

Andatee China Marine Fuel Services Corp  
Form 10-K  
April 16, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended December 31, 2012

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 001-34608

**Andatee China Marine Fuel Services Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware** **80-0445030**  
(State or Other Jurisdiction of (IRS Employer

Incorporation or Organization) Identification No.)

(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code)

**24/F Xiwang Tower, No. 136, Zhongshan Road, Zhongshan District**

**Dalian, P.R. of China**

**011 (8621) 5015 2581**

Securities registered under Section 12(b) of the Exchange Act:

**Common Stock, par value \$0.001**

Name of each exchange on which registered:

**The Nasdaq Global Market LLC**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large Accelerated Filer " Non-accelerated Filer "  
Accelerated Filer " Smaller Reporting Company x

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

As of the close of business on June 30, 2012, the aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant was approximately \$8.53 million based on the closing sale price of the common stock on the Nasdaq Global Market on that date. The registrant does not have any non-voting common equity.

The Company had 9,610,159 outstanding as of April 9, 2013.

## Table of Contents

<b>Part I</b>		2
ITEM 1.	Business	3
ITEM 1A.	Risk Factors	17
ITEM 1B.	Unresolved Staff Comments	31
ITEM 2.	Properties	31
ITEM 3.	Legal Proceedings	33
ITEM 4.	Mine Safety Disclosures	34
<b>Part II</b>		34
ITEM 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	34
ITEM 6.	Selected Financial Data	35
ITEM 7.	Discussion and Analysis of Financial Condition and Results of Operations	35
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	48
ITEM 8.	Financial Statements and Supplementary Data	49
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
ITEM 9A.	Controls and Procedures	51
ITEM 9B.	Other Information	53
<b>Part III</b>		53
ITEM 10.	Directors, Executive Officers and Corporate Governance	53
ITEM 11.	Executive Compensation	58
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	62
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	63
ITEM 14.	Principal Accounting Fees and Services	64
<b>Part IV</b>		65
ITEM 15.	Exhibits and Financial Statement Schedules	65
Signature Page		67

## **Part I**

### Cautionary Note Regarding Forward Looking Statements

*This Annual Report on Form 10-K (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, as well as information relating to Andatee China Marine Fuel Services Corporation that is based on management's exercise of business judgment and assumptions made by and information currently available to management. Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. When used in this document and other documents, releases and reports released by us, the words "anticipate," "believe," "estimate," "expect," "intend," "the facts suggest" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements including those set forth in Item 1A of this report. Other unknown, unidentified or unpredictable factors could materially and adversely impact our future results. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.*

We file reports with the Securities and Exchange Commission ("SEC" or "Commission"). We make available on our website (<http://www.andatee.com>) free of charge our public reports filed pursuant to the Exchange Act and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Information appearing at our website is not a part of this Annual Report on Form 10-K. You can also read and copy any materials we file with the Commission at its Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the Commission maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission, including our reports.

Our fiscal year begins on January 1, and ends on December 31, and any references herein to "Fiscal 2012" mean the year ended December 31, 2012, and references to other "Fiscal" years mean the year ending December 31, of the year

indicated.

We obtained statistical data, market data and other industry data and forecasts used in this Form 10-K from publicly available information. While we believe that the statistical data, industry data, forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of that information.

Except where the context otherwise requires and for purposes of this Annual Report:

the terms “we,” “us,” “our company,” “our” refer to Andatee China Marine Fuel Services Corporation, a Delaware corporation, its subsidiaries Goodwill Rich International Limited and Dalian Fusheng Consulting Co. Ltd., its subsidiaries, Donggang Xingyuan Marine Bunker Company Ltd., Rongcheng Xinfu Petrol Company Ltd., Rongcheng Mashan Xingyuan Marine Bunker Co. Ltd., Rongcheng Zhuoda Trading Co. Ltd, Suzhou Fusheng Petrol Co. Ltd., Wujiang Xinlang Petrol Co. Ltd, and its previous variable interest entity (VIE), Dalian Xingyuan Marine Bunker Co. Ltd., through which entity we conducted all of our business operations and since we have transferred most of them under the direct control of Dalian Fusheng Petrol Co. Ltd. , and only one subsidiary of the VIE, which is Xiangshan Yongshinanlian Petrol Company Ltd.;

the term “Andatee” refers to Andatee China Marine Fuel Services Corporation, the parent company;

the term Goodwill” refers to Goodwill Rich International Limited, a subsidiary of Andatee, which for financial reporting purposes is the predecessor to Andatee; and

“China” and “PRC” refer to the People’s Republic of China, and for the purpose of this Annual Report only, excluding Taiwan, Hong Kong and Macau.

The standard barrel of 42 US gallons is used in the United States as a measure of crude oil, and the producers of other petroleum products as reported on the US commodities or stock exchanges tend to convert their production volumes into barrels for global reporting purposes. Elsewhere in the world, oil is commonly measured in liters or cubic meters (1,000 liters equals one cubic meter, and 159 liters equals one US 42 gallon barrel) or in tons (the latter customarily used by European oil companies). The fuel oils produced by the company, however, are qualitatively different products from crude oil. In its essence, they are types of heavy oil, with densities ranging from 0.82 to 0.95, thus, making it impracticable to use US barrels for measuring and reporting purposes. In addition, all of the company supply, vendor and client contracts are executed in tons, not in barrels.

The conversion chart below illustrates the conversions between barrels or liters and tons, as applied to our product line:

Product#	Temperature	Density	Liters/Ton	Barrels/Ton
1#	20°C	0.844	1,184	7.45
2#	20°C	0.850	1,176	7.40
3#	20°C	0.895	1,117	7.03
4#	20°C	0.947	1,056	6.64
120CST	20°C	0.988	1,012	6.36
180CST	20°C	0.988	1,012	6.36

This Annual Report contains translations of certain Renminbi, or RMB, the legal currency of China, amounts into U.S. dollars at the rate of RMB 6.3011 to \$1.00, the noon buying rate in effect on December 31, 2012 in New York City for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. We make no representation that the Renminbi or U.S. dollar amounts referred to in this Annual Report could have been or can be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. On April 8, 2013, the exchange rate was approximately RMB6.26 to \$1.00.

## Item 1. Business

### *Recent Developments*

### **Nasdaq Stock Market – Listing Deficiencies**

On December 11, 2012, the Company received two letters from the Nasdaq Stock Market (“Nasdaq”) notifying the Company that, for the past 30 consecutive business days, (i) the bid price for the Company’s common stock has closed below the minimum \$1.00 per share continued listing requirement set forth in Nasdaq Listing Rule 5450(a)(1), and (ii) the Company failed to maintain at least \$5 million in the Market Value of Publicly Held Shares (MVPHS) continued listing standard set forth in Nasdaq Listing Rule 5450(b)(1)(C). Pursuant to the foregoing deficiency notices and consistent with the Nasdaq rules, the Company has been granted a 180 calendar day (or until June 10, 2013) grace period to regain compliance with each of the foregoing listing deficiencies. If at any time during the grace period, the Company’s common stock closes at least \$1.00 per share for a minimum of 10 consecutive business days, the Company will regain its compliance with the minimum bid price deficiency. Similarly, if at any time during the grace period, the Company’s MVPHS closes at \$5,000,000 or more for a minimum of 10 consecutive business days, the Company will regain its compliance with the MVPHS listing deficiency.

The Company's Board is currently considering various options available in connection with the foregoing continued listing deficiencies. In the event the Company is unable to regain compliance with the continued listing requirements, its securities may be delisted from the Exchange and may be quoted in over-the-counter markets, which may result in a substantially less liquid market for the securities.

### *Overview of our Company*

We carry out all of our business through our Hong Kong subsidiary, Goodwill Rich, its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's directly controlled subsidiaries, previous were Dalian Xingyuan's subsidiaries and Fusheng's variable interest entity (VIE), Dalian Xingyuan, and Dalian Xingyuan's subsidiaries (Dalian Xingyuan and its subsidiaries being collectively referred to as the VIE entities). Through both directly controlled subsidiaries and VIE entities, we are engaged in the production, storage, distribution and wholesale purchases and sales of blended marine fuel oil for cargo and fishing vessels with operations mainly in Liaoning, Shandong, Jiangsu and Zhejiang Provinces in People's Republic of China (PRC). We compete by providing our customers value added benefits, including single-supplier convenience, competitive pricing, logistical support and fuel quality control.

Our sales of marine oil for fishing boats represented approximately 94% of our total revenue for the period of 2012 as compared with the sale of marine oil for cargo vessels which represented the remaining 6% of our total revenue for the same periods. Currently, we sell approximately 61% of our products through distributors and approximately 39% to retail customers. Our products are substitutes for diesel used throughout east China fishing industry by small to medium sized cargo vessels. Our core facilities include as storage tanks, berths (the space allotted to a vessel at the wharf), marine fuel pumps, blending facilities and tankers. Our sales network covers major depots along the towns of Dandong, Shidao and Shipu, Suzhou along the east coast of China.



Our operations in China are conducted through our Wholly-Owned Foreign Enterprise ("WOFE"), Dalian Fusheng Petrochemical Company and its subsidiaries: Hailong Petrochemical Co., Limited (established in Tianjin City, on April 23, 2001), Donggang Xingyuan Marine Bunker Company, Ltd. (located in Dandong City, Liaoning Province, and established in April 2008 under the laws of the PRC), Rongcheng Xinfu Petrol Company, Ltd. (located in Rongcheng City, Shandong Province, and established in September 2007 under the laws of the PRC), and Rongcheng Mashan Marine Bunker Company (established in Rongcheng City, Shandong province, on March 12, 2010), Rongcheng Zhuoda Trading Co. acquired in Dec, 31, 2011 (located in Rongcheng city, Shandong Province, and established in Sep, 18, 2009), Suzhou Fusheng Petrochemical Company, acquired in Dec, 21, 2011 (located in Suzhou city, Jiangsu Province and established in June, 8, 2011) and Wujiang Xinlang Petrochemical Company, acquired in Dec, 7, 2011 (located in Wujiang city, Jiangsu Province and established in Apr 28, 1998) and our VIE, Dalian Xingyuan Marine Bunker Company, Ltd and its subsidiary; Xiangshan Yongsh iNanlian Petrol Company, Ltd. (located in Xiangshan City, Zhejiang Province, and established in May 1997 under the laws of the PRC).

Our marine fuel for cargo vessels is classified as CST180 and CST120; our marine fuel for fishing boats/vessels, #1 fuel (for engines with 2,000 rpm capacity), #2 fuel (for engines with 1,800 rpm capacity), #3 fuel (for engines with 1,600 rpm capacity) and #4 fuel (for engines with 1,400 rpm capacity). We also produce blended marine fuel according to customer specifications using our proprietary blending technology. Our own blend of Marine Diesel Oil, #3 fuel and #4 fuel are substitutes for the traditional diesel oil, commonly known as #0 diesel oil, used by most small to medium vessels. We generate virtually all of our revenues from our own brands of blended oil products.

Andatee China Marine Fuel Services Corporation is a Delaware corporation. Our executive offices are located at 24/F Xiwang Tower, No. 136, Zhongshan Road, Zhongshan District in the City of Dalian, China; our telephone number is 011 (8621) 5015 2581. Our website address is <http://www.andatee.com>. The information on our website is not part of this Annual Report.

### *Organizational Structure and Corporate History*

Our WOFE, Dalian Fusheng Petrochemical Company, its subsidiaries: Hailong Petrochemical Co., Limited (established in Tianjin City, on April 23, 2001), Donggang Xingyuan Marine Bunker Company, Ltd. (located in Dandong City, Liaoning Province, and established in April 2008 under the laws of the PRC), Rongcheng Xinfu Petrol Company, Ltd. (located in Rongcheng City, Shandong Province, and established in September 2007 under the laws of the PRC), and Rongcheng Mashan Marine Bunker Company (established in Rongcheng City, Shandong province, on March 12, 2010), Rongcheng Zhuoda Trading Co. acquired in Dec, 31, 2011 (located in Rongcheng city, Shandong Province, and established in Sep, 18, 2009), Suzhou Fusheng Petrochemical Company, acquired in Dec, 21, 2011 (located in Suzhou city, Jiangsu Province and established in June, 8, 2011) and Wujiang Xinlang Petrochemical Company, acquired in Dec, 7, 2011 (located in Wujiang city, Jiangsu Province and established in Apr 28, 1998). Our VIE operating entity, Dalian Xingyuan, has one subsidiary: Donggang Xingyuan Marine Bunker Company Ltd. (located in Dandong City, Liaoning Province, and established in April 2008 under the laws of the PRC), Xiangshan Yongshinanlian Petrol Company Ltd. (located in Xiangshan City, Zhejiang Province, and established in May 1997 under the laws of the PRC), Dalian Xingyuan and its one subsidiary are collectively referred to as the "VIE". Dalian

Xingyuan was established in September 2001 with a registered capital of RMB7 million and began providing refueling services to the marine vessels in Dalian Port in Dalian City. The Board of Directors of Dalian Xingyuan consists of 3 members, including An Fengbin, Wang Yu and Liu Shaoyuan. Mr. An is Chairman of the Board and General Manager of Dalian Xingyuan. Upon the October 28, 2008 incorporation of Goodwill, Goodwill and the shareholders of Dalian Xingyuan had entered into a series of separate agreements under which Goodwill and Dalian Xingyuan were deemed, until March 2009, to be under the common control of the shareholders of Dalian Xingyuan. The reason that we registered our VIE's subsidiaries under the control of our WOFE was that we think it will be more appropriate all of our operating facilities are wholly controlled by our WOFE instead of VIE (control through contracts).

Prior to our corporate reorganization in 2011, we conducted all of our business operations through Dalian Xingyuan, our operating entity, which was established in September 2001 with a registered capital of RMB7 million and began providing refueling services to the marine vessels in Dalian Port in Dalian City. We do not own any equity interests in Dalian Xingyuan. Our relationships with Dalian Xingyuan and its shareholders are governed by a series of contractual arrangements Dalian Xingyuan has with our wholly-owned onshore subsidiary, Dalian Fusheng Petrochemical Company (“Fusheng”). Under Chinese laws, each of Fusheng and Dalian Xingyuan is an independent legal entity and neither of them is exposed to liabilities incurred by the other party. Other than pursuant to the contractual arrangements between Fusheng and Dalian Xingyuan, Dalian Xingyuan does not transfer any other funds generated from its operations to Fusheng. Fusheng entered into these contractual arrangements with Dalian Xingyuan in March 2009, as discussed in detail below. Subsequently, Fusheng assigned its rights under these contractual arrangements to us. Thus, we control and receive the economic benefits of their business operations through contractual arrangements. Dalian Xingyuan holds the licenses and approvals necessary to operate its business in China. We have contractual arrangements with Dalian Xingyuan and its shareholders pursuant to which we provide technology consulting and other general business operation services to Dalian Xingyuan. Through these contractual arrangements, we also have the ability to substantially influence Dalian Xingyuan’s daily operations and financial affairs, since we are able to appoint its senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements which enable us to control Dalian Xingyuan and to receive, through our offshore subsidiary and VIE’s, all of Dalian Xingyuan’s profits, we are considered the primary beneficiary of Dalian Xingyuan. Accordingly, we consolidate Dalian Xingyuan’s results, assets and liabilities in our financial statements, which is a typical arrangement for companies that are traded and registered in the United States that maintain operations in the PRC.

In 2003, Xingyuan became the sole supplier of fuel oil to China Shipping Group Co., Ltd.’s vessels in Dalian. In 2005, through our partnership with the Dalian University of Technology, Xingyuan successfully developed its own blend of marine fuel as an alternative fuel substitute which, while reducing cost by approximately 20%, maintains the same energy efficiency as major marine fuel brands. Following the success of our fuel substitutes, we established distribution centers in Shandong Shidao, Liaoning Donggang and Zhejiang Nanlian. Before October 2007, we were a joint venture company through a subsidiary of China Petroleum in Northern China, which is the largest petroleum company in the PRC. We purchased 100% of the joint venture and commenced our operations as a private company. Xingyuan also developed the blending ability for CST120 and CST180 brands of its fuel which are used for cargo vessels. On January 26, 2010, the Company completed its initial public offering of common stock and its securities commence trading on the Nasdaq Stock Market.

In December 2008, Xingyuan entered into an agreement with the shareholder of Xiangshan Nanlian, which is located in the town of Shipu, Xiangshan county, Zhejiang Province. We purchased a 63% ownership stake in Xiangshan Nanlian for a purchase price of approximately \$2.2 million (RMB15.12 million). Also in late December 2008, we entered into an agreement with shareholders of Rongcheng Xinfa to acquire its 90% ownership stake in the entity for a purchase price of approximately US\$1.45 million (RMB9.9 million). The purpose of these agreements was to establish and extend our distribution network in an orderly and sustained way. Subsequently, on March 26, 2009, Fusheng, Xingyuan and the shareholders of Xingyuan entered into a series of agreements, including the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and the Proxy and Voting Agreement. Xingyuan entered into these agreements with Fusheng because of the PRC laws and regulations restricting the ability of offshore entities to acquire or dispose of ownership of domestic companies. These agreements ensure that the original minority shareholders of Xingyuan will regain their respective pro rata ownership upon triggering of the conditions set forth in the agreements. Under these agreements, the Company obtained the

ability to direct the operations of Xingyuan and its subsidiaries and to obtain the economic benefit of their operations. Therefore, management determined that Xingyuan became a variable interest entity and the Company was determined to be the primary beneficiary of Xingyuan and its subsidiaries. Accordingly, beginning March 26, 2009, the Company has consolidated the assets, liabilities, results of operations and cash flows of Xingyuan and its subsidiaries its financial statements.

In August 2009, Andatee entered into a share exchange agreement (the "Exchange Agreement") with all of the shareholders of Goodwill Rich International Limited, a Hong Kong company ("Goodwill"). Pursuant to the Exchange Agreement, Andatee agreed to issue 6,000,000 shares of its common stock in exchange for all of the issued and outstanding securities of Goodwill ("Share Exchange"). The Goodwill shareholders included Star Blessing Enterprise Limited ("SBE"), a company organized under the laws of the British Virgin Islands, (i) Growing Sincere Limited ("GSL") a company organized under the laws of the British Virgin Islands, (ii) White Bright Limited ("WBL"), a company organized under the laws of the British Virgin Islands, and (iii) Shining Joy Group Limited ("SJG") a company organized under the laws of the British Virgin Islands. Prior to the Share Exchange, SBE, GSL, WBL and SJG beneficially owned 89.04%, 4%, 3% and 3.96% of equity securities in Goodwill, respectively. The Share Exchange closed on October 16, 2009. Andatee did not issue any fractional shares in connection with the Share Exchange. Upon the closing of the Share Exchange, Andatee (i) became the 100% parent of Goodwill, and its wholly-owned subsidiary, Dalian Fusheng Consulting Co., Ltd., and (ii) assumed the operations of Goodwill and its subsidiaries. The transactions contemplated by the Exchange Agreement, as amended, were intended to be a "tax-free" incorporation pursuant to the provisions of Section 351 of the Internal Revenue Code of 1986, as amended. The organization of Andatee and its acquisition of Goodwill Rich did nothing more than to change the name of Goodwill Rich to Andatee, change its place of incorporation/organization, and change its capital structure from 10,000 shares outstanding to 8,000,000 shares outstanding (prior to the October 2009 reverse stock split). For financial reporting purposes, the Share Exchange will be accounted for as a recapitalization of Goodwill affected through a combination of companies (Andatee and Goodwill) under common control, which will be recorded at historical cost. As a result, Goodwill is deemed to be the predecessor of Andatee for financial reporting purposes, and the historical financial statements of Goodwill presented in this report will become the historical financial statements of Andatee (after being adjusted to retroactively reflect the effects of the recapitalization to 6,000,000 issued and outstanding common shares) at such time as Andatee issues financial statements for the period that includes October 16, 2009.

On October 16, 2009, our Board approved a reverse split in the 1-for-1.333334 ratio. Following shareholder approval of the split, we effected the split on October 19, 2009. Immediately following the reverse stock split, all outstanding shares of our common stock was exchanged for the newly issued shares of common stock on the basis of the reverse split ratio. The par value of common stock was not affected by the split. As a result of the split, the number of shares available for future issuances has increased and the number of currently outstanding shares of our common stock decreased. The purpose of the split was to recapitalize all of our outstanding shares of capital stock into shares of the same class of common stock to be sold in the January 2010 initial public offering.

In May 2010, we entered into an agreement with shareholder of Mashan Xingyuan Marine Fuel Co., Ltd ("MashanXingyuan"), which is located in Rongcheng City, Shandong Province, PRC. Under the terms of the agreement, we acquired 52% of MashanXingyuan for a cash payment of RMB 3.64 million (approximately US\$ 0.54 million). Through the acquisition, Andatee gained control of MashanXingyuan's assets, which include three 1,000 cubic meter storage tanks, three 500 cubic meter storage tanks, equipment and facilities, as well as 3,600 square meters of land use rights, along with the assumption of RMB 0.54 million (approximately US\$ 0.08 million). MashanXingyuan was founded in Rongcheng, Shandong province and is an important blended marine fuel retail outlet in the region.

In July 2010, we entered into an agreement with shareholders of Hailong Petrochemical Co., Ltd ("Hailong"), which is located in Tianjin City engaged in retail and wholesale of fuel oil and petrochemical products. Under the terms of the agreement, we acquired 52% of Hailong's equity for a cash payment of RMB 3.64 million (approximately US\$ 0.54 million). We will cooperate with Hailong on business development in the local market and provide capital for Hailong's expansion which will include four 1,000 cubic meter oil storage tanks, five storage tanks for raw materials with a total volume of 1,500 cubic meters, and 300 square meter plant used for slurry oil filtration.

In December 2011, we entered into an agreement with shareholders of Wujiang Xinlang Petrochemical Company ("Xinlang"), which is a river pump station, located in Wujiang City, Jiangsu Province engaged in retail and wholesale of fuel oil for small cargo boats. Under the terms of agreement, we acquired 90% of Xinlang's equity for a cash payment of RMB 2.36 million (approximately US\$ 0.37 million).

In December 2011, we entered into an agreement with shareholders of Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng"), which includes several storage tanks total volume of 16.5 thousand cubic meters and a river pump station. Under the terms of the agreement, we acquired 61% of the equity for a cash payment of RMB12.2 million (approximately US\$1.93million). We will cooperate with Suzhou Fusheng on business development in the local market.

In December 2011, we entered into an agreement with shareholders of Rongcheng Zhuoda Trading Co. ("Zhuoda"), which owned 13,000 cubic meters tanks, which is located in Rongcheng City, Shandong Province engaged in retail and wholesale of marine fuel oil for fishing boats. Under the terms of agreement, we acquired 100% of Zhuoda equity

for a cash payment of RMB 13 million (approximately US\$ 2 million).

The following diagram illustrates our corporate structure:

### *Industry Overview*

The Company's main line of business is providing various kinds of fuel for marine fishing industry. In 2012, the marine fishing industry during the first part of the year largely remained in decline, causing the decline in the Company's sales volume. Water temperature in the Yellow Sea and the East China Sea rose slowly causing decline in overall fishing conditions in the area; similarly, the fishing conditions in the South China Sea also continue to be unfavorable.

### *Our Products and Services*

We blend and supply marine fuel as an alternative fuel for Chinese cargo and fishing vessels. Our sales of marine oil for fishing boats represented approximately 94% and 75% of our total revenue for fiscal 2012 and 2011 respectively, as compared with the sale of marine oil for cargo vessels which represented the remaining 6% and 25% of our total revenue for the same periods. Our cargo vessel fuel is designated as CST180 and CST120; fishing boat/vessel fuel #1 fuel (for engines with 2,000 rpm capacity), #2 fuel (for engines with 1,800 rpm capacity), #3 fuel (for engines with 1600 rpm capacity) and #4 fuel (for engines with 1400 rpm capacity). We also blend fuel to specific customer specifications using our proprietary blending technology. Our own blend of Marine Diesel Oil, #1, #2, #3 fuel oil and #4 fuel oil are able to replace the traditional diesel oil, commonly known as #0 diesel oil, used by most small to medium vessels and boats. Currently, we sell approximately 61% of our products through distributors and approximately 39% of our products to retail customers. Fuel is classified into 6 classes, numbered 1 through 6, each according to its boiling point, composition and purpose. The boiling point, in the range of 175 – 600°C, and carbon chain length, in the range of 20 – 70 atoms, of the fuel increases with fuel number, i.e. the higher the class number, the higher the boiling point and the carbon chain length as well as oil's viscosity. Price of oil, on the other hand, usually decreases as the fuel number increases since higher number fuel must be heated to overcome its viscosity.

The following table represents the description of our sales organized by product and geographical markets for the periods 2010– 2012:

	<b>2012</b>		<b>2011</b>		<b>2010</b>	
	<b>Tons</b>	<b>%</b>	<b>Tons</b>	<b>%</b>	<b>Tons</b>	<b>%</b>
	<b>(in thousands)</b>		<b>(in thousands)</b>		<b>(in thousands)</b>	
<b><u>Products</u></b>						
1#	21.99	7.42 %	32.10	10.74 %	40.10	13.70 %
2#	28.81	9.71 %	35.33	11.82 %	18.60	6.30 %
3#	43.76	14.76 %	35.55	11.89 %	20.48	7.00 %
4#	185.19	62.45 %	152.64	51.05 %	162.88	55.40 %
180CST	12.03	4.06 %	23.53	7.87 %	26.47	9.00 %
120CST	4.78	1.61 %	19.84	6.64 %	25.42	8.60 %
	296.56					
<b><u>Areas</u></b>						
Dalian	272.51	91.89 %	166.37	55.64 %	138.22	47.00 %
Shandong	14.43	4.87 %	86.73	29.01 %	129.80	44.20 %
Donggang	4.56	1.54 %	21.74	7.27 %	12.13	4.10 %
Zhejiang	5.06	1.71 %	24.17	8.08 %	13.63	4.60 %

### *Our Competitive Strengths*

Our business objective is to become the premium “one-stop” marine service provider for cargo, fishing and other vessels in China through our integrated distribution networks. We believe that our business model offers competitive advantages over our current market competition through:

*Product Superiority and Price Competitiveness* - our blended marine fuel is price competitive as compared with various brands of diesel oil available in the local PRC market. In fact, based on 2012 price data, our blended fuel (#4), while maintaining the same fuel efficiency, is, on average, US\$63.5 per ton cheaper than the leading diesel fuel brand.

*Brand Recognition* - our consistent and superior product quality over the years has resulted in our dominance in the fishing boat and vessel market in the provinces where we maintain our operations. Through our VIE entities, we are the largest privately owned company engaged in marine fuel industry in northern China. We intend to take advantage of our brand to increase our customer base and to leverage our brand and build an integrated distribution system for our range of related oil products and services. We believe our strong branding has allowed us to develop a broad base of end-user customers, expand our sales channels and facilitate more rapid acceptance of our new products.



*Reliability of Our Supplies of Raw Materials* - We have stable and reliable raw material suppliers for our production. Our relationships with upstream suppliers enables us to be a low cost producer. We have a long-standing relationship with China Petroleum (particularly, Dalian, Panjin and Liaoyang Branched) which, combined, provided almost 20% of all raw materials we require per year. For the year end 2012, other major suppliers are Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd and Shanghai Lonyer Fuels Co., Ltd which provide us 19.46% and 18.2% of our raw materials. Together with other suppliers, including Dalian Ocean Fishery, Panjin Northern Asphalt Co., Ltd, Jiangsu Sumec, providing the remaining of our need for raw materials. We will continue to explore new suppliers to reduce supply risk as needed.

*Extensive Sales and Distribution Network* - Our distribution consists of approximately 35 distributors throughout China in six provinces, we believe our distribution network is one of the largest among marine fuel suppliers in China. We are acquiring and building new facilities, which consist of blending plants, storage tanks, and fueling ports, close to some of our end customers or to a particular market in order to improve our product distribution capacity. We focus on timely delivery and good customer service. In addition our storage facilities are located close to our customers, enabling us to sell directly to them resulting in lower logistics costs. It also allows us to provide better after sales service and to maintain a close relationship with our key distributors through regular meetings, discussions and customer visits. Among our distributors, in 2012, Shanghai Lonyer Fuels Co., Ltd and Dalian Ocean Fishery Group of Corporations represent 33.08% and 10.53% of our sales, respectively.

*Innovation and R&D capabilities* - We strive to identify market trends and developments in the marine fuel industry and use our blending technology to produce quality oils to satisfy the market demand. In 2011, we have developed two new products as a result of our research and development capabilities. We operate several dedicated research and development facilities with 5 professionals and collaborate with universities and institutes, including Dalian University of Technology and Shandong Petrol University. We believe our investment in research and development has enabled us to continuously expand our product offerings and proactively anticipate market changes in our industry. Those R&D efforts continued in 2012.

