2018, the Company entered into a working capital loan agreement with Bank of Cangzhou, for a credit line of up to \$5,356,432 (RMB35,000,000). The loan bears a fixed interest rate of 6.09% per annum. The working capital loan is secured by the Company’s land use right and guaranteed by the Company’s CEO and Orient Paper Shengde with its production equipment as collateral for the benefit of the bank. \$5,356,432 of loan was withdrawn on January 4, 2018.

ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(23) Summarized Quarterly Financial Data (Unaudited)**

Quarterly financial information for 2017 and 2016 is as follows:

| | Quarter | | | |
|------------------------|----------------|---------------|--------------|---------------|
| | First | Second | Third | Fourth |
| 2017 | | | | |
| Revenues | \$25,289,659 | \$22,787,683 | \$33,507,053 | \$35,439,183 |
| Gross profit | 5,653,920 | 3,464,666 | 7,221,288 | 3,616,077 |
| Income from operations | 2,871,578 | 764,016 | 2,719,550 | (1,674,877) |
| Net income(loss) | 1,707,869 | 15,917 | 1,572,335 | (1,636,333) |
| Net income per share: | | | | |
| Basic | \$0.08 | \$0.001 | \$0.07 | \$-0.076 |
| Diluted | \$0.08 | \$0.001 | \$0.07 | \$-0.076 |

| | Quarter | | | |
|-------------------------------|----------------|---------------|--------------|---------------|
| | First | Second | Third | Fourth |
| 2016 | | | | |
| Revenues | \$27,914,333 | \$37,991,892 | \$37,462,066 | \$31,376,309 |
| Gross profit | 3,765,884 | 6,889,754 | 7,330,843 | 7,545,402 |
| Income (loss) from operations | (580,367) | 4,168,522 | 4,731,145 | 4,632,419 |
| Net income (loss) | (1,373,896) | 2,581,606 | 3,034,542 | 3,070,724 |
| Net income per share: | | | | |
| Basic | \$-0.06 | \$0.12 | \$0.14 | \$0.14 |
| Diluted | \$-0.06 | \$0.12 | \$0.14 | \$0.14 |

(24) Condensed Financial Information of the Parent Company

The condensed financial statements of Orient Paper Inc. (“ONP”, the “parent company”) have been prepared in accordance with accounting principles generally accepted in the United States of America. Under the PRC laws and regulations, the Company’s PRC subsidiaries are restricted in their ability to transfer certain of their net assets to the parent company in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital, capital surplus and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling \$45,589,643 and \$46,441,462 as of December 31, 2017 and 2016, respectively.

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ORIENT PAPER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following represents condensed unconsolidated financial information of the parent company only:

CONDENSED BALANCE SHEETS

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$5,158 | \$1,457 |
| Total current assets | 5,158 | 1,457 |
| Investment in subsidiaries | 188,894,696 | 175,915,611 |
| Total Assets | \$188,899,854 | \$175,917,068 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Inter-company payable | \$3,567,962 | \$3,161,682 |
| Income tax payable | 6,528 | - |
| Total current liabilities | 3,574,490 | 3,161,682 |
| Total liabilities | \$3,574,490 | \$3,161,682 |
| Total stockholders' equity | 185,325,364 | 172,755,386 |
| Total Liabilities and Stockholders' Equity | \$188,899,854 | \$175,917,068 |

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

| | Year Ended December 31, 2017 | 2016 |
|--------------------|------------------------------------|------|
| Operating expenses | | |

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| | | |
|---|--------------|----------------|
| Selling, general and administrative expenses | \$(402,579) | \$(1,963,438) |
| Loss from Operations | (402,579) | (1,963,438) |
| Equity in earnings of unconsolidated subsidiaries | 2,068,895 | 9,276,414 |
| Income before Income Taxes | 1,666,316 | 7,312,976 |
| Provision for Income Taxes | (6,528) | - |
| Net Income | \$1,659,788 | \$7,312,976 |
| Other comprehensive income (loss) | 10,910,190 | (11,784,410) |
| Total Comprehensive Income (loss) | \$12,569,978 | \$(4,471,434) |

CONDENSED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|--|----------------------------|------------|
| | 2017 | 2016 |
| Net Cash Used in Operating Activities | \$(402,579) | \$(24,722) |
| Net Cash Provided by Financing Activities | 406,280 | 17,339 |
| Net (Increase) Decrease in Cash and Cash Equivalents | 3,701 | (7,383) |
| Cash and Cash Equivalents - Beginning of Year | 1,457 | 8,840 |
| Cash and Cash Equivalents - End of Year | \$5,158 | \$1,457 |

BASIS OF PRESENTATION

The condensed financial information has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the parent company has used equity method to account for its investments in the subsidiaries.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On March 23, 2018, we dismissed our principal independent accountant, BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO") from its engagement with the Company, which dismissal was effective immediately. The decision to dismiss BDO as the Company's principal independent accountant was approved by the Audit Committee of the Company on March 23, 2018.

