Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended:

March 31, 2023

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: 001-41207

FGI Industries Ltd.
(Exact name of registrant as specified in its charter)

Cayman Islands **(State or other jurisdiction of incorporation or organization)**	**98-1603252** **(I.R.S. Employer Identification No.)**

906 Murray Road
East Hanover, New Jersey 07936

(Address of principal executive offices)
(Zip Code)

(973) 428-0400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, $0.0001 par value	FGI	Nasdaq Capital Market
Warrants to purchase Ordinary Shares, $0.0001 par value	FGIWW	Nasdaq Capital Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒	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 Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock on May 12, 2023 was 9,500,000.

TABLE OF CONTENTS

		Page
Special Note Regarding Forward-Looking Statements		3
General		4
	PART I- FINANCIAL INFORMATION	5
Item 1.	Financial Statements.	5
	Unaudited Condensed Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022.	6
	Unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2023 and 2022.	7
	Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2023 and 2022.	8
	Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and 2022.	9
	Notes to Unaudited Condensed Consolidated Financial Statements.	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	41
Item 4.	Controls and Procedures.	41
	PART II- OTHER INFORMATION	43
Item 1.	Legal Proceedings.	43
Item 1A.	Risk Factors.	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	43
Item 3.	Defaults Upon Senior Securities.	44
Item 4.	Mine Safety Disclosures.	44
Item 5.	Other Information.	44
Item 6.	Exhibits.	44
SIGNATURES		45

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical facts, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "design," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "positioned," "potential," "seek," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. In addition, statements that "we believe" or similar statements reflect our beliefs and opinions on the relevant subject. We have based these forward- looking statements on our current expectations about future events. While we believe these expectations are reasonable, such forward-looking statements are inherently subject to risks and uncertainties, many of which are beyond our control. Risks and uncertainties that could cause our actual results to differ from those expressed in, or implied by, our forward- looking statements include, but are not limited to:

- the levels of residential repair and remodel activity, and to a lesser extent, new home construction;
- the effects of inflationary pressures and interest rates on the demand for our products, our costs and our ability to access capital;
- our ability to maintain our strong brands and reputation and to develop innovative products;
- our ability to maintain our competitive position in our industries;
- our reliance on key suppliers and customers;
- the length and severity of the ongoing COVID-19 pandemic, including its impact on domestic and international economic activity, consumer confidence, our production capabilities, our employees and our supply chain;
- the cost and availability of materials and the imposition of tariffs;
- risks associated with our international operations and global strategies;
- our ability to achieve the anticipated benefits of our strategic initiatives;
- our ability to successfully execute our acquisition strategy and integrate businesses that we may acquire;
- risks associated with our reliance on information systems and technology, and our ability to achieve the anticipated benefits from our investments in new technology;
- our ability to attract, develop and retain talented and diverse personnel;
- our ability to obtain additional capital to finance our planned operations;
- regulatory developments in the United States and internationally;
- our ability to establish and maintain intellectual property protection for our products, as well as our ability to operate our business without infringing the intellectual property rights of others; and

- other risks and uncertainties, including those listed under the caption “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as well as subsequent reports we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”) (available at www.sec.gov).

These forward-looking statements are based on management’s current expectations, estimates, forecasts and projections about our business and the industry in which we operate, and management’s beliefs and assumptions are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. In light of the significant uncertainties in these forward-looking statements, you should not rely upon forward-looking statements as predictions of future events. Although we believe the expectations reflected in the forward-looking statements are reasonable, the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements may not be achieved or occur at all. You should read this Quarterly Report on Form 10-Q and the documents that we reference and have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to the “Company,” “FGI,” “we,” “us” or “our” refer to FGI Industries Ltd.

PART I —FINANCIAL INFORMATION

Item 1. Financial Statements.

FGI INDUSTRIES LTD.
INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022	6
Unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2023 and 2022	7
Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2023 and 2022	8
Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and 2022	9
Notes to Unaudited Condensed Consolidated Financial Statements	10-32

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of March 31, 2023 USD	As of December 31, 2022 USD
ASSETS		
CURRENT ASSETS		
Cash	$ 7,380,212	$ 10,067,428
Accounts receivable, net	12,106,710	14,295,859
Inventories, net	9,876,132	13,292,591
Prepayments and other current assets	2,928,377	2,588,081
Prepayments and other receivables – related parties	5,304,314	5,643,649
Total current assets	37,595,745	45,887,608
PROPERTY AND EQUIPMENT, NET	1,308,697	1,269,971
OTHER ASSETS		
Operating lease right-of-use assets, net	16,263,039	9,815,572
Deferred tax assets, net	1,365,703	1,265,539
Other noncurrent assets	2,172,009	2,128,240
Total other assets	19,800,751	13,209,351
Total assets	$ 58,705,193	$ 60,366,930
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans	$ 8,426,548	$ 9,795,052
Accounts payable	8,159,699	14,718,969
Accounts payable – related parties	568,406	104,442
Income tax payable	163,801	33,350
Operating lease liabilities – current	1,191,178	1,543,031
Accrued expenses and other current liabilities	3,003,691	3,580,359
Total current liabilities	21,513,323	29,775,203
OTHER LIABILITIES		
Operating lease liabilities – noncurrent	14,611,015	7,847,317
Total liabilities	36,124,338	37,622,520
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preference Shares ($0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding as of March 31, 2023 and 2022)	—	—
Ordinary shares ($0.0001 par value, 200,000,000 shares authorized, 9,500,000 and 7,000,000 shares issued and outstanding as of March 31, 2023 and 2022)	950	950
Additional paid-in capital	20,579,580	20,459,859
Retained earnings	3,376,545	3,679,920
Accumulated other comprehensive loss	(1,376,220)	(1,396,319)
Total shareholders' equity	22,580,855	22,744,410
Total liabilities and shareholders' equity	$ 58,705,193	$ 60,366,930

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

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
REVENUES	$ 27,162,266	$ 43,575,239
COST OF REVENUES	19,960,108	36,050,653
GROSS PROFIT	7,202,158	7,524,586
OPERATING EXPENSES		
Selling and distribution	4,711,089	4,677,352
General and administrative	2,142,245	1,842,807
Research and development	351,751	313,681
Total operating expenses	7,205,085	6,833,840
(LOSS) INCOME FROM OPERATIONS	(2,927)	690,746
OTHER (EXPENSES) INCOME		
Interest income	1,375	31
Interest expense	(249,637)	(131,752)
Other (loss) income, net	(19,557)	98,845
Total other (expenses), net	(267,819)	(32,876)
(LOSS) INCOME BEFORE INCOME TAXES	(270,746)	657,870
PROVISION FOR INCOME TAXES		
Current	132,793	171,499
Deferred	(100,164)	(43,822)
Total provision for income taxes	32,629	127,677
NET (LOSS) INCOME	(303,375)	530,193
OTHER COMPREHENSIVE (LOSS) INCOME		
Foreign currency translation adjustment	20,099	(57,180)
COMPREHENSIVE (LOSS) INCOME	$ (283,276)	$ 473,013
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		
Basic	9,500,000	8,833,333
Diluted	9,508,750	10,941,667
EARNINGS PER SHARE		
Basic	$ (0.03)	$ 0.06
Diluted	$ (0.03)	$ 0.05

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

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preference shares		Ordinary shares		Additional Paid-in Capital	Parent's net Investment	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2021	**—**	**—**	**7,000,000**	**700**	**—**	**7,549,010**	**—**	**—**	7,549,710
Consummation of separation transaction upon completion of reorganization	—	—	—	—	8,203,742	(7,549,010)	—	(654,732)	—
Share-Based compensation	—	—	—	—	39,812		—	—	39,812
Issuance of ordinary shares upon Initial Public Offering ("IPO"), net			2,500,000	250	12,370,550		—		12,370,800
Net income	—	—	—	—	—	—	530,193	—	530,193
Foreign currency translation adjustments	—	—	—	—	—	—	—	(57,180)	(57,180)
Balance at March 31, 2022	**—**	**—**	**9,500,000**	**950**	**20,614,104**	**—**	**530,193**	**(711,912)**	**20,433,335**

	Preference shares		Ordinary shares		Additional Paid-in Capital	Parent's net Investment	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2022	**—**	**—**	**9,500,000**	**950**	**20,459,859**	**—**	3,679,920	(1,396,319)	22,744,410
Share-Based compensation	—	—	—	—	119,721		—	—	119,721
Net loss	—	—	—	—	—	—	(303,375)	—	(303,375)
Foreign currency translation adjustments	—	—	—	—	—	—	—	20,099	20,099
Balance at March 31, 2023	**—**	**—**	**9,500,000**	**950**	**20,579,580**	**—**	**3,376,545**	**(1,376,220)**	**22,580,855**

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

FGI INDUSTRIES LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (303,375)	$ 530,193
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	35,560	68,957
Share-based compensation	119,721	39,812
Provision for doubtful accounts	56,932	67,644
Provision of (reversal of) defective return	460,258	(284,548)
Foreign exchange transaction gain (loss)	33,906	(20,460)
Deferred income taxes	(100,164)	(32,708)
Adjustment for Right of use assets	(89,093)	—
Changes in operating assets and liabilities		
Accounts receivable	1,671,959	5,942,915
Inventories	3,416,459	(317,256)
Prepayments and other current assets	(340,296)	(1,055,788)
Prepayments and other receivables – related parties	339,335	(4,200,435)
Other noncurrent assets	(43,769)	(606,253)
Income taxes	130,451	(616,952)
Right-of-use assets	385,477	313,929
Accounts payable	(6,559,270)	(8,085,105)
Accounts payable-related parties	463,964	—
Operating lease liabilities	(332,006)	(311,233)
Accrued expenses and other current liabilities	(576,668)	(499,440)
Net cash used in operating activities	(1,230,619)	(9,066,727)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(74,173)	(24,383)
Net cash used in investing activities	(74,173)	(24,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments of) proceeds from revolving credit facility	(1,368,504)	1,664,130
Net proceeds from issuance of ordinary shares in IPO	—	12,370,800
Excess payment over carrying value on long-lived assets acquisition from common-control affiliate		
Net cash (used in) provided by financing activities	(1,368,504)	14,034,930
EFFECT OF EXCHANGE RATE FLUCTUATION ON CASH	(13,920)	(34,378)
NET CHANGES IN CASH	(2,687,216)	4,909,442
CASH, BEGINNING OF YEAR	10,067,428	3,883,896
CASH, END OF YEAR	$ 7,380,212	$ 8,793,338
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for interest	(250,263)	(130,954)
Cash paid during the period for income taxes	(2,263)	(784,689)
NON-CASH INVESTING AND FINANCING ACTIVITIES		
New addition on Right-of-use assets	(7,444,961)	

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

FGI INDUSTRIES LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Nature of business and organization

FGI Industries Ltd. ("FGI" or the "Company") is a holding company organized on May 26, 2021, under the laws of the Cayman Islands. The Company has no substantive operations other than holding all of the outstanding equity of its operating subsidiaries as described below. The Company is a supplier of global kitchen and bath products and currently focuses on the following categories: sanitaryware (primarily toilets, sinks, pedestals and toilet seats), bath furniture (vanities, mirrors and cabinets), shower systems, customer kitchen cabinetry and other accessory items. These products are sold primarily for repair and remodeling ("R&R") activity and, to a lesser extent, new home or commercial construction. The Company sells its products through numerous partners, including mass retail centers, wholesale and commercial distributors, online retailers and independent dealers and distributors.