*Stringent Quality Control* - We have stringent quality control systems at all stages of the blending process. Our periodic quality tests of our blended products are conducted by the team of trained scientific personnel which represent the area's leading technical institutes and universities. We test the consistency and quality of our blended products and adjust the various components on an "as needed" basis. In addition, the quality of our testing process is periodically and independently verified by the governmental agencies in charge of overseeing quality and safety standards of the oil products supplied in the marketplace.

*Strong Management Team* - We have key management staff that has extensive experience and technical skills in oil processing, refining and blending technology.

### *Our Strategies*

Our strategy is to capitalize on our competitive strengths to expand our current market penetration. We plan to grow our business by pursuing the following strategies:

*Expand our Product Offerings* - We are focused on becoming a "one-stop" product supplier for our end-user customers. We plan to continue expanding our product offerings to increase the customization of marine fuels and address the key elements of our end-user customers' needs for lower prices, easier access to fuel and a wide variety of complementary services. We believe offering these integrated systems will promote higher end-user customer satisfaction, higher margins, the establishment of long-term service contracts to maintain the systems and increased barriers to entry for potential competitors.

*Focus on Advanced Technologies* - We are currently utilizing our research and development capabilities to develop new blending processes and applications. We believe there will be a growing demand for products possessing such features as governments, businesses and consumers become increasingly focused on sustainable economic growth and environmental issues. We follow advanced project selection procedures prior to the development of new products, including the use of detailed market and technological analyses. All new products are subject to rigorous testing at our facilities prior to production and sample products are often delivered to end-user customers for their trial use. We begin manufacturing new products only after the sample product from a trial production passes internal inspection and achieves customer satisfaction. This integrated approach allows us to identify potential difficulties in commercializing our product and make adjustments as necessary to develop cost-efficient manufacturing processes prior to mass production. We recognize the importance of customer satisfaction for our newly-developed products and continue to seek feedback from our end-user customers even after the formal launch of a product.

*Terminate Certain Subsidiaries with Bad Operating Performance* - Since we moved the headquarters from Shanghai back to Dalian in late 2012, we have been undergoing an internal re-organization which, away other things, included discontinuing several subsidiaries as a result of unsatisfactory operating performance. On January 7, 2013, the Company filed application with local government authority to terminate the operation of its subsidiary, Shandong Shengfu. The application was approved by local government on March 7, 2013. In addition, pursuant to a Board Resolution of Tianjin Hailong dated on January 18, 2013, Dalian Fusheng transferred its 51.952% ownership interest

in Tianjin Hailong to Tianjin Hailong's two individual shareholders Mr. Niu Jinfu and Mr. Zhao Guohua for RMB 5.46 million (about \$0.86 million). After such transfer, Tianjin Hailong's operations will not be consolidated. As of December 31, 2012, Tianjin Hailong's total assets, total liabilities, total revenue and total net loss amounted to \$4.2 million, \$3.7 million, \$1.4 million and \$0.34 million, respectively.

*Pursue Selective Strategic Acquisitions* - While we have experienced substantial organic growth, we plan to pursue a disciplined and targeted acquisition strategy to accelerate our growth. Our strategy will focus on obtaining complementary product offerings and locations, product line extensions, research and development capabilities and access to new markets and customers. We seek vertical growth through the acquisition of retail facilities which increase revenue line by having these newly acquired facilities to purchase more goods from parent and enjoying the profit margin on wholesale and retail distribution. Our acquisitions have historically enabled us to increase our product and service offerings and expand into other geographies. We may continue to acquire companies that provide us with storage capacities, customer and distribution network access. We expect that our acquisition targets will have the same core expertise as we do, maintain suitable storage facilities/berth locations, an established customer base to market our existing line of products and services. We anticipate that this strategy will enhance our time to market and our customer base, and will reduce local market entry risk. We intend to target profitable companies with proper location and currently under poor operation and management. After our acquisition, we will utilize our strength, operation and low cost product to occupy the market.

*Increase Our Market Share in China* - We plan to continue to expand our market share of the industry in China. To do so, we are developing additional advanced products across our comprehensive product lines, which will further create cross-selling opportunities and production and marketing synergies. We also intend to increase our marketing activities and are actively seeking to increase the number of distributors carrying our products, specifically new distributors that will provide us with greater access to a wider range of end-user customers.

*Expand Our Blending Capacity and Increase In-house Production* - We currently plan to build new manufacturing and blending facilities and production lines to produce new brands of marine fuel products. We also plan to improve and upgrade our existing manufacturing facilities and production lines to enhance our quality control and to meet increasing demand for our current products. With the increased manufacturing capacity, we also expect to bring additional production steps in-house and increase the in-house manufacturing of certain core components to further improve our cost structure, the protection of our intellectual property, the quality and performance of our products and our operational efficiencies.

### *Sales & Marketing*

Our main customers are located in Tianjin City and Liaoning, Shandong, Jiangsu, Guangdong and Zhejiang Provinces. Currently, we have 128 full-time sales and marketing personnel responsible for promoting our products and services to our customers and distributors. We maintain close relationships with our key customers through regular meetings and discussions to keep them updated on the variety of products and services we offer. In addition, we maintain strong relationships in our local communities and government for favorable business expansion in each individual geographical area. Our sales and marketing approach varies depending on the peculiarities of a particular market.

### *Supply of Raw Materials*

Although we intend to diversify our raw material supplies by engaging international sources, presently, we purchase all of our raw materials only from Chinese suppliers. Our operating companies, Xingyuan and Fusheng, maintain a contractual relationship with Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd. (“Panjin”) for purchases of wax fuel oil, which we commenced in October 2005, which provides over 20% of all raw materials as we need every year. These contracts are renewed on a monthly basis whereby the quantities of oil purchased vary from period to period at then prevailing market prices. Xingyuan also purchases, at market prices, rubber filling oil from PetroChina Dalian Petrochemical Company in amounts of 3,000 – 5,000 tons per month, respectively, which provides over 25% of all raw materials as we need every year. These contracts are also renewed on a monthly basis whereby the quantities of oil purchased vary from period to period at then prevailing market prices. Similarly, Xingyuan maintains a contractual relationship with Qingdao Anbang Refining and Chemical Co., Ltd. (“Qingdao”) for our needs of catalytic diesel oil. These contracts are also renewed on a rolling monthly basis whereby the quantities of oil purchased vary from period to period at then prevailing market prices. The use of domestic, local suppliers in close proximity to our facilities enables us to closely monitor the quality of the raw supplies obtained from such suppliers, provide technical training relating to our raw material requirements and suggest technical improvements. We obtain raw materials and components from suppliers through non-exclusive purchase orders and supply contracts. The purchase order or contract specifies the price for the raw material. Although we allow for adjustments in the price for certain raw materials under extraordinary circumstances, the prices for our materials are generally fixed for the effective term of the purchase agreement. Our contracts with our suppliers are generally renewable on an annual basis, but the price is not fixed and remains flexible and reflective of the prevailing market conditions. We typically negotiate with our suppliers to renew supply contracts at the beginning of each year, taking into account the quality and consistency of the materials and services provided. We maintain multiple supply sources for each of our key raw materials so as to minimize any potential disruption of our operations and maintain sourcing stability.

In fiscal 2012 and 2011, purchases from Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd, our largest supplier, accounted for 19.46% and 9.6%, respectively, of our total purchases of raw materials. For the same periods, our ten largest suppliers combined accounted for 71% and 52%, respectively, of our total purchases of raw materials. The raw materials required for our products are low value crude oil refinement byproducts which conventionally are disposed of by the major oil producing and refining companies. We negotiate prices for our raw material supplies on a monthly basis to accommodate for our short-term production requirements.

We maintain a procurement team that has established relationships with various raw material suppliers to ensure constant and reliable supply. In addition, we have successfully employed and continue to employ a number of methods to hedge against the risks of fluctuations in the raw material prices. Namely, we:

- Shorten our production cycle;
- Review raw material price agreements on a weekly basis;
- Reduce purchase amounts, or buy on an “as needed” basis;
- Place our blending facilities in close proximity to our customers to reduce delivery time;
- Increase the proportion of direct sales to end users by building more infrastructure to reduce reliance on distributors;
- Leverage our brand, i.e. seek customers who are willing to pay quality and brand premium.

### *Quality Control*

We have implemented a rigid quality control system and devote significant attention to quality control procedures at every stage of our process. We monitor our manufacturing process closely and conduct performance and reliability testing to ensure our products meet our end-user customer expectations. Our quality control group as of December 31, 2012 included 14 employees that implement various management systems to improve product quality programs. We inspect our raw materials to ensure compliance with quality standards. We also evaluate the quality and delivery performance of each supplier periodically and adjust quantity allocations accordingly. We also monitor in-process and outgoing stages of our processes.

### *Seasonality*

The Chinese government prohibits fishing boats and vessels from fishing from June 15th to September 15th of each year, the breeding season for many varieties of fish, in order to protect marine resources and prevent overfishing. In

addition, we are also subject to the reduced commercial activity during the Chinese New Year, the most important of the traditional Chinese holidays. During this time, both cargo and fishing traffic decrease and we expect the demand for our products to decrease accordingly.

### *Research & Development*

As of December 31, 2012, we had 6 members in our research and development group. Our research and development activities are based in our research and development center located in the City of Dalian and Zibo City, Shandong Province, where we maintain 4 laboratories, including one at the Dalian University of Technology. Each of our laboratories is staffed with several support personnel and is headed by an experienced member of the faculty with whom we enter into contractual arrangements to provide research and development services to the Company. We own all rights, title and interest in any proprietary information resulting from the research work at our R & D facilities. In addition to improving our existing product offerings, our research and development efforts focus on the development of new products, as well as the development of new production methodologies to improve our manufacturing processes.

### *Competition*

The market for oil for small and medium size vessels, i.e. less than 3,000 tons, is very fragmented with no discernible market leader. We estimate the total value of this market to be approximately US\$2.1 billion as of December 31, 2012. It is characterized by intense price competition, uneven product and service quality and is dominated by many small fuel trading companies. Most of these trading companies do not have stable supply sources or a strong working capital to withstand market risk, which may lead to chronic shortages of oil in the market. Boat and vessel operators are at high risk when oil merchants market them poor quality oil or counterfeit products that have insufficient energy efficiency or cause damage to engines. Therefore, our experience and market research have consistently shown that boat and vessel operators are willing to pay a premium for consistent quality products and services. High barriers of entry for new entrants into this industry include heavy regulatory hurdles, scarcity of suitable operation and storage sites, capital intensity and skilled management. Most of the operational, business and other activities in the storage, refining and producing industries are heavily regulated and require layers of governmental consents and approvals. In addition, storage hubs must be located on sufficiently large sites in strategic locations with close proximity to industrial ports and harbors with deep water access. Most of the infrastructure requires significant upfront capital expenditures. Thus, we believe all of the foregoing factors fortify our competitive positions in the industry.

Our industry is characterized by the major national oil companies controlling the upstream refineries and supplying the end products to the downstream. In particular for marine fuel oil, China Marine Bunker (China Petrol) Co., Ltd. is a major participant in the market. In the downstream, there are many traders selling marine fuel oil in all the provinces feeding from the 1st tier manufacturers. There are only a limited number of credible manufacturers that have blending capability of and direct access to raw materials from national refineries. Our competitors are numerous, ranging from large multinational corporations, which have significantly greater capital resources, to relatively small and specialized firms. In addition to competing with fuel resellers, we also compete with the major oil producers that market fuel directly to the large shipping companies. Such major oil producers do not include the PRC oil companies since under the PRC laws, petroleum producers are precluded from blending oil and oil products. Our business could be adversely affected because of increased competition from the larger oil companies who may choose to directly market to shipping companies, or to provide less advantageous price and credit terms to us than our fuel reseller competitors.

We believe we have no significant competition in the fuel market for small and medium vessels. Potential competitors could include major domestic oil producing and refining companies, including as Sinopec, China Petrol and CNOOC, none of which are currently active in this marketplace or legally permitted to blend oil. However, we believe it is unlikely they would enter into this segment of the market in the near future since the entry opportunities diminish as we develop our integrated distribution system through acquiring resources and sites and strengthening our market position, thus creating high barriers to entry, including regulatory and compliance hurdles capital and storage scarcity, shortage of skilled management.

### *Insurance*



The insurance industry in China is still at an early state of its development. Insurance companies in China offer limited business insurance products or offer them at a high price. Business interruption or similar types of insurance are not customary in China. We currently maintain insurance coverage with China People's Insurance Company Limited of China, which, as of December 31, 2012, was approximately RMB10.5 million (US\$1.67 million) on our property and facilities and approximately RMB89 million (US\$14.1 million) on our inventory. We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the last five years.

## Business, Ownership, Environmental and Other Regulations

### **Petroleum and Refining Industry Regulations**

Although the Chinese government is liberalizing its control over the petroleum and petrochemical industries, significant government regulations remain. Central government agencies and their local or provincial level counterparts do not own or directly control our production facilities. However, they exercise significant control over the petrochemical industry in areas such as production quotas, quality standards, allocation of raw materials and finished products, allocation of foreign exchange and Renminbi loans for capital construction projects. Since 2003, at the national level, our operations are subject to the supervision and industrial oversight, to various extent, by the State Assets Regulatory and Management Commission, by the Ministry of Commerce and the National Development and Reform Committee. At the local level, we are subject to the supervision and oversight by the provincial branches of these national agencies as well as local governments and agencies.

### **Foreign Exchange and Dividend Distribution Regulations**

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Control Regulations (1996), as amended. Under these regulations, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of the Renminbi for capital account items, such as direct investment, loans, repatriation of investment and investment in securities outside China, however, is still subject to the approval of the SAFE or its competent local branch. The dividends paid by a subsidiary to its shareholder are deemed income of the shareholder and are taxable in China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE.

The principal regulations governing distribution of dividends of foreign holding companies include the Foreign Investment Enterprise Law (1986), as amended, and the Administrative Rules under the Foreign Investment Enterprise Law (2001). Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. Our Chinese VIE's and one PRC subsidiary, Fusheng, which are all foreign-invested enterprises, are restricted from distributing any dividends to us until they have met these requirements set out in the regulations.

According to the new EIT law and the implementation rules on the new EIT law, if a foreign legal person is not deemed to be a resident enterprise for Chinese tax purposes, dividends generated after January 1, 2008 and paid to this foreign legal person from business operations in China will be subject to a 10% withholding tax, unless such foreign legal person's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the new EIT law and its implementation rules, if an enterprise incorporated outside China has its "de facto management organization" located within China, such enterprise would be classified as a resident enterprise and thus would be subject to an enterprise income tax rate of 25% on all of its income on a worldwide basis, with the possible exclusion of dividends received directly from another Chinese tax resident.

On December 25, 2006, the People's Bank of China, or PBOC, issued the Administration Measures on Individual Foreign Exchange Control, and the corresponding Implementation Rules were issued by SAFE on January 5, 2007. Both of these regulations became effective on February 1, 2007. According to these regulations, all foreign exchange matters relating to employee stock holding plans, share option plans or similar plans in which PRC citizens' participation require approval from the SAFE or its authorized branch. On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Option Holding Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rule. The purpose of the Stock Option Rule is to regulate foreign exchange administration of Chinese citizens who participate in employee stock holding plans and share option plans of offshore listed companies. According to the Stock Option Rule, if a Chinese citizen participates in any employee stock holding plans or share option plans of an offshore listed company, a Chinese domestic agent or the Chinese subsidiary of the offshore listed company is required to file, on behalf of the individual, an application with the SAFE to obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or share option exercises. This restriction exists because a Chinese citizen may not directly use offshore funds to purchase stock or exercise share options. Concurrent with the filing of the required application with the SAFE, the Chinese domestic agent or the Chinese subsidiary must obtain approval from the SAFE to open a special foreign exchange account at a Chinese domestic bank to hold the funds required in connection with the stock purchase or option exercise, any returned principal profits upon sales of stock, any dividends issued on the stock and any other income or expenditures approved by the SAFE. The Chinese domestic agent or the Chinese subsidiary also is required to obtain approval from the SAFE to open an offshore special foreign exchange account at an offshore trust bank to hold offshore funds used in connection with any employee stock holding plans. All proceeds obtained by a Chinese citizen from dividends acquired from the offshore listed company through employee stock holding plans or share option plans, or sales of the offshore listed company's stock acquired through other methods, must be remitted back to China after relevant offshore expenses are deducted. The foreign exchange proceeds from these sales can be converted into Renminbi or transferred to the individuals' foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at a Chinese bank. If share options are exercised in a cashless exercise, the Chinese individuals exercising them are required to remit the proceeds to the special foreign exchange account. Although the Stock Option Rule has been promulgated recently and many issues require further interpretation, we and our Chinese employees who have been or will be granted share options or shares will be subject to the Stock Option Rule, as an offshore listed company.

## Employee Stock Option Regulations

Under SAFE Notice No. 106, employee stock holding plans of offshore special purpose companies must be filed with the SAFE, and employee share option plans of offshore special purpose companies must be filed with the SAFE while applying for the registration for the establishment of the offshore special purpose company. After the employees exercise their options, they must apply for the amendment to the registration for the offshore special purpose company with the SAFE. If we or our Chinese employees fail to comply with the Stock Option Rule, we and/or our Chinese employees may face sanctions imposed by foreign exchange authority or any other Chinese government authorities.

On August 8, 2006, six Chinese regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006. Under the New M&A Rule, equity or assets merger and acquisition of Chinese enterprises by foreign investors will be subject to the approval from the Ministry of Commerce or its competent local branches. This regulation also includes provisions that purport to require special purpose companies formed for purposes of offshore listing of equity interests in Chinese companies to obtain the approval of the CSRC prior to the listing and trading of their securities on any offshore stock exchange. As defined in the New M&A Rule, a special purpose vehicle is an offshore company that is directly or indirectly established or controlled by Chinese entities or individuals for the purposes of an overseas listing.

The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of the New M&A Rule with respect to offshore listings of special purpose companies remains unclear with no consensus currently existing among leading Chinese law firms regarding the scope of the applicability of the CSRC approval requirement. A loan made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in China and subject to several Chinese laws and regulations, including the Foreign Exchange Control Regulations of 1997, the Interim Measures on Foreign Debts of 2003, or the Interim Measures, the Statistical Monitoring of Foreign Debts Tentative Provisions of 1987 and its Implementing Rules of 1998, the Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions of 1996, and the Notice of the SAFE in Respect of Perfection of Issues Relating Foreign Debts, dated October 21, 2005. Under these regulations, a shareholder loan in the form of foreign debt made to a Chinese entity does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branch in accordance with relevant Chinese laws and regulations. Our Chinese VIE's and our PRC subsidiary can legally borrow foreign exchange loans up to their borrowing limits, which is defined as the difference between the amount of their respective "total investment" and "registered capital" as approved by the Ministry of Commerce, or its local counterparts. Interest payments, if any, on the loans are subject to 10% withholding tax unless any such foreign shareholders' jurisdiction of incorporation has a tax treaty with China that provides for a different withholding agreement. Pursuant to Article 18 of the Interim Measures, if the amount of foreign exchange debt of our Chinese VIE's and our PRC subsidiary exceed their respective borrowing limits, we are required to apply to the relevant Chinese authorities to increase the total investment amount and registered capital to allow the excess foreign exchange debt to be registered with the SAFE.



## **Environmental Regulations**

China's rapid economic growth over the last two decades has also brought with it several energy related environmental problems. Environmental pollution from fossil fuel combustion is damaging human health, air and water quality, agriculture, and ultimately the economy. Many of China's cities are among the most polluted in the world. China is the world's second-largest source of carbon dioxide emissions behind the United States. EIA forecasts predict that China will experience the largest growth in carbon dioxide emissions between now and the year 2030. The Chinese government has taken several steps to improve environmental conditions in the country. Chief among these is the new Law on Renewable Energy, which took effect on January 1, 2006. The new law seeks to promote cleaner energy technologies, with a stated goal of increasing the use of renewable energy to 10% of the country's electricity consumption by 2010 (up from roughly 3% in 2003).

We are subject to national and local environmental protection regulations, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for pollution and provide for the forced closure of any facility that fails to comply with orders requiring it to cease or cure certain environmentally damaging practices. We have established environmental protection systems which consist of pollution control facilities to treat certain of our waste materials and to safeguard against accidents. We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations.

## *Employees*

As of December 31, 2012, we had 197 employees, 44 of which are engaged in management, administration and related areas, and the remaining 153 are engaged in operations at various local sites throughout the east of China. None of our employees are represented by a labor union or collective bargaining agreements. We consider our employee relations to be good.

## *Intellectual Property*

We rely on trademark and copyright laws, trade secret protection, non-competition and confidentiality and/or licensing agreements with our executive officers, clients, contractors, research and development personnel and others to protect our intellectual property rights. We do not possess any licenses to use third-party intellectual property rights nor do we license to third-parties any intellectual property rights we own. The protection afforded by our intellectual property may be inadequate. It may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. We may also be subject to litigation involving claims of violation of intellectual property rights of third parties.



## **ITEM 1A. Risk Factors**

*The Company faces many risks. The risks described below may not be the only risks the Company faces. Additional risks not yet known or currently believed to be immaterial may also impair the Company's business. If any of the events or circumstances described in the following risks actually occurs, the Company's business, financial condition or results of operations could suffer, and the trading price of its common stock could decline. You should consider the following risks, together with all of the other information in this Annual Report on Form 10-K, before making an investment decision with respect to the Company's securities.*

### *Risks Relating to Our Operations*

#### ***Our limited operating history makes evaluation of our business difficult***

We have a limited operating history and have encountered and expect to continue to encounter many of the difficulties and uncertainties often faced by early stage companies. Our limited operating history makes it difficult to evaluate our future prospects, including our ability to develop a wide customer and distribution network for our services, expand our operations to include additional services and control raw material costs, all of which are critical to our success. We may encounter unanticipated problems, expenses and delays in developing and marketing our services and securing additional blending and storage facilities. We may not be able to successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer, and we may be unable to stay in business.

#### ***Our securities listed on the Nasdaq Stock Exchange may be subject to delisting in the event the Company does not comply with the Nasdaq continued listing requirements***

On December 11, 2012, the Company received two letters from the Nasdaq Stock Market ("Nasdaq") notifying the Company that, for the past 30 consecutive business days, (i) the bid price for the Company's common stock has closed below the minimum \$1.00 per share continued listing requirement set forth in Nasdaq Listing Rule 5450(a)(1), and (ii) the Company failed to maintain at least \$5 million in the Market Value of Publicly Held Shares (MVPHS) continued listing standard set forth in Nasdaq Listing Rule 5450(b)(1)(C). Pursuant to the foregoing deficiency notices and consistent with the Nasdaq rules, the Company has been granted a 180 calendar day (or until June 10, 2013) grace period to regain compliance with each of the foregoing listing deficiencies. If at any time during the grace period, the Company's common stock closes at least \$1.00 per share for a minimum of 10 consecutive business days, the Company will regain its compliance with the minimum bid price deficiency. Similarly, if at any time during the grace period, the Company's MVPHS closes at \$5,000,000 or more for a minimum of 10 consecutive business days, the



Company will regain its compliance with the MVPHS listing deficiency. The Company's Board is currently considering various options available to it in connection with the foregoing continued listing deficiencies. In the event the Company is unable to regain compliance with the foregoing listing requirements, its securities may be delisted from the Exchange, in which event the Company would seek to cause them be quoted in over the counter markets, which may result in a substantially less liquid market for the securities.

***If the fuel we blend fails to meet the specifications we have agreed to supply to our customers, our relationship with our customers could be adversely affected***

We blend marine fuel to meet customer specifications. If the fuel fails to meet the specifications we have agreed to supply to our customers, our relationship with our customers could be adversely affected, and we could be subject to claims and other liabilities which could have a material adverse effect on our business, financial condition and results of operations.

***Our historical sales to significant customers have been concentrated***

For the year ended December 31, 2012, two customers accounted for approximately 33.08% and 10.53% of total revenues, respectively. For the fiscal year ended December 31, 2011, one customer accounted for approximately 9.81% and 8.69% of our total revenues. No other customer contributed greater than 10% of the revenues.

***Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and petrochemical products***

Almost all of our revenues are attributable to petrochemical products, which have historically been cyclical and sensitive to the availability and price of raw materials and general economic conditions. Markets for many of our products are sensitive to changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, the price and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on product prices in the regional and global markets. Historically, the markets for these products have experienced alternating periods of tight supply, causing prices and margins to increase, followed by periods of capacity additions, finally resulting in oversupply and declining prices and margins. As tariffs and other import restrictions are reduced and the control of product pricing is relaxed in China, the markets for many of our products have become increasingly subject to the cyclical nature of regional and global markets. For example, in 2008, abrupt changes occurred in the domestic demand for petrochemical products. In the first half of the year, the prices of petrochemical products continued to rise in conjunction with substantial rises in international oil prices. However, in the second half, there was a fall in both sales volume and prices of petrochemical products triggered by the global economic downturn. The sales volume and prices of our petrochemical products also declined, and may remain at the current levels for a sustained period of time, or even decline further from such levels. Historically, international prices of crude oil have fluctuated widely due to many factors beyond our control. For example, international crude oil prices increased significantly in the first half of 2008 but decreased significantly in

the second half. After hitting successive record highs, crude oil prices began to fall rapidly, and hit a new, 3-year record low in December 2008. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue. Increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business and results of operations and financial condition.

***Some of our major products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices***

We require large amounts of crude oil to manufacture our products. Our ability to pass on increased crude oil costs to our customers is dependent on market conditions and government regulations, particularly government regulation with respect to the price of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls. In 2012 and 2011, no sales were from such products subject to price control. Although the Chinese government has adopted a new pricing mechanism for domestic refined oil products that indirectly links the prices of these products to international crude oil prices, such pricing mechanism is still nontransparent. Moreover, the Chinese government controls the distribution of many petroleum products in China. For instance, some of our petroleum products are required to be sold to designated distributors (such as the subsidiaries of China Petroleum & Chemical Corporation). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices and because the formula for the new pricing mechanism set by the Chinese government is not transparent, in periods of high crude oil prices, we may not be able to fully cover increases in crude oil prices by increases in the sale prices of our products, which has had and will continue to have a material adverse effect on our financial condition, results of operations and cash flows.

***Our development plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties***

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditures for 2013 of approximately RMB 100 million (US\$15.8 million), which will be provided through financing activities, and use of our own capital. Our actual capital expenditures may vary significantly from these planned amounts due to our ability to generate sufficient cash flows from operations, investments and other factors that may be beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our future results of operations, financial condition and cash flows;
- the condition of the economy in China and the markets for our products;
- the cost of financing and the condition of financial markets; and
- the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China.

If we fail to obtain sufficient funding for our operations or development plans, our business, results of operations and financial condition could be adversely affected.

***Material disruptions in the availability or supply of fuel would adversely affect our business***

The success of our business depends on our ability to purchase, sell and coordinate delivery of fuel and related services to our customers. In the past, we experienced difficulties in securing supplies of certain components for blending process. We have addressed that concern by diversifying our raw material supplies and strengthening our relationships with our existing suppliers. Our business would be adversely affected to the extent that political instability, natural disasters, terrorist activity, military action or other conditions disrupt the availability or supply of fuel.

***Our earnings will be adversely affected by seasonality of the fishing business***

The Chinese government prohibits fishing vessels from fishing from June 15th to September 15th of each year, the breeding season for many varieties of fish, in order to protect marine resources and prevent overfishing. As a result, the demand for our blended fuel drops by approximately 15% during this period, which, in turn, has an adverse effect on our operations in the 3rd fiscal quarter of each calendar year. In addition, we are also subject to the reduced commercial activity during the Chinese New Year which takes place during the 1st quarter and lasts about 2 weeks. During this time, both cargo and fishing traffic decreases and we expect the demand for our products to decrease accordingly by approximately the same amount as the decrease in the 3rd quarter.

***Adverse conditions in the shipping and fishing industries may have an adverse effect on our business***

Our business is focused on the marketing of fuel and fuel-related services to the shipping and fishing industries. Therefore, any adverse economic conditions in these industries may have an adverse effect on our business. In addition, any political instability, natural disasters, terrorist activity or military action that disrupts shipping or flight operations will adversely affect our customers and may reduce the demand for our products and services. Our business also could be adversely affected by increased merger activity in such industries, which may reduce the number of customers that purchase our products and services, as well as the prices we are able to charge for such products and services.

***Insurance coverage for some of our operations may be insufficient to cover losses***

The insurance industry in China is still at an early state of its development. Insurance companies in China offer limited business insurance products or offer them at a high price. We do not maintain insurance coverage for various risks, including environmental claims. A significant uninsured claim against us would have a material adverse effect on our financial position and results of operations.