There were no disagreements between the Company and BDO on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, within the Company's two most recent fiscal years ended December 31, 2017 and subsequently up to the date of dismissal which disagreements that, if not resolved to BDO's satisfaction, would have caused BDO to make reference to the subject matter of the disagreement in connection with its report issued in connection with the audit of the Company's financial statements.

None of the reportable events described under Item 304(a)(1)(v)(A)-(D) of Regulation S-K occurred within the Company's two most recent fiscal years ended December 31, 2017 and subsequently up to the date of dismissal.

BDO's report on the Company's financial statements for each of the fiscal years ended December 31, 2016 and 2015 contained a modification by BDO raising substantial doubt of the Company's ability to continue as a going concern. This modification in BDO's report for each of the fiscal year 2016 and 2015 financial statements was based on the Company's working capital deficit. BDO's reports did not contain any other adverse opinion or disclaimer of opinion and were not otherwise qualified or modified as to uncertainty, audit scope or accounting principles.

On March 26, 2018, we engaged WWC, P.C. Certified Accountants ("WWC") to serve as our principal independent accountant, effective immediately. The decision to engage WWC as the Company's principal independent accountant was approved by the Audit Committee of the Company on March 23, 2018.

During the Company's two most recent fiscal years, and any subsequent interim period prior to engaging WWC, the Company did not consult with WWC regarding (i) the application of accounting principles to a specific completed or proposed transaction, or the type of audit opinion that might be rendered on the Company's consolidated financial statements and no written or oral advice was provided by WWC that was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue or (ii) any matter that was either the subject of a disagreement or event as set forth in Item 304(a)(1)(iv) or Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including Zhenyong Liu, the Company's Chief Executive Officer ("CEO"), and Jing Hao, the Company's Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of December 31, 2017. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the framework set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that, as of December 31, 2017, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of its registered independent public accounting firm regarding the Company's internal control over financial reporting because the Company is not required to include such attestation report in this annual report.

Changes in internal controls

Our management, with the participation of our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the quarter ended December 31, 2017. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below is certain information regarding our directors and executive officers. Our Board of Directors is comprised of five directors. There are no family relationships between any of our directors or executive officers. Each of our directors is elected to serve until the next annual meeting of our stockholders and until his successor is elected and qualified or until such director's earlier death, removal or termination.

The following table sets forth certain information with respect to our directors and executive officers:

| Name | Age | Position/Title |
|--------------------------|-----|---|
| Zhenyong Liu | 54 | Chief Executive Officer and Chairman of the Board |
| Jing Hao | 34 | Chief Financial Officer |
| Dahong Zhou | 38 | Secretary |
| Marco Ku Hon Wai | 43 | Director |
| Wenbing Christopher Wang | 46 | Director |
| Fuzeng Liu | 68 | Director |
| Lusha Niu | 38 | Director |

We have two classes of directors with each class elected in a different calendar year from the calendar year in which the other class of directors are elected. All directors are elected for a two-year term. The directors initially elected in Class I, Marco Ku Hon Wai and Wenbing Christopher Wang, will serve until the annual meeting of stockholders in 2019 and until their respective successors have been elected and have qualified, or until their earlier resignation, removal or death. The directors initially elected in Class II, Zhenyong Liu, Fuzeng Liu and Lusha Niu will serve until the annual meeting of stockholders in 2018 and until their respective successors have been elected and have qualified, or until their earlier resignation, removal or death. Our officers serve at the discretion of our Board of Directors.

Set forth below is biographical information about our current directors and executive officers:

Zhenyong Liu. Mr. Zhenyong Liu became a member of the Board of Directors, and was appointed as Chairman of the Board of Directors on November 30, 2007. Mr. Liu has also served as the Company's Chief Executive Officer since November 16, 2007, and serves as Chairman of Hebei Baoding Orient Paper Milling Company Limited (Orient Paper HB), a position he has held since 1996. From 1990 to 1996, he served as Plant Director of Xinxin Paper Milling Factory in Xushui District. Mr. Liu served as General Manager of the East Central Household Appliance Purchases

and Supply Station from 1980 to 1989.

Jing Hao. Ms. Jing Hao was appointed as our Chief Financial Officer on November 3, 2014. Ms. Hao previously served as the Company's Chief Financial Officer between November 2007 and April 2009. In addition, Ms. Hao has served as Chief Financial Officer of Hebei Baoding Orient Paper Milling Company Limited (Orient Paper HB) since 2006. Prior to that, she was Manager of Finance for Orient Paper HB from 2005 to 2006.

Dahong Zhou. Ms. Dahong Zhou was appointed as our Secretary on November 16, 2007. Ms. Zhou also serves as Executive Manager of Hebei Baoding Orient Paper Milling Company Limited (Orient Paper HB), a position she has held since 2006.