The accompanying unaudited condensed consolidated financial statements reflect the activities of FGI and each of the following entities after the Reorganization, as described below:

Name	Background	Ownership
FGI Industries, Inc. (formerly named Foremost Groups, Inc.)	● A New Jersey corporation ● Incorporated on January 5, 1988 ● Sales and distribution in the United States	100% owned by FGI
FGI Europe Investment Limited	● A British Virgin Islands holding company ● Incorporated on January 1, 2007	100% owned by FGI
FGI International, Limited	● A Hong Kong company ● Incorporated on June 2, 2021 ● Sales, sourcing and product development	100% owned by FGI
FGI Canada Ltd.	● A Canadian company ● Incorporated on October 17, 1997 ● Sales and distribution in Canada	100% owned by FGI Industries, Inc.
FGI Germany GmbH & Co. KG	● A German company ● Incorporated on January 24, 2013 ● Sales and distribution in Germany	100% owned by FGI Europe Investment Limited
FGI China, Ltd.	● A PRC limited liability company ● Incorporated on August 19, 2021 ● Sourcing and product development	100% owned by FGI International, Limited
FGI United Kingdom Ltd	● An UK company ● Incorporated on December 10, 2021 ● Sales and distribution in UK	100% owned by FGI Europe Investment Limited
FGI Australasia Pty Ltd	● An Australian company ● Incorporated on September 8, 2022 ● Sales and distribution in Australia	100% owned by FGI
Covered Bridge Cabinetry Manufacturing Co., Ltd	● A Cambodian company ● Incorporated on April 21, 2022 ● Manufacturing in Cambodia	100% owned by FGI

Reorganization

On January 27, 2022, the following reorganization steps were collectively completed: (i) the incorporation of FGI International, Limited ("FGI International") and FGI China, Ltd., (ii) FGI Industries, Inc. (formerly Foremost Groups, Inc.) ("FGI Industries"), which operates the kitchen and bath ("K&B") sales and distribution business in the United States and, through its wholly-owned Canadian subsidiary, Foremost International Limited, in Canada, distributed 100% of the outstanding shares of stock of Foremost Kingbetter Food Equipment Inc. ("FKB"), which operates a separate furniture line of business, to Foremost Groups Ltd. ("Foremost"), FGI Industries' sole shareholder; (iii) Foremost contributed the FKB shares to Foremost Home Inc. ("FHI"), a newly-formed wholly-owned subsidiary of Foremost; and (iv) Foremost contributed 100% of the outstanding shares of stock of each of FGI Industries, FGI Europe Investment Limited ("FGI Europe"), which, directly and, through its wholly-owned German subsidiary, FGI Germany GmbH & Co., operates the K&B sales and distribution business in Europe, and FGI International, which, directly and through its wholly-owned Chinese subsidiary, FGI China, Ltd., operates the K&B sales and distribution business in the remainder of the world, K&B product development and sourcing of K&B products in China, to the Company (collectively, the "Reorganization"), such that, immediately following the Reorganization, (x) Foremost owns 100% of the equity interests in each of the Company and FHI, (y) the Company owns 100% of the equity interests in each of FGI Industries, FGI Europe and FGI International, which collectively, and through subsidiaries, operate the K&B business worldwide (the "K&B Business"), and (z) FHI owns 100% of the equity interests in FKB.

Immediately before and after the Reorganization, each of the Company, FGI Industries, FGI Europe and FGI International, and each of their respective subsidiaries was and remains ultimately controlled by Foremost. As such, the accompanying unaudited condensed consolidated financial statements include the assets, liabilities, revenue, expenses and cash flows that are directly attributable to the K&B Business before the Reorganization. The unaudited condensed consolidated financial statements are presented as if the Company had been in existence and the Reorganization had been in effect during the entirety of the three months ended March 31, 2022. However, such presentation may not necessarily reflect the results of operations, financial position and cash flows if the K&B Business had actually existed on a stand-alone basis during the periods presented before the completion of the Reorganization.

On January 14, 2022 FGI Industries, a wholly-owned subsidiary of the Company, entered into a shared services agreement (the "FHI Shared Services Agreement") with Foremost Home Industries, Inc., a newly-formed wholly-owned subsidiary of Foremost ("FHI"). Pursuant to the FHI Shared Services Agreement, FGI Industries provides FHI with general and administrative services, information technology systems services and human resources services, as well as warehouse space services and supply chain services in the United States. Under the FHI Shared Services Agreement, FHI will reimburse any reasonable and documented out-of-pocket fees incurred by FGI Industries as well as pay a service fee for each service. For warehouse services, FHI will pay FGI Industries a $500,000 annual fee as well as a fee equal to 4% of gross product sales of all products stored in such warehouses. For all other services provided, FHI will pay a service fee equal to the total costs incurred by FGI Industries for such service generally divided by the number of FHI employees relative to FGI Industries employees. The FHI Shared Services Agreement will have an initial term of one year and will renew automatically unless cancelled by either party upon the giving of at least 60 days in advance of the expiration of the then-current term.

On January 14, 2022, the Company entered into a shared services agreement (the "Worldwide Shared Services Agreement") with Foremost Worldwide Co., Ltd. ("Foremost Worldwide") pursuant to which Foremost Worldwide provides FGI Industries with general and administrative services, information technology system services and human resources services, in Taiwan. The terms of the Worldwide Services Agreement as between the service provider and recipient are substantially identical to those of the FHI Shared Services Agreement, including calculation of service fees and termination provisions, with Foremost Worldwide providing services and FGI Industries paying Foremost Worldwide for such services. On January 1, 2023, the Worldwide Services Agreement was amended and restated to include additional digital online and related services.

The assets and liabilities have been stated at historical carrying amounts. Only those assets and liabilities that are specifically identifiable to the K&B Business are included in the Company's unaudited condensed consolidated balance sheets. The Company's unaudited condensed consolidated statements of income and comprehensive income consist of all the revenues, costs and expenses of the K&B Business, including allocations to selling and distribution expenses,

general and administrative expenses, and research and development expenses, and which were incurred by FGI but related to the K&B Business prior to the Reorganization.

All revenues and cost of revenues attributable to selling of K&B products were allocated to the Company. Operating expenses were allocated to the Company based on employees and activities that are involved in the K&B Business. Any expenses that were not directly attributable to any specific business were allocated to the Company based on the proportion of the number of employees of the K&B Business to the total number of employees of both the K&B Business and FHI.

The following table sets forth the revenues, cost of revenues and operating expenses that were irrelevant to the K&B Business allocated from FGI Industries to Foremost Home, Inc. for three months ended March 31, 2023 and 2022, respectively.

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
Revenues	$ 963,201	$ 11,695,792
Cost of revenues	(767,963)	(9,466,904)
Gross profit	195,238	2,228,888
Selling and distribution expenses	58,160	(1,072,811)
General and administrative expenses	—	(194,647)
Research and development expenses	—	(131,288)
Income from operations	$ 253,398	$ 830,142

The following table sets forth the revenues, cost of revenues and operating expenses that were directly related to the K&B Business allocated from Foremost Worldwide Co., Ltd., a wholly-owned subsidiary of Foremost, to FGI International for three months ended March 31, 2023 and 2022, respectively.

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
Revenues	$ —	$ 19,994,801
Cost of revenues	—	(18,586,498)
Gross profit	—	1,408,303
Selling and distribution expenses	—	(297,678)
General and administrative expenses	—	(116,962)
Research and development expenses	—	(11,776)
Income from operations	$ —	$ 981,887

Income tax liability is calculated based on a separate return basis as if the K&B Business had filed separate tax returns before the completion of the Reorganization. Immediately following the Reorganization, the K&B Business began to file separate tax returns and report taxation based on the actual tax return of each legal entity.

Management believes the basis and amounts of these allocations are reasonable. While the expenses allocated to the Company for these items are not necessarily indicative of the expenses that would have been incurred if the Company had been a separate, stand-alone entity, the Company does not believe that there is any significant difference between the nature and amounts of these allocated expenses and the expenses that would have been incurred if the Company had been a separate, stand-alone entity.

Note 2 — Summary of significant accounting policies

Liquidity

Historically, the Company finances its operations through internally generated cash, short-term loans and payables. As of March 31, 2023, the Company had approximately $7.4 million in cash and cash equivalents, which primarily consists of cash on hand and bank deposits, which are unrestricted as to withdrawal and use. As further described in Note 8, as of the date of the report, our wholly owned subsidiary FGI Industries Inc. has obtained an extension for the Corporate Borrower Annual Statements, a U.S. standalone reporting obligation under the Credit Agreement with East West Bank, which were due by April 30, 2023.

If the Company is unable to realize its assets within the normal operating cycle of a twelve (12) month period, the Company may have to consider supplementing its available sources of funds through the following sources:

- other available sources of financing from other banks and financial institutions;
- sales of additional securities to the public or other investors; and
- financial support from the Company's shareholders.

Based on the above considerations, the Company's management is of the opinion that it has sufficient funds to meet the Company's working capital requirements and debt obligations as they become due over the next twelve (12) months.

Basis of presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commissions (the "SEC"), regarding financial reporting, and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operation results.

Principles of consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Subsidiaries are those entities which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at a meeting of directors.

Use of estimates and assumptions

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Significant accounting estimates reflected in the Company's consolidated financial statements include the useful lives of property and equipment, allowance for doubtful accounts, inventory reserve, accrued defective return, provision for contingent liabilities, revenue recognition, deferred taxes and uncertain tax position. Actual results could differ from these estimates.

Foreign currency translation and transaction

The functional currencies of the Company and its subsidiaries are the local currency of the country in which the subsidiaries operate, except for FGI International, which is incorporated in Hong Kong and adopted the United States Dollar ("U.S. Dollar" or "USD") as its functional currency. The reporting currency of the Company is the U.S. Dollar.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currencies is translated at the historical rates of exchange at the time of capital contributions. The results of operations and the cash flows denominated in foreign currencies are translated at the average rates of exchange during the reporting period. Because cash flows are translated based on the average translation rates, amounts related to assets and liabilities reported on the unaudited condensed consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the unaudited condensed consolidated balance sheets. Translation adjustments arising from the use of different exchange rates from period to period are included as a separate component of accumulated other comprehensive income included in the unaudited condensed consolidated statements of changes in shareholders' equity. Transaction gains and losses arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency in the unaudited condensed consolidated statements of income and comprehensive income.

For the purpose of presenting the financial statements of subsidiaries using the Renminbi ("RMB") as their functional currency, the Company's assets and liabilities are expressed in U.S. Dollars at the exchange rate on the balance sheet date, which was 6.8770 and 6.9653 as of March 31, 2023 and December 31, 2022, respectively; shareholders' equity or parent's net investment accounts are translated at historical rates, and income and expense items are translated at the average exchange rate during the period, which was 6.8943 and 6.3532 for the three months ended March 31, 2023 and 2022, respectively.

For the purpose of presenting the financial statements of the subsidiary using the Canadian Dollar ("CAD") as its functional currency, the Company's assets and liabilities are expressed in U.S. Dollars at the exchange rate on the balance sheet date, which was 1.3541 and 1.3541 as of March 31, 2023 and December 31, 2022, respectively; shareholders' equity or parent's net investment accounts are translated at historical rates, and income and expense items are translated at the average exchange rate during the period, which was 1.3541 and 1.2697 for the three months ended March 31, 2023 and 2022, respectively.

For the purpose of presenting the financial statements of the subsidiary using the Euro ("EUR") as its functional currency, the Company's assets and liabilities are expressed in U.S. Dollars at the exchange rate on the balance sheet date, which was 0.9194 and 0.9338 as of March 31, 2023 and December 31, 2022, respectively; parent's net investment accounts are translated at historical rates, and income and expense items are translated at the average exchange rate during the period, which was 0.9337 and 0.8887 for the three months ended March 31, 2023 and 2022, respectively.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation, specifically the interest expenses and accrued expenses and other current liabilities in consolidated statements of cash flow. These reclassifications have no effect on the consolidated balance sheets and results of operations previously reported.

Cash

Cash consists of cash on hand, demand deposits and time deposits placed with banks or other financial institutions that have original maturities of three months or less. The Company did not have any cash equivalents as of March 31, 2023 and December 31, 2022.

Accounts receivable, net

Bills and trade receivables include trade accounts due from customers. In establishing the required allowance for doubtful accounts, management considers historical collection experience, aging of the receivables, the economic environment, industry trend analysis, and the credit history and financial conditions of the customers. Management reviews its receivables on a regular basis to determine if the bad debt allowance is adequate, and adjusts the allowance when necessary. Delinquent account balances are written off against allowance for doubtful accounts after management has determined that the likelihood of collection is not probable.