***Failure to attract and retain highly qualified personnel could have a material negative impact on our business***

Implementation of our business strategy is predominantly dependent on the efforts of Mr. An Fengbin, our President and Chief Executive Officer. If we were to lose his services, our business and operations would be severely affected. Competition for highly qualified personnel is intense, and we have very limited resources. The loss of any executive officer or key employee or the failure to attract and retain other skilled employees could have a material adverse impact upon our business, operations or financial condition.

***We may be unable to protect our trademark or other proprietary intellectual property rights***

We rely on trademark and copyright laws, trade secret protection, non-competition and confidentiality and/or licensing agreements with our executive officers, clients, contractors, research and development personnel and others to protect our intellectual property rights. We do not possess any licenses to use third-party intellectual property rights nor do we license to third-parties any intellectual property rights we own. The protection afforded by our intellectual property may be inadequate. It may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. We may also be subject to litigation involving claims of violation of intellectual property rights of third parties. In order to protect or enforce our intellectual property rights, we may initiate litigation against third parties. In addition, we may become subject to inference, cancellation, or opposition proceedings conducted in trademark offices or the courts to determine the priority of rights in our marks. The defense of intellectual property rights, interference, cancellation, or opposition proceedings, and other legal and administrative proceedings, would be costly and divert our technical and management personnel from their normal responsibilities. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation which disclosure could substantially diminish our competitive advantages, thus, resulting in decrease revenues and possible losses.

***We face competition and, if we are not able to effectively compete in our markets, our revenues and profits may decrease***

Competitive pressures in our markets could adversely affect our competitive position, leading to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. Our competitors are numerous, ranging from large multinational corporations, which have significantly greater capital resources, to relatively small and specialized firms. In addition to competing with fuel resellers, we also compete with the major oil producers that market fuel directly to the large commercial airlines and shipping companies. Such major oil producers do not include the PRC oil companies since under the PRC laws, petroleum producers are precluded from blending oil and oil products. Our business could be adversely affected because of increased competition from the larger oil companies who may choose to directly market to smaller airlines and shipping companies, or to provide less advantageous price and credit terms to us than our fuel reseller competitors.

***We rely on few significant providers for our raw material supplies***

Presently, we purchase all of our raw materials only from Chinese suppliers. Our operating company, Fusheng and Xingyuan, maintain a contractual relationship with Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd. (“Panjin”) for purchases of wax fuel oil, which we commenced in October 2005, which provides almost 20% of raw materials as we need this year. Panjin, provided 19.46% and 9.6% of our purchase of raw materials for years ended December 31, 2012 and 2011, respectively. Another major supplier for the year 2012 is Shanghai Lonyer Fuels Co., Ltd which provided 18.2% of raw materials as we need this year. Xingyuan also purchase, at market price, rubber filling oil from PetroChina (including Dalian, Dongbei, Liaoyang Branch) which provide 13% and 14.6% of our total purchase for the year end December 31, 2012 and 2011. For the same periods, our ten largest suppliers combined accounted for 71% and 52%, respectively, of our total purchases of raw materials. If our supply arrangements are disrupted or terminated, our business operations would suffer. Economic conditions and growth trends in our industry could materially and adversely affect our ability to maintain an adequate supply of raw materials necessary to maintain our operations.

***We may not be able to integrate profits from future acquisitions***

Acquisitions of local providers of marine oil and other similar products and services in various cities along the eastern shore of China are a part of our growth strategy. Such growth path would present a number of challenges to us, including, without limitation, needs to integrate management teams, local infrastructure, profits, etc. of such companies. We provide no assurance that we will be able to successfully acquire any such business or that we would be able to integrate profits from such acquired companies.

We are subject to a variety of environmental laws and regulations related to our refining, blending and storage operations. Our failure to comply with environmental laws and regulations may have a material adverse effect on our business and results of operations

We are subject to various environmental laws and regulations that require us to obtain environmental permits for our operations. If we fail to comply with the provisions of our permit, we could be subject to fines, criminal charges or other sanctions by regulators, including the suspension or termination of our operations. We are required to comply with extensive and complex environmental laws and regulations at various levels in the PRC relating to, among other things:

- the handling of fuel and fuel products;
- the operation of bulk fuel storage facilities;
- workplace safety;
- fuel spillage or seepage;
- environmental damage; and
- hazardous waste disposal.



If we are involved in a spill or other accident involving hazardous substances, if there are releases of fuel and fuel products we own, or if we are found to be in violation of environmental laws or regulations, we could be subject to liabilities that could have a material adverse effect on our business, financial condition and results of operations. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability. We cannot assure you that at all times we will be in compliance with environmental laws and regulations or our environmental permits or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws, regulations and permits.

***We will continue incur significant costs as a result of being a public company***

In January 2010, we completed our initial public offering and became an Exchange Act reporting company and, thus, expect to continue to incur significant legal, accounting and other expenses that we did not incur as a private company. Moreover, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the Nasdaq Stock Market, have imposed additional requirements on corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. We will also incur additional costs associated with our public company reporting requirements. It may also be difficult for us to attract and retain qualified persons to serve on our board of directors due to increased risks of liability to our directors under the new rules and regulations. We are currently evaluating and monitoring developments with respect to these new rules and regulations, and we cannot predict or estimate with any degree of certainty the amount or timing of additional costs we may incur. Our results of operations, cash flows and financial condition reflected in our consolidated financial statements may not be indicative of the results of operations that we would have achieved had we operated as a public entity for all periods presented or of future results that we may achieve as a publicly traded company with our current holding company structure. Such variations may be material to our business.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock***

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the Company's internal controls over financial reporting in their annual reports. If we cannot provide financial reports or prevent fraud, our business reputation and operating results could be harmed. Inferior internal controls also could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

***Risks Related to our Corporate Structure and Doing Business in China***

***The laws of the PRC may adversely affect the rights of shareholders and their ability to prosecute claims against us, our officers and our directors, and may expose our Company to substantial litigation risk.***

Shareholders generally have the right under the applicable law of the state of Delaware to inspect certain books and records of the Company. There are laws governing business secrets and state secrets in the PRC that may significantly limit the scope and nature of those books and records that might be available to shareholders, and may impede the ability of our shareholders to investigate or to prosecute claims against our Company, our officers and our directors. Those same laws may also preclude us from producing information required to be produced by us pursuant to subpoena, court order or other legal process, which could in turn expose us to financial and equitable sanctions, and even to the entry of default judgments. Violation of the PRC secrecy laws can result in fines, revocation of business licenses and imprisonment. The laws of the PRC also protect the files of independent auditing firms and intermediaries involved in the securities offering diligence process from producing or delivering their records to a foreign country (such as the United States), or to an agency, instrumentality or court of a foreign country. These laws could also substantially impair our shareholders abilities to investigate and prosecute claims against our Company, our officers and our directors.

***Chinese laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such Chinese laws and regulations may materially and adversely affect our business***

There are substantial uncertainties regarding the interpretation and application of Chinese laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our VIE entity, Xingyuan, and its stockholders. We are considered a foreign person or foreign invested enterprise under Chinese law. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect on our business of the interpretation of existing or new Chinese laws or regulations. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future Chinese laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services.

If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking our business license, other licenses or authorities;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

***The contractual arrangements with Xingyuan and its shareholders may not be as effective in providing control over Xingyuan as direct ownership of Xingyuan and the shareholders of Xingyuan may have potential conflicts of***

*interest with us*

We have no ownership interest in Xingyuan and we conduct substantially all of our operations and generate substantially all of our revenues through contractual arrangements that our subsidiary, Fusheng, had entered into with Xingyuan and its shareholders, and such contractual arrangements in 2011 are designed to provide us with effective control over Xingyuan. As a result, we moved most of subsidiaries of Xingyuan to Fusheng in order to reduce this conflict.

We believe that these contractual arrangements are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect. If we had direct ownership of Xingyuan, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of Xingyuan, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. Due to our VIE structure, we have to rely on contractual rights to effect control and management of Xingyuan, which exposes us to the risk of potential breach of contract by the shareholders of Xingyuan. In addition, as Xingyuan is jointly owned by its shareholders, it may be difficult for us to change our corporate structure if such shareholders refuse to cooperate with us.

***Xingyuan shareholders may have potential conflict of interest with us***

An Fengbin, our President and CEO, controls and is a director of Dalian Dongfangzheng Industrial Co., Ltd. (DFZ) which entity is the majority shareholder of Xingyuan. He is also a Board member of DonggangXingyuan, a subsidiary of our VIE entity. In addition, An Fengbin has the power to vote and dispose of all of the securities of Oriental Excel Enterprises Limited, a British Virgin Islands company, which, in turn, holds 100% of equity interest in Star Blessing Enterprises Limited, which entity, in turn, holds 89.04% interest in Andatee. In addition, Mr. AnFengbin has made a tender offer to acquire the shares of Andatee not owned by him. As detailed below, the foregoing relationships and ownership interests may result in certain conflicts of interests.

The shareholders of Xingyuan may breach, or cause Xingyuan to breach, the contracts for a number of reasons. For example, their interests as shareholders of Xingyuan and the interests of our company may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to occur, we may have to rely on legal or arbitral proceedings to enforce our contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitration and legal proceedings may cost us substantial financial and other resources, and result in disruption of our business, and we cannot assure you of a favorable outcome.

In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit our ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over Xingyuan, and our ability to conduct our business may be materially and adversely affected.

***Xingyuan's termination of its consulting services agreement with Fusheng may adversely affect our business and operations***

Under the terms of the exclusive consulting services agreement by and between Fusheng and Xingyuan, Fusheng has the exclusive right to provide to Xingyuan business consulting and related services in connection with the production and sale of marine bunker. Under this agreement, Fusheng owns the intellectual property rights arising from the performance of these services, including, but not limited to, any trade secrets, copyrights, patents, know-how, unpatented methods and processes and otherwise, whether developed by Fusheng or Xingyuan based on Fusheng's provision of such services under the agreement. Xingyuan pays quarterly consulting service fees to Fusheng that are equal 50% of Xingyuan's total net profit for such quarter. The consulting services agreement is in effect for a term of

10 years starting from March 26, 2009 unless terminated earlier by (a) Xingyuan upon 6 months' prior written notice and payment to Fusheng of RMB 2,000,000 and all of Fusheng's losses resulting from such early termination; (b) Fusheng upon Xingyuan's breach of the agreement; or (c) Fusheng at any time upon 30 days' prior written notice to Xingyuan. Due to the substantial expenses and time involved in finding a suitable replacement for this relationship, in the event such termination, our business and operations would be adversely affected.

***All of our assets are located in the PRC and all of our revenues are derived from our operations in China, and changes in the political and economic policies of the PRC government or uncertainties with respect to the PRC legal system could have a significant impact upon the business we may be able to conduct in the PRC and accordingly, on the results of our operations and financial condition***

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw material environmental regulations, land use rights, property and other matters. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Since 1979, the Chinese government has promulgated many new laws and regulations covering general economic matters. Despite this activity to develop a legal system, China's system of laws is not yet complete. Even where adequate law exists in China, enforcement of existing laws or contracts based on existing law may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary, in many cases, creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Our activities in China will also be subject to administrative review and approval by various national and local agencies of China's government. Because of the changes occurring in China's legal and regulatory structure, we may not be able to secure the requisite governmental approval for our activities. Although we have obtained all required governmental approval to operate our business as currently conducted, to the extent we are unable to maintain required governmental approvals, the Chinese government may, in its sole discretion prohibit us from conducting our business.

The Chinese legal system is based on written statutes, and prior court decisions may be cited for reference, but have limited precedential value. Since 1979, a series of new Chinese laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. Since the Chinese legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us.

***Investors may not be able to serve process or enforce judgments on us or our related parties***

Some of our directors, including our agent for service of process, are residents of China and not of the United States, and substantially all the assets of these Chinese persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese officers, directors and other related parties. There is also uncertainty as to whether the courts in China would enforce judgments of United States courts against us or our directors and officers based on the civil liabilities provisions of the securities laws of the United States or any other state, or adjudicate an original action brought in China based upon the securities laws of the United States or any other state.

The contractual arrangements entered into between our Chinese VIE's or between us and one of our Chinese VIE's entities may be subject to audit or challenge by the Chinese tax authorities. A finding that we owe additional taxes could substantially reduce our net earnings and the value of your investment.

Under Chinese laws and regulations, arrangements and transactions among affiliated parties may be subject to audit or challenge by the Chinese tax authorities. We could face material and adverse tax and financial consequences if the Chinese tax authorities determine that the contractual arrangements between our Chinese VIE's or between us and one of our Chinese VIE's or those arrangements entered into between us or one of our Chinese VIE's and an entity affiliated with us do not represent arm's-length prices. As a result of such a determination, the Chinese tax authorities could

adjust any of the income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions for Chinese tax purposes recorded by us or our Chinese VIE's or an increase in taxable income, all of which could increase our tax liabilities. In addition, the Chinese tax authorities may impose late payment fees and other penalties on us or our Chinese VIE's for under-paid taxes. Part of our revenues are generated through Xingyuan, and we partially rely on payments made by Xingyuan to Fusheng, our subsidiary, pursuant to contractual arrangements to transfer any such revenues to Fusheng. Any restriction on such payments and any increase in the amount of PRC taxes applicable to such payments may materially and adversely affect our business and our ability to pay dividends to our shareholders.

We conduct partially some of our operations through Xingyuan, which generates part of our revenues. Fusheng, our subsidiary in China, entered into a number of contracts with Xingyuan, pursuant to which Xingyuan pays Fusheng for certain services that Fusheng provides to Xingyuan. However, depending on the nature of services provided, certain of these payments are subject to PRC taxes at different rates, including business taxes and VATs, which effectively reduce the amount that Fusheng receives from Xingyuan. We cannot assure you that the PRC government will not impose restrictions on such payments or change the tax rates applicable to such payments. Any such restrictions on such payment or increases in the applicable tax rates may materially and adversely affect our ability to receive payments from Xingyuan or the amount of such payments, and may in turn materially and adversely affect our business, our net income and our ability to pay dividends to our shareholders.



***The Chinese government exerts substantial influence over the manner in which we must conduct our business activities***

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land-use-rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. The central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support China's economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

***Under the terms of the Circular No. 698, recently promulgated by the PRC State Administration of Taxation, a future sale or transfer of Goodwill Rich's securities may subject us to tax liability and filing requirements in the PRC.***

On December 11, 2009, the PRC State Administration of Taxation ("SAT") issued Circular No. 698 (the "Circular"), entitled Notice on Strengthening the Management of Enterprise Income Tax Collection of Proceeds from Equity Transfers by Non-resident Enterprises, indicating SAT's intention to target off-shore transactions involving the indirect transfer of Chinese enterprises. Under the Circular, a sale of securities of an offshore entity may give rise to a tax liability in the PRC for the Chinese resident proposing the sale if SAT were to treat the transaction as a transfer of a PRC resident enterprise by a non-resident enterprise and that such offshore entity had no reasonable business purpose. Although the Circular does not contain any guidance on the precise meaning of the term "reasonable business purpose," Article 120 of the Implementing Regulations of the Enterprise Income Tax Law defines the expression "not having a reasonable business purpose" as an activity for the purpose of reducing, avoiding or deferring the payment of taxes. If we were to transfer all or some of our securities holdings in Goodwill Rich and the SAT were to determine that Goodwill Rich had no reasonable business purpose, the PRC tax authorities, on approval of the SAT, may re-characterize the transaction, causing the existence of Goodwill Rich to be ignored, thus, treating the proposed transfer as a transfer by us of our wholly-owned onshore subsidiary, Dalian Fusheng. In such a circumstance, we would be required to make certain disclosures and tax filings with the appropriate Chinese tax authorities within seven days commencing from the agreed date of the share transfer, or from the date when we actually received the purchase price paid prior to the agreed transfer date. In addition to the tax liability, we may be required to provide SAT with various information, including documentation with respect to the relationship between us and Goodwill Rich, the business purpose of Goodwill Rich, and financial information of Goodwill Rich and our Company.

The Circular is a notice issued by SAT, and, as such, does not have the legal effect of a rule or regulation. Although, under the PRC laws, SAT already had the legal authority to enforce the tax, it is not being enforced by SAT and tax

forms to be filed by the PRC target enterprise in connection with a proposed transfer are not specified. SAT will need to provide additional rules and regulations to outline and clarify the application of the Circular. Therefore, based on the limited and imprecise nature of the regulatory interpretations, it is difficult for us to assess the likelihood, effect upon our operations, if any, and the extent of any tax liability in the event we determined to sell or otherwise dispose of any of the securities of our Goodwill Rich.

***The scope of our business license in China is limited, and we may not expand or continue our business without government approval and renewal, respectively***

Xingyuan is our principal operating Variable Interest Entity, and Fusheng is a wholly foreign-owned enterprise, commonly known as a WFOE. A WFOE can only conduct business within its approved business scope, which ultimately appears on its business license. The scope of its business license includes consulting services in corporate, investment and corporate marketing areas as well as in commercial marketing. Any amendment or expansion to the scope of its business requires further application and government approval. Any changes to the scope of business license require application and review with the regulatory authorities. In the event such approval is not granted, our business may be adversely affected. Currently, Xingyuan and its subsidiaries maintain all necessary permits and approvals to carry out its business plan and, therefore, the scope of Fusheng's business license has no practical limitation on the scope of business engaged in by Xingyuan or its respective subsidiaries. We cannot assure investors that Xingyuan will be able to obtain the necessary government approval for any change or expansion of its business.

***We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities if we or our Chinese employees fail to comply with recent Chinese regulations relating to employee share options or shares granted by offshore special purpose companies or offshore listed companies to Chinese citizens***

On December 25, 2006, the People's Bank of China, or PBOC, issued the Administration Measures on Individual Foreign Exchange Control, and the corresponding Implementation Rules were issued by the PRC State Administration of Foreign Exchange, or "SAFE," on January 5, 2007. Both of these regulations became effective on February 1, 2007. According to these regulations, all foreign exchange matters relating to employee stock holding plans, share option plans or similar plans with PRC citizens' participation require approval from the SAFE or its authorized branch. On March 28, 2007, the SAFE issued the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, Chinese citizens who are granted share options or shares by an offshore listed company are required, through a Chinese agent or Chinese subsidiary of the offshore listed company, to register with the SAFE and complete certain other procedures. We and our Chinese employees who may be granted share options or shares will be subject to the Stock Option Rule when we become an offshore listed company. If we or our Chinese employees fail to comply with these regulations, we or our Chinese employees may be subject to fines or other legal sanctions imposed by the SAFE or other Chinese government authorities.

***Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate, including our ability to pay dividends. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or the CSRC, for any offering and the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock***

The SAFE issued a public notice in November 2005, known as Circular 75, concerning the use of offshore holding companies in mergers and acquisitions in China. The public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to registration with the relevant foreign exchange authorities. The public notice also suggests that registration with the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of shares in an offshore holding company that owns an onshore company. The PRC residents must each submit a registration form to the local SAFE branch with respect to their ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. If any PRC resident stockholder of an offshore holding company fails to make the required SAFE registration and amended registration, the onshore PRC subsidiaries of that offshore company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore entity. Failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. Because of uncertainty in how the SAFE notice will be interpreted and enforced, we cannot be sure how it will affect our business operations or future plans. For example, Fusheng's ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency denominated borrowings, may be subject to compliance with the SAFE notice by our PRC resident beneficial holders. Failure by our PRC resident beneficial holders could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit Xingyuan's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

On August 8, 2006, the PRC Ministry of Commerce (“MOFCOM”), joined by the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the SAFE, released a substantially amended version of the Provisions for Foreign Investors to Merge with or Acquire Domestic Enterprises (the “Revised M&A Regulations”), which took effect September 8, 2006. These new rules significantly revised China’s regulatory framework governing onshore-to-offshore restructurings and foreign acquisitions of domestic enterprises. These new rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the new rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries. Among other things, the revised M&A Regulations include new provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. However, the application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement. If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from an offering of securities into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt any offering before settlement and delivery of the securities offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. Also, if later the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our common stock. Furthermore, published news reports in China recently indicated that the CSRC may have curtailed or suspended overseas listings for Chinese private companies. These news reports have created further uncertainty regarding the approach that the CSRC and other PRC regulators may take with respect to us. It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of Circular 75 and the Revised M&A Regulations. It is anticipated that application of the new rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our domestic and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the new rules, we may need to expend significant time and resources to maintain compliance.

***SAFE rules and regulations may limit our ability to transfer the proceeds from future capital raising and other similar activities to Xingyuan, our VIE in the PRC, which may adversely affect the business expansion of Xingyuan***

On August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, such as heavy fines. As a result, Circular 142 may adversely affect the business expansion of Xingyuan.

***The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition***

To the extent that we need to convert U.S. Dollars into Renminbi for our operational needs, our financial position and the price of our common stock may be adversely affected should the Renminbi appreciate against the U.S. Dollar at that time. Conversely, if we decide to convert our Renminbi into U.S. Dollars for the operational needs or paying dividends on our common stock, the dollar equivalent of our earnings from our VIE's in China would be reduced should the dollar appreciate against the Renminbi. Until 1994, the Renminbi experienced a gradual but significant devaluation against most major currencies, including dollars, and there was a significant devaluation of the Renminbi on January 1, 1994 in connection with the replacement of the dual exchange rate system with a unified managed floating rate foreign exchange system. Since 1994, the value of the Renminbi relative to the U.S. Dollar has remained stable and has appreciated slightly against the U.S. Dollar. Countries, including the United States, have argued that the Renminbi is artificially undervalued due to China's current monetary policies and have pressured China to allow the Renminbi to float freely in world markets. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the dollar. Under the new policy the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of designated foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the dollar.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive the majority of our revenues in Renminbi. Shortages in the availability of foreign currency may restrict the ability of our affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign

currency to satisfy our currency demands, we may not be able to pay dividends, if any, in foreign currencies to our shareholders.

***Inflation in the PRC could negatively affect our profitability and growth***

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. During the past decade, the rate of inflation in China has been as high as approximately 20% and China has experienced deflation as low as approximately minus 2%. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in the costs of supplies such as raw materials, it may have an adverse effect on our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. The implementation of such policies may impede economic growth. In October 2004, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. In April 2006, the People's Bank of China raised the interest rate again. Repeated rises in interest rates by the central bank would likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our products and services. On March 18, 2008, China's central bank, the People's Bank of China, announced that the bank reserve ratio would rise half of a percentage point to 15.5% effective March 25, 2008 in an effort to reduce inflation pressures hours after Premier Wen Jiabao highlighted inflation as a major concern for the government. China's consumer price index growth rate reached 8.7% year over year in 2008.



***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences***

As our ultimate holding company is a Delaware corporation, we are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices may occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

***If we make equity compensation grants to persons who are PRC citizens, they may be required to register with the State Administration of Foreign Exchange of the PRC, or SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt an equity compensation plan for our directors and employees and other parties under PRC law***

On April 6, 2007, SAFE issued the “Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also know as “Circular 78.” It is not clear whether Circular 78 covers all forms of equity compensation plans or only those which provide for the granting of stock options. For any plans which are so covered and are adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company’s covered equity compensation plan prior to April 6, 2007. We intend to adopt an equity compensation plan in the future and make option grants to our officers and directors, most of who are PRC citizens. Circular 78 may require our officers and directors who receive option grants and are PRC citizens to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that any of our equity compensation plans are subject to Circular 78, failure to comply with such provisions may subject us and participants of our equity incentive plan who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

***Any recurrence of Severe Acute Respiratory Syndrome (SARS), Avian Flu, or another widespread public health problem, in the PRC could adversely affect our operations***

A renewed outbreak of SARS, Avian Flu or another widespread public health problem in China, where all of our manufacturing facilities are located and where all of our sales occur, could have a negative effect on our operations.

Our business is dependent upon our ability to continue to manufacture products. Such an outbreak could have an impact on our operations as a result of:

- quarantines or closures of some of our manufacturing facilities, which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our operations.

***Adverse changes in political and economic policies of the PRC government could have a material and adverse effect on the overall economic growth of China, which could reduce the demand for our products***

Most of our business operations are conducted in China and most of our revenues are generated in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, the level of development, the growth rate, the control of foreign exchange, and the allocation of resources.

While the Chinese economy has grown significantly in the past 30 years, the growth has been uneven geographically among various sectors of the economy, and during different periods. We cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. For example, the Chinese economy experienced high inflation in the second half of 2007 and the first half of 2008. China's consumer price index soared 7.9% during the six months ended June 30, 2008 as compared to the same period in 2007. To combat inflation and prevent the economy from overheating, the PRC government adopted a number of tightening macroeconomic measures and monetary policies, including increasing interest rates, raising statutory reserve rates for banks and controlling bank lending to certain industries or economic sectors. However, due in part to the impact of the global crisis in financial services and credit markets and other factors, the growth rate of China's gross domestic product has decreased to 6.8% in the fourth quarter of 2008, down from 11.9% reached in the second quarter of 2007. As a result, beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies by reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008 the PRC government announced an economic stimulus package in the amount of \$586 billion. We cannot assure you that the various macroeconomic measures, monetary policies and economic stimulus package adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long-term, may adversely affect us.

***A downturn in the economy of the PRC may slow our growth and profitability***

The Chinese economy has grown at an approximately 9% annual rate for more than 25 years, making it the fastest growing major economy in recorded history. In 2007, China's economy grew by 11.4%, the fastest pace in 11 years, according to the National Bureau of Statistics. We cannot assure you that growth of the Chinese economy will be steady, that inflation will be controllable or that any slowdown in the economy or uncontrolled inflation will not have a negative effect on our business. Several years ago, the Chinese economy experienced deflation, which may recur in the future. More recently, the Chinese government announced its intention to continuously use macroeconomic tools and regulations to slow the rate of growth of the Chinese economy, the results of which are difficult to predict. Adverse changes in the Chinese economy will likely impact the financial performance of a variety of industries in China that use or would be candidates to use our products. If such adverse changes were to occur, our customers and potential customers could reduce spending on our products and services.

***Contract drafting, interpretation and enforcement in China involves significant uncertainty***

We have entered into numerous contracts governed by PRC law, many of which are material to our business. As compared with contracts in the United States, contracts governed by PRC law tend to contain less detail and are not as comprehensive in defining contracting parties' rights and obligations. As a result, contracts in China are more vulnerable to disputes and legal challenges. In addition, contract interpretation and enforcement in China is not as developed as in the United States, and the result of any contract dispute is subject to significant uncertainties. Therefore, we cannot assure you that we will not be subject to disputes under our material contracts, and if such disputes arise, we cannot assure you that we will prevail.

*Because our business is located in the PRC, we may have difficulty establishing adequate management, legal and financial controls, which it is required to do in order to comply with U.S. securities laws*

PRC companies have historically not adopted a Western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and, computer, financial and other control systems. Most of our middle and top management staff are not educated and trained in the Western system, and we may have difficulty hiring new employees in the PRC with such training. In addition, we may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. Therefore, we may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act of 2002. This may result in significant deficiencies or material weaknesses in our internal controls which could impact the reliability of our financial statements and prevent us from complying with SEC rules and regulations and the requirements of the Sarbanes-Oxley Act of 2002. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business.

#### **ITEM 1B. Unresolved Staff Comments**

None.

#### **ITEM 2. Properties**

Under Chinese law, all of the land in China is either state-owned or collectively-owned, depending on its location and the specific laws governing such land. Collectively-owned land is owned by rural collectives and generally cannot be used for non-agricultural purposes unless approved by the Chinese government. Collectively-owned land cannot be transferred, leased or mortgaged to non-collectives without first being converted into state-owned land. Individuals and entities may acquire rights to use state-owned land, or land use rights, for commercial, industrial or residential purposes by means of mutual agreement, tender, auction or listing for sale from local land authorities or an existing holder of a land-use-right. Land-use-rights granted for commercial, industrial and residential purposes may be granted for a period of up to 40, 50 or 70 years, respectively. This period may be renewed at the expiration of the initial and any subsequent terms, subject to compliance with relevant laws and regulations. Land-use rights are transferable and may be used as security for borrowings and other obligations.

