

Andatee China Marine Fuel Services Corp
Form 10-K
March 31, 2014

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, 2013

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)

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(Registrant's Telephone Number, Including Area Code)

Unit C, No.68 of West Binhai Road, Xigang District

Dalian, P.R. of China

011 (86411) 8240 8939

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 Stock Market

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 ☐

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. ☐

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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 28, 2013, the aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant was approximately \$2.66 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 10,255,813 shares of common stock issued and outstanding as of March 25, 2014.

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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) 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 2013” mean the year ended December 31, 2013, 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, Dalian Xifa Petrochemical Company, Ltd., Shandong Xifa Prochemical Company, Ltd., Shanghai Fusheng Petrochemical Company, Donggang Xingyuan Marine Bunker Company Ltd., Rongcheng Xinfu Petroleum Company Ltd., Rongcheng Mashan Xingyuan Marine Bunker Co. Ltd., Rongcheng Zhuoda Trading Co.Ltd, Suzhou Fusheng Petrol Co. Ltd., Wujiang Xinlang Petrol Co. Ltd, Lianyungang Fusheng Petrochemical Company, 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 two subsidiaries of the VIE, which is Xiangshan Yongshi Nanlian Petrol Company Ltd.; and Lianyungang Xingyuan Marine Bunker Co., 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 6.1104 to \$1.00, the noon buying rate in effect on December 31, 2013 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 March 19, 2014, the exchange rate was approximately RMB6.1933 to \$1.00.

Item 1. Business

Company Overview

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 81% of our total revenue for the period of 2013 as compared with the sale of marine oil for cargo vessels which represented the remaining 19% of our total revenue for the same periods. Currently, we sell approximately 88% of our products through distributors and remaining 12% 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 Dalian, Dandong, Lianyungang, Shidao Shipu, Suzhou and Shanghai 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: Dalian Xifa Petrochemical Company, Ltd. (located in Dalian City, Liaoning Province, and established on August 26, 2010), 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), Shandong Xifa Petrochemical Company, Ltd. (located in Zibo City, Shandong Province, and established on December 2, 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), Wujiang Xinlang Petrochemical Company, acquired in Dec, 7, 2011 (located in Wujiang city, Jiangsu Province and established in Apr 28, 1998), Shanghai Fusheng Petrochemical Company, Ltd. (located in Shanghai city and established on April 6, 2012), Lianyungang Fusheng Petrochemical Co., Ltd. (located in Lianyungang City, Jiangsu Province, and established on April 27, 2013) and our VIE, Dalian Xingyuan Marine Bunker Company, Ltd and its subsidiaries: Xiangshan Yongsh Nanlian Petrol Company, Ltd. (located in Xiangshan City, Zhejiang Province, and established in May 1997 under the laws of the PRC) and Lianyungang Xingyuan Marine Bunker Co., Ltd, (located in Lianyungang City, Jiangsu Province, and established on April 27, 2013).

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 Unit C, No. 68 of West Binhai Road, Xigang District, Dalian, P.R. of China; telephone number is 011 (86411) 8240 8939. Our website address is <http://www.andatee.com>.

Organizational Structure and Corporate History

Our WOFE, Dalian Fusheng Petrochemical Company, was incorporated on March 22, 2009 with registered capital of \$19.33 million invested by Goodwill Rich. Fusheng has the following subsidiaries: Dalian Xifa Petrochemical Company, Ltd., Hailong Petrochemical Co., Limited (established in Tianjin City, on April 23, 2001), Donggang Xingyuan Marine Bunker Company, Ltd., Rongcheng Xinfu Petrol Company, Ltd., and Rongcheng Mashan Marine Bunker Company, Shandong Xifa Petrochemical Company, Ltd., Rongcheng Zhuoda Trading Co., Suzhou Fusheng Petrochemical Company, Wujiang Xinlang Petrochemical Company, Shanghai Fusheng Petrochemical Company, Ltd. and Lianyungang Fusheng Petrochemical Co., Ltd.

Our VIE operating entity, Dalian Xingyuan, currently has two subsidiaries: Xiangshan Yongshinanlian Petrol Company Ltd. and Lianyungang Xingyuan Marine Bunker Co., Ltd., Dalian Xingyuan and its subsidiaries are collectively referred to as the “VIE”. Dalian Xingyuan was established in September 2001 with an initial registered capital of RMB 30 million (approximate to \$4.8 million). Its registered capital was increased to RMB 60.1 million (or \$9.5 million) in 2008. 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).

On March 26, 2009, Fusheng entered into a series of variable interest entity agreements (the “VIE Agreements”) with Dalian Xingyuan. Under these 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). Pursuant to Board resolutions of Tianjin Hailong dated on January 18, 2013, Dalian Fusheng approved to sale 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 sale, Tianjin Hailong's operations will no longer be consolidated. The formal sale agreement has not been completed as of December 31, 2013.

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).

On April 27, 2013, Dalian Fusheng formed a new subsidiary Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”) in the city of Lianyungang under the laws of the PRC with initial registered capital of RMB 29.0 million (approximately \$4.7 million). Based upon the Board Resolutions, Dalian Fusheng increased the registered and paid in capital of Lianyungang Fusheng to RMB 53.7 million (approximately \$8.8 million) on November 1, 2013 and then increased to RMB 153.7 million (approximately \$25.2 million) on December 27, 2013.

On April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of RMB 21,000,000 (approximately \$3.4 million).

During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from Xiangshan Nanlian’s minority shareholder Mr. Chen Wenwei for a cash consideration of RMB 11.2 million (approximately \$1.83 million). After the acquisition, Xiangshan Nanlian became the 100% controlled subsidiary of Dalian Xingyuan. The acquisition was treated as a related party transaction because formal minority shareholder Mr. Chen Weiwen still serves as the legal representative of Xiangshan Nanlian after the acquisition.

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. (“Xinniu”) in the city of Dalian under the laws of the PRC with registered capital of RMB 200 million (approximately \$32.7 million).

The following diagram illustrates our corporate structure:

Industry Overview

The Company's main line of business is providing various kinds of fuel oils for marine fishing industry. According to statistics, as of December 2013, there are about 20 million various marine fishing boats in China, with an annual marine fuel oil consumption demand of about 7.9 million metric tons. Total volume of the marine fishing industry is estimated to be \$7.8 billion (RMB 47.4 billion) In 2013, global warming and previous over-fishing activities has brought certain negative impact on the marine ecosystem and water temperature, causing immeasurable harm to inshore fishing resources. As a result, marine fishing boats have to travel to more remote offshore sea areas for fishing.

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 81% and 94% of our total revenue for fiscal 2013 and 2012, respectively, as compared with the sale of marine oil for cargo vessels which represented the remaining 19% and 6% 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 88% of our products through distributors and approximately 12% 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 2011-2013:

| | 2013 | | 2012 | | 2011 | |
|----------|----------------|--------|----------------|---------|----------------|---------|
| | Tons | % | Tons | % | Tons | % |
| | (in thousands) | | (in thousands) | | (in thousands) | |
| Products | | | | | | |
| 1# | 127.4 | 23.8 % | 21.99 | 7.42 % | 32.10 | 10.74 % |
| 2# | 37.7 | 10.5 % | 28.81 | 9.71 % | 35.33 | 11.82 % |
| 3# | 32.2 | 9.4 % | 43.76 | 14.76 % | 35.55 | 11.89 % |
| 4# | 125.2 | 37.5 % | 185.19 | 62.45 % | 152.64 | 51.05 % |
| 180CST | 53.6 | 15.9 % | 12.03 | 4.06 % | 23.53 | 7.87 % |
| 120CST | 11.0 | 2.9 % | 4.78 | 1.61 % | 19.84 | 6.64 % |
| | 387.37 | | 296.56 | | 298.99 | |
| Areas | | | | | | |
| Dalian | 128.8 | 37.2 % | 272.51 | 91.89 % | 166.37 | 55.64 % |
| Shandong | 44.7 | 13.1 % | 14.43 | 4.87 % | 86.73 | 29.01 % |
| Shanghai | 202.2 | 46.0 % | 4.56 | 1.54 % | 21.74 | 7.27 % |
| Zhejiang | 11.6 | 3.7 % | 5.06 | 1.71 % | 24.17 | 8.08 % |

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 2013, we re-assessed our business goals and started to diversify our purchase channels, such as import the fuel oil from overseas market to lower the costs. In fact, based on 2013 price data, our blended fuel (#4), while maintaining the same fuel efficiency, is, on average, US\$20 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 which provided almost 25% of all raw materials we required for 2013. For the year ended December 31, 2013, other major suppliers are Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd and Liaoyang Petroleum Fiber Company Yifang Industrial Co., Ltd., which provide us 11.1% and 10.4% of our raw materials. Together with other suppliers, including Dalian Mingyuan Petrochemical Co., Ltd., Dalian Jingtian Shipping Service Co., Ltd., and Shanghai Longyu, etc., providing the remaining of our need for raw materials. In second half of 2013, we also started to import fuel oil from overseas market, such as from the Middle East and Russia. We will continue to explore new suppliers to reduce supply risk as needed.

Extensive Sales and Distribution Network - Our distribution consists of approximately 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 2013, Shanghai Lonyer Fuels Co., Ltd and Dalian Ocean Fishery Group of Corporations represent 16% and 4.8% 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. We operate several dedicated research and development facilities with 49 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 2013.

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 unsatisfactory 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. The formal sale agreement has not been completed as of December 31, 2013. As of December 31, 2013, Tianjin Hailong's total assets was \$2.4 million, accounting for only 0.8% of the Company's consolidated total assets; and total liabilities was approximately \$1.9 million, accounting for only 0.8% of the Company's consolidated total liabilities. There was no revenue and net income reported for the year ended December 31, 2013. The assets were not reported as discontinued operations due to immateriality. In 2014, we plan to terminate additional subsidiaries, such as Wujiang Xinlang and Mashan Xingyuan, among possible others.

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. In December 31, 2013, we started to construct a new chemical and fuel oil blending project in Lianyungang city after we obtained a land use right in October 2013. Total estimated contract price for this new project is approximately \$41 million (or RMB 250 million). We prepaid \$16 million (equivalent to RMB 100 million) to the general contracting firm in charge of building the facility to start the project in December 2013. 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 Liaoning, Shandong, Jiangsu, Shanghai Guangdong and Zhejiang Provinces. Currently, we have 100 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 year 2013, our purchases from our largest supplier PetroChina Dalian Petrochemical Company accounted for about 25.1% of our total purchases. In fiscal 2013 and 2012, purchases from Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd, accounted for 11.1% and 19.46%, respectively, of our total purchases of raw materials. For the same periods, our ten largest suppliers combined accounted for 65.8% and 71%, 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, 2013 included 5 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, 2013, we had 49 professionals 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\$7.8 billion as of December 31, 2013. 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, 2013, was approximately RMB14.3 million (US\$2.33 million) on our property and facilities and approximately RMB36.5 million (US\$5.9 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, 2013, we had 189 employees, 9 of which are engaged in management, 31 of which are engaged in administration and related areas, 49 of which are engaged in research and development activities, and the remaining 100 (primarily sales and marketing personnel) 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.

