American Lorain CORP
Form 10-K
March 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[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**

[_] 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: **001-34449**

AMERICAN LORAIN CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**87-0430320**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

BeihuanZhong Road
Junan County
Shandong, People s Republic of China, 276600
(Address of principal executive office and zip code)

(86) 539-7317959
(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**NYSE AMEX**

Securities registered pursuant to Section 12(g) of the Act: **None**

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 issuer 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 (§ 232.405 of this chapter) 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) 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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	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]

The number of shares and aggregate market value of common stock held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter were 19,220,142 and $19,796,746, respectively.

There were 34,616,714 shares of common stock outstanding as of March 31, 2014.

Documents Incorporated by Reference: Portions of the registrant's Proxy Statement related to its 2014 Annual Stockholders' Meeting to be filed subsequently are incorporated by reference into Part III of this Annual Report on Form 10-K. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be part of the report.

FORM 10-K INDEX

PART I

Use of Certain Defined Terms

In this annual report on Form 10-K:

- We, us and our refer to ALN, and except where the context requires otherwise, our wholly-owned and majority-owned direct and indirect operating subsidiaries.
- ALN refers to American Lorain Corporation, a Nevada corporation (formerly known as Millennium Quest, Inc.).
- Athena refers to Athena, a limited liability company organized under the laws of France that is majority-owned by Junan Hongrun.
- ILH refers to International Lorain Holding, Inc., a Cayman Islands company that is wholly - owned by ALN.
- Junan Hongrun refers to Junan Hongrun Foodstuff Co., Ltd.
- Luotian Lorain refers to Luotian Green Foodstuff Co., Ltd.
- Beijing Lorain refers to Beijing Green Foodstuff Co., Ltd.
- Shandong Lorain refers to Shandong Green Foodstuff Co., Ltd.
- Dongguan Lorain refers to Dongguan Green Foodstuff Co., Ltd.
- Shandong Greenpia refers to Shandong Greenpia Foodstuff Co., Ltd.
- RMB refers to Renminbi, the legal currency of China.
- U.S. dollar , $ and US$ refer to the legal currency of the United States.
- China and PRC refer to the People s Republic of China (excluding Hong Kong and Macau).

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words expect, anticipate, intend, believ or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading Risk Factors. Readers are cautioned not to place undue reliance on these forward-looking statements.

ITEM 1. BUSINESS

Overview of Our Business

We are an integrated food manufacturing company headquartered in Shandong Province, China. We develop, manufacture and sell the following types of food products:

- Chestnut products;
- Convenience foods (including ready-to-cook, or RTC, foods, ready-to-eat, or RTE, foods and meals ready-to-eat, or MRE); and
- Frozen food products.

We conduct our production activities in China and through our majority-owned subsidiary in France. Our products are sold in Chinese domestic markets as well as exported to foreign countries and regions such as Japan, South Korea and Europe. We derive most of our revenues from sales in China, Japan and South Korea. In 2014, our primary strategy is to continue building our brand recognition in China through consistent marketing efforts towards supermarkets, wholesalers, and significant customers, enhancing the cooperation with other manufacturers and factories and enhancing the turnover for our existing chestnut, convenience and frozen food products. In addition, we are working to expand our marketing efforts in Asia, Europe, and the Middle East. We currently have limited sales and marketing activity in the United States, although our long-term plan is to significantly expand our activities there.

Organizational Structure

ALN is a Nevada corporation that was incorporated on February 4, 1986 and was formerly known as Millennium Quest, Inc. Effective November 12, 2009, ALN reincorporated in Nevada from Delaware.

ALN owns 100% of ILH. ILH wholly owns two Chinese operating subsidiaries, Luotian Lorain and Junan Hongrun, directly. Junan Hongrun, in turn, wholly owns Dongguan Lorain. In addition, together with Junan Hongrun, ILH wholly owns Beijing Lorain, Shandong Greenpia, and owns approximately 80% of Shandong Lorain (Shandong Economic Development Investment Co. Ltd. owns approximately 20%). We sometimes refer to our six Chinese operating subsidiaries throughout this annual report on Form 10-K as the Lorain Group Companies. Below is an organizational chart of ALN, ILH and the Lorain Group Companies:

* Athena is a holding company which holds all of the capital and the voting shares of Conserverie Minerve, a company organized under French law. Conserverie Minerve specializes in the processing and sale of chestnut and prepared foods products in Europe. Conserverie Minerve operates its businesses through the following, direct and indirect, wholly owned subsidiaries:

- Sojafrais, a company organized under French law;
- SCI SIAM, a real estate company organized under French law;
- SCI GIU LONG, a real estate company organized under French law; and
- CACOVIN, a company organized under Portuguese law.

Recent Developments

On February 7, 2014, ALN through its indirect wholly-owned subsidiary, Junan Hongrun, entered into a Reiterative Share Purchase Agreement with Biobranco II, a company organized under Portuguese law (the Biobranco Purchase Agreement) to acquire from Biobranco II 2,750 shares of Athena, or 11% of the share capital of Athena, for an aggregate purchase price of 495,000 (or approximately US$670,600). The transaction was completed on March 13, 2014 upon payment of the purchase price.

On February 7, 2014, Junan Hongrun also entered into a Share Purchase Agreement with Intiraimi, a limited liability company organized under the laws of France (the Intiraimi Purchase Agreement) to acquire from Intiraimi 10,000 shares of Athena, or 40% of the share capital of Athena, for an aggregate purchase price of 1,500,000 (or approximately US$2,032,050) of which (i) 1,000,000 (or approximately US$1,354,700) will be payable at closing, and (ii) the remaining 500,000 (or approximately US$677,350) (Deferred Payment) will be payable on February 7, 2015 if certain conditions are met. The Intiraimi Purchase Agreement also contains customary non-competition and non-solicitation clauses for Intiraimi and Pedro Quintana, Intiraimi s President. The initial payment under the Intiraimi Purchase Agreement in the amount of 1,000,000 (or approximately US$1,354,700) was paid on March 13, 2014. As a result of the Biobranco Purchase Agreement and the Intiraimi Purchase Agreement, Junan Hongrun owns 12,750 shares, or 51% share capital, of Athena. Junan Hongrun agreed to pledge 12,750 shares, or 51% of share capital, of Athena acquired in the above transactions to Intiraimi to guarantee the Deferred Payment.

In connection with the acquisition of a 51% controlling interest in Athena, on February 7, 2014, Junan Hongrun entered into a Shareholders Agreement (the Shareholder Agreement) with Athena and each of the other shareholders of Athena (Current Shareholders), which defines the rights of the Junan Hongrun and the Current Shareholders, and their respective undertaking as it relates to Athena, including, but not limited to:

- The settlement of certain claims the Current Shareholders have against Athena through the assignment of certain claims Athena, through its wholly owned subsidiary, Conserverie Minerve, has against Branco Group Companies for the benefit of the Current Shareholders;
- The handling of the commitment to install a Nunziata 4 burner chestnut shelling machine at the Cacovin facility, a company indirectly owned by Athena;
- The Junan Hongrun s right to appoint the chief executive officer for Athena and its subsidiaries;
- The Junan Hongrun s right, with the prior consent of the Current Shareholders, to appoint a general manager for Athena and its subsidiaries;
- Protective provisions granted to Current Shareholders;
- Information rights;
- Certain restrictions on transfer of Athena s shares;
- Rights of pre-emption in connection with assignment; and
- Granting the Company a call option right to purchase 2,250 of the shares of Athena (or 9% of the share capital of Athena) for a purchase price of 900,000 (or approximately US$1,219,230), subject to downward adjustment to 405,000 (or approximately US$548,654) if the Current Shareholders failed to fulfill certain obligations under the Shareholder Agreement. The call option is exercisable within six (6) months after February 7, 2015.

The Shareholder Agreement expires ten (10) years from the date Junan Hongrun pays the initial purchase price under the Intiraimi Purchase Agreement and the purchase price under the Biobranco Purchase Agreement.

Products

Our products are categorized into the following three segments:

- Chestnut products,

- Convenience food products, and
- Frozen food products.

We produced 234 products in 2013, including 6 new products in the chestnut, convenience and frozen foods segment. We also discontinued 10 products in 2013 in the convenience segment.

Historically, chestnut products and convenience foods were our main profit centers. Sales of our chestnut and convenience foods segment slowed down 2013 due to weaker demand in domestic market. Sales was also impacted by a stronger RMB against foreign currencies such as Japanese Yen for our export sales. However, we are experiencing stronger sales for our frozen food products due to demand in both domestic and abroad. Frozen food products accounted for 17.8% of our revenues in 2013 as compared with 14.6% in 2012.