Our production, blending and storage facilities are located at China National Petroleum Corporation's Dalian Branch in Liaoning Province, Dalian Ganjinzi District Shanzhong Street and Panjin Liaohe Petroleum Corporation's Panjin branch also in Liaoning Province Panjin Xinglongtai District Gong Street. Our leased facilities, in the aggregate,

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represent approximately 22,100 cubic meters of storage facilities, and approximately 460,000 tons of berth facilities as set forth in the following list of our leased facilities in various geographical locations as of December 31, 2012:

<b>Type of Leased Facility</b>	<b>Capacity</b>	<b>Monthly Rent</b>	<b># of Units</b>	<b>Location</b>
Oil Blending & Storage Tanks	2,400c/m	\$18,300	1	Liaoning-Panjin
Oil Blending & Storage Tanks	2,700c/m	\$18,300	1	Liaoning-Panjin
Berth Facilities	2,500 tons	\$18,300	4	Liaoning-Panjin
Oil Blending & Storage Tanks	5,000c/m	\$31,400	4	Shandong-Rongcheng

Our owned facilities, in the aggregate, represent approximately 23,800 cubic meters of storage facilities, and approximately 1,500 tons of berth facilities as set forth in the following list of our leased facilities in various geographical locations as of December 31, 2012:

<b>Type of Owned Facility</b>	<b>Capacity</b>	<b># of Units</b>	<b>Location</b>
Storage Tank	1,500c/m	4	Shandong-Rongcheng
Oil Blending & Storage Tanks	1,000c/m	3	Shandong-Rongcheng
Oil Blending & Storage Tanks	500c/m	3	Shandong-Rongcheng
Oil Blending & Storage Tank	2,000c/m	4	Liaoning-Donggang
Berth Facilities	500tons	5	Liaoning-Donggang
Oil Blending & Storage Tanks	2,000c/m	1	Zhejiang-Shipu
Oil Blending & Storage Tanks	1,000c/m	2	Zhejiang- Shipu
Oil Blending & Storage Tanks	600c/m	3	Zhejiang- Shipu
Berth Facilities	1,000tons	1	Zhejiang- Shipu
Storage Tank	3,000c/m	4	Jiangsu-Suzhou
Storage Tank	1,200c/m	2	Jiangsu -Suzhou
Storage Tank	600c/m	2	Jiangsu -Suzhou
Storage Tank	1,500c/m	3	Liaoning-Panjin
Storage Tank	200c/m	7	Liaoning-Panjin
Storage Tank	2,000c/m	7	Shandong-Zibo
Storage Tank	2,500c/m	4	Shandong-Rongcheng
Storage Tank	1,250c/m	6	Tianjin
Storage Tank	200c/m	5	Tianjin
Storage Tank	500c/m	1	Tianjin
Storage Tank	300c/m	1	Tianjin

Our oil tanks are mainly located in four regions, as follows:

Donggang - The reserve capacity of every one of the four oil tanks located in Donggang Liaoning Province is 2,000 cubic meters (cm). The oil tanks are used for storage, delivery and blending of nonstandard diesel, standard diesel and #3 marine fuel. The capacity of fuel turnover per year can be as high as 200,000 tons. The location of oil tanks in Donggang is near Xingyuan's berth, which is also owned by the Company, and the oil can be transported to the vessels at the berth through underground pipelines.

Xinfa - The reserve capacity of every one of the four oil tanks located in Shidao, Shandong Province is 1,500 cm. The oil tanks are applied for storage and delivery of #3 and #4 marine fuel. The capacity of fuel turnover per year is up to 150,000 tons.

Mashan - there are six oil tanks located in Mashan, including three with the reserve capacity of 1,000 cm and three with the reserve capacity of 500 cm. The oil tanks are applied for storage, delivery and blending of nonstandard diesel. The capacity of fuel turnover per year is approximately 150,000 tons.

Nanlian - there are six oil tanks located in Nanlian, including one with the reserve capacity of 2000 cm, two with the reserve capacity of 1000 cm and three with the reserve capacity of 600 cm. The oil tanks are applied for storage, delivery and blending of nonstandard diesel. The capacity of fuel turnover per year is approximately 150,000 tons.



Panjin – there are three storage oil tanks located in Panjin, Liaoning Province, each one with the reserve capacity of 1500 cm, and other seven storage tanks with capacity of 200 cm. The oil tanks are applied for storage, delivery and blending of nonstandard diesel. The capacity of fuel turnover per year is approximately 50,000 tons.

Hailong – there are thirteen storage oil tanks located in Tianjin, six ones with the reserve capacity of 1250 cm, and other five storage tanks with capacity of 200 cm, and other two with 500cm and 300cm capacity each. The oil tanks are applied for storage, delivery and blending of nonstandard diesel. The capacity of fuel turnover per year is approximately 50,000 tons.

Suzhou – there are eight tanks located in Suzhou Wujiang, Jiangsu Province, including 4 with the reserve capacity of 3000 cm, two with the reserve capacity of 1200 cm and two with the reserve capacity of 600 cm. The oil tanks are applied for storage, delivery and blending of nonstandard diesel. The capacity of fuel turnover per year is approximately 100,000 tons.

Zhuoda – there are four tanks located in Rongcheng city, Shandong Province, each one with the reserve capacity of 2500cm. The oil tanks are applied for storage, blending #4 marine fuel with the turnover capacity of 100,000 tons.

### ITEM 3. Legal Proceedings

Except as set forth below, the Company is not involved in any legal matters arising out of its operations in the normal course of business, which may be expected, individual or in the aggregate, to have a material effect on the Company.

#### *Dismissal of Shareholder Complaints*

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and as updated in the subsequent quarterly reports, the Company and certain of its officers and directors have been named as defendants in several shareholder lawsuits filed in the Court of Chancery of the State of Delaware in connection with a contemplated "going private" proposal by the Company's Chief Executive Officer and majority shareholder, An Fengbin. Namely, these shareholder lawsuits include complaints entitled (i) *George Durgin v. An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons, (ii) *Roger and Lauresteine Marin v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, and Hou Yudong*, purportedly on behalf of all similarly situated persons, (iii) *Harlow Greguire v. An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons, and (iv) *Benjamin L. Padnos v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, and Hou Yudong*, purportedly on behalf of all similarly situated persons (collectively, the "Shareholder Complaints").

On September 7 and 12, 2012, respectively, the Court of Chancery of the State of Delaware granted Notices of Voluntary Dismissals filed by plaintiffs in each of the Shareholder Complaints. The plaintiffs in each of the foregoing Shareholder Complaints dismissed actions against all defendants in each of the complaints without prejudice. No consideration was paid to the plaintiffs or their attorneys in connection with the dismissals.

*Asset Misappropriation Matters*

As previously disclosed, in late June 2012, the Company became aware of certain misappropriations of Company assets. The Company engaged a Shanghai accounting firm to perform an inquiry, conclusions of which were provided to the Company's management in late July. The report findings identified four instances of misappropriation by an employee during June and July 2012 from several Company managed locations close to Shanghai, which aggregate to approximately 709 tons of fuel with a cost of approximately RMB 3,743,000 (approximately USD\$592,000) and cash in the amount of RMB 469,000 (approximately USD\$74,000). Following this discovery and report, management has been working with the local law enforcement authorities to recover the misappropriated fuel inventory and cash. The employee's position at the Company has been terminated. The Company has been reviewing its internal controls and procedures to ensure, to the extent possible, that no such event can occur again in the future. On August 13, 2012, the Company entered into a settlement agreement with the former employee, in which the Company is to recover the misappropriated fuel and cash during the third quarter of 2012. The Company recovered the remaining fuel in the fourth quarter of 2012.

#### **ITEM 4. Mine Safety Disclosures**

Not applicable.

## **PART II**

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

##### *Market Information*

Following the completion of the initial public offering of the Company's securities in January 2010, shares of the Company's common stock commenced public trading on the Nasdaq Global Market on January 26, 2010 under the trading symbol "AMCF". The market for our common stock is limited and volatile. Continental Stock Transfer and Trust Company is the transfer agent and registrar for our common stock. Set forth below are the high and low closing sale prices for the common stock for each quarter from 2010 since our securities commenced trading on the Nasdaq Global Market. The quotations reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not represent actual transactions.

Quarter Ended	High	Low
December 31, 2012	\$1.16	\$0.50
September 30, 2012	2.23	1.12
June 30, 2012	3.06	1.78
March 31, 2012	3.62	3.06
December 31, 2011	\$3.83	\$1.83
September 30, 2011	2.74	1.26
June 30, 2011	3.9	2.19
March 31, 2011	5.21	4.13

December 31, 2010	\$6.44	\$3.85
September 30, 2010	5.05	3.52
June 30, 2010	7.09	3.65
March 31, 2010	8.05	5.81

On April 9, 2013, the closing price of the Company's common stock was \$0.73 per share.

### *Holders*

We had approximately 1,059 stockholders of record as of April 9, 2013.

### *Dividends*

We have not declared or paid any cash dividends on our common stock and do not anticipate declaring or paying any cash dividends in the foreseeable future. We currently expect to retain future earnings, if any, for the development of our business. Dividends may be paid on our common stock only if and when declared by our Board and will depend on a number of factors, including but not limited to, future operating results, capital requirements, financial condition and the terms of any credit facility or other financing arrangements we may obtain or enter into, future prospects and any other factors our Board may deem relevant at the time such payment is considered.

### *Recent Sales of Unregistered Securities*

We have not sold any equity securities of the Company during the fiscal ended December 31, 2012 that were not previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K that was filed during the 2012 fiscal year.

### *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

There were no purchases of the Company's equity securities in the fourth quarter of the fiscal year 2012.

## **ITEM 6. Selected Financial Data**

As a smaller reporting issuer (as defined in Item 10(f)(1) of Regulation S-K), the Company is not required to report selected financial data specified in Item 301 of Regulation S-K.

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The discussion in this section contains forward-looking statements that involve risks and uncertainties. As a result of various factors, including those set forth under "Risk Factors" and elsewhere in this report, our actual*

*future results may be materially different from what we expect.*

### **Overview**

Andatee China Marine Fuel Services Corporation is a leading marine fuel supplier along the coast of east China.

Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as #1, #2, #3 and #4, which are close substitutes for diesel used throughout the region's fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels. Backed by core facilities, including storage tanks, tankers and berths, our sales network covers major marine depots along the towns of Dandong, Tianjin, Shidao and Shipu, which are famous for their fishing tradition and industry.

We carry out all of our business through our Hong Kong subsidiary, Goodwill, its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's variable interest entity (VIE), Xingyuan, and Xingyuan's subsidiaries (Xingyuan and its subsidiaries being collectively referred to as the VIE entities). A VIE is an entity under ASC 810, "Consolidation," where equity investors do not have the characteristics of a controlling financial interest (see Note 1 of Notes to Consolidated Financial Statements). Through Xingyuan, we are a leading marine fuel supplier along the coast of east China. Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as #1, #2, #3 and #4, which are close substitutes for diesel used throughout the region's fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels. Backed by core facilities, including storage tanks, tankers and berths, our sales network covers major depots along the towns of Dandong, Tianjin, Shidao and Shipu, which are famous for their fishing tradition and industry.

Andatee China Marine Fuel Services Corporation was incorporated in July 2009 under the laws of the State of Delaware. We were organized as a holding company to acquire Goodwill Rich, a company incorporated in Hong Kong, and its subsidiary in connection with the initial public offering of the Company on the NASDAQ Capital Market, which was completed in January 2010. Goodwill Rich was incorporated on October 28, 2008.

Andatee became the owner of 100% of the outstanding common stock of Goodwill Rich as the result of a share exchange arrangement entered in August 2009 and completed on October 16, 2009, in which 6,000,000 common share of Andatee were exchanged for all of the outstanding shares of Goodwill Rich. The stockholders of Andatee and the stockholders of Goodwill Rich were the same, and therefore the August 2009 share exchange was accounting for as a recapitalization of Goodwill Rich. As a result, Goodwill is deemed to be the predecessor of Andatee for financial reporting purposes, and the financial statements of Andatee for the periods prior to the share exchange as presented here are the historical financial statements of Goodwill Rich for those periods, after being adjusted to retroactively reflect the effects of the recapitalization to 6,000,000 issued and outstanding shares.

In March 2009, Goodwill Rich established a subsidiary company in Dalian, PRC named Dalian Fusheng Consulting Company (“Fusheng”).

Xingyuan was established in September 2001 with a registered capital of RMB7 million and began providing refueling services to the marine vessels in Dalian Port in Dalian City. Xingyuan holds 100% ownership of Donggang Xingyuan, a company incorporated in Dalian, PRC, in April, 2008. In addition, in December 2008, Xingyuan acquired 90% ownership of Xinfa and 63% ownership of Nanlian, respectively (see more details in Note 3 of the Notes to the Consolidated Financial Statements). In May 2010, Xingyuan acquired 52% equity interest of Rongcheng Mashan Xingyuan Marine Bunker Co., Ltd. (“Mashan”), furthermore, in July 2010, Xingyuan acquired 52% ownership of Hailong Petrochemical Co., Limited (“Hailong”). In December 2011, Fusheng acquired 100% of ownership of Rongcheng Zhuoda Trading Co, in December 2011, Fusheng acquired 90% of the ownership of Wujiang Xinlang Petrochemical Co., in December 2011, Fusheng acquired 61% of the ownership of Suzhou Fusheng Petrochemical Company.

On March 26, 2009, Fusheng, Xingyuan and the stockholders of Xingyuan entered into a series of agreements (the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and the Proxy and Voting Agreement). Under these agreements Goodwill Rich obtained the ability to direct the operations of Xingyuan and its subsidiaries and to obtain the economic benefit of their operations. Therefore, management determined that Xingyuan became a variable interest entity (“VIE”) under the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 and the Company was determined to be the primary beneficiary of Xingyuan and its subsidiaries. Accordingly, the Company has consolidated the assets, liabilities, results of operations and cash flows of Xingyuan and its subsidiaries its financial statements. The agreements between the Goodwill Rich and Xingyuan were entered into to facilitate raising capital for the operations of Xingyuan through an offering of the Company’s common stock on the Nasdaq Capital Market, and Goodwill Rich paid no consideration to Xingyuan or its stockholders for entering into the agreements under which Xingyuan became a VIE, provided, however, that Mr. An Fengbin, the principle stockholder of Xingyuan became the chairman and CEO

of the Company, and Mr. An Fengbin and the other stockholders of Xingyuan have certain rights or options to acquire the 6,000,000 shares of the Company's common stock issued in the share exchange between the Company and Goodwill Rich at later dates when permitted by PRC laws and regulations. Mr. AnFengbin remains the principle stockholder of Xingyuan after the completion of the share exchange between Goodwill Rich and Andatee described above.

Goodwill Rich and the stockholders of Xingyuan had a series of separate agreements under which Goodwill Rich and Xingyuan were deemed, until March 2009, to be under the common control of the stockholders of Xingyuan. Those separate agreements provided that the majority stockholder of Goodwill Rich appointed Mr. An Fengbin to (i) act as a director of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (ii) act for the majority stockholder of Goodwill Rich at any meetings of the directors, managers, financial controllers or other senior management of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (iii) exercise all voting and dispositive rights over the common stock of Xingyuan, Xingyuan's majority stockholder, and Fusheng. The agreements further provided that the majority stockholder of Xingyuan would not appoint any additional directors to the boards of any of these entities without Mr. AnFengbin's approval. As a result, Mr. AnFengbin was deemed to control Goodwill Rich and Fusheng, and those companies and Xingyuan were deemed to be under common control.



All of the transactions between Andatee, Goodwill Rich, Fusheng and Xingyuan were deemed to be transactions between companies under common control, and therefore the bases of the assets and liabilities in each of the companies was not adjusted in any of the transactions. As a result of the foregoing, our consolidated financial statements contain for the period from January 1, 2011 to June 2011, the assets, liabilities, results of operations and cash flows of Goodwill Rich and its subsidiary consolidated with those of its VIE, Xingyuan, and its subsidiaries.

As a result of the above, for the period from January 1, 2011 to June 2011 our consolidated financial statements contain, the assets, liabilities, results of operations and cash flows of Goodwill Rich and its subsidiary consolidated with those of its VIE, Xingyuan, and its subsidiaries. For the remainder of 2011, substantially all of the operations contained in the VIE were transferred to Fusheng and remain part of the consolidated group.

During June 2011, substantially all of the operations contained in the VIE were transferred to Fusheng and remain part of the consolidated group.

### ***Business Development and Outlook***

We have taken several steps to increase investment in facilities and product line expansion in order to provide our customers with easier access to our products and services and to build a delivery network closer to target market. These steps include acquiring additional local companies and facilities, and development of new products, all aimed at meeting customer demands in various markets. Historically, we have funded these activities from our working capital.

We continue to ramp up expansion of our distribution network by expanding organically through the opening of new sales and marketing branches in new port locations, building new facilities improving our existing facilities, and signing sole supply agreements with long-term supply partners.

Furthermore, we are setting up market developing offices in large cities, such as Shanghai, Shenzhen, etc. to recruit capable local hands in a bid to establish effective network of information for providing solid foundations to pursue our acquisition-driven growth strategy in neighboring areas around the cities.

### ***Facility Expansion***

In April 2011, we commenced the construction of Tengda wharf and storage tanks located in Rongcheng City, Shandong Province. The Tengda projects will expand the existing wharf and storage tanks. The capital expenditure for

expanding the wharf and tank storage is estimated to be RMB 46 million (US\$7.36 million).

In July 2011, we commenced the constructions of new blending facilities in Xinfu in Rongcheng City, Shandong province, which is designed to improve our production capabilities in blending with 20,000 cm tanks on site. The capital expenditure is estimated to be RMB 25 million (US\$ 3.97 million).

In January 2011, we commenced the construction of the facilities in Tianjin City. This facility will provide additional tank capacities in a region close to the areas where our current major suppliers operate. The cost for construction is estimated to be approximately RMB 4.2 million (US\$ 0.67 million).

The Company estimates to complete the foregoing construction by the second quarter of 2013.

### ***Facility Acquisitions***

We continue to strategically identify, research, and where appropriate, acquiring entities with desired facilities in various areas that fit into Andatee's strategic growth plans.

In May 2010, we acquired a 52% equity interest in Mashan Xingyuan Marine Fuel Company ("Mashan"). In July 2010, we acquired a 52% ownership of Hailong Petrochemical Company ("Hailong").

In December 2011, we acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinglang") for RMB 2.36 million (approximately US\$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

In December 2011, we acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately \$1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province.

In December 2011, we acquired a 100% equity interest in Rongcheng Zhuoda Trading Co ("Zhuoda") for RMB 13 million (approximately US\$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province.

Shanghai Fusheng was incorporated by Dalian Xifa on April 6, 2012 with original paid in capital of RMB 1 million (approximately US\$ 0.16 million), on July 11, 2012, Dalian Xifa increased the paid in capital in Shanghai Fusheng by RMB 14 million (approximately US\$ 2.22 million). As a result, the final paid in capital of Shanghai Fusheng is RMB 15 million (approximately US\$ 2.38 million).

The acquisitions are consistent with Andatee's strategy of expanding its geographic base and increasing market share along China's rivers and coastal line.

### ***Supply Agreements***

We have established strong ties with our upstream suppliers. Our top raw material suppliers are either state-owned enterprises or supported by state-owned enterprises, from which we received in excess of 56% of our total raw supplies purchases in 2011 and in excess of 71% of our total raw materials purchased in 2012. We also benefit from these relationships by being able to lease advanced facilities from our suppliers, which reduces our transportation costs and time and expedites deliveries of raw materials and, thus, improves customer service.

In September 2010, the Company executed 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province.

### ***Operational Initiatives in 2012***

In 2012, we undertook the following steps designed to reduce the overall production and transportation costs:

- built and/or acquired other distributing facilities to increase our profit margin and sales, enhance our brand and minimize the adverse impact of oil price volatility

- established regional purchase center to timely collect all information for sales and purchase analysis, to process order making and logistics planning. This allows us to negotiate favorable pricing and volume discounts and maintain an appropriate sale levels

- worked closely with the managements of the acquired companies to obtain an in-depth knowledge of local markets and developed a list of suppliers to reduce the purchase cost of certain raw materials.

- relocated our production and storage centers closer to our end users which provide us more opportunity to develop an efficient and flexible manufacturing and operational infrastructure and enjoy savings on transportation costs.

In 2012, our overall strategy has been to (i) increase our share of retail sales since such sales had shown to be less price-sensitive than our sales to the distributors, (ii) acquire our own retail facilities to reduce the risk of opportunistic negotiations from our retail customers during periods of volatile oil prices, (iii) build retail points in strategic locations (often close to other, recently acquired locations) to capture a majority of active local markets and (iv) add more products to our current product line to further satisfy customers' diversifying demands .

As the result of expansion of our distribution network and contribution from new products put into markets during 2012, our revenues for 2012 have increased by 3.6% to \$ 228.8 million as the result of increasing quantity sold and increasing sales price on certain key products, and our gross margin decreased to 6.2%.

In 2012, 39.1% of our sales were to retail customers as compared with 46.94% in 2011.

We believe that maintaining our retail sales and distribution channels will lead to stable gross margins which can help offset the pressure imposed on our profit margin by crude oil price downturn. We believe that higher retail sales and closer ties with our customers as well as wider distribution network are at the core of our strength and business viability going forward.

We intend to (i) control more facilities closer to end markets, through business acquisitions, partner cooperation, building local platform for our products and added-value services, which would enhance the brand awareness of the “Xingyuan” brand and (ii) expand our product line and upgrade our production facilities to explore the markets opportunities and increase our share in retail market.

### ***Principal Factors Affecting our Financial Performance***

We believe that the following factors will continue to affect our financial performance:

***Increasing demand for blended marine fuel*** — The increasing demand for blended marine fuel has a positive impact on our financial position. The strong growth in the blended marine fuel industry has been driven by several factors, including, among others, steady population growth in the PRC, improvements in the living standards, national energy conservation efforts.

***Expansion of our sources of supply, production capacity and sales network*** — To meet the increasing demand for our products, we need to expand our sources of supply and production capacity. We plan to make capital improvements in our existing production facilities, which would improve both their efficiency and capacity. In the short-run, we intend to increase our investment in our reliable supply network, personnel training, information technology applications and logistic system upgrades.

***Fluctuations in Crude Oil Price*** — We use oil refinery by-products as raw materials for our production. The recent increase in oil prices had a direct impact on the price we pay for these products. However, we mitigated this in the short-term by increasing the price of our products and passing the entirety of the increase to our customers.

### **Results of operations for the year ended December 31, 2012 and 2011**

#### ***Revenue***

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For the year ended December 31, 2012, our revenue increased by \$7.96 million, or 3.6%, from \$220.8 million in 2011 to \$228.8 million in 2012. The increase in our revenues was mainly due to the increased sales volume. Our overall sales volume increase by 3,584 tons, or 1.2%, from 292,978 tons for the year ended December 31, 2011 to 296,561 tons for the year ended December 31, 2012. In addition, the average selling price for our product #4 fuel oil, which was the best seller in 2012, increased from RMB 5,076 (about \$806 ) per ton in 2011, to RMB 5,206 (about \$826) per ton in 2012, representing a 2.6% increase. Accordingly, our revenue increased in 2012. To be specific, the increase in our revenue was due to the following reasons:

The increase in our sales volume was primarily driven by increased customer demand for our #4 blended fuel oil which has a relatively competitive market price targeting broad range of fishing boat customers. Among our total sales volume in 2012, about 67% was from sales of our #4 fuel oil

The increase in our revenue was affected by increased selling price on certain key products. The average selling price of our best-seller #4 fuel oil increased about 2.6%, average selling price for marine fuels 120CST and 180CST increased about 3.2% and 14.5% respectively in 2012 as compared to 2011. The increase in selling price for these products led to the increase in sales revenue as well

In addition, we expanded our market coverage to more extended geographic areas, such as Shanghai, Zhejiang Province, which helped us to attract additional new customers. Total number of fishing boat customers increased about 17% in 2012 as compared to 2011. The increase in number of customers led to increased sales as well

On the other hand, certain factors (such as the general slow-down of the Chinese economy, seasonality impact on the fishing industry, our reduced sales promotion due to our failed privatization plan, as well as the global crude oil price fluctuation, etc.) also negatively impacted our sales trend.

For the year ended December 31, 2012, #1 marine fuel represented 8.9% of our sales, #2 marine fuel represented 9.4% of our sales, #3 marine fuel represented 8.7% of our sales, #4 marine fuel represented 66.8% of our sales, 180CST represented 4.6% of our sales and 120CST represented 1.6% of our sales.

The revenues we report are net of value-added taxes, or VAT, levied on our products. Currently, our products, all of which were sold in China, are subject to a VAT at a rate of 17% of the gross sales price or at a rate approved by the Chinese government. Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of processing, repairs and replacement services and the importation of goods in China are generally required to pay the VAT.

### **Cost of Revenue**

Our cost of revenue consists primarily of direct costs to purchase and produce our products, including raw material costs, salaries and related manufacturing personnel expenses, transportation costs, and repair and maintenance costs.

Our cost of revenues increased by \$9.8 million, or 4.8%, from \$204.6 million for year ended December 31, 2011 to \$214.5 million for the year ended December 31, 2012 primarily due to the following reasons:

Cost of revenue increased due to increased sales volume from 292,978 metric ton in 2011 to 296,561 metric tons in 2012.

The average cost per unit increased from \$699 per metric ton in 2011 to \$723 per metric ton in 2012. The increased unit cost led to increased cost of revenue. Our main business is to purchase raw materials and crude oil from upstream suppliers and then blend, manufacture and sell to customers. The purchase price for raw materials and crude oil was largely affected by the global and local crude oil price fluctuation. For the year ended December 31, 2012, the global crude oil trading prices reached a high of \$109 per barrel in March 2012, and then decreased to \$100 per barrel in May, further decreasing to about \$80 in the June and July period, and then increased to about \$90 per barrel by the end of September 2012. Due to the crude oil price fluctuation, our raw material costs and production costs also fluctuated. Consequently, our cost of revenue increased due to increased unit cost of product affected by the global crude price volatility.

### **Gross Margins**

Our gross profit and gross profit margin was affected by several factors, including:

the gross profit margin of our six major products are different. Fuel #3 and fuel #4 has a higher gross profit margin than other products, and fuel 120CST and fuel 180CST has the lowest margin. Therefore, the sales of different product mix in different reporting period impacted our gross profit

we retail our products to end user and also wholesale side to distributors as well. Gross profit from the retail side is normally higher than the wholesale because we can set the selling price higher and can control the operating costs more easily. Accordingly, an increase or decrease in the retail sales will impact our gross profit to a certain extent

- the increase and decrease in the average selling price and average unit cost will also impact our gross margin.



As a result of the increased average unit cost from \$699 per ton for the year ended December 31, 2011 to \$723 per ton in the same period of 2012, and a decrease in sales of high gross margin products, such as fuel #1 and fuel #3 within our product mix and a decrease in sales from the retail side, our gross profit decreased by \$1.9 million, or 11.8%, from \$16.2 million for the year ended December 31, 2011 to \$14.3 million for the year ended December 31, 2012. As a percentage of revenues, our gross profit margin dropped to 6.2% for the year ended December 31, 2012 compared to 7.3% for the year ended December 31 2011.

In summary, the decrease in our gross profit margin for the year ended December 31, 2012 as compared to 2011 was primarily due to (i) increased costs of revenue which were mainly caused by increased raw material cost, (ii) Changes in the sales of our product mix and (iii) competition in the market. As a result, our gross profit margin was lower than the level we normally would expect. With the completion of the Company's distribution network setup in Shandong, Jiangsu and Zhejiang, we intend to increase our sales in these regions in the near future to improve our gross profit margin, and we expect to have a margin recovery as the new market gains sales momentum and recovery of macroeconomic conditions in the energy industry. Moreover, we are working on research and development of better formula for blended fuel products to decrease our costs to increase our gross profit margin.

### **Selling Expenses**

Our selling expenses consist primarily of employee compensation and benefits for our sales and marketing staff, expenses for promotional and advertising activities and expenses for leasing the oil storage tanks.

Selling expenses decreased by \$1.58 million, or 54%, from \$2.9 million for the year ended December 31, 2011 to \$1.3 million for the year ended December 31, 2012. This decrease is mainly due to reduced sales promotion expenses and oil storage tank and other facility lease expenses. As a percentage of revenues, selling expenses decreased from 1.3% for the year ended December 31, 2011 to 0.6% for 2012.

In the near term, we expect that certain components of our selling expenses will increase as we step up efforts to expand our presence in new markets in China. Specifically, we expect that product promoting expenses will increase as we improve the awareness among customers in Jiangsu and Zhejiang Province. In addition, we also expect salary expenses to increase as we continue to hire additional sales representatives to help broaden our end-user customer base. This anticipated increase in selling expenses is a part of our plan to grow and support our extensive distribution network.

### **General and Administrative Expenses**

Our general and administrative expenses consist primarily of employee compensation and benefits for our general management, finance and administrative staff, depreciation and amortization with respect to equipment used for general corporate purposes, professional, legal and consultancy fees, and other expenses incurred for general corporate purposes.

General and administrative expenses increased \$1.6 million, or 38%, from \$4.1 million for the year ended December 31, 2011 to \$5.7 million for the year ended December 31, 2012. The increase was caused by an increase in the depreciation expense, increase in the bad debt reserves, increase in professional services fees and consulting fees. As a percentage of revenues, general and administrative expenses increased from 1.9% for the year ended December 31, 2011 to 2.5% for 2012.