Inventories, net

Inventories are stated at the lower of cost and net realizable value. Cost consists of purchase price and related shipping and handling expenses, and is determined using the weighted average cost method, based on individual products. The methods of determining inventory costs are used consistently from year to year. A provision for slow-moving items is calculated based on historical experience. Management reviews this provision annually to assess whether, based on economic conditions, it is adequate.

Prepayments

Prepayments are cash deposited or advanced to suppliers for the purchase of goods or services that have not been received or provided. This amount is refundable and bears no interest. Prepayments and deposits are classified as either current or non-current based on the terms of the respective agreements. These advances are unsecured and are reviewed periodically to determine whether their carrying value has become impaired.

Property and equipment, net

Property and equipment are stated at cost net of accumulated depreciation and impairment. Depreciation is provided over the estimated useful lives of the assets using the straight-line method from the time the assets are placed in service. Estimated useful lives are as follows:

	Useful Life
Building	20 years
Leasehold Improvements	Lesser of lease term and expected useful life
Machinery and equipment	3 – 5 years
Furniture and fixtures	3 – 5 years
Vehicles	5 years
Molds	3 – 5 years

Intangible assets, net

The Company's intangible assets with definite useful lives primarily consist of software acquired for internal use. The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment. The Company typically amortizes its intangible assets with definite useful lives on a straight-line basis over the estimated useful lives of ten years.

Impairment for long-lived assets

Long-lived assets, including property and equipment and intangible assets with definite useful lives, are reviewed for impairment whenever material events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset group may not be recoverable. The Company assesses the recoverability of an asset group based on the undiscounted future cash flows the asset group is expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from disposition of the asset group, if any, are less than the carrying value of the asset group. If an impairment is identified, the Company would reduce the carrying amount of the asset group to its estimated fair value based on a discounted cash flows approach or, when available and appropriate, to comparable market values. As of March 31, 2023 and December 31, 2022, no impairment of long-lived assets was recognized.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, net ("ROU assets"), operating lease liabilities — current and operating lease liabilities — noncurrent on the unaudited condensed consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the duration of the lease term while lease liabilities represent the Company's obligation to make lease payments in exchange for the right to use an underlying asset. ROU assets and lease liabilities are measured based on the present value of fixed lease payments over the lease term at the commencement date. The ROU asset also includes any lease payments made prior to the commencement date and initial direct costs incurred, and is reduced by any lease incentives received. The Company reviews its ROU assets as material events occur or circumstances change that would indicate the carrying amount of the ROU assets are not recoverable and exceed their fair values. If the carrying amount of an ROU asset is not recoverable from its undiscounted cash flows, then the Company would recognize an impairment loss for the difference between the carrying amount and the current fair value.

As most of the Company's leases do not provide an implicit rate, the Company generally uses its incremental borrowing rate on the commencement date of the lease as the discount rate in determining the present value of future lease payments. The Company determines the incremental borrowing rate for each lease by using the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The Company's lease terms may include options to extend or terminate the lease when there are relevant economic incentives present that make it reasonably certain that the Company will exercise that option. The Company accounts for any non- lease components separately from lease components.

Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Fair Value Measurement

The accounting standard regarding fair value of financial instruments and related fair value measurements defines financial instruments and requires disclosure of the fair value of financial instruments held by the Company.

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

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

Financial instruments included in current assets and current liabilities are reported in the consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Revenue recognition

The Company recognized revenue in accordance with Accounting Standards Codification ("ASC") 606 – Revenue from Contracts with Customers. Revenues are recognized when control of the promised goods or performance obligations for services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services.

The Company generates revenues from sales of kitchen and bath products, and recognizes revenue as control of its products is transferred to its customers, which is generally at the time of shipment or upon delivery based on the contractual terms with the Company's customers. The Company's customers' payment terms generally range from 15 to 60 days of fulfilling its performance obligations and recognizing revenue.

The Company provides customer programs and incentive offerings, including co-operative marketing arrangements and volume-based incentives. These customer programs and incentives are considered variable consideration. The Company includes in revenue variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the variable consideration is resolved. This determination is made based upon known customer program and incentive offerings at the time of sale, and expected sales volume forecasts as it relates to the Company's volume- based incentives. This determination is updated on a monthly basis.

Certain product sales include a right of return. The Company estimates future product returns at the time of sale based on historical experience and records a corresponding reduction in accounts receivable.

The Company records receivables related to revenue when it has an unconditional right to invoice and receive payment.

The Company's disaggregated revenues are summarized as follows:

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
Revenues by product line		
Sanitaryware	$ 15,354,546	$ 26,794,255
Bath Furniture	4,966,659	10,115,812
Shower System	5,030,557	5,961,119
Others	1,810,504	704,053
Total	$ 27,162,266	$ 43,575,239

	Revenues		Total assets	
	For the Three Months Ended March 31,		As of March 31,	As of December 31,
	2023	2022	2023	2022
	USD	USD	USD	USD
Revenues/ total asset by geographic location				
United States	$ 17,532,126	$ 27,353,195	$ 33,797,006	$ 38,364,005
Canada	6,520,984	12,296,002	19,622,656	14,584,946
Europe	3,109,156	3,926,042	368,696	343,946
Rest of World	—	—	4,916,835	7,074,033
Total	$ 27,162,266	$ 43,575,239	$ 58,705,193	$ 60,366,930

Shipping and Handling Costs

Shipping and handling costs are expensed as incurred and are included in selling and distribution expenses on the accompanying statement of operations. For the three months ended March 31, 2023 and 2022, shipping and handling expense was $103,714 and $247,109, respectively.

Share-based compensation

The Company accounts for share-based compensation in accordance with ASC 718, Compensation — Stock Compensation ("ASC 718"). In accordance with ASC 718, the Company determines whether an award should be classified and accounted for as a liability award or an equity award. All the Company's share-based awards were

classified as equity awards and are recognized in the consolidated financial statements based on their grant date fair values.

The Company has elected to recognize share-based compensation using the straight-line method for all share-based awards granted over the requisite service period, which is the vesting period. The Company accounts for forfeitures as they occur in accordance with ASC 718. The Company, with the assistance of an independent third-party valuation firm, determines the fair value of the stock options granted to employees. The Black Scholes Model is applied in determining the estimated fair value of the options granted to employees and non-employees. The Company recognized share-based compensation $119,720 and $39,812 for the three months ended March 31, 2023 and 2022, respectively.

Income Taxes

Deferred taxes are recognized based on the future tax consequences of the differences between the carrying value of assets and liabilities and their respective tax bases. The future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax-planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period and projected future taxable income.

If, based upon all available evidence, both positive and negative, it is more likely than not (i.e., more than 50 percent likely) that such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three- year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable, and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of the deferred tax assets.

The current accounting guidance allows the recognition of only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. The Company believes that there is an increased potential for volatility in its effective tax rate because this threshold allows for changes in the income tax environment and, to a greater extent, the inherent complexities of income tax law in a substantial number of jurisdictions, which may affect the computation of its liability for uncertain tax positions.

The Company records interest and penalties on our uncertain tax positions in income tax expense.

As of March 31, 2023, the tax years ended December 31, 2019 through December 31, 2021 for FGI Industries, Inc. remain open for statutory examination by tax authority.

We record the tax effects of Foreign Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI) related to our foreign operations as a component of income tax expense in the period in which the tax arises.

Comprehensive income

Comprehensive income consists of two components: net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that under US GAAP are recorded as an element of equity but are excluded from net income. Other comprehensive income consists of a foreign currency translation adjustment resulting from the Company not using the U.S. Dollar as its functional currencies.

Earnings per share

The Company computes earnings per share ("EPS") in accordance with ASC 260, "Earnings per Share" ("ASC 260"). ASC 260 requires companies to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average ordinary shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of the potential ordinary shares (e.g., convertible securities, options and warrants) as if they had been converted at

the beginning of the periods presented, or issuance date, if later. Potential ordinary shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2023 and 2022:

	For the Three Months Ended March 31, 2023 USD	For the Three Months Ended March 31, 2022 USD
Numerator:		
Net income attributable to FGI Industries Ltd	$ (303,375)	$ 530,193
Denominator:		
Weighted-average number of ordinary shares outstanding — basic	9,500,000	8,833,333
Potentially dilutive shares from outstanding options/warrants	8,750	2,108,334
Weighted-average number of ordinary shares outstanding — diluted	9,508,750	10,941,667
Earnings per share — basic	$ (0.03)	$ 0.06
Earnings per share — diluted	$ (0.03)	$ 0.05

Potential ordinary shares that have an anti-dilutive effect are excluded from the calculation of diluted EPS 916,682 and 2,925,000 number of options and warrants, respectively, were excluded from diluted EPS because their effects were anti-dilutive.

Segment reporting

ASC 280, “Segment Reporting,” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for detailing the Company’s business segments.

Recently adopted accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,” amending the accounting for the impairment of financial instruments, including trade receivables. Under previous guidance, credit losses were recognized when the applicable losses had a probable likelihood of occurring and this assessment was based on past events and current conditions. The amended current guidance eliminates the “probable” threshold and requires an entity to use a broader range of information, including forecast information when estimating expected credit losses. Generally, this should result in a more timely recognition of credit losses. This guidance became effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted for interim and annual periods beginning after December 15, 2018. The requirements of the amended guidance should be applied using a modified retrospective approach except for debt securities, which require a prospective transition approach. In November 2019, the FASB issued ASU 2019-10, which finalized the delay of such effective date to fiscal years beginning after December 15, 2022 for private and all other companies, including emerging growth companies. As an emerging growth company, the Company adopted this guidance from January 1, 2023 and did not have an impact on its unaudited condensed consolidated financial statements.

The Company considers the applicability and impact of all ASUs. ASUs not listed above were assessed and determined not to be applicable.

Note 3 — Accounts receivable, net

Accounts receivable, net consisted of the following:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Accounts receivable	$ 14,658,581	$ 16,330,540
Allowance for doubtful accounts	(495,775)	(438,843)
Accrued defective return and discount	(2,056,096)	(1,595,838)
Accounts receivable, net	$ 12,106,710	$ 14,295,859

Movements of allowance for doubtful accounts are as follows:

	For the Three Months Ended March 31, 2023	For the Years Ended December 31, 2022
	USD	USD
Beginning balance	$ 438,843	$ 177,462
Addition	56,932	261,381
Ending balance	$ 495,775	$ 438,843

Movements of accrued defective return and discount accounts are as follows:

	For the Three Months Ended March 31, 2023	For the Years Ended December 31, 2022
	USD	USD
Beginning balance	$ 1,595,838	$ 3,292,101
Addition (Provision), net	460,258	(1,696,263)
Ending balance	$ 2,056,096	$ 1,595,838

Note 4 — Inventories, net

Inventories, net consisted of the following:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Finished product	$ 10,624,372	$ 13,956,121
Reserves for slow-moving inventories	(748,240)	(663,530)
Inventories, net	$ 9,876,132	$ 13,292,591

Movements of inventory reserves are as follows:

	For the Three Months Ended March 31, 2023	For the Years Ended December 31, 2022
	USD	USD
Beginning balance	$ 663,530	$ 544,158
Addition	84,710	119,372
Ending balance	$ 748,240	$ 663,530

Note 5 — Prepayments and other assets

Prepayments and other assets consisted of the following:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Prepayments	$ 2,363,600	$ 2,026,259
Others	564,777	561,822
Total prepayments and other assets	$ 2,928,377	$ 2,588,081

Note 6 — Property and equipment, net

Property and equipment, net consist of the following:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Building*	$ 946,066	$ 946,066
Leasehold Improvements	1,074,206	1,074,206
Machinery and equipment	2,320,934	2,246,610
Furniture and fixtures	516,310	516,310
Vehicles	147,912	147,913
Molds	26,377	26,377
Subtotal	5,031,805	4,957,482
Less: accumulated depreciation	(3,723,108)	(3,687,511)
Total	$ 1,308,697	$ 1,269,971

*The building is not yet in service.