Chestnut Products

We believe that we are the largest chestnut processor and manufacturer in China. In addition, we have been giving increasing emphasis in recent years to building a stronger international sales network. As a result of our acquisition of control in Athena in the first quarter of 2014, we now have chestnut processing and manufacturing capabilities in France which will enable us to achieve a strategic command of the chestnut industry value chain in Europe.

We have developed brand equity for our chestnut products in China, Japan and South Korea over the past 10 to 15 years. We produced 58 high value-added processed chestnut products in 2013. In 2013 and 2012, this segment contributed 53.3% and 52.2% of our total revenues, respectively.

Our best selling products in 2013 included our aerated open-bottom chestnuts, which are chestnuts packaged with nitrogen; chestnuts in syrup, which are very popular in Japan and South Korea; and golden chestnut kernels. The majority of our chestnut products are natural and do not contain chemical additives.

The chestnut, in contrast to many other tree nuts, contains small quantities of oil and is very high in complex carbohydrates. This makes them useful for a wider food range than other common nuts. Chestnuts are commonly steamed, boiled, sugar stir-fried, roasted or added into dishes or desserts as an ingredient.

China is the largest grower of chestnuts in the world, followed by South Korea and Japan. In recent years, the chestnut production in South Korea and Japan has declined. This has been attributed to the increasing labor costs and operational costs incurred in growing chestnuts. Because of the declining domestic production, South Korean and Japanese customers have grown to rely more on imported chestnut products. Our strategy is to take advantage of these trends.

We differentiate our chestnut products based on flavor, size and method of packaging. For instance, some of our chestnut products that are sold in Japan are packaged in plastic bags or tin cans, each considered a different product. Similarly, some of our chestnut products are processed with hot water or cold water, each considered a different product.

Chestnut season in China lasts from September to January. We purchase and produce raw chestnuts during these months and store them in our refrigerated storage facilities throughout the year. Once we obtain a purchase order during the rest of the year we remove the chestnuts from storage, process them and ship them within one day of production.

Convenience Foods

Our convenience food products are characterized as follows:

- Ready-to-cook, or RTC, food products,
- Ready-to-eat, or RTE, food products and
- Meals ready-to-eat, or MRE, food products.

These products are intended to meet the current demands of our customers for safe, wholesome and tasty foods that are easily prepared.

RTCs can be served after a few easy cooking procedures. Typically, when preparing a RTC, customers need only to heat the food in a microwave or boil it for several minutes before eating. Our best-selling RTCs in 2013 were French fries.

RTEs can be served without any cooking. Our best-selling RTEs in 2013 were various bean products and pickle products.

MREs are meal kits with self-heating devices or microwavable kits, such as microwavable rice boxes. Our self-heating MREs are primarily for military use where no cooking device or other means are needed other than water. We also introduced microwavable MREs for civilian uses such as camping, traveling and other occasions where only simple preparation using a cooking device such as a microwave oven is required.

We produce various MREs based on Chinese cuisine, the best sellers of which were our pork with garlic sauce over rice and kungpao chicken with rice in 2013. Many of our convenience products are natural and do not contain chemical additives.

We produced 114 convenience food products in 2013, including 6 new products such as boiled vegetables. In 2013 and 2012, this segment contributed 28.9% and 33.2%, respectively, of our total revenues.

Frozen Food Products

We produce a variety of frozen foods, mostly frozen vegetables and frozen fruits. We produced 62 frozen food products in 2013. Our best-selling frozen foods in 2013 were frozen asparagus and frozen strawberries.

Our frozen food business allows us to mitigate the significant production seasonality of chestnut products and to increase the utilization rate of our production capacity. We are seeing steady increase in sales of our frozen food segment due to demands from both domestic and international markets. The frozen foods accounted for in our total revenue increased from 14.6% in 2012 and 17.8% in 2013. Gross margins in this segment are lower than the margins for chestnut products and convenience foods.

Our Manufacturing Facilities

General

We currently manufacture our products in six facilities in China, three of which are located in Junan County, Shandong Province, one in Luotian County, Hubei Province, one in Miyun County, Beijing and one leased facility in Dongguan, Guangdong Province. In addition, as a result of our acquisition of control in Athena in the first quarter of 2014, we now have chestnut and manufacturing capabilities in France.

The following table indicates the year that operations commenced at each of the facilities and the size of the facilities.

Facility	**Year Operations Commenced**	**Facility Size (square meters)**
Junan Hongrun	2002	38,865
Shandong Lorain	1995	15,392
Beijing Lorain	2003	21,000
Luotian Lorain	2003	9,558
Dongguan	2008	9,250
Shandong Greenpia	2010	9,179
Conserverie Minerve*	1968	15,142

* a wholly-owned subsidiary of Athena, a company controlled by Junan Hongrun

Production Lines

We currently manufacture our products using 31 production lines. Each production line is used to produce between 10 and 50 products. We currently run three types of product lines:

- Deep-freezing lines, which are used to freeze raw materials for year-round production and to produce frozen food;
- Canning lines, which are used to produce canned products, including chestnut products; and
- Convenience food lines, which are used for producing RTCs, RTEs and MREs, all of which have nitrogen preservation capacity.

The production process for our chestnut products initially involves sorting and cleaning the raw chestnuts purchased during the chestnut season. We then store the raw chestnuts in our refrigerated storage facilities throughout the year. Once we obtain a purchase order, we remove the chestnuts from storage and process them by steaming, decladding and deep-freezing the chestnuts, depending on the particular product. We then package and ship the processed chestnuts within one day of production.

The production process of our convenience products generally involves various steps, including soaking, boiling, coating, drying, deep freezing, packing, sealing and sterilizing.

The following table shows the number and types of production lines, the types of products produced and the production capacity at each facility:

Facilities	Production Lines	Product Portfolio	2013 Capacity
Junan Hongrun	3 Deep-freezing line 3 Convenience food lines 4 Canning lines	Chestnut products, frozen foods, beans, bean paste	Multi-purpose production lines with 54,000 tons of production capacity and 24,900 tons of cold and frozen storage
Shandong Lorain	1 Deep-freezing line 1 Convenience food line	Chestnut products, convenience frozen foods	foods, Multi-purpose production lines with 20,000 tons of production capacity and 3,500 tons of cold and frozen storage
Beijing Lorain	6 Convenience food lines 1 Deep-freezing line	Chestnut products, frozen foods	Multi-purpose production lines with 34,000 tons of production capacity and 4,650 tons of cold and frozen storage
Luotian Lorain	3 Convenience food lines 2 Deep-freezing lines	Chestnut products, convenience foods, frozen foods	Multi-purpose production lines with 24,000 tons of production capacity and 6,500 tons of cold and frozen storage
Dongguan factory	2 Convenience food lines	Convenience food	Multi-purpose production lines with 3,000 tons of production capacity and 2,250 tons of cold and frozen storage
Shandong Greenpia	2 Convenience food lines	Chestnut products, convenience foods	Multi-purpose production lines with 9,000 tons of production capacity and 1,500 tons of cold and frozen storage
Conserverie Minerve*	2 Convenience food lines 1 Deep-freezing line	Chestnut products, convenience foods	Multi-purpose production lines with 8,900 tons of production capacity and 11,920 tons of cold and frozen storage
* a wholly-owned subsidiary of Athena, a company controlled by Junan Hongrun			

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We allocate our production lines based upon the location of our facilities to take advantage of efficiencies in the transportation of required raw materials. For example, Junan Hongrun and Shandong Lorain, which manufacture primarily chestnut and frozen products, are located in Shandong Province, which is China s largest supplier of fresh products by volume. Shandong Province is also a major chestnut producing region.

Our production lines and facilities have all been designed to meet the standards and requirements of our largest customers in Japan and Europe, with Japan being our largest export market.

In the last quarter of 2013, we completed the installation of one chestnut decladding machine at our Junan Hongrun facility. This machinery, imported from Europe, preheats the chestnuts into dry condition, and declads the chestnuts using ejected natural gas flames. Unshelled chestnuts are then carried directly to frozen storage through connected pipeline. Average processing capacity could reach 3 metric tons per hour.

In the last quarter of 2013, we initiated a project to enhance the automation and quality for our production line at our Junan Hongrun facility, and it is expected to be finished by mid-2014. The project entails replacement and automation upgrades for key production procedures for chestnut products, and introduces numerous new equipment such as an additional chestnut decladding line, automated chestnut packaging line, chestnut vacuum saturator, chestnut sorting line, etc. The project also includes the construction of a 10,000 m^2 new workshop. The project was listed as a key supported project by National Development and Reform Commission (NDRC).

We employ advanced methods of quality control and have obtained various certifications for many of our products, packages and processes, including ISO 9000 or ISO 9001 certification for certain of our chestnut and frozen vegetable products, BRC certification for certain of our frozen fruit and vegetable products and HACCP certification for certain of our frozen vegetable, fruit and chestnut products and our bottom-open chestnuts. We believe that our quality controls and standards of products distinguish us from other manufacturers in both domestic and international markets.