Marco Ku Hon Wai. Mr. Marco Ku Hon Wai has served on the Board of Directors since November 3, 2014. Mr. Ku is the founder of Sensible Investment Company Limited, an investment consulting firm based in Hong Kong founded in 2013. He was previously Chief Financial Officer of China Marine Food Group Limited (OTC: CMFO) from July 2007 to October 2013. Prior to his position at China Marine Food Group Limited, Mr. Ku co-founded KISS Catering Group, a food and beverage business in Beijing from October 2005 to April 2007. Mr. Ku worked at KPMG LLP from 1996 to 2000, where his last held position was Assistant Manager. Mr. Ku received a bachelor's degree in finance from the Hong Kong University of Science and Technology in 1996, and is currently a fellow member of the Hong Kong Institute of Certified Public Accountants.

Wenbing Christopher Wang. Mr. Wenbing Christopher Wang has served on the Board of Directors since October 28, 2009. Mr. Wang has also been serving as President and Director of Fushi Copperweld, Inc. ("Fushi") since January 21, 2008. Mr. Wang served as Fushi's Chief Financial Officer from December 13, 2005 to August 31, 2009. Prior to Fushi, Mr. Wang worked for Redwood Capital, Inc., China Century Investment Corporation, Credit Suisse First Boston and VC China in various capacities. Fluent in both English and Chinese, Mr. Wang holds a master's degree in business administration and finance and corporate accounting from Simon Business School of University of Rochester. Mr. Wang was named one of the top ten CFO's of 2007 in China by CFO magazine.

Fuzeng Liu. Mr. Fuzeng Liu has been a member of the Board of Directors since November 30, 2007. Mr. Liu has also served as Vice President of Orient Paper HB since 2002. Previously, he served as Deputy Secretary of the Traffic Bureau of Xushui District from 1992 to 2002 and as Party Secretary of Dayin Town, Xushui District from 1988 to 1992. Mr. Liu also served as Head of the Cuizhuang Town, Xushui District from 1984 to 1988. From 1977 to 1984, Mr. Liu worked at the committee office of Xushui District.

Lusha Niu. Ms. Niu has been a member of the Board of Directors since October 12, 2016. Ms. Niu is a public relations veteran with strong background in international business and finance. Since September 2013, Ms. Niu has been the Director of Corporate Communications and Public Affairs, Asia Lead of Financial Communication at MSLGROUP, a global public communications firm. From August 2008 until August 2013, Ms. Niu was an Associate Director at APCO Worldwide, a Washington D.C. based global public affairs consulting firm. Ms. Niu also served as a Consulting Analyst with BDA Consulting, advising global institutional investors on their China deal strategy. Ms. Niu holds a Master's degree in Finance from the University of Colorado.

The Board of Directors believes that each of the Company's directors is highly qualified to serve as a member of the Board. Each of the directors has contributed to the mix of skills, core competencies and qualifications of the Board of Directors. When evaluating candidates for election to the Board, the Nominating Committee seeks candidates with certain qualities that it believes are important, including integrity, an objective perspective, good judgment, and leadership skills. Our directors are highly educated and have diverse backgrounds and talents and extensive track records of success in what we believe are highly relevant positions. Some of our directors have served in our operating entity, Orient Paper HB, for many years and benefit from an intimate knowledge of our operations and corporate philosophy.

Committees

Our business, property and affairs are managed by or under the direction of the Board of Directors. Members of the Board of Directors are kept informed of our business through discussion with the chief executive and financial officers and other officers, by reviewing materials provided to them and by participating at meetings of the board and its committees.

Our Board of Directors has three committees - the Audit Committee, the Compensation Committee and the Nominating Committee. The Audit Committee is comprised of Marco Ku Hon Wai, Wenbing Christopher Wang and Lusha Niu, with Mr. Ku serving as chairman. The Compensation Committee is comprised of Marco Ku Hon Wai, Wenbing Christopher Wang and Lusha Niu, with Ms. Lusha Niu serving as chairwoman. The Nominating Committee is comprised of Marco Ku Hon Wai, Wenbing Christopher Wang and Lusha Niu, with Mr. Wenbing Christopher Wang serving as chairman.

Our Audit Committee is involved in discussions with our independent auditor with respect to the scope and results of our year-end audit, our quarterly results of operations, our internal accounting controls and the professional services furnished by the independent auditor. Our Board of Directors has determined that both Mr. Marco Ku Hon Wai and Mr. Wenbing Christopher Wang qualify as audit committee financial experts and have the accounting or financial management expertise as required under NYSE Rule 303A.07(a). Our Board of Directors has also adopted a written charter for the audit committee which the audit committee reviews and reassesses for adequacy on an annual basis. A

copy of the audit committee's current charter is available at the our corporate website at <http://www.orientpaperinc.com/images/Audit%20Committee%20Charter.pdf>

The Compensation Committee oversees the compensation of our chief executive officer and our other executive officers and reviews our overall compensation policies for employees generally. If so authorized by the Board of Directors, the committee may also serve as the granting and administrative committee under any option or other equity-based compensation plans which we may adopt. The Compensation Committee does not delegate its authority to fix compensation; however, as to officers who report to the chief executive officer, the compensation committee consults with the chief executive officer, who may make recommendations to the compensation committee. Any recommendations by the chief executive officer are accompanied by an analysis of the basis for the recommendations. The committee will also discuss compensation policies for employees who are not officers with the chief executive officer and other responsible officers. A copy of the compensation committee's current charter is available at our corporate website at <http://www.orientpaperinc.com/images/Compensation%20Committee%20Charter.pdf>