Depreciation expense for the three months ended March 31, 2023, and 2022 amounted to $35,560 and $47,615, respectively, which were included in general and administrative expenses on the unaudited condensed consolidated statements of income and comprehensive income.

Note 7 — Leases

The Company has operating leases primarily for corporate offices, warehouses and showrooms. As of March 31, 2023, the Company's leases have remaining lease terms up to 11.9 years.

The company also purchased an operating lease land from a common control affiliate for manufacturing, which has remaining lease term up to 50 years and can be extended for another 50 years for $1.

For the three months ended March 31, 2023 and 2022, the total lease expenses paid was $417,679 and $410,152, respectively.

The table below presents the operating lease related assets and liabilities recorded on the Company's consolidated balance sheets:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Operating lease right-of-use assets	$ 16,263,039	$ 9,815,572
Operating lease liabilities – current	$ 1,191,178	$ 1,543,031
Operating lease liabilities – noncurrent	14,611,015	7,847,317
Total operating lease liabilities	$ 15,802,193	$ 9,390,348

Information relating to the lease term and discount rate are as follows:

	As of March 31, 2023	As of December 31, 2022
Weighted-average remaining lease term		
Operating leases	9.9 years	7.9 years
Weighted-average discount rate		
Operating leases	5.6%	4.7%

As of September 30, 2022, the maturities of operating lease liabilities were as follows:

For the 12 months ending March 31,	
2023	$ 2,054,699
2024	2,423,064
2025	2,548,107
2026	2,623,112
2027	2,529,088
Thereafter	8,656,128
Total lease payments	20,834,198
Less: imputed interest	(5,032,005)
Present value of lease liabilities	$ 15,802,193

Note 8 — Short-term loans

Bank loan

Our wholly-owned subsidiary FGI Industries, Inc. (formerly named Foremost Groups, Inc.) ("FGI Industries") has a line of credit agreement (the "Credit Agreement") with East West Bank, which is collateralized by all assets of FGI Industries and personally guaranteed by Liang Chou Chen, who holds approximately 49.75% of the voting control of Foremost. The current amount of maximum borrowings is $18,000,000 and the Credit Agreement has a maturity date of December 21, 2024. This is an assets-based line of credit, the borrowing limit is calculated based on certain percentage of accounts receivable and inventory balances.

Pursuant to the Credit Agreement, FGI Industries is required to maintain (a) a debt coverage ratio (defined as earnings before interest, taxes, depreciation and amortization divided by current portion of long-term debt plus interest expense) of not less than 1.25 to 1, tested at the end of each fiscal quarter; (b) an effective tangible net worth (defined as total book net worth plus minority interest, less amounts due from officers, shareholders and affiliates, minus intangible assets and accumulated amortization, plus debt subordinated to East West Bank) of not less than $10,000,000, tested at the end of each fiscal quarter, on consolidated basis; and (c) a total debt to tangible net worth ratio (defined as total liabilities divided by tangible net worth, which is defined as total book net worth plus minority interest, less loans to officers, shareholders, and affiliates minus intangible assets and accumulated amortization) not to exceed 4.0 to 1, tested at the end of each fiscal quarter, on consolidated basis. As of March 31, 2023, FGI Industries was in compliance with this financial covenant. FGI Industries is also required to provide the lender with certain periodic financial information,

including annual financial statements of FGI Industries on a non-consolidated basis. As of the date of report, FGI Industries has obtained an extension to June 30, 2023 for such Corporate Borrower Annual Statements, a U.S. standalone reporting obligation under the Credit Agreement, which were due by April 30, 2023.

The loan bears interest at rate equal to, at the Company's option, either (i) 0.25 percentage points less than the Prime Rate quoted by the Wall Street Journal or (ii) the SOFR Rate (as administered by CME Group Benchmark Administration Limited and displayed by Bloomberg LP) plus 2.20% per annum (in either case, subject to a minimum rate of 4.500% per annum). The interest rate as of March 31, 2023, and December 31, 2022 was 7.75% and 7.25%, respectively.

Each sum of borrowings under the Credit Agreement is deemed due on demand and is classified as a short-term loan. The outstanding balance of such loan was $8,426,548 and $9,795,052 as of March 31, 2023, and December 31, 2022, respectively.

HSBC Canada Bank Loan / Foreign Exchange Facility

FGI Canada Ltd. has a line of credit agreement with HSBC Canada (the "Canadian Revolver"). The revolving line of credit with HSBC Canada allows for borrowing up to CAD $7,500,000 (US $5,538,734 as of the March 31, 2023 exchange rate). This is an assets-based line of credit, the borrowing limit is calculated based on certain percentage of accounts receivable and inventory balances. Pursuant to the Canadian Revolver, FGI Canada Ltd. is required to maintain (a) a debt to tangible net worth ratio of no more than 3.00 to 1.00; and (b) a ratio of current assets to current liabilities of at least 1.25 to 1.00. The loan bears interest at a rate of Prime rate plus 0.50%. As of March 31, 2023, FGI Canada Ltd. was in compliance with this financial covenant.

Borrowings under this line of credit amounts to $0 as of March 31, 2023, and December 31, 2022. The facility matures at the discretion of HSBC Canada upon 60 days' notice.

FGI Canada Ltd. also has a revolving foreign exchange facility with HSBC Canada of up to a permitted maximum of US $3,000,000. The advances are available to purchase foreign exchange forward contacts from time to time up to six months, subject to an overall maximum aggregate USD Equivalent outstanding face value not exceeding $3,000,000.

Note 9 — Shareholders' Equity

FGI was incorporated in the Cayman Islands on May 26, 2021 in connection with the planned Reorganization, as described in Note 1. The Company is authorized to issue 50,000,000 ordinary shares with a par value of $0.001 per share.

On January 27, 2022, the Company completed the Reorganization upon the consummation of the initial public offering ("IPO"). After the Reorganization and the IPO, the Company's authorized share capital is $21,000 divided into (i) 200,000,000 Ordinary Shares of par value of $0.0001 each, and (ii) 10,000,000 Preference Shares of par value of $0.0001 each; 9,500,000 ordinary shares were issued and outstanding accordingly. The Company believes it is appropriate to reflect these share issuances as nominal share issuances on a retroactive basis similar to a stock split pursuant to ASC 260. The Company has retroactively adjusted all shares and per share data for all the periods presented.

Initial Public Offering

On January 27, 2022, the Company consummated its IPO of 2,500,000 units ("Units"), each consisting of (i) one ordinary share, $0.0001 par value per share, of the Company (the "Shares"), and (ii) one warrant of the Company (the "Warrants") entitling the holder to purchase one Share at an exercise price of $6.00 per Share. The Shares and Warrants were issued separately in the offering, and may be transferred separately immediately upon issuance. The Units were sold at a price of $6.00 per Unit. The Warrants included in the units were immediately exercisable following the consummation of the offering, have an exercise price equal to the initial public offering price, and expire five years from the date of issuance.

For the purposes of covering any over-allotments in connection with the distribution and sale of the Units, the Company granted a 45-day option to the underwriters to purchase (the "Over-allotment Option"), in the aggregate, up to 375,000 ordinary shares (the "Option Shares") and Warrants to purchase up to 375,000 ordinary shares (the "Option Warrants"), which was exercisable in any combination of Option Shares and/or Option Warrants at the per Share purchase price and/or the per Warrant purchase price, respectively. On January 25, 2022, the underwriters exercised in full their option to purchase up to an additional 375,000 Warrants at the price of $0.01 per Option Warrant. Management determined that these Warrants meet the definition of a derivative under ASC 815-40; however, they fall under the scope exception, which states that contracts issued that both a) indexed to its own stock; and b) classified in shareholders' equity are not considered derivatives. The Warrants were recorded at their fair value on the date of grant as a component of equity.

The aggregated fair value of these Warrants on January 27, 2022 was $4.16 million. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of $1.448; risk free rate of 1.66%; expected term of five years; exercise price of the warrants of $6.00; volatility of 44.00%; and expected future dividends of $0. As of the date of this report, 2,875,000 warrants were issued and outstanding; and none of the warrants has been exercised.

The gross proceeds from the IPO were approximately $15.00 million with net proceeds of approximately $12.4 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company. Immediately following the consummation of the IPO, there were an aggregate of 9,500,000 ordinary shares issued and outstanding. As a result of the IPO, the ordinary shares and Warrants now trade on the Nasdaq Capital Market under the symbol "FGI" and "FGIWW," respectively.

Public Offering Warrants

In connection with and upon the closing of the IPO on January 27, 2022, the Company issued warrants equal to 2% of the Shares issued in the IPO, or 50,000 ordinary shares, to the representative of the underwriters for the IPO. The warrants carry a term of five years, shall not be exercisable for a period of 180 days from the closing of the IPO and shall be exercisable at a price equal to the IPO price per share. Management determined that these warrants meet the definition of a derivative under ASC 815-40; however, they fall under the scope exception, which states that contracts issued that are both a) indexed to its own stock; and b) classified in shareholders' equity are not considered derivatives. The warrants were recorded at their fair value on the date of grant as a component of equity.

The aggregated fair value of these IPO warrants on January 27, 2022 was $0.1 million. The fair value has been estimated using the Black-Scholes pricing model with the following weighted-average assumptions: market value of underlying stock of $1.448; risk free rate of 1.66%; expected term of five years; exercise price of the warrants of $6.00; volatility of 44.00%; and expected future dividends of $0. As of the date of this report, warrants exercisable for 50,000 shares were issued and outstanding; and none of the warrants have been exercised.

Note 10 — Stock-based compensation

2021 Equity Plan and Employee Stock Purchase Plan

On October 7, 2021, the board of directors adopted the 2021 Equity Incentive Plan (the "2021 Equity Plan"). The 2021 Equity Plan permits the grant of equity and equity-based incentive awards, including non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, stock unit awards and other stock-based awards. The purpose of the 2021 Equity Plan is to attract and retain the best available personnel for positions of responsibility within the Company, to provide additional incentives to them to align their interests with those of the Company's shareholders and to thereby promote the Company's long-term business success.

On October 7, 2021, the board approved the adoption of the FGI Industries Ltd. Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's shareholders on October 7, 2021, and became effective on the effective date of the Company's consummation of the IPO of its ordinary shares. The ESPP offers eligible employees the

opportunity to acquire a stock ownership interest in the Company through periodic payroll deductions that will be applied towards the purchase of ordinary shares at a discount from the then-current market price.

The board set the maximum aggregate number of ordinary shares reserved and available pursuant to the 2021 Equity Plan at 1,500,000 shares. The number of ordinary shares reserved for issuance under our 2021 Equity Plan will automatically increase on the first day of each year, commencing on January 1, 2022 and ending on (and including) January 1, 2031, in an amount equal to the lesser of (a) 4.5% of the total number of ordinary shares outstanding on December 31 of the immediately preceding calendar year, (b) 600,000 ordinary shares, or (c) such lesser number of shares as determined by the Board. The Equity Plan became effective on September 28, 2021.

The Company believes the options or awards granted contain an explicit service condition and/or performance condition. Under ASC 718-10-55-76, if the vesting (or exercisability) of an award is based on the satisfaction of both a service and performance condition, the entity must initially determine which outcomes are probable and recognize the compensation cost over the longer of the explicit or implicit service period. Because an initial public offering generally is not considered to be probable until the initial public offering is effective, no compensation cost was recognized until the IPO occurred.

Restricted shares units ("RSU")

On January 27, 2022, the board of directors approved the issuance of 183,750 restricted share units ("RSUs") to certain officers and employees under the 2021 Equity Plan as compensation awards. The fair value for these RSUs was $716,625 based on the closing share price of $3.90 as at January 27, 2022. These awards will vest in three equal installments on each anniversary of the grant date over three years. As of March 31, 2023, no granted shares under this plan are vested.