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, 2013, one customer accounted for approximately 16% of our total revenues. For the fiscal year ended December 31, 2012, two customers accounted for approximately 33.08% and 10.53% 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 cyclicity 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 2013 and 2012, 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 2014 of approximately RMB 150 million (US\$24.6 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. Wang Hao, our Chairman 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

Currently, we purchase most of our raw materials from Chinese suppliers. In fiscal year 2013, our purchases from our largest supplier PetroChina Dalian Petrochemical Company accounted for about 25.1% of our total purchases. In addition, 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, provided 11.1% and 19.46% of our purchase of raw materials for years ended December 31, 2013 and 2012, respectively. Another major supplier for the year 2013 is Liaoyang Petroleum Fiber Company Yifang Industrial Co., Ltd. which provided 10.4% of raw materials as we need this year. Our ten largest suppliers combined accounted for 65.8% and 71% of our total purchase for the year ended December 31, 2013 and 2012, respectively. 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. As of December 31, 2013, our certifying officers concluded that our disclosure controls and procedures were not effective. We have been and continue to undertake a number of stages to address these issues. 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

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.

Our corporate structure together with applicable law impede shareholders from asserting claims against the Company and its principles

All of our operations and records, and most of our senior management are located in the People's Republic of China. Shareholders of companies such as ours have limited ability to assert and collect on claims in litigation against such companies and their principals. In addition our operations are located in VIEs, which are entities owned by third parties and not by the Company but which are controlled by the Company by virtue of contractual relationships. The VIE structure could further impede the ability of a person to prove a claim or collect on a judgment against the Company. Finally, China has very restrictive secrecy laws that prohibit the delivery of many of the financial records maintained by a business located in China to third parties absent Chinese government approval. Since discovery is an important part of proving a claim in litigation, and since most if not all of the Company's records are in China, Chinese secrecy laws could frustrate efforts to prove a claim against the Company or its management.

In order to commence litigation in the United States against an individual such as an officer or director, that individual must be served. While directors and officers of a Delaware corporation such as ours may be easily served for purposes of a suit against them in Delaware for breach of fiduciary duty and there are means of serving individuals who reside outside the United States in other litigation, generally service requires the cooperation of the country in which a defendant resides. China has a history of failing to cooperate in efforts to effect such service upon Chinese citizens in China.

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 known 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.

Risks Related to the Common Stock

Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometime

known as “disclosed shorts”) publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog (“blogging”) have allowed many disclosed shorts to publicly attack a company’s credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firms and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in the PRC and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports. While we intend to strongly defend our public filings against any such short seller attacks, often times we are constrained, either by principles of freedom of speech, applicable state law (often called “Anti-SLAPP statutes”), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

The market price for our securities may be subject to wide fluctuations

The securities of a number of Chinese companies and companies with substantial operations in China have experienced wide fluctuations in their stock price. Among the factors that could affect the price of our common stock are risk factors described in this section and other factors, including:

- announcements of competitive developments, by our competitors;
- regulatory developments of our industry affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- failure of our quarterly financial and operating results to meet market expectations or failure to meet our previously announced guidance, if any;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of our competitors;
- additions or departures of our executive officers and other key personnel;
- announcements regarding litigation (or potential litigation) involving us or any of our directors and officers; and
- fluctuations in the exchange rates between the U.S. dollar and the Renminbi.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular industries or companies. These market fluctuations may also have a material adverse effect on the market price of our securities.

We may need additional capital and may sell additional securities or other equity securities or incur indebtedness, which could result in additional dilution to our shareholders or increase our debt service obligations.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or equity-linked debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Substantial future sales of our securities in the public market, or the perception that these sales could occur, could cause the price of our securities to decline.

Additional sales of our securities in the public market or the perception that these sales could occur, could cause the market price of our securities to decline. We may grant or sell additional options, restricted shares or other share-based awards in the future under our share incentive plan to our management, employees and other persons, the settlement and sale of which may further dilute our shares and drive down the price of our securities.

If NASDAQ were to delist our securities from trading on its exchange, such action could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.

Our common stock is currently listed on the NASDAQ Capital Market. We cannot assure you that our securities will meet the continued listing requirements be listed on NASDAQ in the future. If NASDAQ delists our common stock from trading on its exchange, we could face significant material adverse consequences including:

- limited availability of market quotations for our securities;

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a determination that our common stock is a “penny stock” which will require brokers trading in our common stock to adhere to more stringent rules and possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;

■ a limited amount of news and analyst coverage for our company; and

■ a decreased ability to issue additional securities or obtain additional financing in the future.

If our shares of common stock become subject to the SEC’s penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

If our common stock were removed from listing with the NASDAQ Capital Market, it may be subject to the so-called “penny stock” rules. The SEC has adopted regulations that define a “penny stock” to be any equity security that has a market price per share of less than \$5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. For any transaction involving a “penny stock,” unless exempt, the rules impose additional sales practice requirements on broker-dealers, subject to certain exceptions. If our common stock were delisted and determined to be a “penny stock,” a broker-dealer may find it more difficult to trade our common stock and an investor may find it more difficult to acquire or dispose of our common stock on the secondary market. Investors in penny stocks should be prepared for the possibility that they may lose their whole investment.

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, 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, 2013:

| Type of Leased Facility | Capacity | Monthly Rent | # of Units | Location |
|------------------------------|------------|--------------|------------|--------------------|
| 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, 2013:

| Type of Owned Facility | Capacity | #of Units | Location |
|------------------------------|-----------|-----------|--------------------|
| 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 |

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.
- 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

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.

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. Currently, our shares of common stock are trading on the Nasdaq Capital 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, 2013 | \$2.04 | \$0.98 |
| September 30, 2013 | 2.14 | 0.51 |
| June 30, 2013 | 0.88 | 0.48 |
| March 31, 2013 | 0.89 | 0.50 |
| 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 |

On March 18, 2014, the closing price of the Company's common stock was \$1.9 per share.

Holders

We had approximately 21 holders of record as of March 24, 2014.

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, 2013 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 2013 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 2013.

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.

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, Shidao, Shanghai 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”). Fusheng has several 100% controlled subsidiaries including Dalian Xifa Petrochemical Company, Ltd. (“Dalian Xifa”), Shandong Xifa Prochemical 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 Petrol 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. On April 27, 2013, Dalian Fusheng formed a new subsidiary Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”) in the city of Lianyungang under the laws of the PRC with initial registered capital of \$4.69 million (RMB 29,000,000). Based upon the Board Resolutions, Dalian Fusheng increased the registered and paid in capital of Lianyungang Fusheng to RMB 53.68 million on November 1, 2013 and then increased to RMB 153.68 million on December 27, 2013.

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. On April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of \$3.4 million (RMB 21,000,000). During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from Xiangshan Nanlian’s minority shareholder Mr. Chen Wenwei for a cash consideration of RMB 11.2 million. Xiangshan Nanlian completed the registration change with local State Administration of Industry and Commerce (the “SAIC”) on July 29, 2013 to reflect the share structure change. After the acquisition, Xiangshan Nanlian became the 100% controlled subsidiary of Dalian Xingyuan. The acquisition was treated as a related party transaction because formal minority shareholder Mr. Chen Weiwen still serves as the legal representative of Xiangshan Nanlian after the acquisition.

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. (“Xinniu”) in the city of Dalian under the laws of the PRC with registered capital of \$32.7 million (RMB 200 million), among which \$16.4 million has been paid to local State Administration for Industry & Commerce (“SAIC”) for registration purposes as of December 31, 2013. See Note 20 “Subsequent Events” for more details.

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. An Fengbin 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. An Fengbin's approval. As a result, Mr. An Fengbin was deemed to control Goodwill Rich and Fusheng, and those companies and Xingyuan were deemed to be under common control.

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.

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). The construction of Tengda wharf has been completed in 2013 after it passed the inspection conducted by local the government agencies.

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). The construction of the blending facilities in Xinfu has also been completed in 2013 after it passed the inspection conducted by local the government agencies.

In September, 2011, Our subsidiary Suzhou Fusheng entered into a 10 year oil storage tank lease agreement with third-party Wujiang Coal & Oil Company Limited, to lease the use right for 14 oil tanks with total volume of 16,000 cubic meters, with annual lease price of RMB 1.685 million (or total lease price of RMB 16.85 million for 10 years).

On January 7, 2013, our subsidiary Lianyungang Fusheng entered into a cooperative agreement with local government Jiangsu Guanyun County Lingang Industrial Park Management Committee, and agreed to invest about RMB 2 Billion (about USD 327.3 million) in Lingang Industrial Park to start a chemical material manufacturing project. On October 18, 2013, we obtained Certificate of Land Use Right for the first batch of land totaling 1.6 million square meters at a cost of RMB 53.3 million. In December 2013, we have prepaid approximately RMB 100 million to constructor to start the chemical and fuel oil blending project, which is expected to be completed by early 2015.

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 ("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.

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).

On April 27, 2013, Dalian Fusheng formed a new subsidiary Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”) in the city of Lianyungang under the laws of the PRC with initial registered capital of \$4.69 million (RMB 29,000,000). Based upon the Board Resolutions, Dalian Fusheng increased the registered and paid in capital of Lianyungang Fusheng to RMB 53.68 million on November 1, 2013 and then increased to RMB 153.68 million on December 27, 2013.

On April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of \$3.4 million (RMB 21,000,000). During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from XiangshanNanlian’s minority shareholder Mr. Chen Wenwei for a cash consideration of RMB 11.2 million. XiangshanNanlian completed the registration change with local State Administration of Industry and Commerce (the “SAIC”) on July 29, 2013 to reflect the share structure change. After the acquisition, XiangshanNanlian became the 100% controlled subsidiary of Dalian Xingyuan. The acquisition was treated as a related party transaction because formal minority shareholder Mr. Chen Weiwen still serves as the legal representative of XiangshanNanlian after the acquisition.

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. (“Xinniu”) in the city of Dalian under the laws of the PRC with registered capital of \$32.8 million (RMB 200 million), among which \$16.4 million has been paid to local State Administration for Industry & Commerce (“SAIC”) for registration purposes as of December 31, 2013. Subsequently on January 22, 2014, Xinniu Development completed its registration and obtained the business license from local SAIC.

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 5 raw material suppliers are either state-owned enterprises or supported by state-owned enterprises, from which we received in excess of 71% of our total raw supplies purchases in 2012 and in excess of 56% of our total raw materials purchased in 2013. 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. 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, 2013 and 2012, Jinghai did not achieve the sales target and accordingly no rebate was provided to Jinghai.

Operational Initiatives in 2013

In 2013, 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 2013, 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 2013, our revenues for 2013 have increased by 19.4% to \$ 273.3 million as the result of increasing quantity sold and increasing sales price on certain key products. However, due to increased cost of revenue affected by global crude oil purchase price fluctuation, our gross margin decreased from 6.2% in 2012 to 5.9% in 2013.