The Nominating Committee is involved in evaluating the desirability of and recommending to the board any changes in the size and composition of the board, evaluation of and successor planning for the chief executive officer and other executive officers. The qualifications of any candidate for director will be subject to the same extensive general and specific criteria applicable to director candidates generally. A copy of the nominating committee's current charter is available at our corporate website at <http://www.orientpaperinc.com/images/Nominating%20Committee%20Charter.pdf>

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. The Code of Ethics is currently available at our corporate website at <http://www.orientpaperinc.com/images/The%20Code%20of%20Business%20Ethics%20and%20Conduct.pdf>

Board Meetings

The Board of Directors and its committees held the following number of meetings during 2017:

| | |
|------------------------|---|
| Board of Directors | 5 |
| Audit Committee | 5 |
| Compensation Committee | 1 |
| Nominating Committee | 1 |

The above table includes meetings held by means of a conference telephone call, but not actions taken by unanimous written consent.

Each director attended at least 75% of the total number of meetings of the Board of Directors and those committees on which he served during the year.

Directors or Executive Officers involved in Bankruptcy or Criminal Proceedings

To our knowledge, during the last ten years, none of our directors and executive officers (including those of our subsidiaries) has:

- had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses;
- been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- been found by a court of competent jurisdiction (in a civil action), the SEC, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; or
- been the subject to, or a party to, any sanction or order, not subsequently reverse, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Board Leadership Structure and Role in Risk Oversight

Mr. Zhenyong Liu is our chairman and chief executive officer. At the advice of other members of the management or the Board, Mr. Liu calls meetings of the Board of Directors when necessary. We have three independent directors. Our Board of Directors has three standing committees, each of which is comprised solely of independent directors with a committee chair. The Board of Directors believes that the Company's chief executive officer is best situated to serve as chairman of the Board of Directors because he is the director most familiar with our business and industry and the director most capable of identifying strategic priorities and executing our business strategy. We believe that this leadership structure has served the Company well. Our Board of Directors has overall responsibility for risk oversight. The Board of Directors has delegated responsibility for the oversight of specific risks to the committees as follows:

The Audit Committee oversees the Company's risk policies and processes relating to the financial statements and financial reporting processes, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, policies and processes for monitoring and mitigating those risks.

The Compensation Committee oversees the compensation of our chief executive officer and our other executive officers and reviews our overall compensation policies for employees

The Nominating Committee oversees risks related to the Company's governance structure and processes.

Our Board of Directors is responsible for approving all related party transactions according to our Code of Ethics. We have not adopted written policies and procedures specifically for related person transactions.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Exchange Act, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Form 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish our company with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such reports received by us, and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that, with respect to the fiscal year ended December 31, 2017, our officers and directors, and all of the persons known to us to own more than 10% of our common stock, filed all required reports on a timely basis.

Item 11. Executive Compensation

The following compensation table summarizes the cash and non-cash compensation earned during the years ended December 31, 2017 and 2016 by each person who served as principal executive officer, principal financial officer, and secretary during 2017.

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards(2) (\$) | Option Awards (\$) | Non-Equity Incentive Plan | Total (\$) |
|--------------------------------|------|----------------|---------------|----------------------------|--------------------------|---------------------------------|---------------|
| | | | | | | Compensation (\$) | |
| Zhenyong Liu, Chairman, CEO | 2017 | \$36,684 | - | \$ - | - | - | \$36,684 |
| | 2016 | \$36,074 | - | \$ - | - | - | \$36,074 |
| Jing Hao CFO (1) | 2017 | \$36,684 | - | \$ - | - | - | \$36,684 |
| | 2016 | \$36,074 | - | \$ - | - | - | \$36,074 |
| Dahong Zhou, Secretary | 2017 | \$4,446 | - | \$ - | - | - | \$4,446 |
| | 2016 | \$4,194 | - | \$ - | - | - | \$4,192 |

On November 3, 2014, the Board of the Company appointed Ms. Jing Hao to the position of Chief Financial Officer of the Company and serve in accordance with the Bylaws of the Company and until her successor has been elected and has qualified, or until her earlier resignation, removal or death.

(2) The value of the Stock Award is determined by multiplying the number of restricted shares issued by the quoted closing price of the Company's common stock on the date of the award, which was \$1.33 as of January 12, 2016.

Employment Agreements

Mr. Zhenyong Liu receives a monthly salary of RMB 20,000 (approximately \$3,057). On January 11, 2012, the Company awarded Mr. Zhenyong Liu 44,326 shares of restricted common stock. These shares of common stock were issued under the 2011 ISP and are valued at \$3.45 per share, based on the closing price on the date of the issuance. On December 31, 2013, the Company awarded Mr. Zhenyong Liu 8,000 shares of restricted common stock under the 2011 ISP and 2012 ISP, with a value of \$2.66 per share, based on the closing price on the date of the stock issuance. On January 12, 2016, the Company issued Mr. Zhenyong Liu 200,000 shares restricted common stock under the 2015 ISP, with a value of \$1.33 per share, based on the closing price on the date of the issuance.