We expected that our overall general and administrative expenses would increase in connection with our re-organizing our corporate structure, initiate the going private efforts and hire more experienced management personnel in the near future.

## **Interest Expense**

Interest expense increased by \$3.4 million, from \$2.5 million for the year ended December 31, 2011 to \$5.9 million for the year ended December 31, 2012. The increase in interest expense was due to the following reasons: the Company borrowed total of \$35 million bank loans and \$96.7 million bank notes during 2012 (among which \$30 million bank loans and \$122.6 bank notes have been repaid as of December 31, 2012). Bank notes payable average balance increased to \$44 million for the year ended December 31, 2012, from an average balance of \$25 million for the same period in 2011. As discussed below, the Company had more loans from third parties with higher interest rates to fund the Company's working capital in 2012.

## ***Provision (Benefit) for Income Taxes***

For the year ended December 31 2012, we reported income tax expense of \$0.7 million after application of an income tax benefit of \$0.75 million due to operating losses incurred during the year. For the same period in 2011, we reported an income tax provision of \$2.5 million after application of income tax benefit of \$39,683 due to operating loss carry-forward.

## ***Net Income Attributable to the Company***

Net income attributable to the Company decreased by \$3.2 million, from a net income of \$4.8 million for the year ended December 31, 2011 to \$1.64 million for the year ended December 31 2012. The decrease in net income was mainly the result of the 11.8% decrease in profit margins of \$1.9 million and an increase in interest expense of \$3.4 million, offset by a decrease in income taxes of \$1.8 million.

## ***Liquidity and Capital Resources***

As of December 31, 2012, we had cash of approximately \$1.6 million in our bank accounts, and additionally, we have set aside \$9.1 million of restricted cash on bankers' acceptance notes. We received a credit rating of AA- from our banks. Therefore we believe that we are able to renew current short-term bank loans upon maturity and obtain additional new bank loans, if necessary, during 2013. As disclosed in our subsequent event note 19 of our consolidated financial statements, we were able to obtain additional bank loan of \$2.38 million (RMB 15 million) from Pingan Bank, we also negotiated another series of bank acceptance notes from Harbin Bank in the aggregate amount of \$11.4 million. We are expecting to generate additional cash flows in the coming period of time from our new sales regions and an increase in our revenue during the upcoming sales season. We believe our existing cash and

cash equivalents will be sufficient to maintain our operations at present level for at least the next 12 months.

On an on-going basis, we will take steps to identify and plan our needs for liquidity and capital resources, to fund our planned ongoing construction and day-to-day business operations. In addition to providing working capital to support our routine activities, we also need funds for the construction and upgrade of our strategic facilities, acquisition of assets and/or equity acquisition, and repayment of debt.

Our future capital expenditures will include building new fueling facilities, increase our blending and storage capacity, berth improvements, expanding our product lines, research and development capabilities, and making acquisitions when deemed appropriate.

Our operating and capital requirements in connection with supporting our expanding operations and introducing our products to the expanded areas have been and will continue to be significant to us. Our growth strategy, which is initially focused on accretive acquisitions and organically expanding our products into expanded areas will require substantial capital which we may not be able to satisfy solely through cash flows from our operations.

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending.

In September 2010, the Company executed 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province.

Under the terms of the agreement with Jinghai, the Company is required to supply up to 20,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 0.3 million (approximately USD 0.04 million) for ten years if annual sales of 20,000 tons of fuels are achieved. For the year ended December 31, 2012 and 2011, Jinhai did not achieve the 20,000 tons sales target and accordingly no rebate was provided to Jinhai.

If and to the extent we require additional capital we would likely to raise such additional capital through the issuance of our equity or equity-linked securities, which may result in significant additional dilution to our current investors. Our ability to raise additional capital is dependent on, among other things, the state of the financial markets at the time of any proposed offering. There is no assurance that additional funding will be available on acceptable terms, or at all. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our operations could be materially negatively impacted.

The following table sets forth a summary of our cash flows for the periods indicated:

	As of December 31,	
	2012	2011
Cash flow data:		
Net cash (used in) provided by operating activities	(696,907 )	3,494,668
Net cash provided by (used in) investing activities	41,298	(24,191,225)
Net cash provided by (used in) financing activities	(1,246,249)	10,987,572
Effect of exchange rate on cash	34,548	2,388,896
Net changes in cash	(1,867,310)	(7,320,088 )
Cash at beginning of period	3,493,015	10,813,103
Cash at end of period	1,625,705	3,493,015

### *Operating Activities*

Net cash used in operating activities for the year ended December 31, 2012 was approximately \$0.69 million, which was primarily as a result of the following factors:

- net income of \$1.4 million;
- decrease in accounts receivable of \$1.6 million as a result of our efforts in collection;
- decrease in inventories of \$7.5 million as a result of increased sales volume in the expanded distribution network and fishing activities;
- increase in advances to suppliers of \$0.3 million because more advance payment has been paid to suppliers for the inventory purchase;
- decrease in advances from customers of \$4.9 million because the same amount has been recognized as revenue when products have been delivered to customers and when revenue recognition criteria have been met;

• decrease in accounts payable of \$9.3 million in line with decreased purchasing due to tightened inventory control policy;  
• decrease in tax payable of \$1 million.

Net cash provided by operating activities for the year ended December 31, 2011 was approximately \$3.4 million, which was primarily as a result of the following factors:

• net income of \$4.7 million;  
• increase in accounts receivable of US\$13.8 million and advances from customers of US\$6.4 resulting from more overall revenue and increased retail sales;  
• increase in inventories of US\$4.2 million as a result of anticipating sales price will increase and an increase in advances to suppliers of \$1.9 million resulting from increased prepayment for inventory rebuilding;  
• decrease in prepaid expenses of US\$0.5 million due to decreased prepayment for services and deposits under signed agreements;  
• increase in accounts payable payable and accrued liabilities of US\$16.9 million in line with increased purchasing; and  
• increase in other payable of US\$0.5 million resulting from increased temporary borrowings from various parties.

### ***Investing Activities***

Cash provided by investing activities was \$41,298 for the year ended December 31, 2012, which was attributable to:

expenditures in construction projects of \$0.6 million to expand the production capacity in Shandong Rongcheng and Suzhou Wujiang area, and purchase of property and equipment of \$0.3 million

- decrease of \$1.3 million of notes receivable because of the collection.
- decrease of \$1.3 million for deposit made for obtaining land use right.
- increase of \$1.7 million for obtaining leasehold right for operating 4 gas stations and a land use right.

Cash used in investing activities was \$24.1 million for the year ended December 31, 2011, which was attributable to:

- cash paid for deposit of US\$1.3 million
- cash paid for purchase of intangible assets of US\$4.2 million
- Note receivable US\$1.3 million
- expenditures in construction projects of US\$17.4 million

### ***Financing Activities***

Cash used in financing activities was \$1.2 million for the year ended December 31, 2012. It consists of net proceeds from short-term bank loans of \$35 million, repayments of bank loans of \$30 million, proceeds from bank notes of \$96.7 million while repayment of bank notes of \$122.6 million, decrease of restricted cash of \$13.6 million due to decreased bank notes payable, and borrowings of \$7.8 million in loans from third parties, repayment of \$1.8 million loans to related party.

Cash provided by financing activities was US\$11.0 million for the year ended December 31, 2011. It consists of bank borrowings of US\$45.1 million in short-term bank notes and \$13.1 million in short term loans as well as collection from escrow account for bank notes of US\$37.2 million and proceeds from a loan payable of US\$1.6 million and an advance from a related party of US\$2.0 million. In 2011, the cash used to repay the bank loans was US\$13.6 million.

### ***Seasonality***

The Chinese government prohibits fishing boats and vessels from fishing from June 15th to September 15th of each year, the breeding season for many varieties of fish, in order to protect marine resources and prevent overfishing. In addition, we are also subject to the reduced commercial activity during the Chinese New Year, the most important of the traditional Chinese holidays. During this time, both cargo and fishing traffic decrease and we expect the demand for our products to decrease accordingly. During the slow season of marine fuel products, we adjust our marketing strategy by increasing the trading of our products.

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements.

### ***Inflation***

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.



### ***Critical Accounting Policies and Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires us to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of our accounting policies are considered critical, due to the level of subjectivity and judgment necessary in applying these policies and because the impact of these estimates and assumptions on our financial condition and operating performance may be material. Based on the foregoing, we have identified the following accounting policies and estimates that we believe are most critical in the preparation of our consolidated financial statements: revenue recognition, accounting for stock-based compensation and income taxes. We have used methodologies that are consistent from year to year in all material respects.

#### ***Revenue recognition***

We recognize revenues in accordance with the guidance in the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 104. Revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when delivery occurs and when collection is probable.

Delivery is typically conveyed via pipeline or tanker and sales revenues are recognized when customers take possession of goods in accordance with the terms of purchase order agreements that evidence agreed upon pricing and when collectability is reasonably assured.

As an industry wide practice, we require advances from customers for substantially all sales. Such advances are not recognized as revenues when received as they represent down payments from customers for the marine fuel products and the delivery is not yet completed.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

#### ***Accounts Receivable***

Our accounts receivable are recognized and carried at original invoiced amount less an allowance for uncollectible accounts, as needed. The Company grants credit to customers with good credit standing with a maximum of 180 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company will not be able to collect all amounts due to it. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against trade and other receivables balances, with a corresponding charge recorded in the consolidated statements of income. Actual amounts received may differ from management's estimate credit worthiness and the economic environment. In the event the accounts become overdue, the Company would continue its best efforts to collect from customers until events or circumstances indicate that the amounts might not be collectible, then, a reserve against specific uncollectible amounts will be recorded.

### ***Inventories***

Our inventories are stated at the lower of cost or current market value. Costs include the cost of raw materials, freight, direct labor and related production overhead. Inventories are stated at cost upon acquisition. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes to make the sale.

Reusable materials include low-value consumables and other materials, which can be in use for more than one year but do not meet the definition of fixed assets. Reusable materials are amortized in half when received for use and in another half when cease to work for any purpose. The amounts of the amortization are included in the cost of the related assets or profit or loss.

### ***Stock-Based Compensation***

We use the Black-Scholes options pricing model to determine the fair value of stock options. The fair value of our restricted stock unit is calculated based on the fair value of Andatee's stock on the date of grant. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions used.

**Goodwill and Other Intangible Assets** - The Company accounts for Goodwill and finite-life intangible assets in accordance with provisions of FASB -ASC Topic 350, Intangibles-Goodwill and Other. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of Topic 350. Impairment losses arising from this impairment test, if any, are included in operating expenses in the period of impairment. Topic 350 requires that intangible assets with finite lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with Topic 360, criteria for recognition of an impairment of Long-Lived Assets.

**Fair Value of Financial Instruments** - The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, accounts payable, accrued expenses and notes payable approximates their recorded values due to their short-term maturities.

### ***Income Taxes***

We provide for income taxes in accordance with taxes in accordance with ASC 740-10, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date.

In the normal course of business, the Company may be subject to challenges from taxing authorities regarding the amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions. Management determines whether the benefits of its tax positions are more-likely-than-not of being sustained upon audit based on the technical merits of the tax position. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of December 31, 2012 and 2011, the Company has no liabilities for uncertain tax positions. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

### ***New Accounting Pronouncements***

There were no new pronouncements that would have a material impact on the financial position of the Company.

### ***Quantitative and Qualitative Disclosures about Market Risk***

#### **Interest Rate Risk**

We are exposed to interest rate risk due primarily to our short-term notes. Although the interest rates on our short-term notes are fixed during their respective terms, the terms are typically 12 months or less and interest rates are subject to change upon renewal. The interest rates on our short-term notes are determined by reference to the benchmark interest rates set by the People's Bank of China, or the PBOC. Since April 28, 2006, the PBOC has increased the benchmark interest rate of RMB bank notes with a term of 6 to 12 months 12 times, seven consecutive increases followed by five consecutive decreases, by 0.27% on most occasions. As a result, from 2006 to 2010, the benchmark interest rate for these RMB bank notes increased from 5.85% to 7.47% then decreased to 5.31%, in the fourth quarter of 2010 interest rate bounced back to 5.81% again and the interest rate applicable to us increased from 6.696% to 8.217% then decreased to 5.841%, thereafter back to 6.696% over the same period. Any future increase in the PBOC's benchmark interest rate will result in an increase in our interest expenses. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

#### **Foreign Exchange Risk**

Although the conversion of the RMB is highly regulated in China, the value of the RMB against the value of the U.S. dollar (or any other currency) may fluctuate and be affected by, among other things, changes in China's political and economic conditions. Under the currency policy in effect in China today, the RMB is permitted to fluctuate in value

within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this currency policy, and if such liberalization occur, the value of the RMB could appreciate or depreciate against the U.S. dollar.

Our operating subsidiaries in China maintain their books and records in Renminbi (“RMB”), the currency of China. In general, for consolidation purposes, we translate the subsidiaries’ assets and liabilities into US Dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of comprehensive income is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of the financial statements of the Company’s Chinese subsidiaries are recorded as accumulated other comprehensive income.

The exchange rates used to translate amounts in RMB into US Dollars were as follows:

December 31, 2012      1 USD = 6.3011 RMB

December 31, 2011      1 USD = 6.3647 RMB

Our business is primarily conducted in China and all of our revenues are denominated in Renminbi. This report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the noon buying rate in New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. On March 25, 2013, the noon buying rate was approximately RMB6.21 to \$1.00. No representation is made that the Renminbi amounts referred to in this report could have been or could be converted into U.S. dollars at any particular rate or at all.

Since July 2005, the Renminbi has not been pegged solely to the U.S. dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.5% each day. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the future. See "Risk Factors — Risks Related to Doing Business in China."

## **Inflation**

Inflationary factors, such as increases in the cost of our products and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of revenue if the selling prices of our products do not increase with these increased costs.

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting issuer (as defined in Item 10(f)(1) of Regulation S-K), the Company is not required to report quantitative and qualitative disclosures about market risk specified in Item 305 of Regulation S-K.

**ITEM 8. Financial Statements and Supplementary Data**

49



**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION**  
**AND SUBSIDIARIES**

**INDEX TO THE FINANCIAL STATEMENTS**

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-1 - F-2
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2012 AND 2011	F-3
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2012, AND 2011	F-4
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011	F-5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-7 - F-25

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Andatee China Marine Fuel Services Corporation

We have audited the accompanying consolidated balance sheets of Andatee China Marine Fuel Services Corporation and subsidiaries (the “Company”) as of December 31, 2012, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for the year ended December 31, 2012. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, NY

April 16, 2013

F-1

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Andatee China Marine Fuel Services Corporation

We have audited the accompanying consolidated balance sheet of Andatee China Marine Fuel Services Corporation (the "Company") as of December 31, 2011, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Andatee China Marine Fuel Services Corporation at December 31, 2011 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Daszkal Bolton, LLP

Boca Raton, Florida

April 16, 2012

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2012	2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,625,705	\$ 3,493,015
Restricted cash	9,173,002	22,507,738
Accounts receivable, net	18,220,089	19,822,345
Notes receivable	-	1,319,779
Inventories, net	9,302,913	16,730,307
Advances to suppliers	16,387,613	16,272,434
Deposits for land use rights	698,291	1,969,544
Prepaid expense and other current assets	558,505	3,340,304
Deferred tax assets	840,540	84,687
Total current assets	56,806,658	85,540,153
Property, plant and equipment, net	40,880,091	42,016,328
Construction in progress	12,860,195	12,145,273
Intangible assets, net	8,953,602	7,636,462
Goodwill	1,213,036	1,200,915
Total assets	\$ 120,713,582	\$ 148,539,131
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,367,697	\$ 18,566,838
Advances from customers	8,472,233	13,285,980
Short-term bank borrowings	9,314,247	4,242,148
Bank notes payable	19,679,104	45,092,463
Loan from third parties	9,413,436	1,571,166
Related party loans payable	509,255	2,032,963
Taxes payable	2,719,517	4,237,465
Other liabilities	1,777,089	906,804
Total liabilities	60,252,578	89,935,827
Commitments and contingencies		
Equity	9,610	9,610

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Common stock, \$0.001 par value; 50,000,000 shares authorized; 9,610,159 shares issued and 9,518,967 shares outstanding as of December 31, 2012 and December 31, 2011

Treasury stock, at cost; 91,192 shares	(497,693 )	(497,693 )
Additional paid-in capital	29,888,556	29,888,556
Accumulated other comprehensive income	4,297,827	3,850,092
Retained earnings	19,513,573	18,213,837
Statutory reserve	3,421,960	3,078,000
Total stockholders' equity of the Company	56,633,833	54,542,402
Noncontrolling interest	3,827,171	4,060,902
Total equity	60,461,004	58,603,304
 Total liabilities and equity	 \$ 120,713,582	 \$ 148,539,131

The accompanying notes are an integral part to these consolidated financial statements.

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the year ended December 31,	
	2012	2011
Revenues	\$228,813,813	\$220,850,316
Cost of revenues	214,517,593	204,649,934
Gross profit	14,296,220	16,200,382
Operating expenses		
Selling expenses	1,341,203	2,925,096
General and administrative expenses	5,670,875	4,105,837
Total operating expenses	7,012,078	7,030,933
Income from operations	7,284,142	9,169,449
Other income (expense)		
Interest income	464,478	406,655
Interest expense	(5,942,231 )	(2,545,951 )
Other income (expense)	306,714	254,159
Total other income (expense)	(5,171,039 )	(1,885,137 )
Income before income tax provision	2,113,103	7,284,312
Provision for income tax	703,138	2,543,050
Net income	1,409,965	4,741,262
Less: net income attributable to noncontrolling interest	(233,731 )	(107,570 )
Net income attributable to the Company	\$1,643,696	\$4,848,832
Net income	1,409,965	4,741,262
Other comprehensive income		
Foreign currency translation adjustment	447,735	2,043,687
Comprehensive income	1,857,700	6,784,949
Comprehensive income attributable to the noncontrolling interest	(233,731 )	(107,570 )
Comprehensive income attributable to the Company	\$2,091,431	\$6,892,519
Basic and diluted weighted average shares outstanding	9,610,159	9,755,289
Basic and diluted net earnings per share	\$0.17	\$0.50

The accompanying notes are an integral part to these consolidated financial statements

F-4



## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

	Common stocks				Accumulated	Retained	Statutory	Total	Non-
	Share	Amount	Treasury stock	Additional paid-in Capital	other comprehensive (loss) income	earnings	reserve	stockholders' equity	Interest
Balance as of December 31, 2010	9,610,159	\$9,610	\$(497,693)	\$29,827,160	\$1,806,405	\$13,365,005	\$3,078,000	\$47,588,487	\$2,32
Options granted to directors	-	-	-	61,396	-	-	-	61,396	-
Options granted to management	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	4,848,832	-	4,848,832	(107
Acquisition of 61% ownership in Suzhou Fusheng	-	-	-	-	-	-	-	-	1,83
Acquisition of 90% ownership in Wujiang Xinlang	-	-	-	-	-	-	-	-	9,40
Foreign currency translation adjustment	-	-	-	-	2,043,687	-	-	2,043,687	-
Balance as of December 31, 2011	9,610,159	9,610	(497,693)	29,888,556	3,850,092	\$18,213,837	\$3,078,000	54,542,402	4,06
Net income	-	-	-	-	-	1,643,696 (343,960 )	- 343,960	1,643,696 -	(233

Appropriations  
to statutory  
reserve  
Foreign  
currency  
translation  
adjustment

-	-	-	-	447,735	-	447,735	-
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Balance as of

December 31,	9,610,159	\$9,610	\$(497,693)	\$29,888,556	\$4,297,827	\$19,513,573	\$3,421,960	\$56,633,833	\$3,82
2012									

The accompanying notes are an integral part to these consolidated financial statements.

F-5

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,409,965	\$ 4,741,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	-	61,396
Depreciation	1,826,803	962,156
Amortization	483,205	75,793
Bad debt provision	543,798	158,733
Provision for obsolete inventories	46,731	-
Deffered tax benefit	(754,722 )	-
Changes in operating assets and liabilities		
Accounts receivable	1,610,536	(13,777,416)
Inventories	7,546,758	(4,187,886 )
Advances to suppliers	(307,837 )	(1,875,575 )
Prepaid expense and other current assets	3,776,759	477,958
Accounts payable and accrued liabilities	(9,338,416 )	16,928,103
Advances from customers	(4,946,044 )	6,385,787
Taxes payable	(1,022,057 )	(5,997,638 )
Other liabilities	(1,572,386 )	(458,005 )
Net cash (used in) provided by operating activities	(696,907 )	3,494,668
Cash flows from investing activities		
Deposits for land use rights	1,290,662	(1,278,231 )
Notes receivable	1,332,614	(1,319,779 )
Net additions to construction in progress and property and equipment	(859,163 )	(17,429,048)
Purchase of intangible assets	(1,722,815 )	(4,164,167 )
Net cash provided by (used in) investing activities	41,298	(24,191,225)
Cash flows from financing activities		
Proceeds from short term loans	35,079,384	13,107,284
Repayment of short term loans	(30,051,938 )	(13,569,939)
Proceeds from bank notes	96,773,170	45,092,463
Release from (Payments to) escrow account for collateral (restricted cash)	13,556,969	(5,484,968 )
Repayments of bank notes	(122,632,230)	(31,761,396)
Proceeds from third-parties loans	7,823,556	1,571,166
(Repayments of) proceeds from related party loans	(1,795,160 )	2,032,962
Net cash (used in) provided by financing activities	(1,246,249 )	10,987,572
Effect of exchange rate changes on cash and cash equivalents	34,548	2,388,896

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Net decrease in cash and cash equivalents	(1,867,310 )	(7,320,088 )
Cash and cash equivalents, beginning of year	\$3,493,015	\$10,813,103
Cash and cash equivalents, end of year	\$1,625,705	\$3,493,015
Supplemental cash flow information:		
Interest paid	\$5,063,860	\$2,428,867
Income taxes paid	\$2,323,632	\$5,789,993

The accompanying notes are an integral part to these consolidated financial statements.

F-6

## **ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **Note 1 – Organization and Basis of Presentation**

Andatee China Marine Fuel Services Corporation (“Andatee” or “the Company”) was incorporated in the State of Delaware on July 10, 2009.

On October 19, 2009, the Company entered into a Share Exchange Agreement with Goodwill Rich International Limited, a Hong Kong based corporation (“Goodwill Rich”) and acquired all of the outstanding capital stock of Goodwill Rich.

Immediately prior to the share exchange, the Company had 50,000,000 shares of common stock, par value \$0.001 per share, authorized. In connection with the Share Exchange Agreement, the Company issued to Goodwill Rich shareholders an aggregate of 8,000,000 shares of the common stock of the Company, at par value of \$0.001 per share, so that upon completion of the Share Exchange, Goodwill Rich became the wholly owned subsidiary of the Company. Immediate after the share exchange, on October 19, 2009, the Company affected a 1.33334:1 reverse share split, which led to the number of common stock issued and outstanding decreased from 8,000,000 to 6,000,000 shares.

The above mentioned share exchange transaction has been accounted for as a reverse merger since there was a change of control. Accordingly, Goodwill Rich is treated as a continuing entity for accounting purposes.

Goodwill Rich owns 100% of the equity of Dalian Fusheng Petrochemical Company, a wholly foreign-owned enterprise organized under the laws of the People’s Republic of China (“Fusheng”). On March 26, 2009, Fusheng entered into a series of variable interest entity agreements (the “VIE Agreements”) with Dalian Xingyuan Marine Bunker Co., Ltd., a limited liability company organized under the laws of the People’s Republic of China (“Xingyuan”), who is principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

Under these agreements (including the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and the Proxy and Voting Agreement), which obligate the Company, through Goodwill Rich and Fusheng, to absorb a majority of the risk of loss from Xingyuan’s activities and entitle the Company to receive a majority of Xingyuan’s residual returns. The Company, through Goodwill and Fusheng, has

gained effective control over Xingyuan and its subsidiaries. Through these agreements, the Company now holds the variable interests of Xingyuan, and becomes the primary beneficiary of Xingyuan. Based on these agreements, Xingyuan is considered a Variable Interest Entity ("VIE"), because the equity investor in Xingyuan no longer has the characteristics of a controlling financial interest. Accordingly, Xingyuan is consolidated under ASC 810, "Consolidation."

Fusheng was incorporated on March 22, 2009 with registered capital of \$19.33 million invested by Goodwill Rich. Fusheng has several 100% controlled subsidiaries including Shangdong Shengfu Petrochemical Company, Ltd. ("Shandong Shengfu"), Dalian Xifa Petrochemical Company, Ltd. ("Dalian Xifa"), Shandong Xifa Petrochemical Company, Ltd. ("Shandong Xifa"), Shenzhen Shengfu Petrochemical Company, Ltd. ("Shenzhen Shengfu"). In July 2010, Fusheng acquired a 52% ownership of Hailong Petrochemical Company ("Hailong"). In December 2011, Fusheng acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately \$1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province. In December 2011, Fusheng acquired a 100% equity interest in Rongcheng Zhuoda Trading Co ("Zhuoda") for RMB 13 million (approximately US\$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province. In December 2011, Fusheng's subsidiary Dalian Xifa Petrochemical Company acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinlang") for RMB 2.36 million (approximately US\$ 370,000). Xinlang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1 – Organization and Basis of Presentation (continued)

Xingyuan was established in September 2001 with an initial registered capital of RMB 30.01 million (approximate to USD 4.8 million). Its registered capital was increased to RMB 60.05 million (or USD 9.5 million) in 2008. Xingyuan originally held 100% ownership of Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”), a company incorporated in Dalian, PRC, in April, 2008. In addition, in December 2008, Xingyuan acquired 90% ownership of Rongcheng Xinfa Petroleum Company (“Xinfa”) and 63% ownership of Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”). During 2011, the Company entered into a corporate reorganization, in which Xingyuan transferred its 90% ownership in Xinfa and 52% ownership in Mashan to Dalian Xifa Petrol Company, and transferred its 100% ownership in Donggang Xingyuan to Fusheng. The reorganization was accounted for at book value, as they were transactions between entities under common control. After the reorganization, Xingyuan remains the 63% ownership in Nanlian.

On January 26, 2010, the Company completed its initial public offering of common stock (“IPO”) of 3,134,921 shares of common stock at an offering price of \$6.30 per share resulting in net proceeds to the Company of approximately \$17.2 million, after deducting offering costs of \$2.5 million. On March 4, 2010 the underwriters of the initial public offering of common stock had exercised their over-allotment option, which resulted in the issuance of an additional 470,238 shares of common stock resulting in net proceeds of \$2.6 million to the Company, after deducting offering costs of \$227,750. As a result, the Company has 9,610,159 of its common stocks issued and outstanding as of December 31, 2012.

The Company, its subsidiaries, its VIE and its VIE’s subsidiaries (collectively the “Group”) are currently principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

The accompanying consolidated financial statements of Andatee have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and the rules of the Securities and Exchange Commission. The consolidated financial statements of the Company reflect the principal activities of the following entities. The noncontrolling interests represent the minority stockholders’ interest in the Group’s majority owned subsidiaries. All material intercompany transactions have been eliminated.

Name of the entity

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	Place of Incorporation	Ownership Percentage
Andatee China Marine Fuel Services Corp.	Delaware	Parent
Goodwill Rich International Corp., (“Goodwill Rich”)	Hong Kong	100 %
Dalian Fusheng Petrochemical Company ("Fusheng") (“WOFE”)	Dalian, China	WOFE, 100 %
Dalian Xingyuan Marine Bunker Co., Ltd (“Xingyuan”) (“VIE”)	Dalian, China	VIE, 100 %
Shandong Shengfu Petrochemical Company, Ltd. (“Shandong Shengfu”)	Shandong, China	100 %
Dalian Xifa Petrochemical Company, Ltd. (“Dalian Xifa”),	Dalian, China	100 %
Shandong Xifa Prochemical Company, Ltd. (“Shandong Xifa”)	Shandong, China	100 %
Shenzhen Shengfu Petrochemical Company, Ltd. (“Shenzhen Shengfu”)	Shenzhen, China	100 %
Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”),	Donggang, China	100 %
Rongcheng Zhuoda Trading Co (“Zhuoda”)	Shandong, China	100 %
Wujiang Xinlang Petrochemical Company ("Xinlang")	Wujiang, China	90 %
Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”).	Zhejiang, China	63 %
Rongcheng Xinfu Petroleum Company (“Xinfu”)	Shandong, China	90 %
Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng")	Suzhou, China	61 %
Hailong Petrochemical Company (“Hailong”)	Tianjin, China	52 %
Rongcheng Mashan Xingyuan (“Mashan Xingyuan”)	Shandong, China	52 %
Shanghai Fusheng Petrochemical Company, Ltd. (“Shanghai Fusheng”)	Shanghai, China	100 %



**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Basis of Presentation and Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the financial statements. Actual results could differ from those estimates. Significant estimates required to be made by management include, but are not limited to, useful lives of property, buildings and equipment, intangible assets, the recoverability of long-lived assets and the valuation of accounts receivable, notes receivable, inventories, deposits, advance to suppliers and prepaid expenses and other current assets. Actual results could differ from those estimates.