With limited exception, we operate our production lines year round. In the past, when our production was focused almost exclusively on chestnuts, we experienced seasonal underutilization of our product lines. However, our current facilities have multiple-function designs allowing us to use our production lines for our convenience and frozen products when we are not producing chestnuts at full capacity. Consequently, as we have increased our processed and convenience food offerings over the last several years, we have generally been able to run our production lines at increasing efficiency.

Previously, most of our convenience foods were produced at our Beijing Lorain plant. With the introduction of bean products in 2009, we expanded our facility in Junan Hongrun with the addition of three convenience food production lines designed specifically for bean products with current annual capacity of 13,500 metric tons.

We believe our facilities are adequate for our current levels of production. We anticipate, however, that we may require additional facilities and/or product lines as our business grows. We are exploring the possibility of alliances with one or more OEM partners for the production, in the short-term, of some of our convenience food products and frozen products should our facilities be inadequate to meet increasing demand. We are also exploring the possibility of leasing additional production lines to expand our production capacity. We did not lease any production facility during 2013. We may decide to lease additional facilities in 2014, should circumstances require and subject to acceptable costing. In the long-term, we plan to increase our own production capacity by acquiring or building new facilities, subject to the availability of adequate sources of funding.

Storage Capacity

Storage of our raw materials and inventory is a critical element of our business. Our raw materials and partially finished products need to be preserved in frozen storages (-18ºC to -20ºC) or constant temperature storages (-5ºC to 5ºC). Storage is particularly critical for our chestnut products because chestnuts are a seasonal fruit.

The following table illustrates on a facility by facility basis the type and capacity of our storage resources:

Facility	**Storage Type**	**Number of Storage Units**	**Capacity (metric tons)**
Junan Hongrun	Frozen Storage	19	20,100
	Constant Temperature	8	4,800
Shandong Lorain	Frozen Storage	5	2,000
	Constant Temperature	3	1,500
Beijing Lorain	Frozen Storage	6	2,850
	Constant Temperature	3	1,800
Luotian Lorain	Frozen Storage	8	4,500
	Constant Temperature	4	2,000
Dongguan	Frozen Storage	2	800
	Constant Temperature	2	1,450
Shandong Greenpia	Constant Temperature	4	1,500
Conserverie Minerve*	Frozen Storage	7	420
	Constant Temperature	3	11,500
TOTAL		74	55,220

* a wholly-owned subsidiary of Athena, a company controlled by Junan Hongrun

As we have expanded our production capacity, we have also expanded our storage capacity. All of the listed storage facilities are owned by us. In 2009, we expanded our storage capacity in Junan Hongrun by an additional 3,600 metric tons. In 2010, we also expanded our storage facility in Dongguan by 1,000 metric tons and, through our acquisition of Shandong Greenpia, we have added four additional storage units with an aggregate capacity of 1,500 metric tons. We also added 13,500 metric tons of cold storage at the Junan Hongrun facility during 2011. We did not add to our storage capacity during 2013. In 2014, we may build or lease additional storage facilities from time to time should circumstance require.

Agricultural Operations

We grow or set up agricultural co-ops with local farmers to supply ourselves with a small portion of chestnut, fruit and vegetable products. For the year ended December 31, 2013 and 2012, the supplies coming from agricultural operations have been immaterial. We believe, however, that development of agricultural facilities is a good strategy for the long-term. We anticipate that self-grown agricultural products and agricultural products grown in cooperation with local farmers will enable us to assure adequacy of supply, promote quality and reduce cost, particularly for our high margin offerings. For example, by growing Korean cultivar chestnuts domestically, we expect to significantly reduce our supply costs for this premium product, while ensuring superior quality.

Lands in which we grow our agricultural products for such products are shown in the following table.

Harvest	Area (acres)	Location (PRC)
Chestnut (South Korean, Japanese, Australian cultivar)	329	Shandong
Chestnut (Japanese cultivar)	165	Beijing
Sticky Corn	342	Beijing
Sweet Corn	118	Beijing
Green Pea	217	Beijing
Sweet Pea	167	Beijing
Organic Chestnut	165	Beijing
Mixed Vegetables	417	Shandong
Mixed Vegetables	83	Beijing
Japanese Pumpkin	197	Inner Mongolia
Black Beans	500	Shandong
Strawberry	392	Shandong
Broccoli	165	Beijing
Green Asparagus	591	Beijing
White Asparagus	263	Shandong
Sweet Potato	500	Shandong
Peach	329	Beijing
Apricot	411	Beijing
Pear	329	Beijing
Blackberry	165	Beijing

We began growing chestnuts in Shandong Province in 2003. Unlike most vegetables and fruits, chestnut trees have a 3-5 year growing phase before they can be harvested. Our current chestnut planting base has been self-supplying limited quantities of chestnuts to our production since 2007.

We began growing strawberries in 2008 in Shandong and peaches, apricots, pears and blackberries in 2009 in Beijing. We use these fruits in some of our frozen fruit products. We plan to continue to expand our agricultural operations over the next few years. Among other things, we plan to increase our self-production in China of Korean cultivar chestnuts. We expect to obtain funding for this expansion through a combination of commercial and government loans, including loans under Chinese government programs to promote agricultural industrialization. There is no assurance, however, that adequate funding for these purposes will be available to us.

Raw Materials

In 2013 and 2012, approximately 85% and 86% of our procured raw materials, respectively, consisted of agricultural products, including primarily chestnuts and vegetables, approximately 7% and 7%, respectively, consisted of packaging materials and approximately 8% and 7% consisted of condiments such as sugar, salt and flour.

<u>Our Supply Sources</u>

Our business depends on obtaining a reliable supply of various agricultural products, including chestnuts, vegetables, red meat, fish, eggs, rice and flour. Because of the diversity of available sources of these raw materials, we believe that our raw materials are currently in adequate supply and will continue to be so in the future.

We obtain our agricultural raw materials from three sources: domestic procurement (excluding self-supply), overseas markets, and self-supply. Domestic and overseas procurement accounted for 96.8% and 3.0%, respectively, of our total raw material costs in 2013, with self-supply accounted for less than 1%. We obtained substantially all of our agricultural raw materials from domestic sources during 2013.

In 2013 and 2012, respectively, we procured approximately 53,559 and 62,934 metric tons of chestnuts and approximately 49,909 and 72,254 metric tons of vegetables and other raw materials from a number of third party suppliers, domestic and overseas, and produced approximately 255 and 160 metric tons of chestnuts and other products from our own agricultural operations.

We select suppliers based on price and product quality. We typically rely on numerous domestic and international suppliers, including some with whom we have a long-term relationship. Our top 10 suppliers accounted for 23.7% and 34.1%, respectively, of the total procurement in 2013 and 2012 in value terms. We purchase from suppliers and farmers pursuant to supply contracts and underlying purchase orders. We have not entered into any long-term contracts with any of our suppliers.

Our suppliers generally include wholesale agricultural product companies, agricultural associations and distributors. Some raw materials must be imported at higher costs, however. Occasionally, we also work directly with farmers. For instance, we operate an initiative which involves a series of cooperation and lease agreements between Shandong Lorain, Beijing Lorain and local farmers. This initiative involves approximately 1,000 acres of land which is used primarily to produce Japanese and Korean style chestnuts, sticky corn and pumpkins for our operations.

Procurement Cost and Quality Control

To control procurement costs, we have built our facilities near domestic sources of agricultural raw materials. For example, Junan Hongrun and Shandong Lorain are located in Shandong Province, which is China s largest supplier of fresh products by volume. Shandong Province is also a major chestnut producing region. Local procurement reduces our costs, especially transportation costs. It also gives us first-hand harvest and market information, which provides us with an advantage in price negotiations with suppliers.

Some raw materials must be imported at higher cost. As discussed, we have begun to develop our agricultural capabilities in order to control costs, particularly with respect to imported raw materials such as Korean-style chestnuts.

Pricing for agricultural products reflects several external factors, such as weather conditions and commodity market fluctuations, which are beyond our control. We obtain contemporaneous information on local harvests and collect daily reported price information on harvests in other markets from which we procure our products. We also attempt to predict harvest yields in advance based on our information gathering. We use this harvest information to negotiate best pricing with our suppliers.

We impose strict standards on our suppliers. During the harvest season, our internal procurement function may visit our sources of supply to assure that the products we are purchasing comply with our standards.

Our Customers

Our products are sold in Chinese domestic markets as well as exported to foreign countries and regions such as Japan, South Korea and Europe. In 2013 and 2012, approximately 73.8 and 71.3%, respectively, of our sales were made domestically in China and approximately 26.2% and 28.7%, respectively, were to international customers, primarily Japan and South Korea. Our top ten customers contributed 12.9% and 15.4% of our total revenues in 2013 and 2012.