Ms. Hao began receiving a monthly salary of RMB 20,000 (approximately \$3,057) in January 2015.

Compensation of Directors

The following table sets forth a summary of compensation paid or entitled to our directors during the fiscal years ended December 31, 2017 and December 31, 2016:

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan | Total (\$) |
|--------------------------------------|------|----------------|---------------|-------------------------|--------------------------|---------------------------------|---------------|
| | | | | | | Compensation (\$) | |
| Fuzeng Liu Director | 2017 | \$7,964 | - | \$ - | - | - | \$7,964 |
| | 2016 | \$7,512 | - | \$ - | - | - | \$7,512 |
| Marco Ku Hon Wai Director | 2017 | \$20,000 | - | \$ - | - | - | \$20,000 |
| | 2016 | \$20,000 | - | \$ - | - | - | \$20,000 |
| Wenbing Christopher Wang Director | 2017 | \$20,000 | - | \$ - | - | - | \$20,000 |
| | 2016 | \$20,000 | - | \$ - | - | - | \$20,000 |
| Lusha Niu Director | 2017 | \$7,652 | - | - | - | - | \$7,652 |
| | 2016 | \$1,252 | - | - | - | - | \$1,252 |

Effective November 1, 2014, Mr. Marco Ku Hon Wai began serving as our director and has received annual compensation of \$20,000, payable on a monthly basis. In addition, the Company agreed to issue Mr. Ku 7,500 shares of its common stock every year under the Company's stock incentive plan. On January 12, 2016, the Company issued Mr. Ku 7,500 shares restricted common stock under the 2015 ISP for his services in 2015, with a value of \$1.33 per share, based on the closing price on the date of the issuance. Mr. Ku will be reimbursed for his out-of-pocket expenses incurred in connection with his service to the Company.

Effective October 28, 2009, Mr. Wenbing Christopher Wang has served as our director and has received annual compensation of \$20,000, payable on a monthly basis. Mr. Wang also received 4,000 shares of common stock, a number equal to \$20,000 divided by the closing price of the common stock on October 28, 2009, with piggyback registration rights subordinate to that held by investors in any past or future private placement of securities. On January 11, 2012, the Company awarded its independent director Mr. Wenbing Christopher Wang 15,820 shares of restricted common stock. These shares of common stock were issued under the 2011 ISP and are valued at \$3.45 per share, based on the closing price on the date of the issuance. On December 31, 2013, the Company awarded Mr. Wang 5,000 shares restricted common stock under the 2011 ISP and 2012 ISP for, with a value of \$2.66 per share, based on the closing price on the date of the stock issuance. On January 12, 2016, the Company issued Mr. Wang 5,000 shares restricted common stock under the 2015 ISP, with a value of \$1.33 per share, based on the closing price on the date of the issuance.

On October 12, 2016, Ms. Lusha Niu was elected as our director and receives annual compensation of RMB50,000, payable on a monthly basis.

On December 31, 2013, Mr. Fuzeng Liu received 5,000 shares of restricted common stock from our 2011 and 2012 ISPs. The value of the stock award is determined by the closing price of the Company's common stock on the date of the award, which was \$2.66 as of December 31, 2013.

Other than the appointment letters described above, there are no understandings or arrangements between Mr. Ku, Mr. Wang, or Ms. Niu and any other person pursuant to which Mr. Ku, Mr. Wang, or Ms. Niu was appointed as a director. Mr. Ku, Mr. Wang, and Ms. Niu do not have any family relationship with any director, executive officer or person nominated or chosen by us to become a director or executive officer.

Outstanding Equity Awards at Fiscal Year-End

There were no option exercises in fiscal year of 2017 or options outstanding as of December 31, 2017.

Pension and Retirement Plans

Currently, except for contributions to the PRC government-mandated social security retirement endowment fund for those employees who have not waived their coverage, we do not offer any annuity, pension or retirement benefits to be paid to any of our officers, directors or employees. There are also no compensatory plans or arrangements with respect to any individual named above which results or will result from the resignation, retirement or any other termination of employment with our company, or from a change in our control.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information with respect to the beneficial ownership of our common stock by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our Chief Executive Officer and President and (iv) all executive officers and directors as a group as of December 31, 2017.