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, 2013 and 2012

Revenue

For the year ended December 31, 2013, our revenue increased by \$44.45 million, or 19.42%, from \$228.8 million in 2012 to \$273.3 million in 2013. The increase in revenue was affected by the following factors:

- Increased quantity sold from 296,561 tons in 2012 to 387,369 tons in 2013, primarily driven by increased sales demand for the Company’s #1 and #4 blended fuel oils which have a relatively competitive market price targeting

broad range of fishing boat customers.

• 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. The increase in number of customers, also contributed to the increase in sales revenue in 2013 as compared to 2012. Total number of customers of increased about 15% from 169 customers in 2012 to 194 customers in 2013.

The average selling price for certain products increased in 2013, such as the average selling price of best-seller #4 •fuel oil increased about 9.5% (from RMB 4,632 per ton in 2012 to RMB 5,072 per ton in 2013), average selling price for #3 fuel oil increased about 13.9% (from RMB 4,338 per ton in 2012 to RMB 4,943 per ton in 2013), and average selling price for marine fuels 120CST increased about 1.8% (from RMB 4,402 per ton in 2012 to RMB 4,480 per ton in 2013). The increase in selling price for these products led to the increase in sales revenue as well

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

For the year ended December 31, 2013, #1 marine fuel represented 23.8% of our sales, #2 marine fuel represented 10.5% of our sales, #3 marine fuel represented 9.4% of our sales, #4 marine fuel represented 37.5% of our sales, 180CST represented 2.9% of our sales and 120CST represented 15.9% of our sales.

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 \$42.6 million, or 19.86%, from \$214.5 million for year ended December 31, 2012 to \$257.1 million for the year ended December 31, 2013 primarily due to the following reasons:

- Cost of revenue increased primarily due to increased sales volume, plus more fuel oils were massively sold to wholesalers during 2013.

The Company's weighted inventory costs was largely affected by global oil price fluctuation (In 2013, the global crude oil trading prices increased from \$90 per barrel in late 2012 to about \$111 in March 2013 and then dropped to about \$106 per barrel in June 2013 and about \$98 per barrel in August 2013 and then slightly climbed to \$102 in December 2013), because the Company purchases the oil and fuel from upstream suppliers for blend and re-sale, its cost of sales was largely determined by the purchase costs incurred and then allocated to the product been sold.

• Cost of sales The average cost per unit decreased from \$723.4 per ton in 2012 to \$663.8 per ton in 2013 affected by the Company's efforts to import fuel oils from overseas market since second half of 2013, which enabled the Company to avoid incurring higher purchase costs from domestic suppliers only. The overall increase in cost of revenue was primarily affected by increased sales volume as discussed above.

Gross Margins

Our gross profit increased about \$1.83 million or 12.8% primarily due to increased sales. However, GP% decreased from 6.2% in 2012 to only 5.9% in 2013.

The gross profit and gross profit margin was also affected by following 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.

The decrease in GP% was affected by product mix sales changes (normally 120CST and 180CST only have GP% of 1% to 2%, #1 and #2 fuel have GP% of 6% to 7%, and #3 and #4 has GP% of 3% to 5%) , because different product has different selling price, cost of sales and GP%. For the year ended 2013, about 37.5% sales were from relatively lower profit margin #4 fuel oil, and 15.9% sales were also from lower margin 180CST fuel oils. This led to lower gross profit margin in 2013 as compared to 2012. Furthermore, the Company sells its products through retail and wholesale, in which retail has higher profit margin because selling price is set higher and operating costs is relatively under the Company's control; however, wholesale to distributors normally has lower profit margin, because the Company provided competitive price to wholesale distributors in order to stimulate sales volume. In 2013, 88% sales were to wholesalers (vs. 61% in 2012), and only 12% sales were to retailers (vs. 39% in 2012). As more sales were shifted to wholesale side, GP% decreased in 2013 as well. In summary, the increase in our gross profit margin but decrease in GP% for the year ended December 31, 2013 as compared to 2012 was primarily due to (i) increased costs of revenue which were mainly caused by increased sales volume, (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 \$0.26 million, or 19%, from \$1.34 million for the year ended December 31, 2012 to \$1.08 million for the year ended December 31, 2013. 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 0.6% for the year ended December 31, 2012 to 0.4% for 2013.

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 \$1.60 million, or 28%, from \$5.67 million for the year ended December 31, 2012 to \$7.27 million for the year ended December 31, 2013. 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 2.48% for the year ended December 31, 2012 to 2.66% for 2013.

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.

Impairment of Goodwill

During the year ended December 31, 2013, we recorded a goodwill impairment charge of \$1,234,709 previously recognized in connection with the acquisitions of Xiangshan Nanlian and Rongcheng Xinfu. Such impairment was made after we estimated the fair value of each of these businesses and determined that the implied fair value was lower than the carrying value. Accordingly, we fully impaired goodwill by writing down goodwill of \$679,771 for Xiangshan Nanlian and \$554,938 for Rongcheng Xinfu.

Interest Expense

Interest expense decreased by \$0.5 million, from \$5.9 million for the year ended December 31, 2012 to \$5.4 million for the year ended December 31, 2013.

The decrease in interest expense was due to amortization of prepaid interest expense incurred on the bank acceptance bills and short-term bank loans for the year ended December 31, 2013. By the meantime, the prepaid interest expense increased about \$4.3 million which was included in the “prepaid expense and other current assets” as of December 31, 2013.

Provision (Benefit) for Income Taxes

For the year ended December 31 2013, we reported income tax expense of \$2.28 million after application of deferred income tax expense of \$855,557. For the same period in 2012, we reported an income tax provision of \$0.7 million after application of an income tax benefit of \$0.75 million due to operating losses incurred during the year.

Net Income (loss) Attributable to the Company

Net loss attributable to the Company increased by \$2.66 million, from a net income of \$1.6 million for the year ended December 31, 2012 to net loss of \$1.02 million for the year ended December 31 2013. The increase in net loss was mainly the result of increased general and administrative expense, goodwill impairment loss and increased income tax expense as discussed above..

Liquidity and Capital Resources

As of December 31, 2013, we had cash of approximately \$22.6 million in our bank accounts, and additionally, we have set aside \$99.7 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 2014. As disclosed in our subsequent event note 21 of our consolidated financial statements, we were able to obtain additional bank loan of \$7.86 million (RMB 48 million) from Guangfa Bank, we are also under negotiation with Xingye Bank to extend borrowing terms on certain bank notes bills for additional six months. 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.

As of December 31, 2013, our balance sheets reported a working capital deficit of \$29.5 million, primarily because we raised short-term bank loans and bank notes borrowings during third and fourth quarters, about \$27.2 million of which was used for construction in process and purchasing property, equipments and intangible assets.

We are expecting to generate additional cash flows in the coming quarters 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 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, 2013 and 2012, Jinghai did not achieve the sales target and accordingly no rebate was provided to Jinghai.

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, | |
|---|--------------------|-------------|
| | 2013 | 2012 |
| Cash flow data: | | |
| Net cash (used in) provided by operating activities | (34,247,841) | 1,807,945 |
| Net cash (used in) provided by investing activities | (28,835,050) | 41,298 |
| Net cash provided by (used in) financing activities | (83,774,071) | (3,751,101) |
| Effect of exchange rate on cash | 321,935 | 34,548 |
| Net changes in cash | 21,013,115 | (1,867,310) |
| Cash at beginning of year | 1,625,705 | 3,493,015 |
| Cash at end of year | 22,638,820 | 1,625,705 |

Operating Activities

Net cash used in operating activities for the year ended December 31, 2013 was approximately \$34.2 million, which was primarily as a result of the following factors:

- net loss of \$1.22 million;
- increase in accounts receivable of \$27.08 million as a result of our increased credit sales; in fourth quarter of 2013. We collected back about \$2.3 million aged accounts receivable previously identified as bad debt. As a result, bad debt reserve decreased accordingly.
- decrease in inventories of \$5.7 million as a result of increased sales volume in the expanded distribution network and fishing activities;
- increase in advances to suppliers of \$9.1 million because more advance payment has been paid to suppliers for the inventory purchase;
- decrease in advances from customers of \$6.9 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 \$6.6 million because we repaid outstanding accounts payable to several suppliers before year end upon receiving the invoices from these suppliers.
- increase in tax payable of \$3.4 million because we did not make the VAT tax and income tax payment until January 2014 due to timing difference between bookkeeping and filing the tax return. The Company subsequently paid the

year-end VAT tax and income tax in February 2014.

Net cash provided by operating activities for the year ended December 31, 2012 was approximately \$1.8 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.

Investing Activities

Cash used in investing activities was \$28,835,050 for the year ended December 31, 2013, which was attributable to:

- An equity investment of \$1.29 million to an unconsolidated entity Dalian Haode, in which we have a 20% equity interest;
- Expenditures on acquisition of property and construction in progress of \$18.6 million, because the Company completed three major oil storage tank and wharf construction projects totaling \$11.4 million in 2013 and accordingly reclassified these amounts as property; on the other hand, the Company's subsidiary Lianyungang Fusheng prepaid RMB 100 million to constructor to start the construction of a new chemical and fuel oil blending project in Lianyungang City.
- Purchase of land use right of \$8.6 million because the Company's newly formed subsidiary Lianyungang Fusheng paid RMB 56 million to obtain a land use right from the local government in order to build a new manufacturing plant on this land;
- Cash paid for acquiring non-controlling interest of \$1.73 million because the Company's subsidiary Dalian Xingyuan acquired the 37% non-controlling interest from the minority shareholder Mr. Chen Weiwen during 2013 through a related party transaction.

- Cash receipt of \$1.37 million from terminating a leasehold right in Shanghai areas;

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.

Financing Activities

Cash provided by financing activities was \$83.8 million for the year ended December 31, 2013. It consists of net proceeds from short-term bank loans of \$33.8 million, repayments of bank loans of \$15.86 million, proceeds from bank notes of \$281.2 million while repayment of bank notes of \$112.4 million, increase of restricted cash of \$89 million due to increase in bank notes payable, and repayment of \$9.5 million in loans from third parties, borrowing of \$1 million loans from related parties. An increase in deferred financing costs by \$5.5 million because of increased prepaid interest expense on our outstanding notes bills.

Cash used in financing activities was \$3.7 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. An increase in deferred financing costs by \$2.5 million because of increased prepaid interest expense on our outstanding notes bills.

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.