Domestic

In China, we sell our products through our own sales team and through third-party distributors. We have 36 sales offices in 31 provinces in China. In 2013 and 2012, we sold approximately 74.6% and 95.2%, respectively, of our products directly to our Chinese customers and approximately 25.4% and 4.8% through third-party distributors.

We sell our products in all first-tier cities in China, including Beijing, Shanghai, Tianjin and Guangzhou, through our own sales team in order to capture the profit margin that would otherwise go to intermediate wholesalers and to enhance our brand recognition. Our sales team sells our products directly to supermarket chains, mass merchandisers, large wholesalers and others in these markets. In second-tier and third-tier cities, we currently sell our products to third-party distributors, such as food companies or trading companies with established distribution channels in such regions, rather than through our own sales team, in order to enable us to penetrate such markets more quickly without spending significant capital. We also sell to small customers through independent sales representatives.

Generally, our direct sales customers are required to pay us on 30 to 60 day credit terms. Third-party distributors, however, generally do not pay on credit, allowing us to obtain quicker payment terms and thereby decrease our accounts receivables.

The terms of a typical sales contract between us and our distributors provide that we are responsible for transportation costs and the distributors are responsible for storage costs. Furthermore, the distributors have the right to return products that fail to satisfy specified quality standards, at our cost. The majority of such contracts require the distributors to pay us in cash in full upon delivery, and the remaining contracts provide for short-term credit, usually two to three weeks. In addition, we typically offer distributors performance-based incentives, such as a cash bonus equal to 1% of total revenues generated by such distributor which exceed previously established sales targets.

We plan to gradually increase the portion of sales to third party distributors in order to access new markets in China in a cost efficient manner and to improve our cash position. Such plans are subject to our ability to restructure the sales force and manage the increased number of distributors without compromising our profit margins.

International

Our export sales destinations include:

- Asia pacific, primarily Japan, South Korea and Malaysia, but also Singapore, Philippines, and Australia;
- Europe, primarily Belgium and the United Kingdom, but also France, Germany, the Netherlands, Spain, Poland, and Denmark
- the Middle East, primarily Saudi Arabia and Israel;
- North America, including the United States and Canada

Outside China, we generate most of our sales in Asia. In 2013 and 2012, respectively, approximately 92.7% and 94.2% of our international sales were in Asia and approximately 6.4% and 5.5% were in Europe.

We sell our products to international markets primarily through export and trading agents and companies in China, as well as our own sales team located in China. Our sales team sells directly to wholesalers, food processors and mass merchandisers. Many of our customers are well known in their local food market. We have established long-term relationships with many international customers, especially in Japan and South Korea. We currently have no sales offices outside of China and do not use alternative methods to sell our products outside of China. We attend trade shows in Europe and other international markets in order to promote our products.

We have also been giving increasing emphasis in recent years to building a stronger international sales network. Our acquisition in France marks an important step for American Lorain along with our sustained marketing and operating efforts in Japan as well as domestic China. France is in a central position in Europe s food supply as well as logistics, and this acquisition will potentially enable American Lorain to achieve a strategic command of the whole chestnut industry value chain in Europe, yielding significant synergy together with our China operations. We will provide strong support for raw material as well as procurement of Asian food supplies in China, and will also be able to take full advantage of Athena s existing sales channels in Europe to supply not only chestnuts but also other food products desired by the European market.

Our Sales and Marketing Efforts

We seek to expand our customer base by:

- Direct sales communications with our large customers;
- Sales through distributors to new customer bases;
- Referrals from existing customers; and

- Participation in domestic and international food exhibitions and trade conferences.

We have not spent a significant amount of capital on advertising in the past, and our advertising budget continues to be limited. In 2013 our marketing and branding efforts included supermarket advertising and internet advertising.

We intend to increase our advertising and branding efforts given the consumer nature for many of our products. For the near future, our marketing efforts will continue to focus primarily on the domestic Chinese market for our chestnut and convenience food products.

Competition and Market Position

The overall food market is diverse, both globally and in China. We do not have a significant market share in any of our business segments.

Chestnut Products

We compete in the chestnut market primarily on the basis of the uniqueness of our products, quality, price and brand recognition. We also utilize our proprietary, patented and patent-pending technology in the production of our chestnut products to our competitive advantage.

The world market for chestnut products is highly fragmented. Our principal competitors in the chestnut product market are currently Hebei Liyuan, a Chinese company, and Foodwell Corporation, a South Korean company.

Convenience Food Products

The market competition for convenience food products is based mostly upon quality and product variety. We attempt to use our modern food processing technology, such as nitrogen preservation, to produce a wide variety of high quality convenience foods.

The convenience food market in China is highly fragmented and we do not face competitive pressure from any particular competitor or small group of competitors.

Frozen Food Products

In the frozen food product market, competition is based primarily upon quality, ability to provide a reliable product supply and customer relationships.

Our strongest competitors in the frozen food products market are currently Weifang Langdong Food Co. Ltd., Yuyao Hongji Food Co. Ltd. And Yantai Pengshun Food Co. Ltd., all of which are located in China.

Competitive Advantages

We believe that we enjoy a number of competitive advantages, both domestically and internationally.

We have developed brand equity for our chestnut products in China, Japan and South Korea over the past 10 to 15 years. Our customers are willing to pay a premium for some of our chestnut products because of our brand equity. In addition, we believe that we have a strong distribution channel for our products in the markets in which we currently operate.

We believe that we are able to provide our customers with greater selection and a more reliable supply than many of our competitors, which is especially important for our supermarket chain and large wholesaler customers. We produced 58 chestnut products in 2013. We believe that we are the sole provider of certain bottom-open chestnut and sweetheart chestnut products in China.

Labor is a large portion of total operating costs for food companies. We believe that we have a lower labor cost structure and a more abundant labor supply than many of our international competitors.

We are focused on managing our costs in other ways as well. We seek to locate our production facilities in close proximity to our main domestic sources of raw material supply to reduce transportation costs and give us first-hand knowledge of market factors affecting our cost of raw material supply. Our agricultural self-supply program, while modest at present, is expected to grow and to become a significant element of our cost containment efforts.

We use modern food processing technology and innovation in our formulation and manufacturing processes to create high quality products. Nitrogen preservation in particular, used in the production of convenience foods, is an innovative technology which has not been widely applied in China.

In 2008, we submitted an application for patent protection in the PRC for two of our technologies which support the production of our chestnut and convenience food products, with one successful patent grant and one denial. During 2009 and 2010, we submitted four additional patent applications, with three successful patent grants and one denial. (See Intellectual Property below.) We believe that our technology gives us an advantage over our Chinese competitors, allowing us to produce chestnut and convenience food products that are superior in quality and to offer more product varieties.

We believe that our reputation for quality contributes to our competitiveness. We maintain high food safety standards, in order to satisfy both domestic and international requirements. We also regularly conduct tests for quality of our products and compliance with standards.

Intellectual Property

Trademarks

We have registered in the PRC the trademark which we use on all of our products sold in China.

Patents

We have developed the following six proprietary technologies to support our chestnut and convenience food production:

- The sweetheart chestnut is a premium product that is more expensive, and yields greater profit margins than our other chestnut products. Our proprietary technology relates to the process for evenly distributing throughout the chestnuts the syrup used to preserve the chestnuts. This technology enhances the texture of the chestnuts, preserves the natural form of the chestnuts and promotes the stability and uniformity of the chestnuts sweetness. In 2008, our patent application for this technology was approved by the State Intellectual Property Office of the PRC and is protected by PRC patent law for 20 years. We expect this technology to contribute to the growth of our sales of sweetheart chestnuts, which had been increasing at an annual rate of 25% to 30% over the past several years.
- Oden is a popular traditional Japanese dish, typically consisting of boiled eggs, daikon radish, konnyaku and processed fish cakes stewed in a light, soy-flavored dashi broth. Our technology relates to the process used to control the sterilization of the packaging for oden eggs. Our technology enables us to deliver convenience food products with unique freshness and authentic taste. This technology has been an important factor in expanding the market for our convenience foods products, particularly in Japan. Our patent application for this product was approved by the State Intellectual Property Office in February 2009.
- The pickle vegetable exhibition counter is ideal for shopping malls and supermarkets. It consists of the refrigerator cabinet which keeps the temperature low, and the exhibition cabinet, which sits above the refrigerator cabinet and with glass covers. The exhibition counter is intended for convenience observation and better preservation for the pickle vegetables. Our patent for this device was granted in April 2009.
- High-temperature chestnut roasting machine is an innovative chestnut roasting device, which overcomes shortcomings of traditional roasters such as low efficiency and uneven heating. It is a sealed cylinder device equipped with thermometer and manometer to gauge the temperature and pressure inside the roaster. This new roasting device is also energy efficient and environmentally friendly. Our patent application for this device was approved by the State Intellectual Property Office in July 2011, and protected by PRC patent law for 10 years.