On April 13, 2022, the board of directors approved the issuance of 8,750 RSUs to an employee under the 2021 Equity Plan as compensation awards. The fair value for these RSUs was $22,050 based on the closing share price of $2.52 as at April 13, 2022. These awards will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining shares will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service, commencing on the grant date. As of March 31, 2023, no granted shares under this plan are vested.

On May 11, 2022, the board of directors approved the issuance of 87,611 RSUs under the 2021 Equity Plan to Company officers to incentivize their performance and continue to align their interests with the Company's shareholders. All these awards are subjected to performance conditions and will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining shares will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service, commencing on the grant date. The fair value for these RSUs was $198,000 based on the closing share price of $2.26 as at May 11, 2022. If the maximum performance is met, the Company will issue additional 43,805 RSUs per this plan with fair value of $99,000. As of March 31, 2023, no granted shares under this plan are vested.

On May 17, 2022, the board of directors approved the issuance of 16,363 RSUs to its independent directors under the 2021 Equity Plan as compensation award. All these awards are subjected to performance conditions and will vest on December 31, 2024. The fair value for these RSUs was $36,000 based on the closing share price of $2.20 as at May 17, 2022. As of March 31, 2023, no granted shares under this plan are vested.

On March 23, 2023, the board of directors approved the issuance of 96,635 RSUs under the 2021 Equity Plan to Company officers to incentivize their performance and continue to align their interests with the Company's shareholders. All these awards are subjected to performance conditions and will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining shares will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service, commencing on the grant date. The fair value for these RSUs was $201,000 based on the closing share price of $2.08 as at March 29, 2023. If the maximum performance is met, the Company will issue additional 48,317 RSUs per this plan with fair value of $100,500. As of March 31, 2023, no granted shares under this plan are vested.

On March 23, 2023, the board of directors approved the issuance of 17,349 RSUs to its independent directors under the 2021 Equity Plan as compensation award. All these awards are subjected to performance conditions and will vest on December 31, 2025. The fair value for these RSUs was $36,000 based on the closing share price of $2.08 as at March 29, 2023. As of March 31, 2023, no granted shares under this plan are vested

The following is a summary of the restricted share granted:

Restricted shares grants	Shares
Non-vested as of December 31, 2021	—
Granted	410,458
Vested	—
Non-vested as of March 31, 2023	410,458

The following is a summary of the status of restricted share at March 31, 2023:

Outstanding Restricted Share		
Fair Value per share	Number	Average Remaining Amortization Period (Years)
$ 3.90	183,750	1.83
$ 2.52	8,750	2.00
$ 2.26	87,611	2.08
$ 2.20	16,363	2.25
$ 2.08	96,635	3.00
$ 2.08	17,349	3.00
	410,458	

Share options ("Options")

On March 24, 2022, the board of directors approved the issuance of 98,747 share options under the 2021 Equity Plan with an exercise price per share of $3.07 and a contractual life of 10 years to the Company's executive officers and directors to incentivize their performance and continue to align their interests with the Company's shareholders. The fair value for these options was $141,401 determined using the Black-Scholes simplified method at the per option fair value of $1.43. All these options will vest as to one-third of the options on the one-year anniversary of the grant date. The remaining options will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service. As of March 31, 2023, no granted options under this plan are vested.

On April 13, 2022, the board of directors approved the issuance of 97,371 share options under the 2021 Equity Plan with an exercise price per share of $2.52 and a contractual life of 10 years to the Company's employees to incentivize their performance and continue to align their interests with the Company's shareholders. The fair value for these options was $114,972 determined using the Black-Scholes simplified method at the per option fair value of $1.18. All these options will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining options will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service. As of March 31, 2023, no granted options under this plan are vested.

On May 11, 2022, the board of directors approved the issuance of 159,881 share options under the 2021 Equity Plan with an exercise price per share of $2.26 and a contractual life of 10 years to Company officers to incentivize their performance and continue to align their interests with the Company's shareholders. The fair value for these options was $171,462 determined using the Black-Scholes simplified method at the per option fair value of $1.07. All these options are subjected to performance conditions and will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining options will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service, commencing on the grant date. The actual number of options 159,881 shares were determined, no additional options would be granted per performance threshold. As of March 31, 2023, no granted options under this plan are vested.

On March 23, 2023, the board of directors approved the issuance of 158,976 share options under the 2021 Equity Plan with an exercise price per share of $2.08 and a contractual life of 10 years to Company officers to incentivize their performance and continue to align their interests with the Company's shareholders. The fair value for these options was $201,000 determined using the Black-Scholes simplified method at the per option fair value of $1.26. All these options are subjected to performance conditions and will vest as to one-third of the shares on the one-year anniversary of the grant date. The remaining options will vest in a series of 24 successive equal monthly installments upon completion of each additional month of service, commencing on the grant date. The actual number of options were determined, no additional options would be granted per performance threshold. As of March 31, 2023, no granted options under this plan are vested.

The options granted to employees are measured based on the grant date fair value of the equity instrument. They are accounted for as equity awards and contain service or performance vesting conditions. The following table summarizes the Company's employee share option activities:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant date Fair Value	Weighted Average Remaining Contractual Term	Average Intrinsic value
		USD	USD	Years	USD
Share options outstanding at December 31, 2022	380,745	2.54	1.19	9.35	—
Granted	158,976	2.08	1.26	10.00	—
Forfeited	24,746	—	—	—	—
Exercised	—	—	—	—	—
Expired	—	—	—	—	—
Share options outstanding at March 31, 2023	514,975	2.41	1.22	9.38	154,405
Vested and exercisable at March 31, 2023	—	—	—	—	—

For the three months ended March 31, 2023 and 2022, the total fair value of options awarded was $628,834 and $141,401, respectively.

The aggregate intrinsic value in the table above represents the difference between the exercise price of the awards and the fair value of the underlying Ordinary Shares at each reporting date, for those awards that had exercise price below the estimated fair value of the relevant Ordinary Shares.

Fair value of options

The Company used the Black-Scholes simplified method for the three months ended March 31, 2023. The assumptions used to value the options granted to employees were as follows:

	For the three months ended March 31, 2023	For the year ended December 31, 2022
Risk-free interest rate	3.65 %	2.49 - 2.92 %
Expected volatility range	63.36 %	40.30 - 45.67 %
Fair market value per ordinary share as at grant dates	$ 2.08	$ 2.26 - 3.07

The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the contractual term of the awards. Expected volatility is estimated based on the volatility of ordinary shares or common stock of several comparable companies in the same industry. The expected exercise multiple is based on management's estimation, which the Company believes is representative of the future.

The Company has elected to recognize share-based compensation expense using a straight-line method for all the employee equity awards granted with graded vesting based on service conditions, provided that the amount of compensation cost recognized at any date is at least equal to the portion of the grant date fair value of the equity awards that are vested at that date.

The following table sets forth the amount of share-based compensation expense included in each of the relevant financial statement line items:

	For the three months ended March 31,	
	2023	2022
	USD	USD
Selling and distribution expenses	31,248	14,950
General and administrative expenses	88,472	24,862
Total share-based compensation expenses	119,720	39,812

As of March 31, 2023, there was $1,335,214 in total unrecognized employee share-based compensation expense related to unvested options and RSUs, which may be adjusted for actual forfeitures occurring in the future. Total unrecognized compensation cost may be recognized over a weighted-average period of 2.29 years.

Note 11 — Income taxes

The source of pre-tax income and the components of income tax expense are as follows:

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
Income components		
United States	$ (438,842)	$ (233,734)
Outside United States	168,096	891,604
Total pre-tax income	$ (270,746)	$ 657,870
Provision for income taxes		
Current		
Federal	$ (541)	$ —
State	(2,754)	3,973
Foreign	136,088	167,526
	132,793	171,499
Deferred		
Federal	(100,563)	(35,370)
State	399	(8,452)
Foreign	—	—
	(100,164)	(43,822)
Total provision for income taxes	$ 32,629	$ 127,677

Reconciliations between taxes at the U.S. federal income tax rate and taxes at the Company's effective income tax rate on earnings before income taxes are as follows:

	For the Three Months Ended March 31,	
	2023	2022
Federal statutory rate	21.0 %	21.0 %
(Decrease) increase in tax rate resulting from:		
State and local income taxes, net of federal benefit	4.7	(0.6)
Foreign operations	(37.2)	(4.0)
Permanent items	(1.3)	1.8
Deferred rate changes	(6.8)	—
Others	7.6	0.1
Effective tax rate	(12.1)%	18.3 %

The following is a summary of the components of the net deferred tax assets and liabilities recognized in the consolidated balance sheets:

	As of March 31, 2023	As of December 31, 2022
	USD	USD
Deferred tax assets		
Allowance for doubtful accounts	$ 121,032	$ 109,713
Other reserve	146,402	144,333
Accrued expenses	163,210	126,992
Lease liability	2,027,769	2,144,348
Charitable contributions	8,363	8,565
Business interest limitation	422,692	385,069
Net operating loss – federal	414,905	414,905
Net operating loss – state	76,385	75,863
Other	46,006	46,005
Total deferred tax assets	3,426,764	3,455,793
Less: valuation allowance	—	—
Net deferred tax assets	3,426,764	3,455,793
Deferred tax liabilities		
Fixed assets	2,087,915	2,190,254
Intangibles	(26,854)	—
Total deferred tax liabilities	2,061,061	2,190,254
Deferred tax assets, net of deferred tax liabilities	$ 1,365,703	$ 1,265,539

The deferred tax assets related to the Company's net operating losses of $3,192,687 (Federal $1,975,734 and States $1,216,953) and $3,174,799 (Federal $1,975,734 and States $1,199,065) as of March 31, 2023 and December 31, 2022, respectively. The Federal Net Operating losses have no expiration date. The States Net Operating losses have either 20 years or no expiration date. The Company had no material unrecognized tax benefits at March 31, 2023 or, December 31, 2022. The Company has not taken any tax positions for which it is reasonably possible that unrecognized tax benefits will significantly increase within the next 12 months.

Inflation Reduction Act of 2022

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IR Act") was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its shareholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations

are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the "Treasury") has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax.

Note 12 — Related party transactions and balances

Purchase from a related party – consisted of the following:

Name of Related Party	Relationship	Nature of transactions	For the three months ended March 31, 2023 USD	For the three months ended March 31, 2022 USD
Focal Capital Holding Limited	An entity under common control	Purchase	$ 2,847,761	$ 4,169,794
Foremost Worldwide Co., Ltd	An entity under common control	Purchase	653,229	36,838
			$ 3,500,990	$ 4,206,632

The ending balance of such transactions as of March 31, 2023 and December 31, 2022, are listed of the following:

Prepayments — related parties

Name of Related Party	March 31, 2023 USD	December 31, 2022 USD
Focal Capital Holding Limited	3,429,656	3,806,873
	$ 3,429,656	$ 3,806,873

Accounts Payables — related parties

Name of Related Party	March 31, 2023 USD	December 31, 2022 USD
Foremost Worldwide Co., Ltd	$ 568,406	$ 104,442
	$ 568,406	$ 104,442

Shared Service and Miscellaneous expenses – related party

FGI Industries, Inc. is party to the FHI Shared Services Agreement with FHI. Total amounts provided to FHI under the FHI Share Services Agreement for the three months ended March 31, 2023 and 2022 were $244,614 and $252,372, respectively, which were booked under selling and distribution expenses and administration expenses.

FGI is party to the Worldwide Shared Services Agreement with Foremost Worldwide. Total amounts provided from Foremost Worldwide under the Worldwide Shared Services Agreement for the three months ended March 31, 2023 and 2022 were $69,344 and $47,895, respectively.