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, 2013 1 USD = 6.1104 RMB

December 31, 2012 1 USD = 6.3011 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 19, 2014, the noon buying rate was approximately RMB6.19 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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

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| CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 | F-4 |
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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, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years ended December 31, 2013 and 2012. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years ended December 31, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York

March 31, 2014

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

| | As of December 31, | |
|---|--------------------|---------------|
| | 2013 | 2012 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$22,638,820 | \$1,625,705 |
| Restricted cash | 99,659,597 | 9,173,002 |
| Accounts receivable, net | 45,818,721 | 18,220,089 |
| Inventories, net | 3,893,530 | 9,302,913 |
| Advances to suppliers, net | 25,930,533 | 16,387,613 |
| Deposits for land use rights | 720,084 | 698,291 |
| Deferred financing costs, net of accumulated amortization of \$3,779,111 and \$2,229,037 as of December 31, 2013 and 2012, respectively | 4,373,603 | 276,730 |
| Other current assets | 517,320 | 281,775 |
| Deferred tax assets | - | 840,540 |
| Total current assets | 203,552,208 | 56,806,658 |
| Property, plant and equipment, net | 54,292,903 | 40,880,091 |
| Construction in progress | 17,781,162 | 12,860,195 |
| Intangible assets, net | 16,289,315 | 8,953,602 |
| Equity investment | 1,351,428 | - |
| Goodwill | - | 1,213,036 |
| Total assets | \$293,267,016 | \$120,713,582 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term bank borrowings | \$27,821,419 | \$9,314,247 |
| Bank note payable | 191,257,528 | 19,679,104 |
| Accounts payable and accrued liabilities | 3,156,079 | 8,367,697 |
| Advances from customers | 1,693,875 | 8,472,233 |
| Loan from third parties | 98,193 | 9,413,436 |
| Related party loans payable | 1,595,594 | 509,255 |
| Taxes payable | 6,254,057 | 2,719,517 |
| Other liabilities | 1,149,298 | 1,777,089 |
| Total current liabilities | 233,026,043 | 60,252,578 |
| Warrant liability | 290,687 | - |
| Total liabilities | 233,316,730 | 60,252,578 |
| Commitments and contingencies | | |

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Equity

| | | |
|--|---------------|---------------|
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 10,255,813 and 9,610,159 shares issued; 10,164,621 and 9,518,967 shares outstanding | 10,256 | 9,610 |
| Treasury stock, at cost; 91,192 shares | (497,693) | (497,693) |
| Additional paid-in capital | 29,998,994 | 29,888,556 |
| Accumulated other comprehensive income | 6,206,460 | 4,273,238 |
| Retained earnings | 17,990,881 | 19,513,573 |
| Statutory reserve | 3,932,585 | 3,421,960 |
| Total stockholders' equity of the Company | 57,641,483 | 56,609,244 |
| Noncontrolling interest | 2,308,803 | 3,851,760 |
| Total equity | 59,950,286 | 60,461,004 |
| Total liabilities and equity | \$293,267,016 | \$120,713,582 |

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

| | For the years ended December 31, | |
|---|----------------------------------|----------------|
| | 2013 | 2012 |
| Revenues | \$ 273,260,811 | \$ 228,813,813 |
| Cost of revenues | 257,129,767 | 214,517,593 |
| Gross profit | 16,131,044 | 14,296,220 |
| Operating expenses | | |
| Selling expenses | 1,081,253 | 1,341,203 |
| General and administrative expenses | 7,267,742 | 5,670,875 |
| Goodwill impairment loss | 1,234,709 | - |
| Total operating expenses | 9,583,704 | 7,012,078 |
| Income from operations | 6,547,340 | 7,284,142 |
| Other income (expense) | | |
| Interest income | 227,174 | 464,478 |
| Interest expense | (5,442,725) | (5,942,231) |
| Income from equity investment | 41,639 | - |
| Change in fair value of warrants | (187,851) | - |
| Other income (expense) | (136,960) | 306,714 |
| Total other expense | (5,498,723) | (5,171,039) |
| Income before income tax provision | 1,048,617 | 2,113,103 |
| Provision for income taxes | 2,269,865 | 703,138 |
| Net income (loss) | (1,221,248) | 1,409,965 |
| Less: net loss attributable to noncontrolling interest | (209,181) | (233,731) |
| Net income (loss) attributable to Andatee China Marine Fuel Services Corporation | \$ (1,012,067) | \$ 1,643,696 |
| Comprehensive income (loss) | | |
| Net income (loss) | (1,221,248) | 1,409,965 |
| Foreign currency translation adjustment | 2,000,126 | 447,735 |
| Comprehensive income | 778,878 | 1,857,700 |
| Less: comprehensive loss attributable to non-controlling interest | 264,703 | 209,142 |
| Comprehensive income attributable to Andatee China Marine Fuel Services Corporation | \$ 1,043,581 | \$ 2,066,842 |
| Weighted average number of shares: | | |
| Basic | 9,857,086 | 9,610,159 |
| Diluted | 9,870,430 | 9,610,159 |

Earnings (loss) per share:

| | | |
|---------|----------|-----------|
| Basic | \$ (0.10 |) \$ 0.17 |
| Diluted | \$ (0.10 |) \$ 0.17 |

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

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | Common stocks | | Treasury | Additional | Accumulated | Retained | Statutory | Total stockholders' | |
|---|---------------|---------|-------------|--------------------|---|--------------|-------------|---------------------|----|
| | Share | Amount | stock | paid-in Capital | other comprehensive (loss) income | earnings | reserve | equity | In |
| Balance as of January 1, 2012 | 9,610,159 | \$9,610 | \$(497,693) | \$29,888,556 | \$3,850,092 | \$18,213,837 | \$3,078,000 | \$54,542,402 | \$ |
| Net income | - | - | - | - | - | 1,643,696 | - | 1,643,696 | |
| Appropriations to statutory reserve | | | | | | (343,960) | 343,960 | - | |
| Foreign currency translation adjustment | - | - | - | - | 423,146 | | | 423,146 | |
| Balance as of December 31, 2012 | 9,610,159 | \$9,610 | \$(497,693) | \$29,888,556 | \$4,273,238 | \$19,513,573 | \$3,421,960 | \$56,609,245 | \$ |
| Stock issued to consulting firm for services provided | 250,000 | 250 | | 424,750 | | | | 425,000 | |
| Stock issued to executives and independent directors for services rendered | 395,654 | 396 | | 101,981 | | | | 102,376 | |
| Acquisition of a 37% non-controlling interest in Xiangshan Nanlian | | | | (416,293) | (122,426) | | | (538,719) | |
| Net loss | | | | | | (1,012,067) | | (1,012,067) | |
| Appropriations to statutory | | | | | | (510,625) | 510,625 | - | |

| | | | | | | | | | |
|---------------|------------|-----------|-------------|---------------|--------------|---------------|--------------|---------------|----|
| reserve | | | | | | | | | |
| Foreign | | | | | | | | | |
| currency | | | | | | | | | |
| translation | | | | | | | | | |
| adjustment | | | | | | | | | |
| | | | | | | | | | |
| Balance as of | | | | | | | | | |
| December 31, | 10,255,813 | \$ 10,256 | \$(497,693) | \$ 29,998,994 | \$ 6,206,460 | \$ 17,990,881 | \$ 3,932,585 | \$ 57,641,483 | \$ |
| 2013 | | | | | | | | | |

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

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the years ended December 31, | | |
|---|----------------------------------|----------------|---|
| | 2013 | 2012 | |
| Cash flows from operating activities | | | |
| Net (loss) income | \$ (1,221,248 |) \$ 1,409,965 | |
| Adjustments to reconcile net income(loss) to net cash used in operating activities: | | | |
| Depreciation | 2,122,918 | 1,826,803 | |
| Amortization | 476,809 | 483,205 | |
| Bad debt provision | 522,040 | 543,798 | |
| Change in inventory reserve | (30,240 |) 46,731 | |
| Deferred tax provision (benefit) | 855,557 | (754,722 |) |
| Amortization of deferred financing costs | 1,461,352 | 2,228,223 | |
| Amortization of stock-based compensation to consulting firm | 425,000 | - | |
| Amortization of stock-based compensation to directors | 102,376 | - | |
| Income from equity investment | (41,639 |) - | |
| Goodwill impairment | 1,234,709 | - | |
| Change in fair value of warrants | 187,851 | - | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (27,083,195 |) 1,610,536 | |
| Inventories | 5,656,209 | 7,546,758 | |
| Advances to suppliers | (9,075,970 |) (307,837 |) |
| Other current assets | 71,499 | 4,053,388 | |
| Accounts payable and accrued liabilities | (6,578,103 |) (9,338,416 |) |
| Advances from customers | (6,951,641 |) (4,946,044 |) |
| Taxes payable | 3,405,030 | (1,022,057 |) |
| Other liabilities | 212,845 | (1,572,386 |) |
| Net cash used in operating activities | (34,247,841 |) 1,807,945 | |
| Cash flows from investing activities | | | |
| Acquisition of equity method investee | (1,292,303 |) - | |
| Additions to construction in progress and property and equipment | (18,563,989 |) (859,163 |) |
| Addition to intangible assets | (8,623,375 |) (1,722,815 |) |
| Proceeds from termination of land use right | - | 1,290,662 | |
| Proceeds from termination of leasehold right | 1,373,072 | - | |
| Acquisition of non-controlling interest | (1,728,455 |) - | |
| Notes receivable | - | 1,332,614 | |
| Net cash (used in) provided by investing activities | (28,835,050 |) 41,298 | |
| Cash flows from financing activities | | | |
| Proceeds from short-term loans | 33,842,178 | 35,079,384 | |
| Repayments of short-term loans | (15,861,401 |) (30,051,938 |) |
| Proceeds from bank notes | 281,182,457 | 96,773,170 | |

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| | | |
|--|----------------|----------------|
| Repayments of bank notes | (112,430,337) | (122,632,230) |
| Restricted cash, net | (89,033,196) | 13,556,969 |
| Deferred financing costs | (5,496,690) | (2,504,852) |
| (Repayment) proceeds of loan from unrelated parties | (9,484,694) | 7,823,556 |
| Proceeds (repayment) of loans from related parties | 1,055,754 | (1,795,160) |
| Net cash provided by (used in) financing activities | 83,774,071 | (3,751,101) |
| Effect of exchange rate changes on cash and cash equivalents | 321,935 | 34,548 |
| Net increase (decrease) in cash and cash equivalents | 21,013,115 | (1,867,310) |
| Cash and cash equivalents, beginning of year | \$ 1,625,705 | \$ 3,493,015 |
| Cash and cash equivalents, end of year | \$ 22,638,820 | \$ 1,625,705 |
| Supplemental cash flow information | | |
| Interest paid | \$ 9,750,500 | \$ 5,063,860 |
| Income taxes paid | \$ 678,374 | \$ 2,323,632 |
| Transfer from construction-in-progress to fixed assets | \$ 12,413,981 | \$ - |

The accompanying notes are an integral part of these 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.

The Company owns 100% equity interest of Goodwill Rich International Limited, a Hong Kong based corporation (“Goodwill Rich”).

Goodwill Rich owns 100% of the equity of Dalian Fusheng Petrochemical Company (“Fusheng”), a wholly foreign-owned enterprise organized under the laws of the People’s Republic of China (“PRC” or “China”). Fusheng has several 100% controlled subsidiaries including Dalian Xifa Petrochemical Company, Ltd. (“Dalian Xifa”), Shandong Xifa Prochemical Company, Ltd. (“Shandong Xifa”), Shenzhen Shengfu Petrochemical Company, Ltd. (“Shenzhen Shengfu”), Rongcheng Zhuoda Trading Co. (“Zhuoda”) and Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”). Fusheng also owns majority interests of Hailong Petrochemical Company (“Hailong”); Suzhou Fusheng Petrochemical Company (“Suzhou Fusheng”) and Wujiang Xinglang Petrochemical Company (“Xinglang”).

Fusheng also effectively controls Dalian Xingyuan Marine Bunker Co., Ltd. (“Xingyuan”), a limited liability company organized under the laws of PRC through a series of contractual agreements, which include the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and Proxy and Voting Agreement.