We were granted two additional patents by the State Intellectual Property Office of the PRC during 2012, including the preparation of aerated snack beans and frozen bottom open chestnuts. We also submitted one additional patent application during 2012 for the preservation, storage and processing procedures for chestnuts, which is currently under review. The approval for patents typically takes 3 to 4 years.

We take reasonable steps to protect our proprietary information and trade secrets, such as limiting disclosure of proprietary plans, methods and the like on a need-to-know basis and requiring employees with access to our proprietary technology to enter into confidentiality arrangements. We believe that our proprietary technology and trade secrets are adequately protected.

Our Employees

As of December 31, 2013, we had a total of 1,839 full-time employees and 480 part-time employees. 768 of our full-time employees are directly employed by our subsidiary companies and the remaining employees are employed by Linyi Zhifu Labor Service Company, an outsourcing company that we use to meet our staffing needs. As required by Chinese law, all employees are party to a written employment contract. We compensate the employees outsourced from Linyi Zhifu directly and pay Linyi Zhifu a service fee. Linyi Zhifu is responsible for the pension and social insurance benefits of the leased employees, as described below.

The following table sets forth the allocation of employees, both direct and leased, by job function.

Department	**Number of Employees**
Production	1,848
Quality Control	82
Domestic Sales	168
Human Resources	8
Research and Development	45
International Sales	45
Finance	42
Procurement	24
Administration	50
Strategic planning	7
Total	**2,319**

We believe that the relationship between management and our employees is good. We have not experienced any significant problems or disruption to our operations due to labor disputes, nor have we experienced any difficulties in recruitment and retention of experienced staff.

Our Shandong Lorain subsidiary has an employee relations department for the purpose of advancing employee welfare, encouraging employee participation in decision making and enhancing relations among employees and between employees and our management team.

We compensate our production line employees by unit produced (piece work) and compensate other employees with a base salary and bonus based on performance. We also provide training for our staff from time to time to enhance their technical and product knowledge, including knowledge of industry quality standards.

Our employees in China participate in a state pension scheme organized by Chinese municipal and provincial governments. We were required to contribute to the scheme on behalf of our direct employees at a rate of 24% of the average monthly salary for the years ended December 31, 2013 and 2012. In addition, we are required by Chinese law to cover our employees with various types of social insurance. We made contributions to the social insurance scheme on behalf of our direct employees at a rate of 4% of the average monthly salary for each employee for the years ended December 31, 2013 and 2012. As indicated above, Linyi Zhifu is responsible for contributions on behalf of the leased employees.

Our Research and Development Activities

Our research and development efforts are focused on three objectives:

- Superior product safety and quality;
- Reduction of operating costs; and
- Driving growth through the development of new products.

We have research and development staff at each of our facilities. In total, 45 employees are dedicated to research and development.

We rely heavily on customer feedback to assist us in the modification and development of our products. We also utilize customer feedback to assist us in the development of new products. Over the past several years, on average, we added 10 to 20 new varieties to our product portfolio each year. In 2013, we added 6 new products in our convenience foods segment and discontinued 10 products in the convenience food segment primarily due to slow sales.

The amount we spent on research and development activities during the years ended December 31, 2013 and 2012 was not a material portion of our total expenses for those years.

Government Regulation

As a manufacturer and distributor of food products, we are subject to regulations of China s Agricultural Ministry and Ministry of Health. This regulatory scheme governs the manufacture (including composition and ingredients), labeling, packaging and safety of food. It also regulates manufacturing practices, including quality assurance programs, for foods through its current manufacturing practice regulations, and specifies the standards of identity for certain foods, including the products sold by us, and prescribes the format and content of many of the products sold by us, the format and content of certain nutritional information required to appear on food products labels and approves and regulates claims of health benefits of food products.

We have obtained approvals from Chinese authorities for the production of certain categories of products, including chestnuts, frozen vegetables and fruits, fish, and canned products. Production of new products that do not fall into approved categories of products would require separate approval from the appropriate Chinese authorities. We have consistently obtained such approvals for our newly developed products in the past and do not anticipate any difficulties in obtaining new approvals in the future if needed.

In addition, we are required to obtain governmental approval, and to register with the State Administration for Industry and Commerce, in order to open a new facility in China. We have consistently obtained such approvals, and made such registrations, for our new facilities in the past and do not anticipate any difficulties in filing new registrations and obtaining new approvals in the future if needed.

Under the relevant PRC sanitation laws governing food export, unless an exporter s products are exempted from inspection, products must be inspected in accordance with the Law of the PRC on Import and Export Commodity Inspection. We have not been exempted from inspection. In the past, we were authorized by the relevant authorities to conduct self-inspection of certain of our export products. However, currently, the relevant authorities have imposed tighter food safety control in China, and as a result, all of our exported food products must be inspected by relevant government agencies. We believe that all of our exported products are currently in compliance with such requirements and we do not anticipate any difficulties in complying with such rules in the future.

In addition, we are required to obtain a license from the local branch of the Entry-Exit Inspection and Quarantine Bureau of China for our exported products. We have consistently obtained such licenses in the past and we do not anticipate any difficulties in obtaining such licenses in the future.

ITEM 1A. RISK FACTORS

RISK FACTORS

Business Risks

We may not be able to obtain an adequate supply of high quality raw materials.

Our business depends on obtaining a reliable supply of various agricultural products, including chestnuts, vegetables, fruits, red meat, fish, eggs, rice, flour and packaging products. During 2013, the cost of our raw materials decreased from $145,460,250 to $141,159,775 for a decrease of approximately 3.0% . We may have to increase the number of our suppliers of raw materials and expand our own agricultural operations in the future to meet growing production demands. Despite our efforts to control our supply of raw materials and maintain good relationships with our suppliers, we could lose one or more of our suppliers at any time. The loss of several suppliers may be difficult to replace and could increase our reliance on higher cost or lower quality suppliers, which could negatively affect our profitability. In addition, if we have to increase the number of our suppliers of raw materials in the future to meet growing production demands, we may not be able to locate new suppliers who could provide us with sufficient materials to meet our needs. Any interruptions to, or decline in, the amount or quality of our raw materials supply could materially disrupt our production and adversely affect our business and financial condition and financial prospects.

The prices that we have paid for our raw materials recently have experienced significant fluctuation. If these price fluctuations continue, our profit margins may be materially adversely affected.

The average price that we paid for chestnuts in 2013 and 2012 was approximately $1,507 per metric ton and $1,433 per metric ton, respectively, excluding value added taxes. We do not currently hedge against changes in our raw material prices. Consequently, if the costs of our raw materials increase further, and we are unable to offset these increases by raising the prices of our products, our profit margins and financial condition could be adversely affected.

Price inflation in China could affect our results of operation if we are unable to pass along raw material price increases to our customers.

Inflation in China has been consistently increasing in recent years. Because we purchase raw materials from suppliers in China, price inflation directly causes an increase in the cost of our raw materials. Price inflation could affect our results of operation if we are unable to pass along raw material price increases to customers. In addition, if inflationary trends continue in China, China could lose its competitive advantage as a low-cost manufacturing venue, which could in turn lessen some of the competitive advantages of our being based in China. Accordingly, inflation in China may weaken our competitiveness domestically or in international markets.

Our sales and reputation may be affected by product liability claims, litigation or, product recalls in relation to our products.

The sale of products for human consumption involves an inherent risk of injury to consumers. We face risks associated with product liability claims, litigation, or product recalls, if our products cause injury or become adulterated or misbranded. Our products are subject to product tampering and contamination, such as mold, bacteria, insects, shell fragments and off-flavor contamination, during any of the procurement, production, transportation and storage processes. If any of our products were to be tampered with, or become tainted in any of these respects, and we were unable to detect this, our products could be subject to product liability claims or product recalls. Our ability to sell products could be reduced if certain pesticides, herbicides or other chemicals used by growers have left harmful residues on portions of our raw materials or if our raw materials have been contaminated by other agents.

We have never had a product recall in the past but we have experienced product liability claims that were made by our customers. The amounts of such claims were immaterial. However, claims of product defect or product liability for material amounts, individually or in the aggregate, may be made in the future.

We have not procured a product liability or general liability insurance policy for our business, as the insurance industry in China is still in an early stage of development. To the extent that we suffer a loss of a type which would normally be covered by product liability or general liability insurance in the United States, we would incur significant expenses in defending any action against us and in paying any claims that result from a settlement or judgment against us. Product liability claims and product recalls could have a material adverse effect on the demand for our products and on our business goodwill and reputation. Adverse publicity could result in a loss of consumer confidence in our products.

We may be unable to manage future rapid growth.