Other Payables — related parties

Name of Related Party	Relationship	Nature of transactions	March 31, 2023 USD	December 31, 2022 USD
F.P.Z FURNITURE (CAMBODIA) CO., LTD.	An entity under common control	Miscellaneous expenses	$ (17,010)	$ —
Focal Capital Holding Limited	An entity under common control	Miscellaneous expenses	(48,351)	—
Foremost Home Inc. (“FHI”)	An entity under common control	Shared services and Miscellaneous expenses	2,088,824	1,879,249
Foremost Worldwide Co.,Ltd	An entity under common control	Shared services and Miscellaneous expenses	(148,805)	(42,473)
			$ 1,874,658	$ 34,481

Property purchase — related party

In July 2022, FGI entered into a property purchase agreement with a common control related party to purchase a building and sub-leased the land use right with an initial term of 50 years in amount of $1,963,521. The building and sub-lease the land use right were recorded at historic cost in amount of $946,066 and $519,450, respectively. The excess payment over carrying value $498,005 was recorded under shareholders equity statement.

Loan guarantee by a related party

Liang Chou Chen holds approximately 49.75% of the voting control of Foremost, the Company’s majority shareholder and is a guarantor of the loan obtained by FGI Industries from East West Bank under the Credit Agreement. See Note 8 for details.

Note 13 — Concentrations of risks

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash. The Federal Deposit Insurance Corporation pays compensation up to a limit of USD 250,000 if the bank with which a depositor holds its eligible deposit fails. As of March 31, 2023, a cash balance of USD 548,039 was maintained at financial institutions in the United States, of which USD 244,784 was subject to credit risk. The Canadian Deposit Insurance Corporation pays compensation up to a limit of CAD 100,000 (approximately USD 74,000) if the bank with which an individual/a company holds its eligible deposit fails. As of March 31, 2023, a cash balance of CAD 8,125,442 (USD 6,000,621) was maintained at financial institutions in Canada, of which CAD 8,025,442 (USD 5,926,771) was subject to credit risk. The Taiwan Central Deposit Insurance Corporation pays compensation up to a limit of New Taiwan Dollar 3,000,000 (approximately USD 98,000) if the bank with which an individual/a company holds its eligible deposit fails. As of March 31, 2023, an aggregated cash balance of USD 510,344 was maintained at financial institutions in Taiwan, of which USD 233,916 was subject to credit risk. The European Banking Authority pays compensation up to a limit of EUR 100,000 (approximately USD 109,000) if the bank with which an individual/a company holds its eligible deposit fails. As of March 31, 2023, cash balance of EUR 136,373 (USD 148,329) was maintained at financial institutions in Europe, of which EUR 36,373 (USD 39,562) was subject to credit risk. As of March 31, 2023, cash balance of USD 96,613 was maintained at financial institutions in Kingdom of Cambodia, of which USD 96,613 was subject to credit risk. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness.

The Company is also exposed to risk from its accounts receivable and other receivables. These assets are subjected to credit evaluations. An allowance has been made for estimated unrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Customer concentration risk

For the three months ended March 31, 2023, two customers accounted for 19.9% and 18.6% of the Company's total revenues, respectively. For the three months ended March 31, 2022, two customers accounted for 27.8% and 18.6% of the Company's total revenues, respectively. No other customer accounted for more than 10% of the Company's revenue for the three months ended March 31, 2023 and 2022.

As of March 31, 2023, three customers accounted for 24.2%, 16.7% and 16.6% of the total balance of accounts receivable, respectively. As of December 31, 2022, two customers accounted for 36.7% and 13.6% of the total balance of accounts receivable, respectively. No other customer accounted for more than 10% of the Company's accounts receivable as of March 31, 2023 and December 31, 2022.

Vendor concentration risk

For the three months ended March 31, 2023, Tangshan Huida Ceramic Group Co., Ltd ("Huida") accounted for 51.0% of the Company's total purchases, and another vendor accounted 17.3% of the Company's total purchases. For the three months ended March 31, 2022, Tangshan Huida Ceramic Group Co., Ltd ("Huida") accounted for 45.3% of the Company's total purchases, and another vendor accounted 12.2% of the Company's total purchases. No other supplier accounted for more than 10% of the Company's total purchases for the three ended March 31, 2023 and 2022

As of March 31, 2023, Huida accounted for 90.1% of the total balance of accounts payable. As of December 31, 2022, Huida accounted for 85.5% of the total balance of accounts payable. No other supplier accounted for more than 10% of the Company's accounts payable as of March 31, 2023 and December 31, 2022.

Note 14 — Commitments and contingencies

Litigation

From time to time, the Company is involved in legal and regulatory proceedings that are incidental to the operation of its businesses. These proceedings may seek remedies relating to matters including environmental, tax, intellectual property, acquisitions or divestitures, product liability, property damage, personal injury, privacy, employment, labor and pension, government contract issues and commercial or contractual disputes. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including management's assessment of the merits of the particular claims, the Company does not believe it is reasonably possible that any asserted or unasserted legal claims or proceedings, individually or in aggregate, will have a material adverse effect on its results of operations or financial condition.

Note 15 — Segment information

The Company follows ASC 280, "Segment Reporting," which requires that companies disclose segment data based on how management makes decisions about allocating resources to each segment and evaluating their performances. The Company has one reporting segment. The Company's chief operating decision maker has been identified as the chief executive officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Company, and hence the Company has only one reportable segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The disclosures in this Quarterly Report on Form 10-Q are complementary to those made in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 17, 2023 (the "2022 Form 10-K"). You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing in this Quarterly Report on Form 10-Q as well as our audited financial statements, notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2022 Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of this Quarterly Report on Form 10-Q and of our 2022 Form 10-K, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. All amounts in Management's Discussion and Analysis of Financial Condition and Results of Operations are approximate.

Overview

FGI is a global supplier of kitchen and bath products. Over the course of 30 years, we have built an industry-wide reputation for product innovation, quality, and excellent customer service. We are currently focused on the following product categories: sanitaryware (primarily toilets, sinks, pedestals and toilet seats), bath furniture (vanities, mirrors and cabinets), shower systems, customer kitchen cabinetry and other accessory items. These products are sold primarily for R&R activity and, to a lesser extent, new home or commercial construction. We sell our products through numerous partners, including mass retail centers, wholesale and commercial distributors, online retailers and specialty stores.

Consistent with our long-term strategic plan, we intend to drive value creation for our shareholders through a balanced focus on product innovation, organic growth, and efficient capital deployment. The following initiatives represent key strategic priorities for us in 2023:

- **Commitment to product innovation.** We have a history of being an innovator in the kitchen and bath markets and developing "on-trend" products and bringing them to market ahead of the competition. We have developed deep marketing skills, leading design capabilities, and product development expertise. A recent example of our innovative product development includes the Jetcoat Shower wall systems, which offer a stylized design option without the fuss of messy grout. We expect to continue to invest in research and development to drive product innovation in 2023.
- **"BPC" (Brands, Products, Channels) strategy to drive above-market organic growth.** We are focused on increasing the mix of Branded products as a percentage of sales, which is expected to result in larger available markets and gross margin expansion. Our owned brands grew to nearly 34% of sales as of year-end 2022, up from less than 1% at the end of 2010. We are focused on expanding our position in channels such as e-commerce, providing for additional growth opportunities with existing brick and mortar customers, as well as expanding with e-commerce customers. The e-commerce channel accounted for 13% of sales in 2022, up from only 2% at the end of 2010.
- **Drive margin expansion.** Margin expansion remains a key pillar of our value creation focus. We believe our BPC strategy will support enhanced margins through growth in branded products, new product categories, and new channels. Headwinds from supply chain disruptions and inflationary pressures impacted operating margins in 2021; however, we have recently adopted measures to offset these challenges, and expect to resume margin expansion in the back half of 2022 as these initiatives take hold.
- **Efficient capital deployment.** We benefit from a capital-light business model allowing us to generate strong free cash flow conversion. We expect to utilize our strong free cash flow to re-invest in the core business and drive growth through existing brand development and new product category expansion. We will also look for selective bolt-on acquisition opportunities, over time, focused within the core kitchen and bath end markets. We plan to maintain a disciplined approach to capital deployment, with most material internal investments currently subject to a company-wide 20%+ expected return on capital hurdle rate.

- **Deep manufacturing partners and customer relationships.** We have developed strong manufacturing and sourcing partners over the last 30+ years, which we believe will continue to give us a competitive advantage in the markets we serve. We also have deep relationships with an established global customer base, offering end-to-end solutions to support category growth. While recent supply chain and inflation pressures have been a headwind, our durable partnerships with manufacturing and sourcing partners have helped to mitigate these challenges.

We were incorporated in the Cayman Islands on May 26, 2021 in connection with a reorganization (the "Reorganization") of our parent company, Foremost Groups Ltd. ("Foremost"), and its affiliates, pursuant to which, among other actions, Foremost contributed all of its equity interests in FGI Industries, Inc. ("FGI Industries"), FGI Europe Investment Limited, an entity formed in the British Virgin Islands, and FGI International, Limited, an entity formed under the laws of Hong Kong, each a wholly-owned subsidiary of Foremost, to the newly formed FGI Industries Ltd. Foremost was established in 1987 and has become a global leader in kitchen and bath design, indoor and outdoor furniture, food service equipment, and manufacturing. This discussion, and any financial information and results of operations discussed herein, refers to the assets, liabilities, revenue, expenses and cash flows that are directly attributable to the kitchen and bath business of Foremost before the completion of the Reorganization and are presented as if we had been in existence and the Reorganization had been in effect for the entirely of each of the periods presented.

Recent Trends

Due to changing market conditions, we are experiencing, and may continue to experience, lower market demand for certain of our products, particularly in our bath furniture category, as weak demand as customer destock and inventory corrections have had a negative impact on our net sales. As previously noted, we also began experiencing supply chain disruptions and inflationary pressures, which affected operating margins beginning in late 2021. However, we adopted several productivity and pricing measures to offset these headwinds and began to see resumed margin expansion in the second half of 2022. While demand for our bath furniture products remains lower than historical levels thus far in 2023, based on discussions with our existing customers and other market factors, we expect demand to pick up in the second half of 2023.

Results of Operations

As a result of the increased significance of shower systems in our product portfolio in 2022, the Company has created a standalone "Shower Systems" product category, as detailed below. The "Other" category continues to comprise our kitchen cabinetry and other smaller offerings. The updates were applied retroactively to impacted product categories. Such changes had no impact on the Company's historical consolidated financial position, results of operations or cash flows.

The following table summarizes the results of our operations for the three months ended March 31, 2023 and 2022 and provides information regarding the dollar and percentage increase (decrease) during such periods.

For the Three Months Ended March 31, 2023 and 2022

	For the three months ended March 31,		Change	
	2023	2022	Amount	Percentage
	USD	USD	USD	%
Revenues	$ 27,162,266	$ 43,575,239	$ (16,412,973)	(37.7)
Cost of revenues	19,960,108	36,050,653	(16,090,545)	(44.6)
Gross profit	7,202,158	7,524,586	(322,428)	(4.3)
Selling and distribution expenses	4,711,089	4,677,352	33,737	0.7
General and administrative expenses	2,142,245	1,842,807	299,438	16.2
Research and development expenses	351,751	313,681	38,070	12.1
(Loss) income from operations	(2,927)	690,746	(693,673)	(100.4)
Operating margins	—	1.6 %	—	—
Total other expenses, net	(267,819)	(32,876)	(234,943)	714.6
Provision for income taxes	32,629	127,677	(95,048)	(74.4)
Net (loss) income	$ (303,375)	$ 530,193	$ (833,568)	(157.2)
Adjusted income from operations[(1)]	$ 108,845	$ 923,058	$ (814,213)	(88.2)
Adjusted operating margins[(1)]	0.4 %	2.1 %	(170)bps	—
Adjusted net (loss) income[(1)]	$ (212,728)	$ 720,689	$ (933,417)	(129.5)

(1) See “Non-GAAP Measures” below for more information on our use of these adjusted figures and a reconciliation of these financial measures to their closest U.S. generally accepted accounting principles (“GAAP”) comparators.

Revenues

Our revenues decreased by $16.4 million, or 37.3%, to $27.2 million for the three months ended March 31, 2023, from $43.6 million for the three months ended March 31, 2022. The decrease in our revenues was primarily by declines in Sanitaryware, Bath Furniture and Shower System, partially offset by continued growth in Other categories.