Through such arrangements, Xingyuan has become Fusheng’s contractually controlled subsidiary. Fusheng is obligated to absorb a majority of the risk of loss from Xingyuan’s activities and to receive a majority of Xingyuan’s residual returns. Andatee, through Goodwill Rich 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”) under ASC 810-10-05-8A. Accordingly, Andatee consolidates Xingyuan’s operating results, assets and liabilities.

Xingyuan was established in September 2001 under the laws of PRC. Xingyuan originally held 100% ownership of Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”), a company incorporated in Dalian, PRC. In addition, in December 2008, Xingyuan acquired 90% ownership of Rongcheng Xinfu Petroleum Company (“Xinfu”) 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 Xinfu and 52% ownership in Rongcheng Mashan Xingyuan Marine Fuel Co., Ltd. (“Mashan Xingyuan”) to Dalian Xifa Petrochemical 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 April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of RMB 21,000,000 (approximately \$3.4 million). During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from Xiangshan Nanlian’s minority shareholder Mr. Chen Wenwei for a cash consideration of RMB 11.2 million (approximately \$1.83 million). After the acquisition, Xiangshan Nanlian became the 100% controlled subsidiary of Xingyuan. The acquisition was treated as a related party transaction because formal minority shareholder Mr. Chen Weiwen still serves as the legal representative of Xiangshan Nanlian after the acquisition (See Note 3 and 13).

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. (“Xinniu”) in the city of Dalian under the laws of the PRC with registered capital of RMB 200 million (approximately \$32.7 million) (See Note 22).

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 | 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") ("WFOE") | Dalian, China | WFOE, 100 % |
| Dalian Xingyuan Marine Bunker Co., Ltd ("Xingyuan") ("VIE") | Dalian, China | VIE, 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 | 100 % |
| Rongcheng Xinfa Petroleum Company ("Xinfa") | 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 % |
| Lianyungang Fusheng Petrochemical Co., Ltd. ("Lianyungang Fusheng") | Lianyungang, China | 100 % |
| Lianyungang Xingyuan Marine Bunker Co., Ltd. ("Lianyungang Xingyuan") | Lianyungang, China | 100 % |
| Xinniu Development Co., Ltd. | Dalian, China | 100 % |

Note 2 – Liquidity

As reflected in the Company's consolidated financial statements, the Company had a net loss and negative cash flow from operating activities for the year ended December 31, 2013. The Company also has a working capital deficit at December 31, 2013. The Company relies upon cash from its financing activities to fund its ongoing operations as it has not been able to generate sufficient cash from operating activities and there is no assurance that it will be able to do so in the future.

In assessing its liquidity, management monitors and analyzes the Company's cash on-hand, its ability to renew bank facilities, and its operating and capital expenditure commitments. Its principal liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations. The Company plans to fund continuing operations through additional bank borrowings, financial support by a shareholder and cutting costs to improve profitability and replenish working capital.

Management believes that the foregoing measures collectively will provide sufficient liquidity for the Company to meet its future liquidity and capital obligations.

Note 3 – 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, the valuation of accounts receivable, inventories, deposits, advances to suppliers and the fair value of warrants liability. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company's subsidiary in Hong Kong is the US dollar while the local currency 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:

| | December 31, 2013 | December 31, 2012 |
|------------------------------------|----------------------|----------------------|
| Period end RMB : USD exchange rate | 6.1104 | 6.3011 |
| Average RMB : USD exchange rate | 6.1905 | 6.3034 |

Financial Instruments

ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to use 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:

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. The Company's level 2 financial instruments consist principally of warrant liability, which is measured on a recurring basis and using a model-based valuation technique. The warrants do not meet the conditions for equity classification pursuant to ASC 815, "Derivatives and Hedging". Therefore, these warrants were classified as a long-term liability. The fair value of the warrants was calculated using the Black-Scholes options pricing model (See Note 15 for valuation of warrant liability).

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 fair value of the Company's equity investment approximates its carrying value at December 31, 2013 because the Company's 20% investment was made in January 2013 and income from the investee has been allocated for the year ended December 31, 2013.

Unless otherwise disclosed, the fair value of the Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, advances to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities.

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 operations and comprehensive income (loss). 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

Advances to suppliers represent the payments made and recorded in advance for the purchase of certain materials and fuels to be received. The 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.

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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 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 |

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.

Intangible Assets other than Goodwill

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 |

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 evaluates intangible assets for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

In the fourth quarter of 2013, the Company impaired its goodwill that was previously recognized in acquisitions. The impairment to goodwill was made after the Company estimated the fair values of businesses acquired and determined that the implied fair value of goodwill was lower than the carrying value of goodwill. The fair value of goodwill was established based on future cash flows (level 3 inputs). Accordingly, the Company recorded an impairment charge of totaling \$1,234,709.

Impairment 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.

Revenue Recognition

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. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

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, 2013 and 2012, 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.

Earnings per Share

The Company computes net earnings per share in accordance with 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. For the year ended December 31, 2013 and 2012, 13,344 and -0- shares are included in diluted weighted average shares calculation, respectively.

Stock-based Compensation

The fair value of the stock issued is used to measure the fair value of services received as the Company believes such approach is a more reliable method of measuring the fair value of the services. Fair value is measured based on the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is calculated and then recorded as compensation expense over the requisite performance period.

Accounting for Changes in Ownership

On July 29, 2013, the Company completed the acquisition of a 37% noncontrolling interest in its subsidiary Xiangshan Nanlian by a cash consideration of RMB 11.2 million (approximately \$1.83 million), as discussed in Note 1. In accordance with ASC 810 "Consolidation", changes in a parent's ownership while the parent retains its controlling financial interest in its subsidiary should be accounted for as equity transactions. Therefore, no gain or loss is recognized in consolidated net income or comprehensive income. The carrying amount of the controlling and non-controlling interest is adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is recognized in equity attributable to the parent. If a change in a parent's ownership interest occurs in a subsidiary that has accumulated other comprehensive income, the carrying amount of accumulated other comprehensive income is adjusted to reflect the change in the ownership interest in the subsidiary through a

corresponding charge or credit to equity attributable to the parent.

Equity Investment

An investment in which the Company has the ability to exercise significant influence, but does not have a controlling interest, is accounted for using the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock between 20% and 50%, and other factors, such as representation on the Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

Reclassifications

Certain reclassifications have been made in the 2012 financial statements to conform to the 2013 presentation.

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Recent Accounting Pronouncements

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

Note 4 – Accounts Receivable, net

The Company's accounts receivable is as follows:

| | December 31, 2013 | December 31, 2012 |
|----------------------------------|----------------------|----------------------|
| Trade accounts receivable | \$46,604,189 | \$18,585,916 |
| Allowances for doubtful accounts | (785,468) | (365,827) |
| Accounts receivables, net | \$45,818,721 | \$18,220,089 |

Note 5 – Inventories, net

The Company's inventory consists of the following:

| | December 31, 2013 | December 31, 2012 |
|-----------------------------|----------------------|----------------------|
| Marine Fuel | \$3,911,101 | \$9,349,662 |
| Less: reserve for inventory | (17,571) | (46,749) |
| Total Inventory, Net | \$3,893,530 | \$9,302,913 |

As of December 31, 2013 and 2012, fuel inventory in the amount of \$-0- and \$3,016,425, respectively, has been pledged as collateral for certain bank loans (See Note 11).

Note 6 – Advances to Suppliers, net

Advances to suppliers represent the payments made to suppliers in advance for the purchase of certain materials and fuels. Advances to suppliers consisted of the following:

| | December 31, 2013 | December 31, 2012 |
|---------------------------------|----------------------|----------------------|
| Advances to suppliers | \$ 26,462,158 | \$ 16,744,629 |
| Allowance for doubtful accounts | (531,625) | (357,016) |
| Advances to suppliers, net | \$ 25,930,533 | \$ 16,387,613 |

Note 7 – Property, Plant and Equipment, net

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

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Property and buildings | \$ 48,643,214 | \$ 33,531,803 |
| Machinery, boiler and marine bunker equipment | 10,714,150 | 10,217,678 |
| Transportation vehicles | 1,537,092 | 1,450,896 |
| Office equipment | 53,883 | 48,070 |
| Leasehold improvement | 69,011 | 66,922 |
| Total | 61,017,350 | 45,315,369 |
| Less: Accumulated depreciation | (6,724,447) | (4,435,278) |
| Property, Plant and Equipment, net | \$ 54,292,903 | \$ 40,880,091 |

Depreciation expense was \$2,122,918 and \$1,826,803 for the years ended December 31, 2013 and 2012, respectively.

Property and equipment with a net book value \$44,976,316 and \$25,778,015 has been pledged as collateral for certain bank acceptance notes and bank loans at December 31, 2013 and 2012, respectively (See Note 11 and Note 13).

Note 8 – Construction-in-Progress

The construction projects in progress are to build facilities to expand production capacity in Lianyungang, Donggang, Rongcheng and Wujiang areas. Construction costs mainly represent construction expenditures and equipment costs not yet in service. The Company completed three construction projects totaling \$11.7 million (RMB 72.15 million) by the end of May 2013 after these projects passed the inspection conducted by local the government agencies. In December 31, 2013, the Company started to construct a new chemical and fuel oil blending project in Lianyungang city after the Company obtained a land use right in October 2013. Total estimated contract price for this new project is approximately \$41 million (or RMB 250 million). The Company prepaid \$17 million (equivalent to RMB 100 million) to a contractor to start the project in December 2013.

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

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Berth and berth improvements | \$ 698,812 | \$ 529,556 |
| Oil blending and storage tanks | - | 12,330,639 |
| Oil blending and chemical project at Lianyungang | 16,418,320 | - |
| Capitalized interest | 664,030 | - |
| Total | \$ 17,781,162 | \$ 12,860,195 |

Note 9 – Intangible Assets, net

The Company's Intangible Assets with finite lives are summarized as follows:

| | December 31, 2013 | December 31, 2012 |
|--------------------------------|----------------------|----------------------|
| Land use rights | \$ 13,368,652 | \$ 4,501,882 |
| Leasehold right (1) | 2,757,594 | 4,023,107 |
| Licenses and permits | 1,145,588 | 1,110,917 |
| Software | 38,897 | 27,881 |
| Total | 17,310,731 | 9,663,787 |
| Less: accumulated amortization | (1,021,416) | (710,185) |
| Intangible assets, net | \$ 16,289,315 | \$ 8,953,602 |

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In January 2012, Dalian Fusheng signed a contract with Shanghai Zhongqing Petroleum Trading Company (“Zhongqing”) and paid RMB 8.5 million (approximate to \$1.4 million) to lease the operating rights for four gas (1)stations for 10 years, which was recorded by the Company as leasehold right. On November 18, 2013, Zhongqing decided to take back the four leased gas stations and the leasehold rights was terminated accordingly. Zhongqing repaid it in full to the Company on November 21, 2013.

Land use rights with a net book value of \$9,352,573 and \$2,812,287 were pledged as collateral for certain loans and bank notes at December 31, 2013 and 2012 (See Note 11 and Note 13).