Amount and Nature of Beneficial Ownership

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percentage of Common Stock | |
|---|--|-----------------------------------|---|
| Zhenyong Liu CEO and Director | 5,389,167 | 25.12 | % |
| Jing Hao CFO | 4,000 | * | |
| Dahong Zhou Secretary | 4,000 | * | |
| Marco Ku Hon Wai Director | 7,500 | * | |
| Fuzeng Liu Director | 5,000 | * | |
| Wenbing Christopher Wang Director | 29,820 | * | |
| Lusha Niu Director | 0 | * | |
| All Directors and Executive Officers as a Group (7 persons) | 5,439,487 | 25.36 | % |

*Less than 1% of the Company's issued and outstanding common shares.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Loans from our principal shareholder, Chairman and CEO Mr. Zhenyong Liu

Mr. Zhenyong Liu is our Chief Executive Officer, Chairman, and a principal stockholder of the Company. He loaned money to Orient Paper HB for working capital purposes. The unsecured loan of Mr. Liu bears an initial interest rate of 5.85% per annum, which is equal to the rate of the People's Bank of China at the time of the loan. The term was 3 years and starts from January 1, 2010 and as due December 31, 2012. On January 1, 2013, Orient Paper HB and Mr. Liu extended the maturity date to December 31, 2015 and the annual interest rate was changed to 6.15% per annum at the time of the extension, which is equal to the rate of the People's Bank of China at the time of extension. On December 31, 2015, the Company paid off the loan of \$2,249,279, together with the interest of \$391,374 for the period from 2013 to 2015. Approximately \$548,684 of interest was still due to Mr. Zhenyong Liu, which was recorded in other payables and accrued liabilities as part of the current liabilities in the consolidated balance sheet as of December 31, 2017.

On March 1, 2015, we entered into an agreement with Mr. Zhenyong Liu pursuant to which Orient Paper HB may borrow from Mr. Liu up to RMB120,000,000 (approximately \$18,364,911) for working capital purposes. The advances or funding under the agreement are due three years from the date each amount is funded. The loan will be unsecured and carry an annual interest rate set on the basis of the primary lending rate of the People's Bank of China at the time of the borrowing. As of December 31, 2017, \$7,652,047 was drawn from the facility.

As of December 31, 2017 and 2016, total amounts due to Mr. Liu were \$10,712,865 and \$10,090,817, respectively.

The interest expenses incurred for the above related party loans were \$451,626 and \$513,084 for the years ended December 31, 2017, and 2016, respectively. The accrued interest owed to Mr. Zhenyong Liu was approximately \$548,684 and \$516,825 and was recorded as part of the currently liabilities as December 31, 2017 and 2016, respectively.

On January 20, 2018, our principal shareholder, Chairman and CEO Mr. Zhenyong Liu agreed in writing to permit the Company to continue to postpone the repayment of certain accrued interest on his loan to Orient Paper HB until the Company's quarterly or annual financial statements filed with the SEC show a satisfactory working capital level.

During the years ended December 31, 2017 and 2016, the Company borrowed \$nil and \$14,000 respectively, from shareholders to pay for various expenses incurred in the United States. The amount is due on demand with no interest. The Company repaid these amounts in full at December 31, 2017 and 2016, respectively.

Sale of Headquarters Real Properties to a Related Party

As discussed under the "Liquidity and Capital Resources - Relocation of Facilities and Sale of Headquarters Compound Real Properties," on August 7, 2013, the Company's Audit Committee and the Board of Directors approved the sale of the LUR, the Industrial Buildings, and the Dormitories to Hebei Fangsheng, a real estate development company owned by Mr. Zhenyong Liu, our Chairman and Chief Executive Officer and his family, for cash of approximately \$2.77 million, \$1.15 million, and \$4.31 million, respectively. In November 2012, Hebei Fangsheng provided the Company with a payment of approximately \$1,075,606 earnest money deposit payment in connection with the sale, which would be refunded to Hebei Fangsheng in the event that the parties fail to reach an agreement on the terms of the Potential Sale. The Company recorded the receipt of the earnest money deposit as a security deposit as of December 31, 2012 accordingly. In connection with the sale of the Industrial Buildings, Hebei Fangsheng agreed to lease the Industrial Buildings back to the Company for its original use for a term of up to three years, with an annual rental payment of approximately \$148,317. As of December 31, 2017, the Company accrued rent due to Hebei Fangsheng in the amount of \$60,378.

As a condition for the sale of the Dormitories, Hebei Fangsheng agreed that it would act as an agent for the Company, which is not qualified to sell residential housing units in China, and that it is obligated to sell all of the 132 apartment units in the Dormitories to qualified employees of the Company at its acquisition price. Hebei Fangsheng further agreed that it would not seek to profit from the resale of the Dormitories units and would allow the Company to inspect the books and records of the sale upon completion of the resale of the Dormitories units to ensure the objectives are achieved.

The sale was conducted on an arms-length basis, and was reviewed by the Company's Audit Committee and approved by the Board of Directors as discussed above. The \$2.77 million sale price of the LUR was determined by the valuation from a government designated appraisal, which was 3.35% higher than a second independent appraisal commissioned by the Company. The \$1.15 million sale price of the Industrial Buildings was determined by negotiation between the Company and Hebei Fangsheng and is equal to the appraised value based on the assumption that the use of the buildings would be continued until they are retired. Based on the assumption that such buildings would have to be torn down to comply with the re-zoning requirements, a second independent appraisal obtained by the Company put the value at \$0.4 million. Although the Company and Hebei Fangsheng agreed to set the sale price of the Dormitories at the Company's original construction cost of the three dormitory buildings for \$4.31 million, an independent appraisal shows that the value for the three buildings as employee dormitories was \$4.64 million.