*Foreign Currency Translation*

The functional currency of the Company's subsidiary in Hong Kong is the US dollars while the local currencies of the Company's subsidiaries, VIE and its subsidiary in China is the Renminbi ("RMB"). Accordingly, assets and liabilities of the China entities are translated into US dollars at the spot rates in effect as of the balance sheet date. Revenues, costs and expenses are translated using monthly average exchange rates during the reporting period. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Due to the fact that cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in the statements of changes in shareholders' equity for the periods presented.

Foreign currency transactions are translated at the spot rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

Translation of amounts from RMB into the US dollar has been made at the following exchange rates for the respective years:

	2012	2011
RMB/US\$ exchange rate at December 31,	6.3011	6.3647
Average RMB/US\$ exchange rate for the periods ended December 31,	6.3034	6.4735

### ***Financial Instruments***

ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash and cash equivalent, restricted cash, accounts receivable, advances to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities. The fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and cash on deposit, certificates of deposit and all highly liquid debt instruments with maturities of three months or less when acquired.

***Restricted Cash***

Restricted cash consists of cash equivalents used as collateral to secure short-term bank notes payable. The Company is required to maintain escrow deposit amounts ranging between 30% and 50% of the total bank acceptance note amounts as a guarantee. Upon the maturity of the bank acceptance notes, the Company is required to deposit the remainder to the escrow account to settle the bank notes payable.

### ***Accounts Receivable***

Accounts receivable are recognized and carried at original invoiced amount less an allowance for uncollectible accounts, as estimated needed. The Company grants credit to customers with good credit standing with a maximum of 180 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company will not be able to collect all amounts due to it. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against trade and other receivables balances, with a corresponding charge recorded in the consolidated statements of income. Actual amounts received may differ from management's estimate credit worthiness and the economic environment. In the event the accounts become overdue, the Company would continue its best efforts to collect from customers until events or circumstances indicate that the amounts might not be collectible, then, a reserve against specific uncollectible amounts will be recorded.

### ***Advances to suppliers***

Advance to suppliers represent the payments made and recorded in advance for goods received. The Company makes advances to suppliers for the purchase of certain materials and fuels. Advances to suppliers are short-term in nature and are reviewed periodically to determine whether their carrying value has become impaired. The Company considers the assets to be impaired if the collectability of the advance become doubtful. The Company uses the aging method to estimate the allowance for uncollectible balances.

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Historically, if the Company cannot receive goods within 180 days, and if the possibility of the suppliers repaying the advance becomes doubtful, the Company's policy is to provide an allowance.

***Inventories***

Inventories are stated at the lower of cost or current market value. Costs include the cost of raw materials, freight, direct labor and related production overhead. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes to make the sale.

Raw materials include low-value consumables and other materials, which can be in use for more than one year but do not meet the definition of fixed assets. Reusable materials are amortized in half when received for use and in another half when cease to work for any purpose. The amounts of the amortization are included in the cost of the related assets or profit or loss.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs, which are not considered improvements and do not extend the useful life of the asset, are expensed as incurred; additions, renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the statement of operations in other income and expenses.

Depreciation is provided to recognize the cost of the asset in the results of operations. The Company calculates depreciation using the straight-line method with estimated useful life as follows:

Items	Useful Life
Property and buildings	40 years
Marine bunkers	15 years
Equipment	3-12 years
Transportation vehicles	8 years

### ***Intangible Assets***

Intangible assets consist primarily of land use rights, leasehold right and licenses and permits.

Intangible assets are amortized using the straight-line method with the following estimated useful lives:

Items	Useful Life
Land use rights	50 years
Leasehold right	20 years
Licenses and permits	Contract Terms
Software	5 years

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)**

***Revenue Recognition***

The Company recognizes revenues under the FASB Codification Topic 605 ("ASC Topic 605"). Revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when delivery occurs and when collection is probable.

Delivery is typically conveyed via pipeline or tanker and sales revenues are recognized when customers take possession of goods in accordance with the terms of purchase order agreements that evidence agreed upon pricing and when collectability is reasonably assured.

As an industry wide practice, the Company requires advances from customers for substantially all sales. Such advances are not recognized as revenues when received as they represent down payments from customers for the marine fuel products and the delivery is not yet completed.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities

***Income Taxes***

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax

rates is recognized in the results of operations in the period that includes the enactment date.

In the normal course of business, the Company may be subject to challenges from taxing authorities regarding the amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions. Management determines whether the benefits of its tax positions are more-likely-than-not of being sustained upon audit based on the technical merits of the tax position. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of December 31, 2012 and 2011, the Company has no liabilities for uncertain tax positions. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

### ***Treasury Stock***

Treasury stock is accounted for under the cost method and is included as a component of stockholders' equity.

### ***Construction-in-Progress***

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant and equipment.



**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)**

***Impairment of Long-Lived Assets***

In accordance with FASB ASC Topic “Accounting for the Impairment or Disposal of Long-Lived Assets”, certain assets such as property, plant, and equipment, and purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are tested for impairment annually. Recoverability of assets that are held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets during the years ended December 31, 2012 and 2011.

***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in business acquisitions. The Company performs its impairment test annually. The Company determined that there was no impairment of goodwill during the years ended December 31, 2012 and 2011.

***Intangible Assets***

Intangible assets consist mainly of land use rights and software. Intangible assets are amortized using straight-line method over the life of the rights and assets.

***Stock-Based Compensation***

The Company measures share-based compensation at fair value, using the Black-Scholes options pricing model to determine the fair value of stock options. The fair value of the Company's restricted stock unit is calculated based on the fair value of the Company's stock on the date of grant. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions used.

### ***Earnings per Share***

The Company computes net earnings per share in accordance with FASB ASC Topic 260 Earnings Per Share, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement.

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for that period.

Diluted net income per share is computed giving effect to all dilutive potential common shares that were outstanding during the year. Dilutive potential shares consist of incremental common shares issuable upon exercise of stock options, vesting of restricted stock units and conversion of preferred stock (none outstanding) for all periods, except in situations where inclusion is anti-dilutive. There are no dilutive potential common shares outstanding during the years ended December 31, 2012 and 2011, respectively. All stock options disclosed in Note 14 are anti-dilutive during the years ended December 31, 2012 and 2011.

### ***Comprehensive Income***

Comprehensive income consists of net income and net unrealized foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income.

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 2 – Basis of Presentation and Summary of Significant Accounting Policies (continued)

##### *Reclassifications*

Certain reclassifications have been made in the 2011 financial statements to conform to the 2012 presentation.

##### *Recent Accounting Pronouncements*

There were no new pronouncements that would have a material impact on the financial position of the Company.

#### 3. Accounts Receivable, net

The Company's accounts receivable is summarized as follows:

	December 31, 2012	December 31, 2011
Trade accounts receivable	\$18,585,916	\$20,161,094
Allowances for doubtful accounts	(365,827 )	(338,749 )
Accounts receivables, net	\$18,220,089	\$19,822,345

#### 4. Notes Receivable

On March 31, 2011, Fusheng entered into a loan agreement with a third party. In connection with the agreement, Fusheng provided a loan in the amount of RMB 8.4 million (US \$1,319,779). Interest on the loan accrues at 6% per annum. . The amount was fully repaid in 2012.

## 5. Inventories, Net

The Company's inventory consists of the following:

	December 31, 2012	December 31, 2011
Marine Fuel	\$9,349,662	\$16,730,307
Less: reserve for inventory obsolescence	(46,749 )	-
Total Inventory, Net	\$9,302,913	\$16,730,307

As of December 31, 2012 and 2011, fuel inventory in the amount of \$3,016,425 and \$6,827,491, respectively, has been pledged as collateral for certain bank loans. See Note 11 below.

## 6. Advance to Suppliers, Net

Advance to suppliers represent the payments made to suppliers in advance for the purchase of certain materials and fuels. Advances to suppliers as of December 31, 2012 and 2011 consisted of the following:

	December 31, 2012	December 31, 2011
Advances to suppliers	\$16,744,629	\$16,272,434
Allowance for doubtful accounts	(357,016 )	-
Advances to suppliers, net	\$16,387,613	\$16,272,434

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 7. Property, Plant and Equipment, Net

The Company's Property, Plant and Equipment are summarized as follows:

	December 31, 2012	December 31, 2011
Property and buildings	\$33,531,803	\$33,190,784
Machinery, boiler and marine bunker equipment	10,217,678	10,332,042
Transportation vehicles	1,450,896	960,958
Office equipment	48,070	46,552
Leasehold improvement	66,922	66,254
Total	45,315,369	44,596,590
Less: Accumulated depreciation	(4,435,278 )	(2,580,262 )
Property, Plant and Equipment, net	\$40,880,091	\$42,016,328

Depreciation expense was \$1,826,803 and \$962,156 for the years ended December 31, 2012 and 2011, respectively.

Property and equipment with a net book value \$25,778,015 and \$13,661,524 has been pledged as collateral for certain bank acceptance notes and bank loans at December 31, 2012 and 2011, respectively. See Note 11 below.

#### 8. Construction-in-Progress

The construction projects in progress at December 31, 2012 and 2011 are to build facilities to expand production capacity in Tianjin, Donggang, Rongcheng and Wujiang areas. Construction costs mainly represent construction expenditures and equipment costs not yet in service. The Company estimates to complete the construction projects by the second quarter of 2013.

The Company's construction-in-progress is summarized as follows:

	December 31, 2012	December 31, 2011
Berth and berth improvements	\$ 529,556	\$ 114,372
Oil blending and storage tanks	12,330,639	12,030,901
Total	\$ 12,860,195	\$ 12,145,273

## 9. Intangible Assets, Net

The Company's Intangible Assets are summarized as follows:

	December 31, 2012	December 31, 2011
Land use rights	\$4,501,882	\$4,096,747
Leasehold right	4,023,107	2,647,415
Licenses and permits	1,110,917	1,099,816
Software	27,881	20,425
Total	9,663,787	7,864,403
Less: accumulated amortization	(710,185 )	(227,941 )
Intangible assets, net	\$8,953,602	\$7,636,462

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****9. Intangible Assets, Net (continued)**

The details of land use rights are as follows:

Location	Land Size (square meters)	Amount	Term
Nanhui Village, Shipu Town, Zhejiang Province	8,906.90	\$ 455,635	April 1, 2004 – May 12, 2047
Development Zone, Donggang, Liaoning Province	21,994.80	\$ 2,385,298	July 16, 2008 – May 15, 2058
Mashan Village, Chengshan Town, Shandong Province	3,659.57	\$ 607,348	Government assignment
Linzi borough, Linzi City, Shandong Province	15,130.70	\$ 118,487	Government assignment
Linzi District Qincheng Town, Shangdong Province	14,994.9	\$ 363,786	Expires on October 31, 2062
Pingwang Town Suzhou City, Jiangsu Province	9,624.30	\$ 571,328	September 1, 2011–January 30, 2055
Total Land Use Rights		\$ 4,501,882	

The Company's related party pledged land use right with a net book value of \$2,812,287 and \$2,968,815 pledged as collateral for certain loans at December 31, 2012 and 2011 (see note 13 Short-term bank loans).

Amortization expenses for the years ended December 31, 2012 and 2011 were \$483,205 and \$75,793, respectively.

The estimated future amortization expenses are as follows:

For the twelve months ended December 31,	
2013	\$483,106
2014	483,906
2015	483,906
2016	478,552
2017	478,552
Thereafter	6,545,580
Total	\$8,953,602

## 10. Related Party Transactions

During 2011, an entity controlled by a majority shareholder provided advances to the Company in the amount of \$2,045,820. The funds were used for working capital purposes. The Company has paid it back as of September 30, 2012.

On November 23, 2011, the Company received notice from this majority shareholder of his intention to launch a tender offer to acquire all of the outstanding shares of the Company that he does not already own at a price of \$4.21 per share in cash, subject to financing, due diligence and other conditions.

On September 5, 2012, this majority shareholder delivered a written notice to the Special Committee of the Board of Directors of the Company (the “Special Committee”) stating that, effective immediately, he had withdrawn his previously submitted non-binding “going private” proposal to acquire all outstanding shares of the Company not already owned by him and his affiliates.



# **ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **10. Related Party Transactions (continued)**

During 2012, an investor group related to this majority shareholder provided advances to the Company in the aggregate amount of 97 million RMB (US\$15,416,997). The funds were used for working capital purposes. Repayments of the advanced amounts are due upon demand, without interest, after August 31, 2012. As of September 30, 2012, the Company has repaid \$10,271,347. The Company paid the remaining balance of \$5,145,650 in the fourth quarter of 2012.

During the normal course of the business, the Company, from time to time, temporarily borrows money from its principal shareholders or officers to finance its working capital as needed. The amounts are usually unsecured, non-interest bearing and due on demand. The Company had officer loans in the amount of \$509,255 and \$2,032,963 as of December 31, 2012 and 2011, respectively.

### **11. Short Term Bank Borrowings**

The following is a summary of the Company's short-term bank borrowings:

	December 31, 2012	December 31, 2011
Baotou Commerce Bank:		
Interest at 6.898%, payable August 19, 2012	(A) \$-	\$2,042,516
Huaxia Bank:		
Interest at 7.272%, payable February 6, 2012	(B) -	2,199,632
Interest at 8.2%, payable February 7, 2013	(C) 1,745,727	-
Pingan Bank:		
Interest at 6.72%, payable between April 30, 2013 and May 22, 2013	(D) 5,902,144	-
Interest at 6.72%, payable May 18, 2013	(E) 1,666,376	-
Total	\$9,413,247	\$4,242,148

A. Fully repaid in August 2012;

B. Fully repaid in February 2012;

C. On Jan 19, 2012, Dalian Fusheng entered into a loan agreement with Huaxia Bank to borrow \$1,745,727 (RMB 11 million) as working capital for one year through February 7, 2013 with annual interest rate of 8.2%. The Company pledged fuel oil inventory of 3,727 tons valued at RMB 19 million (or USD 3,016,425) as collateral for this loan. The loan was subsequently repaid upon maturity in February 2013;

D. On October 16, 2012, the Company's subsidiary Dalian Fusheng entered into a line of credit agreement with Pingan Bank for RMB 300 million (from October 16, 2012 to April 5, 2014) with a floating interest rate. The interest rate is based on the 120% of same period benchmark interest rate. On October 30, 2012, the Company borrowed RMB 10 million under this facility and pledged oil storage tanks valued at RMB 16,132,900 (or USD 2,560,331) as collateral for this loan. In addition, on November 15, 2012, another RMB 3 million was borrowed under this facility and a related party pledged a land use right of 22,572 square meters, valued at RMB 6 million (or USD 952,215) as collateral. On November 23, 2012, additional RMB 25 million was borrowed under this facility and the Company pledged oil storage tanks valued at RMB 62,296,947 (or USD 9.8 million) as collateral .

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****11. Short Term Bank Borrowings (continued)**

On September 3, 2012, the Company's subsidiary Dalian Xingyuan entered into a loan agreement with Pingan Bank to borrow RMB 10.5 million for six months (from November 19, 2012 to May 18, 2013). The interest rate is based on the 120% of same period benchmark interest rate. The Company's related party pledged land use right of 52,210 square meters valued at RMB 17,720,500 (or USD 2,812,287) as collateral for this loan.

Weighted average interest rate on short-term bank borrowings for the years ended December 31, 2012 and 2011 was 7% and 7.3% respectively. Weighted average borrowings for the year ended December 31, 2012 and 2011 was approximately \$12.8 million and \$5 million, respectively.

**12. Loan From Third Parties**

Loans from unrelated third parties consist of the following:

	December 31, 2012	December 31, 2011
<u>Loans from third-parties</u>		
Beijing Biyun Lantian Energy Development Co. Interest at 1%, payable December 31, 2012	(a) \$-	\$1,571,166
Lishu Xinda Goods Trading Company Bearing 6% interest, payable May 31, 2013	(b) 1,269,620	-
Dalian Jinhan Development Company Bearing 6% interest, payable April 24, 2013	(c) 1,587,024	-
Dalian Jiahui Advertising Company Bearing 6% interest, payable May 31, 2013	(d) 238,054	-
Xu Yaling	(e) 2,221,834	
Loan from other individuals	(f) 4,096,904	
Total loan from third parties	\$9,413,436	\$1,571,166

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(a) In May 2011, the Company received short term loans of RMB 10 million (\$1,571,166) from Beijing Biyun Lantian Energy Development Co. as working capital. The loan was unsecured, matured nine months from date of issuance, and accrued monthly interest at a rate of 1.0%. In March 2012, the loan was extended for nine months, and became due on December 31, 2012. The loan was repaid upon maturity.

(b) On November 20, 2012, the Company received short term loans of RMB 8 million (\$1,269,620) from an unrelated third-party Lishu Xinda Goods Trading Company as working capital. The loan is unsecured, bears interest rate of 6% and is due on May 31, 2013.

(c) On October 14, 2012, the Company received short term loans of RMB 10 million (\$1,587,024) from an unrelated third-party Dalian Jinhan Development Company as working capital. The loan is unsecured, bears interest rate of 6% and is due on April 24, 2013.

(d) On November 25, 2012, the Company received short term loans of RMB 1.5 million (\$238,054) from an unrelated third-party Dalian Jiahui Advertising Company as working capital. The loan is unsecured, bears interest rate of 6% and is due on May 31, 2013.

(e) On August 20, 2012, the Company received short term loans of RMB 14 million (\$2,221,834) from an unrelated third-party Xu Yaling as working capital. The loan is unsecured, bears interest rate of 6% and is due on April 30, 2013.

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. Loan From Third Parties(continued)**

(f) Loans from several individuals bear interest rate of 4% to 6% and are unsecured and due within six to twelve months (from May 2012 to April 2013).

**13. Bank Notes Payable**

The Company has credit facilities with Pingan Bank and Huaxia Bank that provide for working capital in the form of the following bank acceptance notes at December 31, 2012:

Beneficiary	Endorser	Origination Date	Maturity Date	Interest rate	Amount
Dalian Xingyuan Marine Bunker Co.	Huaxia Bank	08-1-2012	01-01-2013	4.8 %	\$7,141,610
Dalian Fusheng PetroChemical	Pingan Bank	08-29-2012	02-28-2013	4.8 %	3,174,049
Dalian Fusheng PetroChemical	Pingan Bank	08-30-2012	02-28-2013	4.8 %	1,587,024
Dalian Fusheng PetroChemical	Pingan Bank	09-04-2012	03-04-2013	4.8 %	4,761,074
Dalian Fusheng PetroChemical	Pinan Bank	09-11-2012	03-10-2013	4.8 %	3,015,347
Total					19,679,104

The Company has pledged fuel oil tanks and other fixed asset valued approximately \$13.3 million (RMB 84 million) as collateral. In addition, the Company is required to hold restricted cash of \$9,173,002 with Pingan Bank and Huaxia Bank as additional collateral against these bank acceptance notes. All the outstanding bank notes payable have been subsequently repaid as of March 10, 2013.

**14. Stock Options**

Under the Company's 2009 Equity Incentive Plan, a total of 5,000,000 shares of common stock have been reserved for grants of stock-based awards. The Company has granted a total of 470,125 options pursuant to the Plan as of December 31, 2012.

On July 14, 2010, the Company granted a total of 160,000 options to two executive officers. The options have a 3-year life and with an exercise price of \$4.27 per share, the fair value of the stock on the date of grant. Of the options granted, 60,000 vested immediately, with the remainder vesting on each anniversary date of the grant over the next two years in the increment of 50,000 shares. The Company recognized \$141,020 as stock based compensation in relation to this issuance for the year ended December 31, 2010. The remaining options have been cancelled or forfeited in 2012.

On October 25, 2010, the Company granted a total of 39,000 options to three independent directors. The options have a 3-year life and with an exercise price of \$4.97 per share, the fair value of the stock on the date of grant. The options vested immediately, and the Company recognized \$102,689 as related stock based compensation charge.

On July 1, 2011, the Company granted a total of 48,000 options to three independent directors. The options have a 3-year life and a per share exercise price of \$2.38 per share, the fair value of the stock on the date of grant. All the options vested immediately, and the Company recognized \$61,396 as a related stock based compensation charge.

On July 1, 2011, the Company granted a total of 210,000 options to two executive officers. The options have a 3-year life and a per share exercise price of \$2.38 per share, the fair value of the stock on the date of grant. On July 29, 2011, these options were forfeited

The fair value of our stock options was estimated using the Black-Scholes valuation model. The determination of the fair value of stock options on the date of grant using the Black-Scholes model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables that may have a significant impact on the fair value estimate.

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****14. Stock Options (continued)**

The weighted-average assumptions and value of options granted are summarized as follows:

Expected volatility	86 %
Risk-free interest rate	1.13 %
Expected dividend yield	0 %
Expected life (in years)	3.25
Weighted-average estimated value	\$2.77

**Expected Volatility:** The expected volatility is computed based on the standard deviation of the continuously compounded rate of return of days when the stock price changed over the past four years. Since the Company's shares were not publicly traded until January 2010, the expected volatility was calculated based on the average volatilities of three comparable publicly listed companies. **Risk Free Rate:** The risk-free interest rate was based on U.S. Treasury yields with a remaining term that corresponds to the expected term of the option calculated on the granted date. **Dividend Yield:** The expected dividend yield is zero. The Company has not paid a dividend and does not anticipate paying dividends in the foreseeable future. **Expected Life:** The expected life was determined based on the option's contractual term and employees' expected early exercise and post-vesting employment termination behavior. Stock compensation expense was recognized based on awards expected to vest. There was no estimated forfeiture as the Company has a short history of issuing options. FASB ASC Topic 718 requires forfeiture to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The following is a summary of the stock options activity during the years ended December 31, 2012 and 2011:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2010	212,125	\$ 4.52
Granted	258,000	\$ 2.38
Forfeited	(210,000 )	\$ -
Exercised	-	\$ -
Balance at December 31, 2011	260,125	\$ 4.05
Granted	-	\$ -
Forfeited	(160,000 )	\$ -

Exercised	-	\$ -
Balance at December 31, 2012	100,125	\$ 4.05

## 15. Restricted Net Assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiary only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiary and VIE.

F-20



## **ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **15. Restricted Net Assets (continued)**

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly-owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. These reserves can only be used for specific purposes and are not distributable as cash dividends. Fusheng were established as a wholly-owned foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. These reserves can only be used for specific purposes and are not distributable as cash dividends. Xingyuan and its subsidiaries were established as domestic invested enterprises and therefore are subject to the mandated restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company's PRC subsidiary and VIE are restricted in their ability to transfer a portion of their net assets to the Company. The restricted amounts as determined pursuant to PRC statutory laws totaled approximately US\$3,421,960 and US\$3,078,000 at December 31, 2012 and 2011, respectively.

#### **16. Taxes**

(a)

**Corporate Income taxes**

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The Company is subject to income taxes on an entity basis on income arising in or derived from the location in which each entity is domiciled.

<b><u>Entity</u></b>	<b><u>Income Tax Jurisdiction</u></b>
Andatee Marine Fuel Services Corp.	U.S.A
Goodwill Rich International	Hong Kong
Fusheng, Xingyuan and their subsidiaries	PRC

### United States

The parent Company Andatee China Marine Fuel Services Corp. was incorporated in the United States and has incurred net operating loss for U.S. federal income tax purposes for 2012 and 2011. Andatee had loss carry forwards of approximately \$901,953 for U.S. income tax purposes available for offsetting against future taxable U.S. income, expiring in 2032. Management believes that the realization of the benefits from these losses is uncertain due to its history of continuing losses in the United States. Accordingly, a full deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded. The valuation allowance as of December 31, 2012 and 2011 was approximately \$306,000. The changes in valuation allowance for the year ended December 31, 2012 and 2011 was \$-0- and \$306,000, respectively.

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****16. Taxes (continued)***Hong Kong*

The Company's wholly owned subsidiary Goodwill Rich was incorporated in Hong Kong and is subject to Hong Kong corporate income tax at a rate of 16.5% on the estimated assessable profits arising from Hong Kong. Goodwill Rich has not earned any income that was derived in Hong Kong since inception and therefore was not subject to Hong Kong income tax. As of December 31, 2012 and 2011, the estimated net operating loss carry forwards for Hong Kong income tax purposes amounted to approximately \$2,596,930 and \$1,686,372 respectively, which may be available to reduce future years' taxable income. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for Hong Kong income tax purposes. Accordingly, the Company has provided a 100% deferred tax asset valuation allowance at December 31, 2012 and 2011, and no deferred tax asset benefit has been recorded. The valuation allowance as of December 31, 2012 and 2011 was approximately \$428,000 and \$278,000, respectively. The changes in valuation allowance for the year ended December 31, 2012 and 2011 was \$150,000 and \$278,000, respectively.

*PRC*

The Company's wholly owned subsidiary Dalian Fusheng and its subsidiaries, VIE Dalian Xingyuan and its subsidiary in China are governed by the Income Tax Law of the People's Republic of China, which are currently subject to tax at a statutory rate of 25% on net income reported after appropriated tax adjustments.

The following table reconciles the statutory rates to the Company's effective tax rate for the periods indicated:

	December 31, 2012		December 31, 2011	
U.S. Statutory rates	34	%	34	%
Foreign income not recognized in the U.S.	(34	)	(34	)

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Hong Kong income tax	-	-		
China Statutory income tax rate	25	25		
Non-deductible expenses-permanent difference	8.3	9.9		
Effective tax rate	33.3	%	34.9	%

The provision for income taxes consists of taxes on income from operations plus unrecognized tax benefits plus changes in deferred taxes for the periods ended:

As of December 31,  
2012          2011

Current	\$1,457,860	\$2,582,733
Deferred	(754,722 )	(39,683 )
Total	\$703,138	\$2,543,050

Deferred income tax reflects the net effects of temporary difference between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes, and operating loss carry-forward. Some of the Company's subsidiaries have loss carryovers that can only be used to offset their own future taxable income. The loss carry forward for those subsidiaries amounted to approximately \$3,020,000 as of December 31, 2012 and expire through 2017. The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized.

**ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****16. Taxes (continued)**

The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience, expectation of future income, the carry forward periods available for tax reporting purposes, and other relevant factors.

For the year ended December 31, 2012 and 2011, management concluded PRC deferred tax assets would be realized in the future. Accordingly, the Company recorded a deferred tax benefit of \$754,722 and \$39,683 from loss carryover for the year ended December 31, 2012 and 2011, respectively. The company believes it can utilize the deferred tax asset to offset future taxable income. Therefore, no valuation allowance has been provided as of December 31, 2012 and 2011.

The components of deferred tax assets as of December 31, 2012 and 2011 consist of the following:

	December 31, 2012	December 31, 2011
Deferred tax assets-beginning balance	\$ 84,687	\$ 45,004
Net operating loss of subsidiaries	754,722	39,683
Effect of foreign currency exchange rate	1,131	-
Deferred tax assets, ending balance	\$ 840,540	\$ 84,687

As of December 31, 2012, the tax years ended December 31, 2008 through December 31, 2012 for the Company's PRC entities remain open for statutory examination by PRC tax authorities.

**(b) Value added tax**

The Company is subject to a value added tax ("VAT") for selling merchandise. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the

invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty based on the amount of the taxes which are determined to be late or deficient, and will be expensed in the period if and when a determination is made by the tax authorities that a penalty is due.

### **(c) Taxes Payable**

Taxes Payable consisted of the followings:

	December 31, 2012	December 31, 2011
Income Tax Payable	\$272,557	\$1,128,398
VAT Payable	1,765,953	2,082,929
Other Tax Payable	681,007	1,026,138
Total	\$2,719,517	\$4,237,465

## **17. Commitment and Contingencies**

### ***Lease Obligation***

The Company has entered into several agreements for the lease of storage facilities, offices premises and berth use rights.

## ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 17. Commitment and Contingencies (continued)

The leases are for one to ten years range, and may be extended at the management's option. Management believes that they will remain at these facilities for the next ten years and have estimated that the commitments for minimum lease payments under these operating leases are approximately \$2.4 million.

The Company's commitment for minimum lease payments under these operating leases for the next five years and thereafter is as follows:

For the twelve months ended December 31,	
2013	\$315,514
2014	267,316
2015	267,316
2016	267,316
2017	267,316
Thereafter	1,069,264
Total	\$2,454,042

#### *Nalian Purchase Agreement*

In connection with Xingyuan's purchase of the 63% ownership interest in Nalian in December 2005, the Company may become obligated to purchase the remaining 37% ownership interest for RMB 8,880,000 (approximately \$1.3 million), upon exercise of the shareholder's option to put the shares to the Company. The Company expects to complete the Nalian purchase in late 2013.