Amortization expense for the years ended December 31, 2013 and 2012 was \$476,809 and \$483,205, respectively.

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The estimated future amortization expense is as follows:

| For the twelve months ending December 31, | |
|---|--------------|
| 2014 | \$537,809 |
| 2015 | 537,245 |
| 2016 | 528,906 |
| 2017 | 528,906 |
| 2018 | 528,906 |
| Thereafter | 13,627,543 |
| Total | \$16,289,315 |

Note 10 – Equity Investment

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 (approximately \$1.35 million) for a 20% ownership interest in Haode. Haode engages in chemical product sales, marine fuel material purchase and trading, logistics and other consulting services in the PRC.

Total income from the unconsolidated entity amounted to \$41,639 for the year ended December 31, 2013, which is included in “Income from equity investment” in the consolidated statements of operations and other comprehensive income (loss). As of December 31, 2013, the total assets and liabilities of the unconsolidated entity were approximately \$2.5 million and \$1.2 million, respectively.

Note 11 – Short-term Bank Borrowings

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

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Huaxia Bank: | | |
| Interest at 8.20%, payable February 7, 2013 | (1) \$ - | \$ 1,745,727 |
| Pingan Bank: | | |
| Interest at 6.72%, payable May 22, 2013 | (1) - | 5,902,144 |
| Interest at 6.72%, payable May 18, 2013 | (1) - | 1,666,376 |
| Bohai Bank: | | |
| Interest at 6.3%, payable on February 3, 2014 | (2) 4,909,663 | - |

Fuxin Bank:

| | | | |
|---|-----|-----------|---|
| Interest at 6.5%, payable on March 26, 2014 | (3) | 8,182,770 | - |
|---|-----|-----------|---|

Citic Bank:

| | | | |
|---|-----|-----------|---|
| Interest at 7.5%, payable on April 18, 2014 | (4) | 6,546,216 | - |
|---|-----|-----------|---|

| | | | |
|---|-----|-----------|---|
| Interest at 7.5%, payable on September 25, 2014 | (5) | 8,182,770 | - |
|---|-----|-----------|---|

| | | | |
|-------|--|---------------|--------------|
| Total | | \$ 27,821,419 | \$ 9,314,247 |
|-------|--|---------------|--------------|

(1) These loans were fully repaid upon maturity in 2013.

On February 4, 2013, the Company's subsidiary, Dalian Fusheng entered into a loan agreement with Bohai Bank to borrow RMB 30 million (approximately \$4.9 million) for one year (from February 4, 2013 to February 3, 2014).

(2) The loan bears a variable interest rate of 6.3%, which can be adjusted up 5% on a quarterly basis. The Company's major shareholder, his wife and an unrelated party cosigned the loan guarantee agreements with the bank to provide guarantee to this loan by their personal assets and credits. The loan has no collateral requirements. The Company subsequently fully repaid this loan upon maturity.

On March 25, 2013, a Company's subsidiary, entered into a loan agreement with Fuxin Bank to borrow RMB 50 million (approximately \$8.0 million) for one year (from March 31, 2013 to March 1, 2014). The loan bears a

(3) variable interest rate of 6.5%, which can be adjusted up 30% on a quarterly basis. Two unrelated third parties cosigned the loan guarantee agreements with the bank to provide guarantee to this loan. The loan has no collateral requirements. The Company subsequently fully repaid this loan upon maturity.

On September 25, 2013, the Company's subsidiary Dalian Fusheng entered into a short-term bank loan agreement with Citic Bank to borrow RMB 40 million (approximately \$6.5 million) as working capital for 7 months (from

(4) September 25, 2013 to April 18, 2014). The loan bears interest rate of 7.5%. Dalian Fusheng pledged oil storage tanks valued at \$19.7 million as collateral to guarantee this loan as well as the Company's bank note bills of \$52.4 million (or RMB 320 million) borrowed from Citic Bank (See Note 13).

On September 25, 2013, the Company's subsidiary, Dalian Xingyuan entered into a short-term bank loan

(5) agreement with Citic Bank to borrow RMB 50 million (approximately \$8.2 million) as working capital for one year (from September 25, 2013 to September 25, 2014). The loan bears interest rate of 7.5%. There is no collateral requirement for this loan.

Note 12 – Loans from Third Parties

Loans from unrelated third parties consist of the following:

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Lishu Xinda Goods Trading Company | | |
| Bearing 6% interest, payable May 31, 2013 | (1) \$ - | \$ 1,269,620 |
| Dalian Jinhan Development Company | | |
| Bearing 6% interest, payable October 24, 2013 | (1) - | 1,587,024 |
| Dalian Jiahui Advertising Company | | |
| Bearing 6% interest, payable May 31, 2013 | (1) - | 238,054 |
| Xu Yaling, 6% interest, payable on April 30, 2013 | (1) - | 2,221,834 |
| Loans from other individuals | (2) 98,193 | 4,096,904 |
| Total loans from third parties | \$ 98,193 | \$ 9,413,436 |

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(1) These loans were fully repaid upon maturity in 2013.

Unsecured loans from several unrelated individuals bear interest at rates of 4% to 6% and mature within six to (2) twelve months. The Company repaid majority of these individual loans upon maturity. The remaining balance of \$98,193 represents a loan from an individual which will mature on May 31, 2014.

Note 13 – Bank Note Payable

The Company has credit facilities with Citic Bank, Fuxin Bank and Xingye Bank that provide for working capital in the form of the following bank acceptance notes at December 31, 2013 and 2012:

| Beneficiary | Endorser | Origination date | Maturity date | Interest rate | As of December 31, | |
|---------------------------------------|-------------|------------------|---------------|---------------|--------------------|-------------|
| | | | | | 2013 | 2012 |
| | | | | | Amount | |
| Dalian Xingyuan Marine Bunker Co. (1) | Huaxia Bank | 08-01-2012 | 01-01-2013 | 4.80 % | \$- | \$7,141,610 |
| Dalian Fusheng Petrochemical (1) | Pingan Bank | 08-29-2012 | 02-28-2013 | 4.80 % | - | 3,174,049 |
| Dalian Fusheng Petrochemical (1) | Pingan Bank | 08-30-2012 | 02-28-2013 | 4.80 % | - | 1,587,024 |
| Dalian Fusheng Petrochemical (1) | Pingan Bank | 09-04-2012 | 03-04-2013 | 4.80 % | - | 4,761,074 |
| Dalian Fusheng Petrochemical (1) | Pingan Bank | 09-11-2012 | 03-10-2013 | 4.80 % | - | 3,015,347 |
| Dalian Xingyuan Marine Bunker Co. (2) | CITIC Bank | 10-17-2013 | 04-16-2014 | 6.50 % | 6,546,216 | - |
| Dalian Xingyuan Marine Bunker Co. (2) | CITIC Bank | 11-13-2013 | 05-12-2014 | 6.56 % | 13,092,433 | - |
| Dalian Xifa Petrochemical (2) | CITIC Bank | 10-22-2013 | 04-17-2014 | 6.56 % | 6,546,216 | - |
| Dalian Xifa Petrochemical (2) | CITIC Bank | 10-24-2013 | 04-18-2014 | 6.56 % | 6,546,216 | - |
| Dalian Xifa Petrochemical (2) | CITIC Bank | 11-13-2013 | 05-12-2014 | 6.56 % | 9,819,324 | - |
| Dalian Xifa Petrochemical (2) | CITIC Bank | 11-06-2013 | 05-06-2014 | 6.56 % | 6,546,216 | - |
| Dalian Xifa Petrochemical (2) | CITIC Bank | 11-11-2013 | 05-09-2014 | 6.56 % | 3,273,108 | - |
| Dalian Haode Petrochemical (3) | Fuxin Bank | 09-27-2013 | 03-26-2014 | 5.50 % | 4,091,385 | - |
| Dalian Fusheng Petrochemical (4) | Xingye Bank | 09-24-2013 | 03-23-2014 | 3.60 % | 18,002,095 | - |

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| | | | | | | | |
|----------------------------------|-------------|------------|------------|------|---|----------------|---------------|
| Dalian Fusheng Petrochemical (4) | Xingye Bank | 09-25-2013 | 03-24-2014 | 3.60 | % | 6,277,821 | - |
| Dalian Fusheng Petrochemical (4) | Xingye Bank | 09-17-2013 | 03-16-2014 | 3.60 | % | 8,182,770 | - |
| Dalian Fusheng Petrochemical (5) | Xingye Bank | 12-19-2013 | 06-19-2014 | 3.60 | % | 37,804,399 | - |
| Dalian Haode Petrochemical (5) | Xingye Bank | 12-12-2013 | 06-12-2014 | 3.60 | % | 23,402,723 | - |
| Dalian Fusheng Petrochemical (6) | Xingye Bank | 12-16-2-13 | 06-16-2014 | 7.50 | % | 13,092,433 | - |
| Dalian Fusheng Petrochemical (6) | Xingye Bank | 12-17-2013 | 06-17-2014 | 8.50 | % | 13,092,433 | - |
| Dalian Fusheng Petrochemical (6) | Xingye Bank | 12-23-2013 | 06-23-2014 | 8.00 | % | 14,941,739 | - |
| Total | | | | | | \$ 191,257,527 | \$ 19,679,104 |

(1) 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 repaid upon maturity.

(2) During the fourth quarter of 2013, the Company's subsidiary, Dalian Fusheng borrowed \$52.4 million (RMB 320 million) bank notes from CITIC bank. In connection with the borrowings, Dalian Fusheng pledged fuel oil tanks valued at \$19.7 million (RMB 120.3 million) as collateral. In addition, the Company is required to hold restricted cash of \$26.2 million with CITIC Bank as additional collateral against these bank acceptance notes.

(3) On September 27, 2013, the Company's subsidiary Dalian Xingyuan borrowed \$4.1 million (RMB 25 million) bank notes from Fuxin Bank as working capital for six months. The Company is required to deposit restricted cash of \$4.1 million with Fuxin Bank as collateral against this bank acceptance note. The bank note has been subsequently fully repaid upon maturity on March 26, 2014.

(4) During the third quarter of 2013, the Company's subsidiary Dalian Xifa borrowed total of \$32.4 million (RMB 198.3 million) bank notes from Xingye Bank as working capital for six months. The Company pledged land use right of 46,142 square meters valued at \$1,644,737, oil storage tank and other fixed assets valued at \$21.2 million as collateral. In addition, two related parties Panjing Fusheng Petrol Co., Ltd. and Donggang Xingyuan Fishery Wharf Gas Station pledged land use right and fixed assets valued at \$636,620 as additional collateral for these bank notes. The Company is also required to hold restricted cash of \$9.73 million with Xingye Bank as additional collateral against these bank acceptance notes. These bank notes have been subsequently repaid upon maturity.

(5) In December 2013, the Company's subsidiary Dalian Xifa borrowed total of \$61.2 million (RMB 374 million) bank notes from Xingye Bank as working capital for six months. The Company pledged land use right of 1,610,671 square meters a net book value of \$9,352,573 as collateral. In addition, the Company's major shareholder Mr. An Fengbin and his wife pledged their personal assets and credits to guarantee these bank notes. A related party Dalian Dingfangzheng Co., Ltd. also signed loan guarantee agreement with the bank to guarantee these borrowings.