We have grown rapidly over the last few years. Our sales increased from $27,735,833 in 2004 to $215,279,785 in 2013. The number of product types we sold increased from approximately 100 in 2004 to approximately 234 in 2013. We intend to continue to expand the volume and variety of products we offer, as well as the geographical scope of our sales and production facilities. Our business growth could place a significant strain on our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage our workforce. Our personnel, systems, procedures and controls may not be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs, a decline in sales and reduced profitability.

Our expansion strategy may not prove successful and could adversely affect our existing business.

Our growth strategy includes the expansion of our manufacturing operations, including new production lines and agricultural operations. We plan to expand our sales in China and internationally. We will need to engage in various forms of promotional and marketing activities in order to further develop the branding of our products and to increase our market share in new and existing markets. The implementation of this strategy may involve large transactions and present financial, managerial and operational challenges. We could also experience financial or other setbacks if any of our growth strategies incur problems of which we are not presently aware. If we fail to generate sufficient sales in new markets or increase our sales in existing markets, we may not be able to recover the production, distribution, promotional and marketing expenses, as well as administrative costs we have incurred in developing such markets.

Our results of operations could be affected by natural events in the locations in which our customers operate.

Several of our customers have operations in locations that are subject to natural disasters, such as severe weather and geological events, which could disrupt the operations of those customers and suppliers as well as our operations. If our customers suffer from these events, their operations may be negatively impacted. As a result, some or all of those customers may reduce their orders for our products, which could adversely affect our revenue and results of operations.

The acquisition of other businesses could pose risks to our profitability.

We may try to grow through acquisitions in the future. Any proposed acquisition could result in accounting charges, potentially dilutive issuances of equity securities, and increased debt and contingent liabilities, any of which could have a material adverse effect on our existing business and the market price of our common stock. Acquisitions, in general, entail many risks, including risks relating to the failed integration of the acquired operations, diversion of management s attention, and the potential loss of key employees of the acquired organizations. We may be unable to successfully integrate businesses or the personnel of any business that might be acquired in the future, and our failure to do so could have a material adverse effect on our business and on the market price of our common stock.

We are subject to risks of doing business internationally. If the international market does not grow as we expect, our business and financial condition may be adversely affected.

We conduct a substantial amount of business internationally. Our export sales destinations include countries in Asia, Europe, the Middle East and North America. Our international operations are subject to a number of inherent risks, including:

- chestnut products may not be widely recognized internationally, especially in Western countries;
- local economic and political conditions, including disruptions in trading markets;
- restrictive foreign governmental actions, including restrictions on transfers of funds and trade;
- protection measures, including export duties and quotas and customs tariffs;
- currency exchange rate fluctuations;
- earthquakes, tsunamis, floods or other major disasters may limit the imported food products; and
- unexpected incidents related to food safety.

Any of the foregoing risks could have a material and adverse effect on our operating results.

A significant amount of our revenues is dependent on a limited number of customers and the loss of any one of our major customers could materially and adversely affect our growth and our revenues.

A significant portion of our revenues has historically been derived from a limited number of customers, particularly in our chestnut products segment. Sales to our ten largest customers accounted for approximately 12.9% and 15.4% of our total revenues in 2013 and 2012, respectively. The loss of any one of these customers, or a material decrease in purchases by any one of these customers, could adversely impact our revenues.

We rely primarily on distributors to sell our products. Any delays in delivery or poor handling by our distributors or third-party transport operators may affect our sales and damage our reputation.

In 2013, we sold our products through over 100 distribution service providers. The services provided could be suspended and could cause interruption to the supply of our products to domestic or overseas customers. Delivery disruptions may occur for various reasons beyond our control, including poor handling by service providers or third party transport operators, transportation bottlenecks, natural disasters and labor strikes, and could lead to delayed, damaged or lost deliveries. If our products are not delivered in a timely manner, our reputation could be harmed. If our products are damaged in the process of being delivered, we may be liable to pay for such damages incurred.

Failure of the market to accept our new products, or failure to obtain regulatory approval for our new products, may cause us to lose our competitive position in the food industry.

We introduced 16 new products in 2011, 7 new products in 2012 and 6 new products in 2013. We plan to introduce approximately 10 to 20 new products in 2014. The success of the new products we introduce depends on our ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. We intend to introduce new products as well as alternative flavors, sizes and packaging for our existing products. We may not be able to gain market acceptance for our new products. Consumer preferences change, and any new products that we introduce may fail to meet the particular tastes or requirements of consumers, or may be unable to replace their existing preferences. Our failure to anticipate, identify or react to these particular tastes or changes could result in reduced demand for our products, which could in turn cause us to be unable to recover our development, production and marketing costs.

We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our research and development, operations and revenue.

The Lorain Group Companies were founded in 1994 by Si Chen, our chairman and chief executive officer. Mr. Chen, together with other senior management, has been a key driver of our strategy and has been fundamental to our achievements to date. The successful management of our business is, to a considerable extent, dependent on the services of Mr. Chen and other senior management. We compete for qualified personnel with other food processing companies, food retailers and research institutions. Consequently, we may either lose key employees to our competitors or we may need to significantly increase the compensation of such employees in order to retain them. The loss of the services of any key management employee or failure to recruit a suitable or comparable replacement could have a significant impact upon our ability to manage our business effectively, and our business and future growth may be adversely affected.

We face increasing competition from domestic and foreign companies.

The food industry in China is fragmented. Our ability to compete against other national and international enterprises is, to a significant extent, dependent on our ability to distinguish our products from those of our competitors by providing large volumes of high quality products that appeal to consumers tastes and preferences at reasonable prices. Some of our competitors have been in business longer than we have and are more established. Our competitors may provide products comparable or superior to those we provide or adapt more quickly than we do to evolving industry trends or changing market requirements. Increased competition may result in price reductions, higher raw materials prices, reduced margins and loss of market share, any of which could materially adversely affect our profit margins.

An increase in the cost of energy could affect our profitability.

Recently, we have experienced significant increases in energy costs, and energy costs could continue to rise, which would result in higher distribution, freight and other operating costs. Our future operating expenses and margins will be dependent on our ability to manage the impact of cost increases.

Our products are subject to counterfeiting or imitation, which could impact our reputation.

To date, we have experienced limited counterfeiting and imitation of our products. However, counterfeiting or imitation of our products may occur in the future and we may not be able to detect it and deal with it effectively. Any occurrence of counterfeiting or imitation could impact negatively upon our reputation, particularly if the counterfeit or imitation products cause sickness, or injury to consumers. In addition, counterfeit or imitation products could result in our need to incur costs with respect to the detection or prosecution of such activities.

We rely on an outside contractor to provide a majority of our labor.

We have hired Linyi Zhifu Labor Service Company to provide employees to our production facilities. Should Linyi Zhifu Labor Service Company be unable to continue to provide the number of employees we need, our production could be disrupted. In addition, Linyi Zhifu Labor Service Company could raise their service fees or terminate their relationship with us in the future, which may result in increased production costs.

Regulatory Risks

We are subject to extensive regulations by the Chinese government.

The food industry is subject to extensive regulations by Chinese government agencies. Among other things, these regulations govern the manufacturing, importation, processing, packaging, storage, exportation, distribution and labeling of our products. New or amended statutes and regulations, increased production at our existing facilities, and our expansion into new operations and jurisdictions may require us to obtain new licenses and permits and could require us to change our methods of operations at costs that could be substantial.

Our failure to comply with PRC environmental laws may require us to incur significant costs.

We carry on our business in an industry that is subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing and construction that may cause environmental waste to adopt effective measures to control such waste. In addition, such enterprises are required to pay fines, or to cease operations entirely under extreme circumstances, should they discharge waste substances. The Chinese government may also change the existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant capital expenditures, which we may be unable to pass on to our customers through higher prices for our products.

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Our failure to comply with PRC hygiene laws may require us to incur significant costs.

Manufacturers in the Chinese food industry are subject to compliance with PRC food hygiene laws and regulations. These food hygiene laws require all enterprises engaged in the production of chestnuts and various vegetables and fruits to obtain a hygiene license for each of their production facilities. Such laws also require manufacturers to comply with regulations with respect to food, food additives, packaging, and food production sites, facilities and equipment. Failure to comply with PRC food hygiene laws may result in fines, suspension of operations, loss of hygiene licenses and, in more extreme cases, criminal proceedings against an enterprise and its management. The Chinese government may also change the existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur significant capital expenditures, which we may be unable to pass on to our customers through higher prices for our products.

Financial Risks

Our operations are cash intensive, and our business could be adversely affected if we fail to maintain sufficient levels of working capital.