Revenue categories by product are summarized as follow:

	For the three months ended March 31,				Change
	2023	Percentage	2022	Percentage	Percentage
	USD	%	USD	%	%
Sanitaryware	$ 15,354,546	56.5	$ 26,794,255	61.5	(42.7)
Bath Furniture	4,966,659	18.3	10,115,812	23.2	(50.9)
Shower System	5,030,557	18.5	5,961,119	13.7	(15.6)
Other	1,810,504	6.7	704,053	1.6	157.2
Total	$ 27,162,266	100.0	$ 43,575,239	100.0	(37.7)

We derive the majority of our revenues from sales of Sanitaryware, which accounted for 56.5% of our total revenues for the three months ended March 31, 2023, compared to 61.5% for the comparable periods of 2022. Revenues generated from the sales of Sanitaryware decreased by 42.7% to $15.4 million in the three months ended March 31, 2023, from $26.8 million in same period of 2022. The revenue decline was due to ongoing inventory de-stocking, primarily in the pro channel, as customers are becoming increasingly cautious regarding inventory levels, with some large customers reducing their inventory levels to below historical averages.

Our revenues from bath furniture sales accounted for 18.3% of our total revenue for the three months ended March 31, 2023, compared to 23.2% for the comparable period of 2022. Bath Furniture sales decreased by 50.9% to $5.0 million for the three months ended March 31, 2023, compared to $10.1 million in the same period of 2022. As previously noted, our Bath Furniture business has been experiencing significant de-stocking, and customers continued to decrease inventory levels amidst modest softening in overall demand from the prior year period.

Revenues from sales of Shower Systems decreased by 15.6% to $5.0 million for the three months ended March 31, 2023, compared to 6.0 million for the comparable period of 2022. Shower systems make up approximately 18.5% and 13.7% of our total revenue for the three months ended March 31, 2023 and 2022, respectively. The decline in shower systems revenue during the first quarter is expected to be temporary, as momentum in the business remains strong and we expect to roll-out several new shower system products with national retailer partners in the second half of 2023.

The revenues from sales of other products (custom kitchen cabinetry and others) increased by 157.2% to $1.8 million for the three months ended March 31, 2023, compared to $0.7 million in the same period of 2022. The increase was primarily driven by volume growth resulting from continued strength in sales of the Covered Bridge custom-kitchen cabinetry businesses.

Revenue Categories by Geographic Location

We derive our revenues from the United States, Canada and Europe. Revenue categories by geographic location are summarized as follows:

	For the three months ended March 31,				Change
	2023	Percentage	2022	Percentage	Percentage
	USD	%	USD	%	%
United States	$ 17,532,126	64.6	$ 27,353,195	62.8	(35.9)
Canada	6,520,984	24.0	12,296,002	28.2	(47.0)
Europe	3,109,156	11.4	3,926,042	9.0	(20.8)
Total	$ 27,162,266	100.0	$ 43,575,239	100.0	(37.7)

We generated the majority of our revenues in the United States market, which amounted to $17.5 million for the three ended March 31, 2023, compared to $27.4 million for the three months ended March 31, 2022, representing a 35.9% decrease for the three periods. These revenues accounted for 64.6% and 62.8% of our total revenues for the three months ended March 31, 2023 and 2022. The decreased in the U.S. market was primarily driven by volume weakness in the pro channel in our Sanitary category.

Our second largest market is Canada. Our revenues generated in the Canadian market were $6.5 million for the three months ended March 31, 2023, compared to $12.3 million for the three months ended March 31, 2022, representing a 47.0% decrease for the three months periods. The decrease was primarily driven by volume weakness in both retail and wholesale markets.

We also derive a small portion of our revenue from Europe, which consists primarily of sales in Germany. This amounted to $3.1 million for the three months ended March 31, 2023, compared to $3.9 million for the three months ended March 31, 2022, representing a 20.8% decrease for the three months periods. The decrease in first three months was attributable to customers reducing inventory levels to below historical average.

Gross Profit

Gross profit was $7.2 million during the first quarter of 2023, a decrease of 4.3% compared to the prior-year period, as volume weakness was offset by pricing gains, a more favorable mix, and lower freight costs. Gross profit margin improved to 26.5% during the first quarter of 2023, up 920 basis points from 17.3% in the prior-year period, as measures put in place to mitigate the recent margin headwinds benefitted results. The improvement in the Company's gross margin percentage is primarily attributable to greater expansion of higher margin products in our portfolio, such as shower systems and kitchen cabinetry, continued pricing gains, and a reduction in freight costs versus the elevated levels experienced last year. The Company expects the positive factors that drove the strong margin performance in the first quarter to remain in place.

Our gross profit decreased by $0.3 million, or 4.3%, to $7.2 million for the three months ended March 31, 2023, from $7.5 million for the three months ended March 31, 2022. The decrease in gross profit was due to revenue decline in major product categories that was partially offset by continued pricing gains and reduction in freight costs.

Operating Expenses

Selling and distribution expenses primarily consisted of personnel costs, marketing and promotion costs, commission, and freight and leasing charges. Our selling and distribution expenses increased by $0.1 million, or 0.7%, to $4.7 million for the three months ended March 31, 2023, from $4.6 million for the three months ended March 31, 2022, respectively. The increase was a result of participating more sales trade show events and promotions as pandemic is eased, which caused the increase on marketing, sample and travel related expenses, partially offset by lower sales in first quarter 2023 compared to prior-year period, that caused the decrease in commission, sales coop and shipping freight expenses.

General and administrative expenses primarily consisted of personnel costs, professional service fees, depreciation, travel, and office supply expenses. Our general and administrative expenses increased by $0.3 million, or 16.2%, to $2.1 million for the three months ended March 31, 2023, from $1.8 million for the three months ended March 31, 2022,respectively. The increase was primarily attributable to incremental public company costs and legal expenses.

Research and development expenses mainly consisted of personnel costs and product development costs. Our research and development activities remained stable and are relatively immaterial to our unaudited condensed consolidated statements of income and comprehensive income.

Other Income (Expenses)

Other expenses increased by approximately $0.2 million or 714.6%, to $0.3 million for the three months ended March 31, 2023, from $0.1 million for the three months ended March 31, 2022. This increase was the result of higher interest expenses due to increases in applicable interest rates.

Provision for Income Taxes

We recorded income tax expense of $0.1 million for the three months ended March 31, 2023, and $0.1 million for the three months ended March 31, 2022. The increase resulted from mix provision from each tax territories.

Net Income

Our net income decreased by $0.8 million, or 157.2%, to $(0.3) million for the three months ended March 31, 2023, from $0.5 million for the three months ended March 31, 2022. This decrease was a result of the combination of the changes discussed above.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from operating activities and cash borrowed under credit facilities, which we believe provides sufficient liquidity to support our financing needs. As of March 31, 2023, and December 31, 2022, we had cash of $7.4 million and $10.1 million, respectively. We had working capital of $16.1 million as of March 31, 2023, compared to $16.1 million as of December 31, 2022. On January 27, 2022, we closed an underwritten public offering of 2.5 million units consisting of ordinary shares and warrants and received net proceeds, after commissions and expenses, of approximately $12.4 million.

We believe our revenues and operations will continue to grow and the current working capital is sufficient to support our operations and debt obligations well into the foreseeable future. However, we may need additional cash resources in the future if we experience changes in business conditions or other developments, such as rising interest rates, inflation and increased costs, and may also need additional cash resources in the future if we wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. For example, from time to time we may provide loans or other operational support to Foremost to assist Foremost in capital expenditures or other efforts related to the manufacturing services that Foremost provides to us, which could limit the assets available for other corporate purposes or require additional resources. If it is determined that the cash requirements exceed our amount of

cash on hand, we may seek to issue debt or equity securities, and there can be no assurances that additional financing will be available on acceptable term, if at all.

As of March 31, 2023, FGI's total outstanding debt is represented by a credit facility with East West Bank.

East West Bank Credit Facility

Our wholly owned subsidiary, FGI Industries (formerly named Foremost Groups, Inc.), has a line of credit with East West Bank pursuant to a Business Loan Agreement (the "Credit Agreement") with East West Bank, which is collateralized by all of the assets of FGI Industries and personally guaranteed by Liang Chou Chen, who holds approximately 49.75% of the voting control of Foremost. On November 25, 2022, the Credit Agreement was amended and restated with a maximum borrowing amount of $18,000,000 and a maturity date of December 21, 2024.

Pursuant to the Credit Agreement, FGI Industries is required to maintain (a) a debt coverage ratio (defined as earnings before interest, taxes, depreciation and amortization divided by current portion of long-term debt plus interest expense) of not less than 1.25 to 1, tested at the end of each fiscal quarter; (b) an effective tangible net worth (defined as total book net worth plus minority interest, less amounts due from officers, shareholders and affiliates, minus intangible assets and accumulated amortization, plus debt subordinated to East West Bank) of not less than $10,000,000 for the quarter ended March 31, 2021 and thereafter, on consolidated basis; and (c) a total debt to tangible net worth ratio (defined as total liabilities divided by tangible net worth, which is defined as total book net worth plus minority interest, less loans to officers, shareholders, and affiliates minus intangible assets and accumulated amortization) not to exceed 4.0 to 1, tested at the end of each fiscal quarter, on consolidated basis. As of March 31, 2023, FGI Industries was in compliance with this financial covenant. As described in Item 1. Note 8, FGI Industries is also required to provide the lender with certain periodic financial information, including annual financial statements of FGI Industries on a non-consolidated basis. As of the date of report, FGI Industries has obtained an extension to June 30, 2023 for such Corporate Borrower Annual Statements, a U.S. standalone reporting obligation under the Credit Agreement, which were due by April 30, 2023.

The loan bears interest rate equal to, at the Company's option, either (i) 0.25 percentage points less than the Prime Rate quoted by the Wall Street Journal or (ii) the SOFR Rate (as administered by CME Group Benchmark Administration Limited and displayed by Bloomberg LP) plus 2.20% per annum (in either case, subject to a minimum rate of 4.500% per annum). The interest rate as of March 31, 2023 and December 31, 2022 was 7.75% and 7.25%, respectively.

Each sum of borrowings under the Credit Agreement is deemed due on demand and is classified as a short-term loan. The outstanding balance of such loan was $8,426,548 and $9,795,052 as of March 31, 2023 and December 31, 2022, respectively.

HSBC Canada Bank Loan

FGI Canada Ltd. has a line of credit agreement with HSBC Canada (the "Canadian Revolver"). The revolving line of credit with HSBC Canada allows for borrowing up to CAD $7,500,000 (US $5,538,734 as of the March 31, 2023 exchange rate). This is an assets-based line of credit, the borrowing limit is calculated based on certain percentage of accounts receivable and inventory balances. Pursuant to the Canadian Revolver, FGI Canada Ltd. is required to maintain (a) a debt to tangible net worth ratio of no more than 3.00 to 1.00; and (b) a ratio of current assets to current liabilities of at least 1.25 to 1.00. The loan bears interest at a rate of Prime rate plus 0.50%. As of March 31, 2023, FGI Canada Ltd. was in compliance with this financial covenant.

Borrowings under this line of credit amounts to $0 as of March 31, 2023, and December 31, 2022. The facility matures at the discretion of HSBC Canada upon 60 days' notice.

FGI Canada Ltd. also has a revolving foreign exchange facility up to a permitted maximum of US $3,000,000. The advances are available to purchase foreign exchange forward contacts from time to time up to six months, subject to an overall maximum aggregate USD Equivalent outstanding face value not exceeding the Foreign Exchange Facility Limit.

The following table summarizes the key components of our cash flows for the three months ended March 31, 2023 and 2022.