(6) In December 2013, the Company's subsidiary Lianyungang Xingyuan borrowed total of \$41.1 million (RMB 251.3 million) bank notes from Xingye Bank as working capital for six months. Part of the fund has been used as expenditure on construction of a new chemical and fuel oil blending project in Lianyungang City. There was no collateral requirement for these bank notes. Part of these bank notes has been used by the Company's subsidiary Lianyungang Fusheng to make the payment to contractor to conduct the construction of a new chemical and fuel oil blending project in Lianyungang city (See Note 8).

Note 14 – Related Party Transactions

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 following summarizes the Company's related party payables:

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| An Fengbin, major shareholder of the Company | \$ 22,609 | \$ 509,255 |
| Shanghai Xifa Petrochemical Co., Ltd. (1) | 396,999 | - |
| Wujiang Huayuan Petrochemical Co., Ltd. (1) | 724,829 | - |
| Donggang Xingyuan Shipyard Co., Ltd. (1) | 369,329 | - |

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| | | |
|--|--------------|------------|
| Chen Weiwen, legal representative of Xiangshan Nanlian, the Company records on the equity method basis | 81,828 | - |
| Total | \$ 1,595,594 | \$ 509,255 |

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- (1) Shanghai Xifa Petrochemical Co., Ltd., Wujiang Huayuan Petrochemical Co., Ltd. and Donggang Xingyuan Shipyard Co., Ltd. are entities controlled by the Company's major shareholder.

In connection with the Company's bank loans and bank notes borrowed from PRC Banks, the Company's major (2) shareholder, his wife Ms. Wang Jing and several other related parties controlled by the major shareholder provided loan guarantees for the Company's bank borrowings (See Note 11 and Note 13).

Note 15 – Equity

On June 7, 2013, the Company issued 250,000 shares to a third-party consultant for consulting services. The consulting service period is from June 8, 2013 to June 8, 2014. The fair value of this compensation is based on the closing stock price on the grant date. \$425,000 of stock compensation expense was recognized for services provided for the year ended December 31, 2013.

On June 7, 2013, the Company also issued warrants to purchase 200,000 shares at an exercise price of \$1.50 to this Consultant. These warrants vest on December 1, 2013 and are exercisable three years from date of issuance.

The fair value of the warrants was calculated using the following assumptions: volatility 137%, risk free interest rate at 0.52% and 0.66% on the grant date and June 30, 2013, respectively, and expected term of 3.5 years. The fair value of these warrants was \$102,836 at the grant date and \$290,687 on December 31, 2013. The change in fair value of these warrants is recorded as change in fair value of warrants. The related amortization of share-based compensation expense was \$59,987 for the year ended December 31, 2013.

These warrants are included in diluted weighted average shares calculation for the year ended December 31, 2013.

Pursuant to the terms of the Company's 2009 Equity Incentive Plan (the "2009 Plan"), on September 25, 2013, the Company's Board of Directors approved and adopted the following changes to the executive and independent director compensation: (i) Independent director equity compensation – the Board granted to each independent director shares of the Company's common stock in the amounts equivalent to each independent director's annual commitments, i.e. Wen Jiang and Yudong Hou - \$15,000, respectively, and Zhenyu Wu - \$18,000, and (ii) Executive management equity compensation – the Board granted to An Fengbin, the Company's CEO, and Wang Hao, the Company's CFO, shares of the Company's common stock in the amounts equivalent to their respective annual base salaries, i.e. An Fengbin - \$150,000, and Wang Hao - \$75,000. The stock price on the grant date was \$0.69 per share, which represents the average closing price of the Company's common stock over the 30 day period preceding the grant date. All of these stock grants are to vest as follows: ½ of each such grant vesting on the date of the grant and the remaining ½ - 6 months from the grant date. \$102,376 of stock compensation expense was recognized for services provided for the

year ended December 31, 2013.

Note 16 – 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.

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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 a 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 \$3,932,585 and \$3,421,960 as of December 31, 2013 and 2012, respectively.

Note 17 – Taxes

(a) Corporate Income taxes

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.

| Entity | Income Tax Jurisdiction |
|--|-------------------------|
| Andatee Marine Fuel Services Corp. | U.S.A |
| Goodwill Rich International | Hong Kong, PRC |
| Fusheng, Xingyuan and their subsidiaries | Mainland, 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 as of December 31, 2013. Andatee had loss carry forwards of approximately \$900,000 for U.S. income tax purposes available for offsetting against future taxable U.S. income, expiring in 2033. 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 valuation allowance has been provided and no deferred tax asset has been recorded. The valuation allowance as of December 31, 2013 and 2012 was approximately \$307,000 and \$306,000, respectively. The changes in valuation allowance for the year ended December 31, 2013 and 2012 was \$1,000 and \$-0-, respectively.

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Hong Kong, PRC

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, 2013 and 2012, the estimated net operating loss carry forwards for Hong Kong income tax purposes amounted to approximately \$3,830,000, and \$2,596,930 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% valuation allowance at December 31, 2013 and 2012, and no deferred tax asset has been recorded. The valuation allowance as of December 31, 2013 and 2012 was approximately \$632,000 and \$428,000, respectively. The changes in valuation allowance for the year ended December 31, 2013 and 2012 was \$204,000 and \$150,000, respectively.

Mainland, PRC

The Company's wholly owned subsidiaries 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, 2013 | | December 31, 2012 | |
|--|----------------------|---|----------------------|---|
| U.S. Statutory rates | 34.0 | % | 34.0 | % |
| Foreign income not recognized in the U.S. | (34.0 |) | (34.0 |) |
| China Statutory income tax rate | 25.0 | | 25.0 | |
| Changes in valuation allowance | 188.8 | | - | |
| Non-deductible expenses-permanent difference (1) | 2.7 | | 8.3 | |
| Effective tax rate | 216.5 | % | 33.3 | % |

- (1) Non-deductible expenses primarily included legal, accounting and other consulting expenses of Hong Kong and PRC subsidiaries which are not expected to be deductible for income taxes in the future.

The income tax provision (benefit) for the years ended December 31, 2013 and 2012 is as follows:

| | December 31, 2013 | December 31, 2012 |
|----------|----------------------|----------------------|
| Current | \$ 1,414,308 | \$ 1,457,860 |
| Deferred | 855,557 | (754,722) |
| Total | \$ 2,269,865 | \$ 703,138 |

Deferred income taxes reflect 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 carryforward. 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.

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, 2013, management believes that the realization of the benefit arising from the losses of certain PRC subsidiaries appears to be uncertain and may not be realizable in the near future. Therefore, a 100% valuation allowance of \$884,051 has been provided against the deferred tax assets of these subsidiaries at December 31, 2013. Accordingly, the Company recorded a deferred tax expense of \$855,557 for the year ended December 31, 2013 and deferred tax benefit of \$754,722 resulting from loss carryovers for the year ended December 31, 2012, respectively.

The components of deferred tax assets as of December 31, 2013 and 2012 consist of the following:

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Net operating loss of subsidiaries | \$ 1,467,611 | \$ 839,409 |
| Temporary differences | (571,972) | - |
| Effect of foreign currency exchange rate | (11,589) | 1,131 |
| Total | 884,051 | 840,540 |
| Less: valuation | (884,051) | - |
| Deferred tax assets | \$ - | \$ 840,540 |

As of December 31, 2013, the tax years ended December 31, 2008 through December 31, 2013 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

(c) Taxes Payable

Taxes Payable consisted of the followings:

December 31, December 31,

| | 2013 | 2012 |
|--------------------|--------------|--------------|
| Income Tax Payable | \$ 1,024,169 | \$ 272,557 |
| VAT Payable | 4,243,761 | 1,765,953 |
| Other Tax Payable | 986,127 | 681,007 |
| Total | \$ 6,254,057 | \$ 2,719,517 |

Note 18 – Commitment and Contingencies

Lease Obligation

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

The leases are for a period of one to ten years, and may be extended at 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 \$2.2 million.

The Company's commitment for minimum lease payments under these operating leases is as follows:

| For the years ending December 31, | |
|-----------------------------------|-------------|
| 2014 | \$272,191 |
| 2015 | 272,191 |
| 2016 | 272,191 |
| 2017 | 272,191 |
| 2018 | 272,191 |
| Thereafter | 816,574 |
| Total | \$2,177,529 |

Supply Agreements

In September 2010, the Company executed a 10-year agreement 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, 2013 and 2012, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

Note 19 – 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, 2013, 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, 2013, one customer accounted for 16% of the Company's total revenue. 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, 2013, 46.5% of the Company's raw materials purchase came from three suppliers, with each supplier individually accounted for 25.1%, 11.1% and 10.4% of the total purchase, respectively. For the year ended December 31, 2012, 31.6% of the Company's raw materials purchase came from two suppliers, with each supplier individually accounted for 18.2% and 13.4% of the total purchase, respectively.

Note 20 – Terminating the operation of subsidiaries

On January 7, 2013, the Company filed an application with the local government authority to terminate the operation of its subsidiary, Shandong Shengfu. The application was approved by the local government on March 7, 2013. Shandong Shengfu had limited operation since its inception. There was no reported revenue and net income for Shandong Shengfu since its inception. The assets were not reported as discontinued operations due to immateriality.

In addition, pursuant to a Board Resolution of Tianjin Hailong dated on January 18, 2013, Dalian Fusheng approved to sell 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 sale, Tianjin Hailong's operations will no longer be consolidated. The formal sale agreement has not been completed as of December 31, 2013. As of December 31, 2013, Tianjin Hailong's total assets are \$2.5 million, accounting for only 0.8% of the Company's consolidated total assets; and total liabilities are approximately \$1.9 million, accounting for only 0.8% of the Company's consolidated total liabilities. There was no revenue and no net income/loss reported for the year ended December 31, 2013. The assets were not reported as discontinued operations due to immateriality.

Note 21 – Subsequent events

On February 7, 2014, the Company's subsidiary, Dalian Xingyuan entered into a short term bank loan agreement with Guangfa Bank Dalian Branch to borrow RMB 48 million (approximately \$7.9 million) as working capital for one year (from February 7, 2014 to February 6, 2015). The loan bears a variable annual interest rate of 7.5%, which can be adjusted up 30% on a quarterly basis. The Company was required to deposit 50% of the proceeds (RMB 24 million or \$3.9 million) as collateral to secure this bank loan. The Company's major shareholder also signed an agreement with the bank to provide guarantee to this bank loan.

Pursuant to a Board Resolution on December 31, 2013, the Company decided to form a new subsidiary, Xinniu Development Co., Ltd., with registered capital of \$32.7 million (RMB 200 million), to be contributed by the Company's subsidiaries Dalian Fusheng, Dalian Xingyuan and Dalian Xifa together. On December 31, 2013, as required by the registration requirement, the Company paid \$16.4 million (RMB 100 million) to the State Administration for Industry & Commerce ("SAIC"). Subsequently on January 22, 2014, Xinniu Development completed its registration and obtained the business license from the local SAIC.