We spend a significant amount of cash on our operations, principally to procure raw materials for our products. Many of our suppliers, including chestnut, vegetable and fruit farmers, and suppliers of packaging materials, do not allow us to pay on credit. However, some of the suppliers with whom we have a long-standing business relationship allow us to pay on credit. We fund the majority of our working capital requirements out of cash flow generated from operations. If we fail to generate sufficient sales, or if our suppliers stop offering us credit terms, we may not have sufficient liquidity to fund our operating costs and our business could be adversely affected.

We also fund approximately 21.1% of our working capital requirements from the proceeds of short-term loans from Chinese banks. Our average loan balance from short-term bank loans in 2013 was approximately $32.8 million. We expect to continue to do so in the future. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. The term of almost all such loans is one year or less. Historically, we have rolled over such loans on an annual basis. However, we may not be able to roll over such loans in the future or may not have sufficient funds available to pay all of our borrowings upon maturity. Failure to roll over our short-term borrowings at maturity or to service our debt could result in the imposition of penalties, including increases in rates of interest, legal actions against us by our creditors, or even insolvency.

Management anticipates that our existing capital resources and cash flows from operations and current and expected short-term bank loans will be adequate to satisfy our liquidity requirements through 2014. However, if available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include considering pursuing alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements. However, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity. Currently, the capital markets for small capitalization companies are difficult and banking institutions have become stringent in their lending requirements. Accordingly, we cannot be sure of the availability or terms of any third party financing.

We are subject to credit risk in respect of account receivables.

In 2008 and 2009, some of our customers, including some of our large supermarket customers, delayed their payments for up to 60 to 90 days beyond their term. Our cash flow suffered while waiting for such payments. Consequently, at times we had to delay payments to our suppliers and to postpone business expansion as a result of these delayed payments. Starting in 2008 and through 2013, we gradually shortened credit terms for many of our international and domestic customers from between 30 and 180 days to between 30 and 60 days. Our large customers may fail to meet these shortened credit terms, in which case we may not have sufficient cash flow to fund our operating costs and our business could be adversely affected.

The discontinuation of any preferential tax treatment or other incentives currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Our subsidiaries are entitled to certain special or preferential tax treatments regarding foreign enterprise income tax in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and related rules.

Accordingly, we have been entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year (after setting off tax losses carried forward from prior years) is exempt from income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant tax authorities. However, on March 16, 2007, the PRC s National People s Congress passed a new corporate income tax law, which became effective on January 1, 2008. This new corporate income tax unifies the corporate income tax rate, cost deduction and tax incentive policies for both domestic and foreign-invested enterprises. According to the new corporate income tax law, the applicable corporate income tax rate of our operating subsidiaries has been increased to a rate of 25% over a five-year grandfather period. This tax rate increase applies across the board, for all enterprises whether domestic or foreign. The PRC government has established a set of transition rules to allow enterprises that already started tax holidays before January 1, 2008, to continue utilizing the tax holidays until fully utilized. The discontinuation of any such special or preferential tax treatment or other incentives could have an adverse effect on our business, financial condition and results of operations.

In addition, under current PRC tax law, regulations and rulings, dividends from our operations in China paid to us are not currently subject to PRC income tax. If these distributions become subject to tax in the future, our net income would be adversely affected.

We may enter into additional financing agreements which may have a dilutive effect to our earnings per share and the rights of certain stockholders.

Additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities. For instance, we may grant registration rights to investors purchasing our equity or debt securities in the future.

We may be unable to raise additional capital.

If we are unable to raise additional financing when needed, we may be unable to implement our long-term business plan, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail or cease operations.

We may be exposed to potential risks relating to our internal control over financial reporting and our ability to have such controls attested to by our independent auditors.

The SEC, under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to provide in their annual reports on Form 10-K a report by management with respect to the company s disclosure controls and procedures and internal control over financial reporting. We are currently required to comply with this requirement. In addition, such rules require the independent registered public accounting firm auditing a company s financial statements to attest to the operating effectiveness of such company s internal controls. However, because we are a smaller reporting company, we are not required to receive an attestation report from a registered public accounting firm. We can provide no assurance that we will comply with all of the requirements imposed thereby. Further, we cannot assure that we will receive a positive attestation from our independent auditors. Investors and others may lose confidence in the reliability of our financial statements in the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or if we are unable to receive a positive attestation from our independent auditors with respect to our internal controls.

Risks Related To Doing Business In China

Changes in China s political or economic situation could harm us and our operating results.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country. However, the Chinese government could change these economic reforms at any time. Such changes could negatively impact our operations and profitability.

The structure of the Chinese economy may inhibit our ability to expand our business.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in several ways. For example, state-owned enterprises constitute a large portion of the Chinese economy. In addition, weak corporate governance practices and the lack of flexible currency exchange policies continue to persist. As a result of these differences, we may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

Our business is largely subject to the uncertain legal environment in China.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which precedents set in earlier legal cases are not generally used. Laws, regulations and legal requirements relating to foreign investments in China are still evolving, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign enterprises to hold required business licenses and permits.

It may be difficult for our stockholders to effect service of process against our subsidiaries or our officers and directors.

Our operating subsidiaries were organized under the laws of China and substantially all of their assets are located outside the U.S. In addition, our executive officers and directors are residents of China and substantially all of their assets are located outside the U.S. As a result, it could be difficult for our stockholders to effect service of process in the U.S., or to enforce a judgment obtained in the U.S., against our officers and directors.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

The majority of our revenues are settled in Renminbi and U.S. dollars, and any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividends or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain. For instance, foreign enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents at banks in China authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. The Chinese regulatory authorities may impose more stringent restrictions on the convertibility of the Renminbi in the future.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may have negative effects on our company.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the local

SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), further expanded the reach of Circular 75.

ILH acquired certain interests in the Lorain Group Companies controlled by Si Chen, our Chairman and Chief Executive Officer. Pursuant to Notice No. 75 and Notice 106, if a PRC resident has completed a round-trip investment through its established SPV but has not yet completed the required procedures of SAFE registration for offshore investment of the SPV, he must retroactively register the SPV with SAFE.

In order to avoid such SAFE registration requirements, a Japanese individual, Hisashi Akazawa, was designated as a nominee holder of ILH when ILH was established. Mr. Akazawa granted an option to our Chairman and Chief Executive Officer, Mr. Chen, allowing Mr. Chen to buy 90% of Mr. Akazawa s interest in the Company at a fixed price at a future time in accordance with the terms of an option agreement between the two parties. On December 22, 2008, Mr. Chen exercised this option. In addition, on that date, Mr. Chen acquired all of the remaining shares of our company held by Mr. Akazawa. As a result, Mr. Chen is the beneficiary of ILH and may be required to register with and obtain approvals from SAFE or its agency with respect to the direct offshore investment activities related to the acquisition of the Lorain Group Companies.

If the failure to identify and characterize Mr. Chen as a beneficial owner of ILH is determined by the PRC authorities to be a serious violation of the requirements of the PRC Company Law and the PRC Regulation of Registration of Companies, the Lorain Group Companies may be ordered by the company registration authority in the PRC to make corrections on its filed registration, to be fined an amount no less than RMB 5,000 and no more than RMB 50,000 or, in the worse scenario, to have its company registration certificate revoked or its business licenses canceled.

Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies, such as our present and prospective PRC subsidiaries ability to conduct foreign exchange activities including the remittance of dividends and foreign currency-denominated borrowings. In addition, our PRC resident beneficial holders may be subject to compliance with Circular 75. Such holders may not be able to complete the necessary registration procedures required by Circular 75.

Our financial condition is affected by the foreign exchange rate between the U.S. dollar and the Renminbi.

Our financial condition is affected by the foreign exchange rates, primarily the rate between the U.S. dollar and the Renminbi. In the event that the Renminbi appreciates against the U.S. dollar, our costs will increase.

Risks Related To the Market For Our Stock

Certain of our stockholders have the ability to delay or prevent adoption of important business decisions based on their ownership of a significant percentage of our outstanding voting securities.

Mr. Chen is the record owner of approximately 42.6% of our outstanding voting securities. As a result, he possesses significant influence over our business. For instance, Mr. Chen may elect our board of directors, authorize significant corporate transactions or prevent a future change in control of our company.

Certain provisions of our Articles of Incorporation may make it more difficult for a third party to effect a change-in-control.

Our Articles of Incorporation authorize our board of directors to issue up to 5,000,000 shares of preferred stock without stockholder approval. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by the board of directors without further action by the stockholders. These terms may contain voting rights, including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights and redemption rights provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of our board of directors to issue preferred stock could make it more difficult to acquire our company and could negatively affect the market price of our common stock.

The exercise of outstanding warrants issuable for shares of our common stock may cause dilution to existing shareholders.

There are currently warrants outstanding to purchase up to an aggregate of 1,753,909 shares of our common stock at an exercise price of $3.70, subject to adjustments. These warrants expire in April 2015. If holders of these warrants exercise the warrants in exchange for shares of our common stock, such issuances may have a dilutive effect on the stock ownership of existing shareholders and may harm the market price of our stock. Furthermore, if we were to attempt to obtain additional financing during the term of these warrants, the terms on which we obtain such financing may be adversely affected by the existence of these warrants.