	For the Three Months Ended March 31,	
	2023	2022
	USD	USD
Net cash used in operating activities	$ (1,230,619)	$ (9,066,727)
Net cash used in investing activities	(74,173)	(24,383)
Net cash (used in) provided by financing activities	(1,368,504)	14,034,930
Effect of exchange rate fluctuation on cash	(13,920)	(34,378)
Net changes in cash	(2,687,216)	4,909,442
Cash, beginning of period	10,067,428	3,883,896
Cash, end of period	$ 7,380,212	$ 8,793,338

Operating Activities

Net cash used in operating activities was approximately $1.2 million for the three months ended March 31, 2023 and was primarily attributable to a decrease in accounts payable of approximately $6.6 million, a decrease in accrued expenses and other current liabilities of approximately $0.6 million and net income for the quarter of approximately $0.3 million, an increase in prepayments and other current assets of approximately $0.3 million, a decrease in operating lease liabilities of approximately $0.3 million. These drivers were partially offset by a decrease in inventories of approximately $3.4 million, a decrease in accounts receivable of approximately $1.7 million, plus non-cash items of approximately $0.5 million, and an increase in accounts payable-related parties of approximately $0.5 million, a decrease in right-of-used assets of approximately $0.4 million, a decrease in prepayments and other receivables - related parties of approximately $0.3 million, and an increase in income taxes payable of approximately $0.1 million.

Net cash used in operating activities was approximately $9.1 million for the three months ended March 31, 2022 and was primarily attributable to a decrease in accounts payable of approximately $8.1 million, an increase in prepayments and other receivables - related parties of approximately $4.2 million, an increase in prepayments and other current assets of approximately $1.1 million, an increase in other noncurrent assets of approximately $0.6 million, a decrease in income taxes payable of approximately $0.6 million, a decrease in accrued expenses and other current liabilities of approximately $0.5 million, and an increase in inventories of approximately $0.3 million, plus various non-cash items of approximately $0.2 million, which were partially offset by a decrease in accounts receivable of approximately $5.9 million, net income for the quarter of approximately $0.5 million and a decrease in right-of-used assets of approximately $0.3 million.

Investing Activities

Net cash used in investing activities was $0.1 million and approximately $0.1 million for the three months ended March 31, 2023, and 2022, respectively. which was attributable to the purchase of property and equipment.

Financing Activities

Net cash used in financing activities was approximately $1.4 million for the three months ended March 31, 2023, which represents repayment of bank loans.

Net cash provided by financing activities was approximately $14.0 million for the three months ended March 31, 2022, which represents net proceeds from bank loans of $1.7 million and net proceeds from issuance of units in the IPO of $12.4 million.

Commitments and Contingencies

Capital Expenditures

Our capital expenditures were incurred primarily in connection with the acquisition of property and equipment. Our capital expenditures amounted to $0.1 million and $0.1 million for the three months ended March 31, 2023 and 2022, respectively. We do not expect to incur significant capital expenditures in the immediate future.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements including arrangements that would affect our liquidity, capital resources, market risk support and credit risk support or other benefits.

Critical Accounting Policies and Significant Accounting Estimates

A discussion of our critical accounting policies and significant accounting estimates is included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2022 Form 10-K. The preparation of the unaudited condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of some assets and liabilities and, in some instances, the reported amounts of revenues and expenses during the applicable reporting period. Actual results could differ materially from these estimates. Changes in estimates are recorded in results of operations in the period that the events or circumstances giving rise to such changes occur. Within the context of these critical accounting estimates, we are not currently aware of any reasonably likely events or circumstances that would result in different policies or estimates being reported for the three months ended March 31, 2023.

Recently Issued Accounting Pronouncements

See Note 2, "Summary of significant accounting policies" in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Non-GAAP Measures

In addition to the measures presented in our unaudited condensed consolidated financial statements, we use the following non-GAAP measures to evaluate our business, measure our performance, identify trends affecting our business and assist us in making strategic decisions. Our non-GAAP measures are: Adjusted Income from Operations, Adjusted Operating Margins and Adjusted Net Income. These non-GAAP financial measures are not prepared in accordance with GAAP. They are supplemental financial measures of our performance only, and should not be considered substitutes for net income, income from operations or any other measure derived in accordance with GAAP and may not be comparable to similarly titled measures reported by other entities.

We define Adjusted Income from Operations as GAAP income from operations excluding the impact of certain non-recurring expenses, including IPO-related compensation, legal fees and business expansion expenses. We define Adjusted Net Income as GAAP net income excluding the tax-effected impact of certain non-recurring expenses and income, such as IPO-related compensation, legal fees and business expansion expenses. We define Adjusted Operating Margins as adjusted income from operations divided by revenue.

We use these non-GAAP measures, along with GAAP measures, to evaluate our business, measure our financial performance and profitability and our ability to manage expenses, after adjusting for certain one-time expenses, identify trends affecting our business and assist us in making strategic decisions. We believe these non-GAAP measures, when reviewed in conjunction with GAAP financial measures, and not in isolation or as substitutes for analysis of our results of operations under GAAP, are useful to investors as they are widely used measures of performance and the adjustments we make to these non-GAAP measures provide investors further insight into our profitability and additional perspectives in comparing our performance over time on a consistent basis.

The following table reconciles Income from Operations to Adjusted Income from Operations and Adjusted Operating Margins, as well as Net income to Adjusted Net Income for the periods presented.

	For the three months ended March 31,	
	2023	2022
(Loss) income from operations	$ (2,927)	$ 690,746
Adjustments:		
Non-recurring IPO-related compensation	—	232,312
IPO legal fee	50,000	—
Business expansion expense	61,772	—
Adjusted income from operations	108,845	923,058
Revenue	$ 27,162,266	$ 43,575,239
Adjusted operating margins	0.4 %	2.1 %

	For the three months ended March 31,	
	2023	2022
Net (Loss) Income	$ (303,375)	$ 530,193
Adjustments:		
Non-recurring IPO-related compensation	—	232,312
IPO legal fee	50,000	—
Business expansion expense	61,772	—
Total	(191,603)	762,505
Tax impact of adjustment at 18% effective rate	(21,125)	(41,816)
Adjusted net (loss) income	$ (212,728)	$ 720,689

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2023, our disclosure controls and procedures were not effective.

Evaluation of the Effectiveness of Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) as of March 31, 2023. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2023 because of the material weaknesses in our internal control over financial reporting described below.

Identified Material Weakness

A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Management identified the following material weaknesses during its assessment of internal controls over financial reporting as of December 31, 2022:

- weaknesses in IT security environment, controls and procedures including lack of formal IT policies and procedures;

- lack of sufficient documentation of our existing financial processes, risk assessment and internal controls activities and assessment of effectiveness of internal controls; and inadequate segregation of duties for certain functions due to limited staffs and resources.

Accordingly, the Company concluded that these material weaknesses resulted as there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

Management's Remediation Initiatives

We are determining the initiatives to undertake in order to remediate the identified material weaknesses and other deficiencies and enhance our internal controls.

We anticipate that the primary initiatives will be implemented during the year in order to remediate a number of these material weaknesses by the end of 2023.

Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

Item 1. Legal Proceedings.

We may be subject to legal proceedings and claims in the ordinary course of business. We cannot predict the results of any such disputes, and despite the potential outcomes, the existence thereof may have an adverse material impact on us due to diversion of management time and attention as well as the financial costs related to resolving such disputes.

Ayers Bath Litigation

FGI Industries (formerly known as Foremost Groups, Inc.) ("FGI USA"), our wholly-owned subsidiary, is currently involved in litigation arising from its efforts to protect an exclusivity agreement with sanitaryware manufacturer Tangshan Huida Ceramic Group Co., Ltd. ("Huida"). In 2011, FGI USA filed a complaint against Ayers Bath (USA) Corporation ("Ayers Bath") in the United States District Court for the Central District of California (the "District Court") and succeeded in obtaining an injunction barring Ayers Bath from selling, distributing or offering for sale Huida parts and products in the United States and Canada. As a result, Ayers Bath ceased all business activity.

Ayers Bath filed a voluntary chapter 7 petition in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") on March 22, 2013. FGI USA filed a proof of claim in the Ayers Bath bankruptcy case for an amount not less than $5,265,000, which was deemed allowed, but due to Ayers Bath's lack of assets, FGI USA only received a distribution of $7,757.24. On January 9, 2014, FGI USA filed a complaint in the District Court against Tangshan Ayers, as Ayers Bath's alter ego, to recover the balance of its damages. The District Court ultimately referred the litigation to the Bankruptcy Court, whereby FGI USA filed a motion in Bankruptcy Court to add Tangshan Ayers as judgment debtor, thereby allowing FGI USA to recover its proof of claim. A hearing for the motion to add Tangshan Ayers as judgment debtor was held on June 7, 2021. On September 22, 2021, the Bankruptcy Court issued a report and recommendation to the District Court recommending that it deny FGI USA's motion to amend the judgment. We filed an objection to the report in October 2021, which was overruled by the Bankruptcy Court in September 2022, but the District Court has allowed FGI USA to propose an amendment to its complaint, which is in process.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2022, includes a detailed discussion of our risk factors. At the time of this filing, there have been no material changes to the risk factors that were included in the Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Use of Proceeds from Initial Public Offering

On January 27, 2022, we closed our initial public offering ("IPO") of 2,500,000 units ("Units"), each consisting of (i) one ordinary share, $0.0001 par value per share (the "Shares"), and (ii) one warrant (the "Warrants") entitling the holder to purchase one Share at an exercise price of $6.00 per Share. The Warrants are immediately exercisable upon issuance and are exercisable for a period of five years after the issuance date. The Shares and Warrants were issued separately in the IPO, and may be transferred separately immediately upon issuance. The underwriters exercised in full their option to purchase up to an additional 375,000 Warrants. The Units were sold at a price of $6.00 per Unit, and the net proceeds from the IPO were approximately $12.4 million, after deducting underwriting discounts and commissions of approximately $1.1 million and offering expenses of approximately $1.5 million payable by us. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities or (iii) any of our affiliates.

In connection with the IPO, we issued to the representative of the underwriters a warrant to purchase an aggregate of 50,000 Shares. The Benchmark Company acted as lead book-running manager, and Northland Capital Markets acted as joint book-running manager. The offer and sale of the shares were registered under the Securities Act of 1933, as

amended (the "Securities Act") on a Registration Statement on Form S-1 (File No. 333-259457), which was declared effective on January 24, 2022.

There has been no material change in the expected use of the net proceeds from our IPO as described in our final prospectus, dated January 24, 2022, filed with the SEC on January 26, 2022, pursuant to Rule 424(b) of the Securities Act and our Post-Effective Amendment No.1 to Form S-1 filed on April 7, 2022.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1	*Second Amended and Restated Memorandum and Articles of Association of FGI Industries Ltd., effective January 27, 2022 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 27, 2022).*
10.1	Amended and Restated Shared Services Agreement, dated January 1, 2023, by and between FGI Industries Ltd. and Foremost Worldwide Co., Ltd. (incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K filed on April 17, 2023).
10.2	Amended and Restated Global Sourcing and Purchase Agreement, dated January 1, 2023, by and between FGI Industries Ltd. and Foremost Worldwide Co., Ltd. (incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-K filed on April 17, 2023)
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive Officer.
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Financial Officer.
32.1	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.
101	The following material from FGI Industries Ltd.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in Inline XBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Income and Comprehensive Income; (iii) the Condensed Consolidated Statements of Changes in Parent's Net Investment; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) Notes to Unaudited Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements 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.

Dated: May 15, 2023

FGI Industries Ltd.

By: /s/ David Bruce
David Bruce
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Perry Lin
Perry Lin
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, David Bruce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FGI Industries Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) N/A;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

/s/ David Bruce
David Bruce
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Perry Lin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FGI Industries Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) N/A;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023

/s/ Perry Lin

Perry Lin
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of FGI Industries Ltd. (the "*Company*") on Form 10-Q for the period ended March 31, 2023, to which this certification is being filed as of the date hereof as an exhibit thereto (the "*Report*"), I, David Bruce, Chief Executive Officer of the Company, and I, Perry Lin, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(a) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)); and

(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2023

/s/ David Bruce
David Bruce
Chief Executive Officer
(Principal Executive Officer)

/s/ Perry Lin
Perry Lin
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)