#### *Supply Agreements*

In September 2010, the Company executed 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City,

Shandong province.

Under the terms of the agreement with Jinghai, the Company is to supply Jinghai with up to 20,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 0.3 million (approximately USD 0.04 million) for ten years if annual sales of 20,000 tons of fuels are achieved. For the year ended December 31, 2012 and 2011, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

#### ***Settlement Receivable***

In late June 2012, the Company became aware of certain misappropriations of Company assets. The Company engaged a Shanghai accounting firm to perform an inquiry, conclusions of which were provided to the Company's management in late July. The report findings identified four instances of misappropriation by an employee during June and July 2012 from several Company managed locations close to Shanghai, which aggregate to approximately 709 tons of fuel with a cost of approximately RMB 3,743,000 (approximately USD\$592,000) and cash in the amount of RMB 469,000 (approximately USD\$74,000). The employee's position at the Company has been terminated. On August 13, 2012, the Company entered into a settlement agreement with the former employee, pursuant to which the Company has recovered all the cash and fuel in the fourth quarter of 2012. The Company has been reviewing its internal controls and procedures to ensure, to the extent possible, that no such event can occur again in the future.



## **ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **18. Concentration of Risks**

All of the Group's sales and a majority of its expense transactions are denominated in RMB and a significant portion of the Group's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

As of December 31, 2012, all of the Company's cash was on deposit at financial institutions in the PRC where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure.

For the year ended December 31, 2012, two customers accounted for 33.1% and 10.5% of the Company's total revenues. For the year ended December 31, 2011, no single customer accounted for more than 10% of the Company's total revenues.

For the year ended December 31, 2012, 18.2% and 13.4% of the Company's raw materials came from two suppliers. For the year ended December 31, 2011, 14.1% of the Company's raw materials came from one supplier.

#### **19. Subsequent Events**

In January 2013, the Company, together with two third-parties, Dalian Lianzon Marine Group ("Lianzon") and Dalian Lianye Investment Consulting Co., Ltd. ("Lianye"), jointly formed a new entity Dalian Haode Petroleum and Chemical Co., Ltd. ("Haode"), in which the Company invested RMB 8 million (approximate to \$ 1.26 million) for a 20% ownership interest in Haode. Haode will be engaging in chemical product sales, marine fuel material purchase and trading, logistics and other consulting services in PRC.

On January 7, 2013, the Company filed application with local government authority to terminate the operation of its subsidiary, Shandong Shengfu. The application was approved by local government on March 7, 2013.

Pursuant to a Board Resolution of Tianjin Hailong dated on January 18, 2013, Dalian Fusheng transferred its 51.952% ownership interest in Tianjin Hailong to Tianjin Hailong's two individual shareholders Mr. Niu Jinfu and Mr. Zhao Guohua for RMB 5.46 million (about \$0.86 million). After such transfer, Tianjin Hailong's operations will not be consolidated. As of December 31, 2012, Tianjin Hailong's total assets, total liabilities, total revenue and total net loss amounted to \$4.2 million, \$3.7 million, \$1.4 million and \$0.34 million, respectively.

On February 7, 2013, the Company's subsidiary Dalian Xingyuan entered into a series of agreements with Harbin Bank to borrow an aggregate amount of RMB 72 million (US\$11.4 million) as working capital. The bank notes bear interest at an annual rate of 7% and mature six months from issuance.

On February 27, 2013, the Company's subsidiary Dalian Xingyuan entered into a short term bank loan agreement with Pingan Bank Dalian Branch to borrow RMB 15 million (approximate to \$2.38 million) as working capital for six months (from February 27, 2013 to August 27, 2013). The loan bears a variable annual interest rate of 7.28%, which can be adjusted up 30% on a quarterly basis. The loan has no collateral requirement.

## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

On October 18, 2012, the Company received a notice from Daszkal Bolton LLP, the Company's independent registered public accounting firm ("DB") stating that, effective October 20, 2012, DB would cease its services as the Company's independent auditors. DB cited "changes in the marketplace" for its inability to continue to provide services to the Company. DB reported on the Company's financial statements for the year ended December 31, 2011. The DB reports on the Company's financial statements as of December 31, 2011 and for the fiscal year ended December 31, 2011 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During the Company's the fiscal year ended December 31, 2011 and the interim period through the effective date of DB's resignation, (i) there were no disagreements with DB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to DB's satisfaction, would have caused DB to make reference to the subject matter of such disagreements in its reports on the Company's consolidated financial statements for such year, and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On November 8, 2012, the Company engaged the services of Friedman LLP ("Friedman") as the Company's new independent registered public accounting firm to audit the Company's balance sheet as of December 31, 2012, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended. Friedman will also perform a review of the Company's unaudited quarterly financial information as of and for the quarters ending September 30, 2012, March 31, 2013 and June 30, 2013. The decision to engage Friedman was approved and recommended by the Audit Committee of the Company's Board of Directors. During each of the Company's two most recent fiscal years and through the date of this report, (a) the Company has not engaged Friedman as either the principal accountant to audit the Company's financial statements, or as an independent accountant to audit a significant subsidiary of the Company and on whom the principal accountant is expected to express reliance in its report; and (b) the Company or someone on its behalf did not consult Friedman with respect to (i) either: the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, or (ii) any other matter that was either the subject of a disagreement or a reportable event as set forth in Items 304(a)(1)(iv) and (v) of Regulation S-K.

## ITEM 9A. Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (the “Evaluating Officers”), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this Report, our management conducted an evaluation, under the supervision and with the participation of the Evaluating Officers, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on that evaluation, our the Evaluating Officers concluded that our disclosure controls and procedures were not effective as of the period covered, due to the reasons set forth below, and due to the material weaknesses in our internal control over financial reporting as discussed below under “Management’s Report on Internal Control Over Financial Reporting.” Accordingly, management cannot provide reasonable assurance of achieving the desired control objective. Management works to mitigate these risks by being personally involved in all substantive transactions and attempts to obtain verification of transactions and accounting policies and treatments involving our operations. We are in the process of reviewing and, where necessary, modifying controls and procedures throughout the Company, particularly in light of our recent acquisitions and the continued integration of these businesses. We have contracted to install new financial systems and that process is currently expected to be completed in July 2013. We will continue to address deficiencies as resources permit.

### *Management’s Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

We recognize that because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on management's assessment in accordance with the criteria in the COSO Framework, our management concluded that our internal control over financial reporting was not effective as of December 31, 2012.

Management is aware of the following material weaknesses (a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis) in the Company's internal control over financial reporting:

## **Control Environment**

*Inadequate Written Policies and Procedures:* Based on our management's review of key accounting policies and procedures, our management determined that such policies and procedures were inadequate as of December 31, 2012. Management identified certain policies and procedures as inadequate and others as lacking in appropriate documentation. Management plans to enhance existing policies and procedures and prepare formal written documentation as appropriate. In addition, there continues to be a lack of consistent review procedures performed by management and also a lack of a formal control design structure for the review of external financial data.

*Segregation of Duties:* We did not maintain adequate segregation of duties related to job responsibilities for initiating, authorizing, and recording of certain transactions as of December 31, 2012. Although we believe that we have established appropriate transaction approval criteria, we do not have sufficient personnel to provide an independent review of journal entries, account analyses, monitoring or adequate risk assessment functions.

## **Control Activities**

*Testing of Internal Controls:* We have identified deficiencies in our testing of internal controls within our key business processes. This was primarily due to insufficient financial and personnel resources. Management believes there are control procedures that are effective in design and implementation within our key business processes. However, certain of these processes were not formally tested or adequately documented. Additionally, our accounting managers and financial personnel, while competent in local accounting requirements, do not have expertise with generally accepted accounting principles of the United States.

## **Information and Communication**

*Timeliness and Adequacy of Financial Reporting Disclosures:* Our CEO and CFO concluded that our internal controls were not effective as of December 31, 2012 due to inherent weaknesses present in the preparation of financial statements and related disclosures as a result of our limited financial personnel, information technology infrastructure and other resources. However, management believes that, given the size and scope of our business, that all material information was communicated to management within a time frame that was adequate for management to make informed business and reporting decisions. We are currently in the process of installing a new financial system in order to address some of these concerns.

## **Monitoring**

*Internal Control Monitoring:* As a result of our limited financial personnel, management's ability to monitor the design and operating effectiveness of our internal controls is limited. Accordingly, management's ability to timely detect, prevent and remediate deficiencies and potential fraud risks is inadequate.

These material weaknesses impede the ability of management to implement remedial measures and oversee our internal control over financial reporting on a consistent basis. Management intends to focus its remediation efforts in the near term on installing a new financial system and documenting formal policies and procedures surrounding transaction processing, period-end account analyses and providing for additional review and monitoring procedures and periodically assess the need for additional accounting resources as the business develops and resources permit. Management also is committed to taking further action and implementing enhancements or improvements as resources permit. We recognize that, due to the size and early stage of development of our business, implementation of additional measures may take considerable time.

Notwithstanding the material weaknesses discussed above, our management has concluded that the financial statements included in this Report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

Except as specifically described above, there was no change in our internal control over financial reporting during our fourth fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information**

None.

**Part III****ITEM 10. Directors, Executive Officers and Corporate Governance**

The following table sets forth the names and ages of our directors and executive officers as of December 31, 2012. Our Board oversees the business affairs of our company and monitors the performance of management. Under our Bylaws, the Board size may not exceed 6 members. Presently, there are five Board members. At each annual meeting, shareholders elect directors for a full term or the remainder thereof, as the case may be, to succeed those whose terms have expired. Each director holds office for the term for which he or she is elected or until his or her successor is duly elected. Officers are appointed by, and serve at the pleasure of, our Board.

<b>Name</b>	<b>Age</b>	<b>Position</b>
An Fengbin	46	Chairman, President and Chief Executive Officer
Wang Hao	39	Chief Financial Officer (8)
Sun Xun	44	Chief Operating Officer
Bai Jinhai	73	Chief Technology Officer
Wen Jiang	49	Independent Director (1)(2)(3)(4)
Yudong Hou	44	Independent Director (1)(2)(3)
Zhenyu Wu	34	Independent Director (1)(2)(3)
Francis N.S. Leong	68	Lead Independent Director (5)
Haipeng Wang	33	Chief Financial Officer (6)
Wen Tong	36	Director, Chief Financial Officer (7)

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee; Chairman of the Audit Committee effective as of April 12, 2013.

(4) Audit Committee financial expert.

(5) Resigned effective as of February 12, 2013 for personal reasons.

(6) Appointed as the Company's CFO in January 2012 following Wen Tong's resignation. Resigned effective as of November 23, 2012 for personal reasons.

(7) Resigned as the Company's CFO and director in January 2012 and November 2012, respectively. Both resignations were not for cause and not due to any disagreement with the Company.



(8) Appointed as the Company's CFO effective as of December 17, 2012.

Biographical and background information with respect to the Company's current executive officers and directors is provided below.

**An Fengbin** has served as our Chairman, President and Chief Executive Officer since May 2004. From 1985 to 1996, Mr. An worked in the Credit and Loan Department of China Agricultural Bank where he held the title of Deputy Director of Corporate Department, following which engagement, he joined Dalian Zhenyuan Oil Blending Co., Ltd. as a General Manager in 1996 and remained until May 2000. In September 2001, he established a joint venture with Sinopec Corp. (China Petroleum & Chemical Corporation) and founded Xingyuan. Mr. An graduated from Dongbei Finance and Economics University in September 2003 with a degree in Economic Management degree. Mr. An's substantial experience in the petrochemical industry and his day to day leadership as President and Chief Executive Officer of our Company provides him with intimate knowledge of our business and operations.

**Wang Hao** has served as our Chief Financial Officer since December 17, 2012. From August 2007 to May 2010, Mr. Wang was Chief Financial Officer and Vice President of BoYuan Construction Group, Inc., a residential and commercial construction company in the People's Republic of China (BOY.TO). From May 2010 to December 2012, Mr. Wang was Chief Executive Officer of Business International Capital Limited, a financial consulting firm.

**Wen Jiang** has served as our director since July 2009. From 1993 to present, Mr. Jiang has served as Managing Director of the accounting firm of Wen Jiang & Company, PC in Portland, Oregon, where provides services to more than 300 clients in the public and private sectors. Mr. Jiang has 18 years of experience in accounting, auditing, tax and international business consulting matters. He is a licensed CPA in State of Oregon (1993) and a registered member with PCAOB. Mr. Jiang holds a Bachelor of Science degree in Accounting from Eastern Oregon University (1989). Wen Jiang's substantial experience and expertise in accounting, auditing, tax and international business consulting matters provide valuable insights to the Board and the Board committees on which he serves.

**Zhenyu Wu** has served as our director since November 15, 2012. During the past six years, Dr. Wu has held a number of academic appointments and offices at the institutions of higher learning in Canada. Specifically, since 2012, he has held positions of a tenured Associate Professor and Canada Research Chair (Tier 2) in Entrepreneurship and Innovation at the University of Manitoba. In 2011, he joined the same institution as a tenured Associate Professor and Stu Clark Professor of Financial Management. Prior to that, he was an Associate Professor at University of Saskatchewan (2007-2011). Dr. Wu holds a Ph.D in Finance, an MBA, and a Master of Arts degree in Economics from University of Calgary (2007, 2002 and 2001, respectively). He is widely published on matters of corporate governance and entrepreneurial finance, and brings to the Company and its Board his expertise and substantial experience in those areas.

**Francis N.S. Leong** has served as our director since July 2009. From 2003 to present, Mr. Leong has served as a Principal at Sungai River, Inc., an international financial consulting firm. Mr. Leong also holds directorships on the Boards of several public companies, including Boyuan Construction Group, Inc., a Chinese construction company (BOY - Toronto Stock Exchange Venture Board); and China Industrial Waste Management, Inc., an industrial waste collection company based in Dalian, China (CIWT - OTC-BB). Mr. Leong holds a Bachelor of Commerce degree from National Chengchi University in Taipei, Taiwan (1968) and a Master's degree in Public Administration from Marriott School of Management, Brigham Young University, (1975). Francis N.S. Leong brings years of public company and accounting experience and expertise to his work on the Board and its standing committee. Mr. Leong resigned as our director in February 2013.

**Sun Xun** joined the Company as new Chief Operating Officer effective as of June 17, 2010. Mr. Sun brings to Andatee over 20 years of operational experience in the PRC petrochemical industry. He has been with the Company for over 5 years as operations manager. Prior to joining Andatee, Mr. Sun was a Sales Manager at a subsidiary of Heilongjiang Petrochemical Company. Prior to that, he was a Sales Manager for Dalian Hengda High Technology Co., Ltd. and Wuhan Chang Ning Engineering Co., Ltd. From 1989 to 2002, he held various positions at Jiamusi Chemical Co., Ltd. And, during the last 4 years of his tenure at Jiamushi, he was appointed to the office of the Associate Director in the company's sales department.

**Yudong Hou** was appointed as our director effective as of September 13, 2010. Prior to this appointment, Mr. Hou has been Managing Director of Eastern Link Capital, an investment firm that seeks late stage and middle market investment opportunities in China. Prior to that, he served in various executive positions in a leading Chinese securities and investment bank, GF Securities, Inc. including as its Executive Vice President at the investment banking

group, investment management group and GF Northern Securities, Inc.; Mr. Hou was employed at Edward Jones in Newton, MA, as an investment representative and at Waddell & Reed Financial in Worcester, MA.; he also served as Vice President and Chief Financial Officer of IDG Technology Venture Investment Company in Beijing, China. Mr. Hou holds a Bachelor's degree in Accounting from Economic Management School, North China University of Technology, Beijing, China (1992) and a Master's degree in Finance from Sawyer School of Management Suffolk University (1999). He also holds FINRA Series 6, 7 and 63 securities licenses. Yudong Hou brings to the Company, its Board and standing committees his expertise and substantial experience in the areas of investment banking, venture capital and capital finance.

**Bai Jinhai** has been our Chief Technological Officer since March 2005. Mr. Bai holds a Chemical Engineering degree from Dalian Technological University (DTU) (September 1963). Following his graduation, he remained on the DTU faculty and has taught in undergraduate and graduate programs at the DTU. He has also conducted independent research in the oil and chemical technology areas.

All of our executive officers and key employees devote their full-time attention to our business. No director or executive officer is related to any other of our directors or executive officers, and there are no arrangements or understandings between a director and any other person that such person will be elected as a director.

There are no material proceedings to which any director, executive officer or affiliate of the Company, any owner of record or beneficial owner of more than five percent of any class of voting securities of the Company, or any associate of any such director, executive officer, affiliate or security holder is a party adverse to the Company or has a material interest adverse to the Company. There are no family relationships between any of the Company's executive officers or directors and there are no arrangements or understandings between a director and any other person pursuant to which such person was elected as director.

There were no material changes to the procedures by which shareholders may recommend nominees to the Board since the Company's last disclosure of such policies.

#### *Dismissal of Shareholder Complaints*

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and as updated in the subsequent quarterly reports, the Company and certain of its officers and directors have been named as defendants in several shareholder lawsuits filed in the Court of Chancery of the State of Delaware in connection with a contemplated "going private" proposal by the Company's Chief Executive Officer and majority shareholder, An Fengbin. Namely, these shareholder lawsuits include complaints entitled (i) *George Durgin v. An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons, (ii) *Roger and Lauresteine Marin v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, and Hou Yudong*, purportedly on behalf of all similarly situated persons, (iii) *Harlow Greguire v. An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons, and (iv) *Benjamin L. Padnos v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, and Hou Yudong*, purportedly on behalf of all similarly situated persons (collectively, the "Shareholder Complaints").

On September 7 and 12, 2012, respectively, the Court of Chancery of the State of Delaware granted Notices of Voluntary Dismissals filed by plaintiffs in each of the Shareholder Complaints. The plaintiffs in each of the foregoing Shareholder Complaints dismissed actions against all defendants in each of the complaints without prejudice. No consideration was paid to the plaintiffs or their attorneys in connection with the dismissals.

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To the best of our knowledge, none of the following events have occurred during the past ten years that are material to an evaluation of the ability or integrity of any director, director nominee or executive officer of the Company:

- any bankruptcy petition filed by or against, or any appointment of a receiver, fiscal agent or similar Officer for, the business or property of such person, or any partnership in which such person was a general partner or any corporation of which such person was an executive officer either, in each case, at the time of the filing for bankruptcy or within two years prior to that time;

- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining such person from, or otherwise limiting, the following activities:

- (i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, Director or employee of any investment company, bank, savings and loan association or insurance company; or

(ii) engaging in or continuing any conduct or practice in connection with such activity;

(iii) engaging in any type of business practice; or engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws.

· being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to act as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, Director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

· being found by a court of competent jurisdiction in a civil action, the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or federal commodities law, and the judgment in such civil action or finding by the SEC or the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated;

· being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies, including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

· being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or person associated with a member.

The Board believes that the Company's Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with the Company's business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. The Company's independent directors bring experience, oversight and expertise from outside the company and industry, while the Chief Executive Officer brings company-specific

experience and expertise. The Board believes that the combined role of Chairman and Chief Executive Officer promotes strategy development and execution, and facilitates information flow between management and the Board, which are essential to effective governance.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the combined role of Chairman and Chief Executive Officer and the Board, at large, is in the best interest of shareholders because it provides the appropriate balance between strategy development and independent oversight of management.

### **Board Committees**

Our Board has designated three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee.

## **Audit Committee**

The Audit Committee assists the Board in the oversight of the audit of our consolidated financial statements and the quality and integrity of its accounting, auditing and financial reporting processes. The Audit Committee is responsible for making recommendations to the Board concerning the selection and engagement of independent registered public accountants and for reviewing the scope of the annual audit, audit fees, results of the audit and auditor independence. The Audit Committee also reviews and discusses with management and the Board such matters as accounting policies, internal accounting controls and procedures for preparation of financial statements. Our Board has determined that each of the members of the Audit Committee meets the criteria for independence under the standards provided by the Nasdaq Stock Market. Zhenyu Wu (Chairman), Yudong Hou and Wen Jiang are all members of the Committee. Our Board has also determined that Mr. Wen Jiang qualifies as an “audit committee financial expert” as defined under the federal securities laws. He is an “independent” member of our Board as defined under Rule 10A-3 under the Exchange Act.

## **Compensation Committee**

The duties of the Compensation Committee include establishing any director compensation plan or any executive compensation plan or other employee benefit plan which requires shareholder approval; establishing significant long-term director or executive compensation and director or executive benefits plans which do not require stockholder approval; determination of any other matter, such as severance agreements, change in control agreements, or special or supplemental executive benefits, within the Committee's authority; determining the overall compensation policy and executive salary plan; and determining the annual base salary, annual bonus, and annual and long-term equity-based or other incentives of each corporate officer, including the CEO. Although a number of aspects of the CEO's compensation may be fixed by the terms of his employment contract, the Compensation Committee retains discretion to determine other aspects of the CEO's compensation. The CEO reviews the performance of the executive officers of the Company (other than the CEO) and, based on that review, the CEO makes recommendations to the Compensation Committee about the compensation of executive officers (other than the CEO). The CEO does not participate in any deliberations or approvals by the compensation committee or the Board with respect to his own compensation. The Compensation Committee makes recommendations to the Board about all compensation decisions involving the CEO and the other executive officers of the Company. The Board reviews and votes to approve all compensation decisions involving the CEO and the executive officers of the Company. The Compensation Committee and the Board will use data, showing current and historic elements of compensation, when reviewing executive officer and CEO compensation. The Committee is empowered to review all components of executive officer and director compensation for consistency with the overall policies and philosophies of the Company relating to compensation issues. The Committee may from time to time delegate duties and responsibilities to subcommittees or a Committee member. The Committee may retain and receive advice, in its sole discretion, from compensation consultants. The Compensation Committee does not currently employ compensation consultants in determining or recommending the amount or form of executive and director compensation. None of the members of our Compensation Committee is one of our officers or employees. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board or Compensation Committee. Wen Jiang is the Chairman of the Compensation Committee; Zhenyu Wu and Yudong Hou are the other two members of this committee.



## **Nominating and Governance Committee**

The Nominating and Governance Committee identifies candidates for future Board membership and proposes criteria for Board candidates and candidates to fill Board vacancies, as well as a slate of directors for election by the shareholders at each annual meeting. The Nominating and Governance Committee also annually assesses and reports to the Board on Board and Board Committee performance and effectiveness and reviews and makes recommendations to the Board concerning the composition, size and structure of the Board and its committees. Yudong Hou is the Chair of this Committee; Zhenyu Wu and Wen Jiang are the other two members on the Committee.

Shareholders meeting the following requirements who want to recommend a director candidate may do so in accordance with our Bylaws and the following procedures established by the Nomination and Governance Committee. The Board will consider all director candidates recommended to the Nomination and Governance Committee by shareholders owning at least 5% of our outstanding shares at all times during the year preceding the date on which the recommendation is made that meet the qualifications established by the Board. To make a nomination for director at an annual meeting, a written nomination solicitation notice must be received by the Nomination and Governance Committee at our principal executive office not less than 120 days before the anniversary date our proxy statement was mailed to shareholders in connection with our previous annual meeting. The written nomination solicitation notice must contain the following material elements, as well as any other information reasonably requested by us or the Nomination and Governance Committee:

- the name and address, as they appear on our books, of the shareholder giving the notice or of the beneficial owner, if any, on whose behalf the nomination is made;
- a representation that the shareholder giving the notice is a holder of record of our common stock entitled to vote at the annual meeting and intends to appear in person or by proxy at the annual meeting to nominate the person or persons specified in the notice;
- complete biography of the nominee, as well as consents to permit us to complete any due diligence investigations to confirm the nominee's background, as we believe to be appropriate;
- the disclosure of all special interests and all political and organizational affiliations of the nominee;
- a signed, written statement from the director nominee as to why the director nominee wants to serve on our Board, and why the director nominee believes that he or she is qualified to serve;
- a description of all arrangements or understandings between or among any of the shareholder giving the notice, the beneficial owner, if any, on whose behalf the notice is given, each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder giving the notice;
- such other information regarding each nominee proposed by the shareholder giving the notice as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had the nominee been nominated, or intended to be nominated, by our Board; and
- the signed consent of each nominee to serve as a director if so elected.

In considering director candidates, the Nomination and Governance Committee will consider such factors as it deems appropriate to assist in developing a Board and committees that are diverse in nature and comprised of experienced and seasoned advisors. Each director nominee is evaluated in the context of the full Board's qualifications as a whole, with the objective of establishing a Board that can best perpetuate our success and represent shareholder interests through the exercise of sound judgment. Each director nominee will be evaluated considering the relevance to us of the director nominee's skills and experience, which must be complimentary to the skills and experience of the other

members of the Board.

The Nomination and Governance Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nomination and Governance Committee does not have a formal policy with respect to diversity; however, the Board and the Committee believe that it is essential that the Board members represent diverse viewpoints. In considering candidates for the Board, the Committee considers the entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires officers, directors and persons who own more than ten percent of a registered class of equity securities to, within specified time periods, file certain reports of ownership and changes in ownership with the SEC. Based solely upon a review of Forms 3 and Forms 4 furnished to the Company pursuant to Rule 16a-3 under this Act during the Company's most recent fiscal year, and Forms 5 with respect to the most recent fiscal year, the Company believes that, except for Form 3 for Haipeng Wang filed on January 31, 2012 (which was inadvertently filed late), all such reports were timely filed as necessary by the executive officers, directors and security holders.

### **Code of Ethics**

Our Board has adopted a Code of Ethics within the meaning of Item 406 of Regulation S-K that applies to all of our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Code of Ethics codifies the business and ethical principles that govern our business. The Code of Ethics is designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the ethics code to an appropriate person or persons identified in the code; and
- Accountability for adherence to the Code of Ethics.

Copies of the charters of all three standing committees and of the Code are available on the Company's corporate website, <http://www.andatee.com>, and will be provided to any stockholder without charge upon the written request to

our corporate secretary.

## ITEM 11. Executive Compensation

### Compensation of Directors and Executive Officers

#### Summary Compensation Table

The following table sets forth information concerning the compensation for the fiscal years ended December 31, 2012 and 2011, respectively, of our (i) Chief Executive Officer, (ii) Chief Financial Officer, and (iii) all other executive officers (collectively, the “named executive officers”):

▲An Fengbin — President and Chief Executive Officer (Principal Executive Officer)

▲Wen Tong — Chief Financial Officer; resigned in January 2012.

▲Haipeng Wang — Chief Financial Officer; resigned in November 2012.

▲Wang Hao — Chief Financial Officer (Principal Financial Officer); appointed in November 2012.

Name and principal position	Year	Salary	Bonus	Option Awards (5)	All Other Compensation	Total
An Fengbin, President and CEO (1)	2012	\$ 150,000	-	-	-	\$ 150,000
	2011	\$ 150,000	-	-	-	\$ 150,000
Wen Tong (2)	2012	-	-	-	-	-
	2011	\$ 50,000	-	-	-	\$ 50,000
Haipeng Wang (3)	2012	\$ 50,000	-	-	-	\$ 50,000
Wang Hao (4)	2012	\$ 75,000	-	-	-	\$ 75,000

(1) The material terms and provisions of Mr. An’s Employment Agreement are disclosed below. On July 14, 2010, the Board, following the review and recommendation of the Compensation Committee of the Board, approved and adopted (i) an increase to An Fengbin’s annual base salary from USD\$125,000 to \$150,000, effective as of January 1, 2010; (ii) consistent with the terms and provisions of the Employment Agreement, an award Mr. An a one-time short term variable incentive pay in the amount of USD\$125,000, which represents approximately 1.4% of the Company’s net income before taxes for the fiscal year ended December 31, 2009, and (iii) a grant of 100,000 stock options, vesting as follows: 40,000 options vesting on the date of the grant, 30,000 options - on the 1st anniversary of the grant and the remaining 30,000 options - on the 2nd anniversary of the grant, with an exercise price of \$4.27 per share, which was the closing price of the Company’s stock on July 14, 2010. Except as set forth above and

footnote (2) below, there were no option grants, option exercises, options outstanding or stock vested in 2010 or 2009. We do not offer any pension benefit plans to our employees. In 2011, Mr. An's salary was \$150,000 and no other compensation was paid to him.