For the sale of the LUR and the Industrial Buildings, we generated a net gain on disposal of approximately \$84,972, net of land appreciation tax and other transactional taxes and fees paid out of the proceeds of the sale to various local government tax authorities. Sales of the dormitories, which was classified as assets held for sale as of December 31, 2013, was consummated on August 15, 2014 with a gain on disposal of approximately \$203,620 recognized during the year ended December 31, 2014.

As of December 31, 2014, the sale of the LUR, Industrial Buildings, and Dormitories has been completed. Net proceeds from the sale of \$8.26 million are used to fund our tissue paper production line construction.

Procedures for Approval of Related Party Transactions

Our Board of Directors is charged with reviewing and approving all potential related party transaction whether or not such transactions exceed \$120,000. We have not adopted other procedures for review, or standards for approval, of such transactions, but instead review them on a case-by-case basis.

Director Independence

The Company currently has three independent directors, Marco Ku Hon Wai, Wenbing Christopher Wang, and Lusha Niu, as that term is defined under the NYSE MKT Company Guide.

Item 14. Principal Accountant Fees and Services

Audit Fees

We incurred approximately \$128,554 (RMB840,000) for professional services rendered by our registered independent public accounting firm, BDO, for the audit of the Company's financial statements for 2017. Further, in 2017, we incurred approximately \$91,825 for the reviews of the Company's quarterly reports by BDO.

We incurred approximately \$236,739 for professional services rendered by our registered independent public accounting firm, BDO, for the audit of the Company's financial statements for 2016. Further, in 2016, we incurred approximately \$103,714 for the reviews of the Company's quarterly reports by BDO.

We incurred approximately \$150,000 for professional services rendered by our registered independent public accounting firm, WWC, P.C., for the audit of the Company's financial statements for 2017.

Audit-Related Fees

Orient Paper did not incur any audit-related fees to BDO in 2017.

Tax Fees

Orient Paper did not incur any tax fees to BDO in 2017.

All Other Fees

Orient Paper did not incur any fees from its registered independent public accounting firm for services rendered to Orient Paper, other than the services covered in "Audit Fees" and "Audit-Related Fees" for the fiscal years ended December 31, 2017 and 2016.

With respect to the Company's auditing and other non-audit related services rendered by its registered independent public accounting firm for 2017, all engagements were entered into pursuant to the audit committee's pre-approval policies and procedures.

PART IV

Item 15. Exhibits, Financial Statements Schedules

Exhibit No. Description of Exhibit

- | | |
|------|---|
| 2.1 | <u>Agreement and Plan of Merger, dated October 29, 2007, by and among Carlatel, Inc., CARZ Merger Sub, Inc., Dongfang Zhiye Holding Limited, and the shareholders of Dongfang Zhiye Holding Limited, incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2007.</u> |
| 3.1 | <u>Articles of Incorporation, incorporated by reference to the exhibit to our report on form SB-2 filed with the SEC on August 4, 2006</u> |
| 3.2 | <u>Certificate of Amendment to Articles of Incorporation, incorporated by reference to the exhibit of the same number to our Current Report on form 8-K filed with the SEC on December 28, 2007</u> |
| 3.3 | <u>Bylaws, incorporated by reference to the exhibit to our report on form SB-2 filed with the SEC on August 4, 2006</u> |
| 4.1 | <u>Specimen of Common Stock certificate, incorporated by reference to the exhibit to our report on form SB-2 filed with the SEC on August 4, 2006</u> |
| 4.2 | <u>Form of Warrant, incorporated by reference to exhibit 4.1 to our Current Report on Form 8-K filed with the SEC on September 3, 2014.</u> |
| 10.1 | <u>Land Lease Agreement, dated January 2, 2002, by and between the Company and Xushui District Dayin Township Wujia Village Committee and Party Branch, incorporated by reference to the exhibit to our amended Annual Report on form 10-K/A filed with the SEC on February 1, 2010</u> |
| 10.2 | <u>Land Use Rights Certificate, dated March 10, 2003, incorporated by reference to the exhibit to our amended Annual Report on form 10-K/A filed with the SEC on February 1, 2010</u> |
| 10.3 | <u>Exclusive Technical Service and Business Consulting Agreement, dated June 24, 2009, by and between Orient Paper HB and Orient Paper Shengde, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009</u> |
| 10.4 | <u>Proxy Agreement, dated June 24, 2009, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009</u> |
| 10.5 | <u>Loan Agreement, dated June 24, 2009, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009</u> |
| 10.6 | <u>Call Option Agreement, dated June 24, 2009, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009</u> |
| 10.7 | <u>Share Pledge Agreement, dated June 24, 2009, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009</u> |
| 10.8 | <u>Call Option Agreement Amendment, dated February 10, 2010, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on February 11, 2010</u> |
| 10.9 | |

