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)

x 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)

(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 x

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 x

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 x 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 x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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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<u>Part I</u>

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 Xinfa 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.

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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.

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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 Xinfa 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 Xinfa 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.

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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.

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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).

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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 Tons (in thousands)	%	2012 Tons (in thousands)	%	2011 Tons (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.

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- *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.

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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.

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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 cyclicality 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.

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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.

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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

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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.

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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.

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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.

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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:

- a 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
Oi lBlending & 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 serveral 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 (“Xinglang”) for RMB 2.36 million (approximately US$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province. 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.

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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 Xinfa 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 Xinfa 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 (“Xinglang”) for RMB 2.36 million (approximately US$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

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

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

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

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.

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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, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

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.

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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.

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- 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.

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- 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 Xinfa. 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 Xinfa.

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, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

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

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

	As of December 31, 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.

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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;

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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.

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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

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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

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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		

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.

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 paid-in	Accumulated other comprehensive	Retained	Statutory	Total stockholders	Non
	Share	Amount	stock	Capital	(loss) income	earnings	reserve	equity	Inte
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	$4,(
Net income	-	-	-	-	-	1,643,696	-	1,643,696	(2
Appropriations to statutory reserve						(343,960)	343,960	-	
Foreign currency translation adjustment	-	-	-	-	423,146			423,146	24
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	$3,8
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)	(1.
Net loss						(1,012,067)		(1,012,067)	(2(
Appropriations to statutory						(510,625)	510,625	-	

reserve
Foreign
currency
translation
adjustment