- On July 14, 2010, the Board approved and adopted an increase to Wen Tong's annual base salary from USD\$16,000 to \$50,000, effective as of January 1, 2010. The Board also approved a grant in the amount of 60,000 stock options, vesting in 3 equal annual installments as follows: 20,000 options vesting on the date of the grant,
- (2) 20,000 options - on the 1st anniversary of the grant and the remaining 20,000 options - on the 2nd anniversary of the grant, with an exercise price of \$4.27 per share, which was the closing price of the Company's stock on July 14, 2010. In 2011, Mr. Wen's salary was \$50,000 and no other compensation was paid to him. Mr. Wen resigned as our Chief Financial Officer in January 2012.
  - (3) Resigned as the Company's CFO effective as of November 23, 2012.
  - (4) Appointed as the Company's CFO effective as of December 17, 2012.
- Option Awards represent the grant date fair value of options in 2011, calculated in accordance with FASB ASC Topic 718. No options were granted in 2012. For the purposes of making the option calculation for 2011, the
- (5) following assumptions were made: (a) weighted expected life (years) - 3; (b) volatility - 83.70%; (c) dividend yield - 0.0%; and (d) weighted discount rate - 0.85% for the 2011 year option grant.

Except as described below, we currently have no employment agreements with any of our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control.

#### *An Fengbin Employment Agreement*

In November 2009, we entered into an Employment Agreement with Mr. An Fengbin, our President and Chief Executive Officer. Under the terms of the Employment Agreement, he will serve as our President and Chief Executive Officer for a term of 5 years. Mr. An is to receive an initial annual salary in the amount of \$120,000, with an annual increase of the prior year's salary thereafter during the term. Additionally, at the discretion of our Compensation Committee, Mr. An is eligible to receive an annual bonus which amount, if any, and payment will be determined by the Committee. Mr. An is entitled to medical, disability, vacation and life insurance benefits, and reimbursement of all reasonable or authorized business expenses. In the event the Employment Agreement terminates, during its term, upon Mr. An's death, the Company is obligated to pay Mr. An's estate his base salary amount through the first anniversary of his death (or the expiration of the Employment Agreement if earlier than the anniversary date), as well as pro rata allocation of any bonus based on the days of service during the year of death, and all amounts owing to Mr. An at the time of termination, including for previously accrued but unpaid bonuses, expense reimbursements and accrued but unused vacation pay. If Mr. An is unable to perform his obligations under the Employment Agreement for over 180 consecutive days during any consecutive 12 months period, we may terminate the Employment Agreement by written notice to Mr. An delivered prior to the date that he resumes his duties. Upon receipt of such written notice, Mr. An is permitted to request a medical examination under which if he was certified to be incapable of performing his obligations for over 2 additional months, the Employment Agreement would be terminated.

We may terminate the Employment Agreement for Cause, upon notice if at any time Mr. An, among other things: (a) refuses in bad faith to carry out specific written directions of our Board; (b) intentionally takes fraudulent or dishonest action in his relations with us; (c) is convicted of a crime involving an act of significant moral turpitude; or (d)

knowingly commits an act or omitted to act in violation of our written policies, the Employment Agreement or any agreements that we may have with third parties and that is materially damaging to our business or reputation. On the other hand, Mr. An may terminate the Employment Agreement upon written notice if, among other things: (a) there is a material adverse change in the nature of his title, duties or obligations; (b) we materially breach the Employment Agreement; (c) we fail to make any payment to Mr. An (excepting any payment which was not material and which we were contesting in good faith). If Mr. An were to terminate the Employment Agreement for any one of these reasons, or if we terminated the Employment Agreement without Cause, we would be obligated to pay to Mr. An (or in the case of his/her death, his estate), his base salary and any bonus, without any offset, as well as all amounts owing to Mr. An at the time of termination, including for previously accrued but unpaid bonuses, expense reimbursements and accrued but unused vacation pay. In the event of a consolidation, merger, transfer of assets or similar transaction, the employment agreement will inure to the benefit of and be assumed by resulting or surviving transferee corporation or entity and will continue in full force and effect and will entitle Mr. An to exactly the same compensation, benefits, perquisites, payments and other rights as would have been their entitlement had such extraordinary corporate transaction not occurred. The Employment Agreement contains restrictive covenants: (i) preventing the use and/or disclosure of confidential information during or at any time after termination; and (ii) preventing competition with the Company during his employment and for a period of 3 years after termination (including contact with or solicitation of our customers, employees or suppliers). The Employment Agreement also contains other terms and provisions customary for agreements of this nature. Lastly, we indemnify Mr. An for any claims made against him in his capacity as our executive officer.

**Outstanding Equity Awards at December 31, 2012**

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
An Fengbin (1)(3)	100,000	-		July 14, 2020
Wen Tong(2)(3)	60,000	-	\$ 4.27	July 14, 2020

On July 14, 2010, the Board, following the review and recommendation of the Compensation Committee of the Board, approved, among other things, a grant of 100,000 stock options, vesting as follows: 40,000 options vesting (1) on the date of the grant, 30,000 options - on the 1st anniversary of the grant and the remaining 30,000 options - on the 2nd anniversary of the grant, with an exercise price of \$4.27 per share, which was the closing price of the Company's stock on July 14, 2010.

On July 14, 2010, the Board, following the review and recommendation of the Compensation Committee of the Board, approved, among other things, a grant of 60,000 stock options, vesting in 3 equal annual installments as (2) follows: 20,000 options vesting on the date of the grant, 20,000 options - on the 1st anniversary of the grant and the remaining 20,000 options - on the 2nd anniversary of the grant, with an exercise price of \$4.27 per share, which was the closing price of the Company's stock on July 14, 2010.

(3) In 2012, there were no equity or option awards.

**Director Compensation in 2012**

The following table represents Board member compensation in 2012:

Name	Paid in Cash	Option Awards	All Other Compensation (3)	Total
Francis Leong (4)	\$18,000	\$ 0	-	\$18,000
Wen Jiang (4)	\$15,000	\$ 0	-	\$15,000
Yudong Hou	\$15,000	\$ 0	-	\$15,000
An Fengbin (3)	-	-	-	-
Wen Tong (3)	-	-	-	-



- Amounts under Option Awards represent the grant date fair value of options granted during 2011. In accordance with the requirements of FASB Accounting Standards Codification Section 718 (previously SFAS No. 123(R)), the
- (1) Company will charge the fair value of these options to expense in the 2nd quarter of 2011. Under the Board's equity compensation policies, non-management directors will subsequently each receive annual grants of options to purchase shares of our common stock at an exercise price equal to the fair market value of the shares on the date of grant in the amounts to be determined by the Board and the Compensation Committee.
  - (2) All directors will be reimbursed for their reasonable out of pocket expenses associated with attending meetings. There were no such expenses in 2012.
  - (3) Management member of the Board who is not compensated for his Board service.  
Does not include Board member's compensation in connection with his service on the Special Committee of the Board, which committee was established in November 2011, following receipt of a notice from An Fengbin, the Company's CEO, of his intention to launch a tender offer to acquire all of the outstanding shares of Andatee that he did not already own. The Special Committee consisted of two of the Company's independent directors, Francis N.S. Leong (Chairman) and Wen Jiang, and pursuant to the Board's resolutions, Messrs. Leong and Jiang received \$30,000 and \$20,000, respectively, for their services on the committee.

## Long Term Incentive Plan

### *2009 Equity Incentive Plan*

In July 2009, our Board adopted, subject to the shareholder approval, the 2009 Equity Incentive Plan (the “Plan”) for our officers, directors, employees and outside consultants and advisors. We have developed this Plan to align the interests of (i) employees, (ii) non-employee Board members, and (iii) consultants and key advisors with the interests of our shareholders and to provide incentives for these persons to exert maximum efforts for our success and to encourage them to contribute materially to our growth. As of the date hereof, we have issued 470,125 options pursuant to the Plan.

The Plan is not subject to the provisions of the Employment Retirement Income Security Act and is not a “qualified plan” within the meaning of Section 401 of the Internal Revenue Code, as amended (the “Code”). The Plan is administered by our Compensation Committee which has exclusive discretion to select the participants who will receive awards under the Plan and to determine the type, size and terms of each award.

*Shares Subject to the Plan.* We may issue up to 5,000,000 shares under the Plan, subject to adjustment to prevent dilution from stock dividends, stock splits, recapitalization or similar transactions. Certain grants may be made in cash, in our stock, or in a combination of the two, as determined by the Compensation Committee.

*Awards under the Plan.* Under the Plan, the Compensation Committee may grant awards in the form of incentive stock options, as defined in Section 422 of the Code, as well as options which do not so qualify, stock units, stock awards, stock appreciation rights and other stock-based awards.

*Options.* The duration of any option shall be within the sole discretion of the Compensation Committee; provided, however, that any incentive stock option granted to a 10% or less stockholder or any nonqualified stock option shall, by its terms, be exercised within 10 years after the date the option is granted and any incentive stock option granted to a greater than 10% stockholder shall, by its terms, be exercised within five years after the date the option is granted. The exercise price of all options will be determined by the Compensation Committee; provided, however, that the exercise price of an option (including incentive stock options or nonqualified stock options) will be equal to, or greater than, the fair market value of a share of our stock on the date the option is granted and further provided that incentive stock options may not be granted to an employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any parent or subsidiary, as defined in section 424 of the Code, unless the price per share is not less than 110% of the fair market value of our stock on the date of grant.

*Stock Units.* The Compensation Committee may grant stock to an employee, consultant or non-employee director, on such terms and conditions as the Compensation Committee deems appropriate under the Plan. Each stock shall represent the right of the participant to receive a share of our stock or an amount based on the value of a share of our stock.

*Stock Awards.* The Compensation Committee may issue shares of our stock to an employee, consultant or non-employee director under a stock award, upon such terms and conditions as the Committee deems appropriate under the Plan. Shares of our stock issued pursuant to stock awards may be issued for cash consideration or for no cash consideration, and subject to restrictions or no restrictions.

*Compensation Committee.* The Compensation Committee may establish conditions under which restrictions on stock awards shall lapse over a period of time or according to such other criteria as the Compensation Committee deems appropriate, including restrictions based upon the achievement of specific performance goals.

*SARs and Other Stock-Based Awards.* SARs may be granted to an employee, non-employee director or consultant separately or in tandem with an option. SARs may be granted in tandem either at the time the option is granted or at any time thereafter while the option remains outstanding. Upon the exercise of SARs, the related option will terminate to the extent of an equal number of shares of our stock. The stock appreciation for a SAR is the amount by which the fair market value of the underlying stock on the date of exercise of the SAR exceeds the base amount of the SAR. The Compensation Committee will determine whether the stock appreciation for a SAR is to be paid in the form of shares of stock, cash or a combination of the two.

*Other Awards.* Other awards may be granted that are based on or measured by our stock to employees, consultants and non-employee directors, on such terms and conditions as the Compensation Committee deems appropriate. Other stock-based awards may be granted subject to achievement of performance goals or other conditions and may be payable in our stock or cash, or in a combination of the two.

*Qualified Performance-Based Compensation.* The Compensation Committee may determine that stock units, stock awards, SARs or other stock-based awards granted to an employee will be considered “qualified performance-based compensation” under section 162(m) of the Code.

*Termination of Employment.* If the employment or service of a participant is terminated for cause, the options of such participant, both accrued and future, will terminate immediately. If the employment or service is terminated by either the participant or us for any reason other than for cause, death, or for disability, as defined in Section 22(e)(3) of the Code, the options of the participant then outstanding shall be exercisable by the participant at any time prior to the expiration of the options or within three months after the date of such termination, whichever is shorter, but only to the extent of the vested right to exercise the options at the date of the termination. In the case of a participant who becomes disabled, the rights of the participant under any then outstanding options are exercisable by the participant at any time prior to the expiration of the options or within one year after the date of termination of employment or service due to disability, whichever is shorter, but only to the extent of the vested right to exercise the options at the date of such termination. In the event of the death of a participant, the rights of the participant under any then outstanding options are exercisable by the person or persons to whom these rights pass by will or by the laws of descent and distribution, at any time prior to the expiration of the options or within one year after the date of death, whichever is shorter, but only to the extent of the vested right to exercise the options, if any, at the date of death. The terms and conditions regarding any other awards under the Plan will be determined by the Compensation Committee.

*Termination or Amendment of the Plan.* Our Board of Directors may at any time terminate the Plan or make such amendments thereto as it deems advisable, without action on the part of our shareholders unless their approval is required under the law. However, no termination or amendment will, without the consent of the individual to whom any option has been granted, affect or impair the rights of such individual. Under Section 422(b)(2) of the Code, no incentive stock option may be granted under the Plan more than ten years from the date the Plan is adopted or the date the Plan is approved by our shareholders, whichever is earlier.

## **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Our common stock constitutes our only voting securities. The table below provides beneficial ownership of our securities, to the best of our knowledge, by (i) each person known to us that beneficially owns more than 5% of our outstanding shares of common stock; (ii) each of our directors; (iii) each of our named executive officers; and (iv) all of our current directors and executive officers as a group. As of March 16, 2013, there were 9,610,159 shares of our

common stock issued and outstanding. We believe that, except as otherwise noted below, each named beneficial owner has sole voting and investment power with respect to the shares listed. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in the care of 24/F Xiwang Tower, No. 136, Zhongshan Road, Zhongshan District, Dalian, P.R. of China.

***Executive Officers and Directors***

<b>Name</b>	<b>Shares Owned (1)</b>	<b>% of Class</b>
An Fengbin (2)	4,890,451	50.9%
Wen Tong (4)(8)	60,000	*
Wen Jiang (4)	30,750	*
Yudong Hou (4)	27,000	*
Zhenyu Wu	0	*
Wang Hao (10)	0	*
Francis N.S. Leong (4)(9)	38,625	*
Haipeng Wang (5)	0	*
All directors and executive officers as a group (5 people)	5,046,826	52.5%

***5% or more Shareholders***

Star Blessing Enterprises Ltd. (3)	4,651,200	48.4%
Wellington Management Company, LLP (6)	692,133	7.27%
Wellington Trust Company, NA (7)	692,133	7.27%

\*Less than 1%

(1) For purposes of determining the amount of securities beneficially owned, share amounts include all common stock owned outright plus all shares of common stock issuable upon conversion of convertible notes, or the exercise of options or warrants currently exercisable, or exercisable within 60 days of the date hereof. The % of Class is based on the number of shares of the Company's common stock outstanding as of the record date. Shares of common stock issuable upon conversion of convertible notes, or the exercise of options or warrants currently exercisable, or exercisable within 60 days of the record date, are deemed outstanding for the purpose of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage ownership of any other owners.

(2) Includes 4,651,200 shares of common stock directly beneficially owned by Star Blessing Enterprises Ltd., a British Virgin Islands company ("SBEL") and any options to acquire shares of the Company's common stock exercisable within 60 days of the date of the beneficial ownership calculation. The securities beneficially owned by SBEL may also be deemed to be indirectly owned by Mr. An due to the fact that as of January 25, 2010, Mr. An had the power to vote and dispose of all of the securities of Oriental Excel Enterprises Limited, a British Virgin Islands company ("OEEL") pursuant to an Authorization Letter dated October 28, 2008, as supplemented on July 10, 2009, and executed by Ms. Lai WaiChi, a citizen of Hong Kong, who held 100% equity interest in OEEL (the "Oriental Interest") as of that date. In addition, pursuant to a certain Agreement dated March 26, 2009, as amended on August 30, 2009, between Mr. An and Ms. Lai, Mr. An was granted the right to acquire the Oriental Interest for no consideration in the event that certain conditions are met.

- Wang Jing is the sole director and shareholder of OEEL, which is the sole shareholder of SBEL, and Ms. Wang is also the sole director of SBEL. Mr. An is the President, Secretary and Treasurer of OEEL and SBEL. Wang Jing is An Fengbin's spouse, therefore may be deemed to share voting power and the power to dispose or to direct the disposition of the shares of common stock so beneficially owned by SBEL. Thus, Mr. An, Ms. Wang and OEEL
- (3) may be deemed to be the beneficial owners of the shares owned by SBEL. Mailing address for each Wang Jing, SBEL and OEEL is No.1 Bin Tao Yuan, No.20 West Binhai Rd, Xi Gang District, Dalian, China. Information taken from the Schedule 13D filed with the SEC on December 27, 2011 reflecting ownership of our common stock as of November 14, 2011.
- (4) Includes options to acquire shares of common stock of the Company.
- (5) Appointed as the Company's Chief Financial Officer in January 2012 following Wen Tong's resignation. Mailing address for this entity is c/o 280 Congress Street, Boston, MA 02210. Information taken solely from the Schedule 13G/A filed with the SEC on February 14, 2013. The filing reflects that Wellington Management Company, LLP, in its capacity as investment adviser, may be deemed to beneficially own 692,133 of our shares which are held of record by clients of Wellington Management. According to the Schedule 13G, the securities are owned of record by clients of Wellington Management and those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. According to the Schedule 13G/A, no such client is known to have such right or power with respect to more than five percent of this class of securities other than Wellington Trust, which is disclosed in the Note below.
- (6) Mailing address for this entity is c/o 280 Congress Street, Boston, MA 02210. Information taken solely from the Schedule 13G/A filed with the SEC on February 14, 2013. The filing reflects that Wellington Trust Company, NA, in its capacity as investment adviser, may be deemed to beneficially own 692,133 of our shares which are held of record by clients of Wellington Trust. According to the Schedule 13G, the securities are owned of record by clients of Wellington Trust and those clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. According to the Schedule 13G/A, no such client is known to have such right or power with respect to more than five percent of this class of securities.
- (7) Resigned as the Company's Chief Financial Officer in January 2012.
- (8) Resigned effective as of February 12, 2013 for personal reasons.
- (9) Appointed as the Company's Chief Financial Officer in December 2012 following Haipeng Wang's resignation.
- (10)

*Securities Authorized for Issuance under Equity Compensation Plans*

As discussed above, our incentive plan authorizes awards representing up to 5,000,000 shares of common stock. As of the date hereof, we have issued 470,125 options pursuant to the Plan.

**Equity Compensation Plan Information as of December 31, 2012**

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	260,125	\$ 4.05	4,739,875
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	260,125	\$ 4.05	4,739,875

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence***Review and Approval Policies and Procedures for Related Party Transactions*

Pursuant to Board policy, our executive officers and directors, and principal stockholders, including their immediate family members and affiliates, are not permitted to enter into a related party transaction with us without the prior consent of our Audit Committee, or other independent committee of our board of directors in the case it is inappropriate for our Audit Committee to review such transaction due to a conflict of interest. Any request for us to enter into a transaction with an executive officer, director, principal stockholder, or any of such persons' immediate family members or affiliates, in which the amount involved exceeds \$120,000 must first be presented to our Audit Committee for review, consideration and approval. All of our directors, executive officers and employees are required to report to our Audit Committee any such related party transaction. In approving or rejecting the proposed agreement, our Audit Committee shall consider the relevant facts and circumstances available and deemed relevant to the Audit Committee. Our Audit Committee shall approve only those agreements that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our Audit Committee determines in the good faith exercise of its discretion.

Except as disclosed below and as set forth in Note 10 (Related Party Transactions) to the financial statements included in this Annual Report, from its inception to December 31, 2012, the Company has not been a participant in any transaction that is reportable under Item 404(d) of Regulation S-K. The Company knows of no proposed transaction in which it will be a participant that would be reportable under Item 404(d) of Regulation S-K.

Dalian Dongfangzheng Industrial Co., Ltd., (DFZ) which holds 85% equity interest in Dalian Xingyuan, was established by An Fengbin and his wife, Wang Jing, in September 2006. In September 2008, DFZ borrowed \$5,436,942 from Donggang Xingyuan for the purpose of short-term funding for its business operations. The borrowing was non-interest bearing. As of September 30, 2009 the balance was paid in full in three separate payments; \$4.38 million during February 2009, \$120,000 during April 2009, and the remaining balance was paid on August 8, 2009. All material related party transactions will be made or entered into on terms that are no less favorable to use than can be obtained from unaffiliated third parties. Related party transactions that we have previously entered into were not approved by independent directors, as we had no independent directors at that time.

In November 2009, Xingyuan advanced \$122,667 to Donggang Aquatic Product Trading Center and Donggang Xingyuan Ship Repair Yard, two companies that are under the control of Mr. An Fengbin. These companies are using these funds, together with approximately \$700,000 invested by Mr. An Fengbin through December 31, 2009, to construct facilities in the Donggang port area that would provide marine services that complement the services offered there by the Company. Mr. An Fengbin is liable to the Company for these advances and is at risk for any losses incurred by these entities, and the Company has no obligations to or on behalf of Donggang Aquatic Product Trading Center and Donggang Xingyuan Ship Repair Yard. The Audit Committee consisting solely of independent and disinterested directors of the Board has reviewed, approved and ratified the terms of the foregoing transaction.



### *Director Independence*

Our Board is subject to the independence requirements of the Nasdaq Global Market (“Nasdaq”). Pursuant to the requirements, the Board undertakes an annual review of director independence. During this review, the Board considers transactions and relationships between each director or any member of his immediate family and Andatee and its affiliates, including those transactions that are contemplated under Item 404(a) of Regulation S-K. The purpose of this review is to determine whether any such relationships or transactions exist that are inconsistent with a determination that the director is independent. Our Board has determined that a majority of our directors and all current members of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee are “independent” under the standards provided by the Nasdaq and that the members of the Audit Committee are also “independent” for purposes of Section 10A-3 of the Exchange Act. An Fengbin, in addition to serving on the Board, also serves as our President and Chief Executive Officer, and neither serves on the Audit, Nominating and Governance, or Compensation Committees. The Board based these determinations primarily on a review of the responses of the directors and executive officers to questions regarding employment and transaction history, affiliations and family and other relationships and on discussions with the directors.

### **ITEM 14. Principal Accounting Fees and Services**

As previously reported, on October 18, 2012, the Company received a notice from Daszkal Bolton LLP, the Company’s independent registered public accounting firm (“DB”) stating that, effective October 20, 2012, DB would cease its services as the Company’s independent auditors. DB cited “changes in the marketplace” for its inability to continue to provide services to the Company. DB reported on the Company’s financial statements for the year ended December 31, 2011. The DB reports on the Company’s financial statements as of December 31, 2011 and for the fiscal year ended December 31, 2011 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

On November 8, 2012, the Company engaged the services of Friedman LLP (“Friedman”) as the Company’s new independent registered public accounting firm to audit the Company’s balance sheet as of December 31, 2012, and the related statements of operations and comprehensive income, stockholders’ equity, and cash flows for the year then ended. Friedman will also perform a review of the Company’s unaudited quarterly financial information as of and for the quarters ending September 30, 2012, March 31, 2013 and June 30, 2013. The decision to engage Friedman was approved and recommended by the Audit Committee of the Company’s Board of Directors.

The following table sets forth the aggregate fees billed by DB for its work in 2011 and 2012 fiscal years and the aggregate fees billed by Friedman for its work in the 2012 fiscal year:

	2012	2011
Audit Fee	\$179,000	\$150,000
Audit-Related Fees	\$12,000	\$2,200
Tax Fees	\$	\$0
All Other Fees	\$	\$0

#### *Audit Fees*

Audit fees represent the aggregate fees billed for professional services rendered by DB and Friedman for the audit of our annual financial statements, review of financial statements included in our quarterly reports, review of registration statements or services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

#### *Audit-Related Fees*

Audit-related fees represent the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. There were no such fees in fiscal 2012 and 2011.

### *Tax Fees*

Tax fees represent the aggregate fees billed for professional services rendered by our principal accountants for tax compliance, tax advice, and tax planning for such years.

### *All Other Fees*

All other fees represent the aggregate fees billed for products and services other than the services reported in the other categories. There were no such fees in fiscal 2012 and 2011.

### *Audit Committee Pre-Approval Policies and Procedures*

The Audit Committee on an annual basis reviews audit and non-audit services performed by the independent auditors. All audit and non-audit services are pre-approved by the Audit Committee, which considers, among other things, the possible effect of the performance of such services on the auditors' independence.

## **PART IV**

### **ITEM 15. Exhibits and Financial Statement Schedules**

#### **Exhibit No. Exhibit Title**

- |          |   |
|----------|---|
| 2.1      | Share Exchange Agreement by and among the Company, Goodwill Rich International Limited and shareholders of Goodwill, dated as of August 21, 2009 (1)                  |
| 2.2      | Shandong Xinfu Fishery Group Co., Ltd. Equity Replacement Agreement (1)   |
| 2.3      | Rongcheng Xinfu Share Transfer Agreement (1)  |
| 3.1(i)   | Certificate of Incorporation (1)  |
| 3.1.1(i) | Amendment to the Certificate of Incorporation (1)   |
| 3.1(ii)  | By-Laws (1)   |
| 4.1      | Form of Common Stock Certificate (1)  |
| 10.1     | Exclusive Consulting Services Agreement by and between Dalian Fusheng Consulting Co., Ltd. and Dalian Xingyuan Marine Bunker Co. Ltd., dated March 26, 2009 (1)       |
| 10.2     | Operating Agreement by and among Dalian Fusheng Consulting Co., Ltd., Dalian Marine Bunker Co. Ltd and the stockholders of Xingyuan, dated March 26, 2009 (1)Xingyuan |

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- 10.3 Equity Pledge Agreement by and among Dalian Fusheng Consulting Co., Ltd., the Dalian Xingyuan Marine Bunker Co. Ltd and stockholders, dated March 26, 2009 (1)
- 10.4 Purchase Option Agreement by and among Dalian Xingyuan Marine Bunker Co. Ltd, the Xingyuan Stockholders and Dalian Fusheng Consulting Co., Ltd., dated March 26, 2009 (1)
- 10.5 Proxy and Voting Agreement by and between Dalian Fusheng Consulting Co., Ltd., Dalian Xingyuan Marine Bunker Co. Ltd, and Dalian Dongfangzheng Industrial Co., Ltd, dated March 26, 2009 (1)
- 10.6 Proxy and Voting Agreement by and among Dalian Fusheng, Dalian Xingyuan and Wang Jing, dated March 26, 2009 (1)
- 10.7 Proxy and Voting Agreement by and among Dalian Fusheng, Dalian Xingyuan and Wang Yu dated March 26, 2009 (1)
- 10.8 Proxy and Voting Agreement by and among Dalian Fusheng, Dalian Xingyuan and Wang Xin, dated March 26, 2009 (1)
- 10.9 Kong, Mr. An Fengbin, a PRC citizen, dated March 26, 2009 (1)
- 10.10 Employment Agreement with An Fengbin (1)\*
- 10.11 2009 Equity Incentive Plan (1)\*
- 10.12 Loan Agreement with Shenzhen Development Bank Co, Ltd. (1)
- 10.13 Contract for Purchase and Sale with Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd. (1)
- 10.14 Contract for Purchase and Sale with Qingdao Anbang Refining and Chemical Co., Ltd. (1)
- 10.15 Contract for Purchase and Sale with PetroChina Dalian Petrochemical Company. (1)
- 10.16 Sales Contract for Furfural Extract Oil with PetroChina Dalian Petrochemical Company. (1)

- 10.17 Sales Contract for Rubber Filling Oil and Extract Oil with PetroChina Dalian Petrochemical Company. (1)
- 10.18 Supplemental Agreement dated as of August 30, 2009. (1)
- 10.19 Authorization Agreement. (1)
- 10.20 Authorization letter amendment. (1)
- 10.21 Amendment No. 1 to the Authorization Agreement. (1)
- 14.1 Code of Ethics and Conduct. (1)
- 21.1 List of Subsidiaries \*\*
- 23.1 Consent of the Independent Registered Public Accounting Firm \*\*
- 23.2 Consent of the Independent Registered Public Accounting Firm \*\*
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.1 Certificate of CEO pursuant to 18 U.S.C.ss.1350.\*\*
- 32.2 Certificate of CFO pursuant to 18 U.S.C.ss.1350.\*\*

\* Indicates a management contract or a compensatory plan or arrangement.

\*\* Filed herewith.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to the exhibit with the same number to the Company's Registration Statement on Form S-1 (SEC File No. 333-161577) effective as of January 25, 2010.

(2) Incorporated by reference to the exhibit with the same number to the Company's Annual Report on Form I0-K for the fiscal year ended December 31, 2011 filed with the SEC on April 16, 2012.

## SIGNATURES

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

### Andatee China Marine Fuel Services Corporation

By: /s/ An Fengbin

Name: An Fengbin

Title: President, Chief Executive Officer (Principal Executive Officer)

Date: April 16, 2013

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ An Fengbin</u> An Fengbin	President, Chief Executive Officer, Director (Principal Executive Officer)	April 16, 2013
<u>/s/ Wang Hao</u> Wang Hao	Chief Financial Officer (Principal Financial Officer)	April 16, 2013
<u>/s/ Wen Jiang</u> Wen Jiang	Director	April 16, 2013
<u>/s/ Yudong Hou</u> Yudong Hou	Director	April 16, 2013
<u>/s/ Zhenyu Wu</u> Zhenyu Wu	Director	April 16, 2013

*Signed originals of this written statement have been provided to Andatee China Marine Fuel Services Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request .*