Pursuant to Board Minutes dated on January 9, 2014, the Company's subsidiary Lianyungang Fusheng increased its registered and paid in capital from \$25.2 million (RMB 153.7 million) to \$41.6 million (RMB 253.7 million). The Company's newly formed subsidiary, Xinniu Development Co., Ltd. injected \$16.4 million (RMB 100 million) to become the new shareholder of Lianyungang Fusheng. On January 20, 2014, Lianyungang Fusheng completed its registration and obtained the business license from the local SAIC.

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

None.

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 which was 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, 2013, 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, 2013.

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, 2013. 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, 2013. 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, 2013 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. In July 2013, we installed 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 2013 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, 2013. 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. Officers are appointed by, and serve at the pleasure of, our Board.

| Name | Age | Position |
|-------------|------------|---|
| Wen Jiang | 50 | Independent Director (1)(2)(3)(4) |
| Yudong Hou | 45 | Independent Director (1)(2)(3) |
| Zhenyu Wu | 35 | Independent Director (1)(2)(3) |
| An Fengbin | 47 | Former Chairman, President and Chief Executive Officer (5) |
| Wang Hao | 40 | Chief Executive Officer, President, Chairman of the Board (6) |
| Sun Xun | 45 | Chief Operating Officer |
| Bai Jinhai | 74 | Chief Technology Officer |

(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.

(4) Audit Committee financial expert.

(5) Effective as of December 27, 2013, An Fengbin resigned as the Company's CEO and Chairman of the Board.

(6) Appointed as the Company's CFO effective as of December 17, 2012. Effective as of December 27, 2013 and following An Fengbin's departure, Wang Hao was appointed as the Company's CEO.

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

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.

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). 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.

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.

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.

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 instructions 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. Following the completion of the initial public offering of its securities in January 2009, the Company and, among others, its directors and executive officers, became subject to the reporting requirements under the Exchange Act.

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 the Form 3 for Wang Hao filed on January 28, 2013, Form 4 for An Fengbin, Wen Jiang, Wang Hao, Zhenyu Wu and Yudong Hou (all filed on October 18, 2013) (which all were 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, 2013 and 2012, respectively, of our (i) Chief Executive Officer, (ii) Chief Financial Officer, and (iii) all other executive officers (collectively, the "named executive officers"):

· Wang Hao - President and Chief Executive Officer (Principal Executive Officer) appointed to such offices in December 2013.

- An Fengbin – former President and Chief Executive Officer of the Company; resigned in December 2013.
- Quan Zhang – Interim CFO (Principal Financial and Accounting Officer) appointed to such offices in December 2013.
- Haipeng Wang — Chief Financial Officer; resigned in November 2012.

| Name and Office Held | Year | Salary | Bonus | Option Awards (4)(5) | Stock Based Compensation | Total |
|----------------------|------|------------|-------|----------------------|--------------------------|-----------|
| An Fengbin (1)(4)(5) | 2013 | \$ 150,000 | - | \$ 150,000 | - | \$300,000 |
| | 2012 | \$ 150,000 | - | - | - | \$150,000 |
| Wang Hao (2)(4)(5) | 2013 | \$ 150,000 | - | \$ 75,000 | - | \$225,000 |
| | 2012 | \$75,000 | - | - | - | \$75,000 |
| Quan Zhang (3) | 2013 | \$24,476 | - | - | - | \$24,476 |
| | 2012 | - | - | - | - | - |
| Haipeng Wang | 2013 | - | - | - | - | - |
| | 2012 | \$50,000 | - | - | - | \$50,000 |

(1) Former President and Chief Executive Officer of the Company; resigned in December 2013. 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 2013, Mr. An's salary remained at \$150,000 per annum.

(2) President and Chief Executive Officer (Principal Executive Officer) appointed to such offices in December 2013. The Board also approved the terms and provisions of Wang Hao's base salary of USD\$150,000 per annum, subject to review by the Board for subsequent increases on an annual basis. Prior to this appointment, he served as the Company's CFO effective as of December 17, 2012.

(3) Appointed as the Company's Interim CFO in December 2013. The Board also approved the terms and provisions of Zhang's base salary of RMB150,000 per annum, subject to review by the Board.

(4) On September 25, 2013, the Board, following approval and recommendation of the Compensation Committee, approved and adopted executive management equity compensation. Namely, the Board granted, pursuant to the terms of the 2009 Equity Incentive Plan, to An Fengbin and Wang Hao shares of the Company's common stock in the amounts equivalent to their respective annual base salaries, i.e. An Fengbin - \$150,000, and Wang Hao - \$75,000, based on the same price of \$0.69 per share (which represents the average closing price of the Company's common stock over the 30 day period preceding the grant date), all of which stock grants to vest as follows: 1/2 of each such grant vesting on the grant date of the grant and the remaining 1/2 - 6 months from the grant date.

(5) Option Awards represent the grant date fair value of options in 2013, calculated in accordance with FASB ASC Topic 718. For the purposes of making the option calculation for 2013, the following assumptions were made: (a) weighted expected life (years) - 3; (b) volatility - 163.67%; (c) dividend yield - 0.0%; and (d) weighted discount rate - 0.78% for the 2013 year option grant.

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.

Outstanding Equity Awards at December 31, 2013

| 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 | - | \$ 4.27 | July 14, 2020 |
| Wang Hao 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 2013, there were no equity or option awards.

Director Compensation in 2013

The following table represents Board member compensation in 2013:

| Name | Paid in Cash | Stock Awards (2) | All Other Compensation (3) | Total (5) |
|----------------|--------------|------------------|----------------------------|-----------|
| Wen Jiang (1) | \$15,000 | \$15,000 | \$ 0 | \$30,000 |
| Yudong Hou (1) | \$15,000 | \$15,000 | \$ 0 | \$30,000 |
| An Fengbin (4) | - | - | - | - |

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| | | | | |
|------------------------|----------|----------|------|----------|
| Wang Hao (4) | - | - | - | - |
| Francis N.S. Leong (1) | \$18,000 | \$18,000 | \$ 0 | \$36,000 |

(1) On September 25, 2013, the Board granted, pursuant to the terms of the Company's 2009 Equity Incentive Plan to each independent director shares of the Company's common stock in the amounts equivalent to each independent director's annual cash fee, i.e. Wen Jiang and Yudong Hou - \$15,000, respectively, and Zhenyu Wu - \$18,000, based on \$0.69 per share, all of which stock grants to vest as follows: ½ of each such grant vesting on the grant date of the grant and the remaining ½ - 6 months from the grant date.

- (2) Amounts under Option Awards represent the grant date fair value of options granted during 2013.
- (3) All directors will be reimbursed for their reasonable out of pocket expenses associated with attending meetings.
- (4) Management member of the Board who is not compensated for his Board service.
- (5) 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 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 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. Mr. Leong is no longer a director of the Company.

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 645,652 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 1, 2014, there were 10,255,813 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 Unit C, No. 68 of West Binhai Road, Xigang District, Dalian, P.R. of China.

| Name | Shares Owned (1) | % of Class | |
|--|------------------|------------|----|
| An Fengbin (2) | 4,890,451 | 47.12 | % |
| Wang Hao | 108,695 | 1.04 | %* |
| Quan Zhang (5) | 0 | - | |
| Wen Jiang (4) | 52,489 | * | |
| Yudong Hou (4) | 48,739 | * | |
| Zhenyu Wu | 26,087 | * | |
| Star Blessing Enterprises Ltd. (3) | 4,948,201 | 50.2 | % |
| All directors and executive officers as a group (4 people) | 4,651,200 | 47.2 | % |

* 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 Percent 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.

(3) Wang Jing is the sole director and stockholder of OEEL, which is the sole stockholder 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 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) Interim CFO of the Company appointed in December 2013.

Securities Authorized for Issuance under Equity Compensation Plans

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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 645,652 options pursuant to the Plan.

Equity Compensation Plan Information as of December 31, 2013

| 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 set forth in Note 10 (Related Party Transactions) to the financial statements included in this Annual Report, from its inception to December 31, 2013, 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.

Director Independence

Our Board is subject to the independence requirements of the Nasdaq Stock 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. Wang Hao, 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

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. The decision to engage Friedman was approved and recommended by the Audit Committee of the Company’s Board of Directors.

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.

The following table sets forth the aggregate fees billed by Friedman and DB for their respective work in 2013 and 2012 fiscal years:

| | 2013 | 2012 |
|--------------------|-----------|-----------|
| Audit Fee | \$185,000 | \$179,000 |
| Audit-Related Fees | \$15,000 | \$12,000 |
| Tax Fees | \$- | \$- |
| All Other Fees | \$- | \$- |

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.

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.

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. Our Audit Committee has the sole authority to pre-approve all audit and non-audit services provided by our independent accountants. The Audit Committee has adopted policies and procedures for the pre-approval of services provided by the independent accountants. The Audit Committee on an annual basis reviews audit and non-audit services performed by the independent accountants. 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 accountants' independence. As permitted under the Sarbanes-Oxley Act of 2002, the Audit Committee may delegate pre-approval authority to one or more of its members. Any service pre-approved by a delegate must be reported to the Audit Committee at the next scheduled quarterly meeting. The Audit Committee considered whether the provision of the auditors' services, other than for the annual audit and quarterly reviews, is compatible with its independence and concluded that it is compatible. In 2013 and 2012, all such services were pre-approved by the Audit Committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules

| 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) |
| 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 | Employment Agreement with An Fengbin (1)* |
| 10.10 | 2009 Equity Incentive Plan (1)* |
| 10.11 | Loan Agreement with Shenzhen Development Bank Co, Ltd. (1) |
| 10.12 | Contract for Purchase and Sale with Panjin Liaohe Oil Field Dali Group Petrochemical Co., Ltd. (1) |
| 10.13 | Contract for Purchase and Sale with Qingdao Anbang Refining and Chemical Co., Ltd. (1) |
| 10.14 | Contract for Purchase and Sale with PetroChina Dalian Petrochemical Company. (1) |
| 10.15 | Sales Contract for Furfural Extract Oil with PetroChina Dalian Petrochemical Company. (1) |

- 10.16 Sales Contract for Rubber Filling Oil and Extract Oil with PetroChina Dalian Petrochemical Company. (1)
- 10.17 Supplemental Agreement dated as of August 30, 2009. (1)
- 10.18 Authorization Agreement. (1)
- 10.19 Authorization letter amendment. (1)
- 10.20 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 **
- 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 10-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/ Wang Hao
Name: Wang Hao
President, Chief Executive Officer
Title:
(Principal Executive Officer)
Date: March 31, 2014

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 |
|------------------------------|---|----------------|
| /s/ Wang Hao Wang Hao | Chief Executive Officer (Principal Financial Officer), Director | March 31, 2014 |
| /s/ Quan Zhang Quan Zhang | Interim Chief Financial Officer (Principal Accounting and Financial Officer) | March 31, 2014 |
| /s/ Wen Jiang Wen Jiang | Director | March 31, 2014 |
| /s/ Yudong Hou Yudong Hou | Director | March 31, 2014 |
| /s/ Zhenyu Wu Zhenyu Wu | Director | March 31, 2014 |

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.