- Share Pledge Agreement Amendment, dated February 10, 2010, by and between Orient Paper HB, Orient Paper Shengde, and the shareholders of Orient Paper HB, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on February 11, 2010
- 10.10 Securities Purchase Agreement dated October 7, 2009 between the Company and the Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the “Buyers”), incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009
- 10.11 Make Good Securities Escrow Agreement dated October 7, 2009 between the Company, the Buyers, Zhenyong Liu and the Sichenzia Ross Friedman Ference LLP (the “Escrow Agent”), incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009
- 10.12 Escrow Agreement dated October 7, 2009 between the Company, the Buyers, Zhenyong Liu and the Escrow Agent, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009
- 10.13 Registration Rights Agreement between the Company and the Buyers dated October 7, 2009, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009
- 10.14 Lock-Up Agreement between Company and Zhenyong Liu dated October 7, 2009, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009
- 10.15 Asset Purchase Agreement, dated November 25, 2009, by and between Baoding Shengde Paper Co., Ltd. and HebeiShuangxing Paper Co., Ltd., incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on December 10, 2009

- 10.16 Purchase Agreement, dated March 31, 2010, for the sale of 3,000,000 shares of Common Stock, by and between Orient Paper, Inc. and Roth Capital Partners, LLC, incorporated by reference to the exhibit to Current Report on form 8-K filed with the SEC on March 31, 2010
- 10.17 Purchase Agreement, dated April 9, 2010 by and between Henan Qinyang First Paper Machine Limited and Hebei Baoding Orient Paper Milling Company Limited for the purchase of a series of paper machineries and equipment, incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on April 12, 2010
- 10.18 Letter from Mr. Zhenyong Liu regarding postponement of interest payments by Orient Paper, Inc., incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K filed on March 25, 2014.
- 10.19 Financing Limit Agreement dated as March 3, 2014 between Hebei Baoding Orient Paper Milling Co., Ltd. and Shanghai Pudong Development Bank Inc., Baoding Branch, incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K filed on March 25, 2014.
- 10.20 Enterprise Loan Agreement dated as of July 5, 2013 between Hebei Baoding Orient Paper Milling Co., Ltd. and Rural Credit Union of Xushui County, incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K filed on March 25, 2014.
- 10.21 Engagement Letter, dated as of June 3, 2014, between the Company and H.C. Wainwright & Co., LLC and amendments dated as of July 1, 2014, August 19, 2014 and August 25, 2014, incorporated by reference to exhibits 1.1, 1.2, 1.3 and 1.4 to our Current Report on Form 8-K filed with the SEC on September 3, 2014.
- 10.22 Securities Purchase Agreement, dated August 25, 2014, incorporated by reference to exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 3, 2014.
- 10.23 Appointment Letter dated November 3, 2014, by and between Orient Paper, Inc. and Marco Ku Hon Wai, incorporated by reference to exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 6, 2014.
- 10.24 Loan Agreement dated December 2, 2014, by and between Orient Paper, Inc. and Zhenyong Liu, incorporated by reference to Exhibit 10.24 to our Annual Report on Form 10-K filed on March 25, 2014.
- 10.25 Loan Agreement dated March 1, 2015, by and between Orient Paper, Inc. and Zhenyong Liu, incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K filed on March 25, 2015.
- 10.26 Agreement dated July 1, 2015, among China Orient, Hebei Baoding Orient Paper Milling Company Limited, Baoding Shengde Paper Co., Ltd., Zhenyong Liu, Xiaodong Liu, and Shuangxi Zhao, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on July 22, 2015
- 14.1 Code of Ethics and Business Conduct, incorporated by reference to the Exhibit 14.1 to our Annual Report on Form 10-K filed with the SEC on March 18, 2013
- 21.1 Lists of Subsidiaries, incorporated by reference to the exhibit to our Annual Report on Form 10-K filed with the SEC on March 15, 2011
- 23.1* Consent of BDO China Shu Lun Pan Certified Public Accountants LLP.
- 23.2* Consent of WWC, P.C. Certified Accountants.
- 31.1* Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.
- 31.2* Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.
- 32.1* Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002.
- 32.2* Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

101.DEF XBRL Definition Linkbase Document

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 17, 2018

ORIENT PAPER, INC.

By: /s/ Zhenyong Liu
Zhenyong Liu
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|--|--|----------------|
| /s/ Zhenyong Liu Zhenyong Liu | Chief Executive Officer and Chairman of the Board (principal executive officer) | April 17, 2018 |
| /s/ Jing Hao Jing Hao | Chief Financial Officer (principal financial and accounting officer) | April 17, 2018 |
| /s/ Fuzeng Liu Fuzeng Liu | Director | April 17, 2018 |
| /s/ Marco Ku Hon Wai Marco Ku Hon Wai | Director | April 17, 2018 |
| /s/ Wenbing Christopher Wang Wenbing Christopher Wang | Director | April 17, 2018 |
| /s/ Lusha Niu Lusha Niu | Director | April 17, 2018 |

