ESG Inc. Files 5th Amendment: Chinese Mushroom Producer Seeks $25M IPO Amid Going Concern Warning

Filing Information

- **Company:** ESG Inc.
- **CIK:** 1883835
- **Filing Type:** S-1/A (Amendment No. 5 to a registration statement)
- **Amended Filing:** Yes
- **Filing Date:** June 26, 2025
- **State of Incorporation:** NV
- **Stock Ticker Symbol:** ESGH (quoted on the OTCQB Market)
- **Industry (SIC):** BIOLOGICAL PRODUCTS (NO DIAGNOSTIC SUBSTANCES)
- **Accession Number:** 0001520138-25-000188
- **Auditors:** Prager Metis CPAs, LLC (for FY 2024) and Qi CPA LLC (for FY 2023)
- **Analysis Date:** July 24, 2025

Offering Summary

ESG Inc. is a US holding company with Chinese subsidiaries focused on sustainable mushroom production and composting. It is raising up to $25 million in a US IPO to fund expansion, with a strong emphasis on ESG principles, food safety, and technology-driven agriculture. The company's business is growing, but it faces risks related to Chinese regulation, currency, and business concentration.

- **Securities Offered:** 5,000,000 shares of Common Stock.
- **Offering Price:** $5.00 per share.
- **Total Offering Value:** Up to $25,000,000.
- **Type of Offering:** This is a "best-efforts," self-underwritten offering, meaning the company's management will attempt to sell the shares directly without a professional underwriter. There is no minimum amount that must be raised.
- **Termination Date:** The offering will terminate on December 26, 2025.
- **Use of Proceeds:** Net proceeds of approximately $24.97 million (if fully subscribed) are intended for developing new programs in the United States, working capital, and general corporate purposes.

Company Overview

ESG Inc. is a U.S. (Nevada) holding company focused on sustainable, technology-driven, plant-based food production, consistent with Environmental, Sustainable, and Governance (ESG) principles.

- **Business Operations:** Despite being a U.S. corporation, all of its current business operations are conducted through its subsidiaries in the People's Republic of China (PRC). The company specializes in the mushroom industry.
- **Key Products:**
    1. **Phase III Mushroom Compost:** A specialized substrate for growing mushrooms.
    2. **Fresh White Button Mushrooms:** Cultivated, packaged, and distributed in China.

3. **Mushroom Seasoning Powder:** A newer product line started in late 2024, made from off-grade mushrooms and stems, produced exclusively for export.

- **Operating Subsidiaries in China:**
  - **Funan Allied United Farmer Product Co., Ltd. (AUFP):** The primary Chinese subsidiary (74.52% owned by ESG Inc.).
  - **Anhui Allied United Mushroom Technology Co., Ltd. (AUMT):** A subsidiary of AUFP that manufactures Phase III compost.
  - **Anhui Allied United Mushroom Co., Ltd. (AUM):** A subsidiary of AUFP that grows, packs, and distributes fresh white button mushrooms.

Corporate Structure & China-Related Risks

This is a critical aspect of the investment, heavily emphasized throughout the filing.

- **Structure:** ESG Inc. is a U.S. holding company that does not conduct any operations itself. It operates solely through its Chinese subsidiaries. Investors purchase shares in the U.S. entity, not the Chinese operating companies.
- **Cash Transfers:**
  - No dividends have been distributed from the Chinese subsidiaries to the U.S. parent company to date.
  - Cash has been transferred between Chinese subsidiaries for intercompany sales (e.g., AUMT sold compost to AUM).
  - In 2024, the Chinese subsidiary AUFP paid the U.S. parent ESG Inc. a total of **$180,000** under a consulting agreement.
- **Significant Risks:** The filing highlights numerous risks associated with its China-based operations:
  - **Regulatory Risk:** The Chinese government has substantial control over the economy and can intervene or influence operations at any time, with little advance notice. New regulations could adversely affect the business or the value of the stock.
  - **HFCAA (Holding Foreign Companies Accountable Act):** The company states that this act does not currently apply to them because their auditor, Prager Metis, is a U.S.-based firm subject to regular PCAOB inspection.
  - **CSRC Approval:** The company has not sought approval from the China Securities Regulatory Commission (CSRC) for this offering, relying on a legal opinion that it is not required. However, there is uncertainty, and if such permission were required and denied, it could hinder the ability to offer securities and cause their value to decline or become worthless.
  - **Legal System:** Enforcement of laws in the PRC is uncertain, which may limit legal protections. It may be difficult for U.S. shareholders to enforce judgments against the company's assets, which are almost all located in China.

Financial Performance Summary

Comparison of Fiscal Years Ended December 31, 2024 and 2023:

- **Net Operating Revenues:** Increased by **70.2%** to **$12.68 million** in 2024 from $7.45 million in 2023. This was driven by expanded capacity for compost sales and the introduction of mushroom seasoning powder exports.
- **Gross Profit Margin:** Improved to **28.0%** in 2024 from 23.5% in 2023, due to economies of scale from expanded production.

- **Net Income (Loss) to ESG Inc.:** Turned to a profit of **$944,633** in 2024, compared to a net loss of **$(324,713)** in 2023.

Comparison of Three Months Ended March 31, 2025 and 2024 (Unaudited):

- **Revenues:** Decreased by **33.3%** to **$1.59 million** in Q1 2025 from $2.38 million in Q1 2024. The decrease was primarily due to a temporary halt in compost production to build an environmental protection facility.
- **Gross Profit:** Was **$80,932** in Q1 2025, an improvement from a gross loss of **$(90,633)** in Q1 2024, as the company improved production efficiency and quality control.
- **Net Income (Loss) to ESG Inc.:** The net loss narrowed to **$(212,664)** in Q1 2025 from a net loss of **$(587,667)** in Q1 2024.

Going Concern: The auditors have raised substantial doubt about the company's ability to continue as a going concern due to limited cash and a working capital deficiency of **$6.8 million** as of December 31, 2024. Management is working to restructure debt and is applying for a VAT refund to improve liquidity.

Management & Ownership

- **CEO and Director:** Zhi Yang is the Chief Executive Officer and a Director.

- **Controlling Shareholder:** Mr. Yang beneficially owns and controls **70.56%** of the company's common stock. This control is held through DCG China Limited, a company owned by his mother, over which Mr. Yang has voting control. This gives him the power to control shareholder votes, including the election of directors.

- **Independent Directors:** Effective July 31, 2024, the company appointed four new independent directors (John Wallace, Cathy Fleming, Mark Hemmann, Neal Naito) to serve on newly formed Audit, Compensation, and Governance committees. John Wallace serves as the Chairman of the Board.