We do not expect to pay dividends in the future, and any return on your investment may be limited to the value of the shares you acquire.

Other than a special cash dividend which we paid to holders of our common stock as of April 16, 2007, we have never declared or paid cash dividends. We do not anticipate paying any cash dividends on our common stock in the foreseeable future and any return on your investment may be limited to the value of the shares of our common stock that you acquire. We currently intend to retain and use any future earnings for the development and expansion of our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our primary facilities, which are owned except where otherwise indicated, are as follows:

Facility	Location	Approximate Size (Square Meters)	Owned or Leased
Junan Hongrun	Junan County, Shandong Province, PRC	197,637	Owned
Shandong Lorain	Junan County, Shandong Province, PRC	31,459	Owned
Beijing Lorain	Miyun County, Beijing Province, PRC	22,677	Owned
Luotian Lorain	Luotian County, Hubei Province, PRC	54,251	Owned
Dongguan Lorain	Dongguan County, Guangdong Province, PRC	5,472	Leased
Shandong Greenpia	Junan County, Shandong Province, PRC	33,332	Owned
Conserverie Minerve*	France and Portugal	35,645	Owned

* a wholly-owned subsidiary of Athena, a company controlled by Junan Hongrun

We may also own or lease space for additional facilities, including refrigerated storage facilities, and smaller offices, including sales offices, located in China.

In the aggregate, we currently have land use rights to, or lease, 79 properties with approximately 380,473 square meters, consisting of manufacturing facilities, office buildings and land reserved for future expansion. We believe our current facilities provide adequate capacity for our current and projected needs.

All land in China is owned by the State. Individuals and companies are permitted to acquire land use rights for specific purposes. In the case of land used for industrial purposes, the land use rights are granted for a period of up to 50 years. This period may be renewed at the expiration of the initial and any subsequent terms. Granted land use rights are transferable and may be used as security for borrowings and other obligations.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may have disputes that arise in the ordinary course of our business. Currently, there are no material legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition.

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 for our Common Stock

Our common stock is quoted on the NYSE AMEX under the symbol ALN . As of March 28, 2014 the closing price for our common stock was $1.15 per share.

The following table sets forth, for the periods indicated, the high and low sales prices of our common stock. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	Common Stock Market Prices			
		High		Low
Fiscal Year Ended December 31, 2013				
First Quarter	$	1.40	$	1.20
Second Quarter	$	1.29	$	1.02
Third Quarter	$	1.11	$	0.61
Fourth Quarter	$	0.97	$	0.68
Fiscal Year Ended December 31, 2012				
First Quarter	$	1.74	$	1.31
Second Quarter	$	1.39	$	1.10
Third Quarter	$	1.30	$	1.03
Fourth Quarter	$	1.45	$	1.13

Approximate Number of Holders of Our Common Stock

As of March 4, 2014, there were 291 stockholders of record of our common stock. This does not include the holders whose shares are held in a depository trust in street name.

Dividend Policy

We have not declared or paid cash dividends other than the payment of a dividend in April 2007 in connection with our reverse merger. Any future decisions regarding dividends will be made by our board of directors. We currently intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Issuances of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

The information in Item 12 of this report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are an integrated food manufacturing company headquartered in Shandong Province, China. We develop, manufacture and sell the following types of food products:

- Chestnut products,
- Convenience foods (including ready-to-cook, or RTC, foods, ready-to-eat, or RTE, foods and meals ready-to-eat, or MRE); and
- Frozen food products.

We conduct our production activities in China. Our products are sold in the Chinese domestic markets as well as exported to foreign countries and regions such as Japan, South Korea and Europe. We believe that we are the largest chestnut processor and manufacturer in China. We have developed brand equity for our chestnut products in China, Japan and South Korea over the past 10 to 15 years. We produced 58 high value-added chestnut products in 2013. We derive most of our revenues from sales in China, Japan and South Korea. In 2014, our primary strategy is to continue building our brand recognition in China through consistent marketing efforts towards supermarkets, wholesalers, and significant customers, enhancing the cooperation with other manufacturers and factories, and enhancing the turnover for our existing chestnut, convenience and frozen food products. In addition, we are working to expand our marketing efforts in Asia, Europe and the Middle East. We currently have limited sales and marketing activity in the United States, although our long-term plan is to significantly expand our activities there.

Production Factors that Affect our Financial and Operational Condition

Our business depends on obtaining a reliable supply of various agricultural products, including chestnuts, vegetables, fruits, red meat, fish, eggs, rice, flour and packaging products. During 2013, the cost of our raw materials decreased from $145,460,250 to $141,159,775, for a decrease of approximately 3.0% . We may have to increase the number of our suppliers of raw materials and expand our own agricultural operations in the future to meet growing production demands. Despite our efforts to control our supply of raw materials and maintain good relationships with our suppliers, we could lose one or more of our suppliers at any time. The loss of several suppliers may be difficult to replace and could increase our reliance on higher cost or lower quality suppliers, which could negatively affect our profitability. In addition, if we have to increase the number of our suppliers of raw materials in the future to meet growing production demands, we may not be able to locate new suppliers who could provide us with sufficient materials to meet our needs. Any interruptions to, or decline in, the amount or quality of our raw materials supply could materially disrupt our production and adversely affect our business and financial condition and financial prospects.

The average price that we paid for chestnuts in 2013 and 2012 was approximately $1,507 metric ton and $1,433 per metric ton, respectively, excluding value added taxes. In the past few years, increasing inflation pressures weighed on the Chinese economy which reflected on agricultural product prices. We do not have effective means and do not currently hedge against changes in our raw material prices. Consequently, if the costs of our raw materials increase further and we are unable to offset these increases by raising the prices of our products, our profit margins and financial condition could be adversely affected.

Uncertainties that Affect our Financial Condition

We spend a significant amount of cash on our operations, principally to procure raw materials for our products. Many of our suppliers, including chestnut, vegetable and fruit farmers, and suppliers of packaging materials, require us to pay for their supplies in cash on the same day that such supplies are delivered to us. However, some of the suppliers with whom we have a long-standing business relationship allow us to pay on credit. We fund the majority of our working capital requirements out of cash flow generated from operations. If we fail to generate sufficient sales, or if our suppliers stop offering us credit terms, we may not have sufficient liquidity to fund our operating costs and our business could be adversely affected.

We also funded approximately 21.1% and 24.4% of our working capital requirements in 2013 and 2012, respectively, from the proceeds of short-term loans from Chinese banks. We expect to continue to do so in the future. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. Our average loan balance from short-term bank loans in 2013 and 2012 were approximately $32.8 million and $34.4 million, respectively. The term of almost all such loans is one year or less. Historically, we have rolled over such loans on an annual basis. However, in recent years, the Chinese government has implemented more stringent credit policies to curb inflation and soaring property prices, which could negatively impact our ability to obtain or roll over these short term loans, and hence not having sufficient funds available to pay all of our borrowings upon maturity. Failure to roll over our short-term borrowings at maturity or to service our debt could result in the imposition of penalties, including increases in rates of interest, legal actions against us by our creditors, or even insolvency. In addition, we completed two private placement financings in September 2010 and October 2009 with net proceeds of $9.0 million and $10.9 million, respectively, the proceeds of which were primarily used as working capital. We also secured a $15 million loan from Deutsche Investitions- und Entwicklungsgesellshaft (DEG) in May 2010, which we have fully drawn down in 2011. We can provide no assurances that we will be able to enter into any future financing or refinancing agreements on terms favorable to us, especially considering the current instability of the capital markets.

We anticipate that our existing capital resources, cash flows from operations and current and expected short-term bank loans will be adequate to satisfy our liquidity requirements through 2014. However, if available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include considering pursuing alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements. However, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity. Currently, the capital markets for small capitalization companies are difficult and banking institutions have become stringent in their lending requirements. Accordingly, we cannot be sure of the availability or terms of any third party financing.

In 2008 and 2009, some of our customers, including some of our large supermarket customers, delayed their payments for up to 60 to 90 days beyond their term. Our cash flow suffered while waiting for such payments. Consequently, at times we had to delay payments to our suppliers and to postpone business expansion as a result of these delayed payments. Starting in 2008 and through 2013 we gradually shortened credit terms for many of our international and domestic customers from between 30 and 180 days to between 30 and 60 days. Our large customers may fail to meet these shortened credit terms, in which case we may not have sufficient cash flow to fund our operating costs and our business could be adversely affected.

Recent Developments and Events

On March 13, 2014, we acquired 12,750 shares, or 51% share capital, of Athena from two existing shareholders of Athena for an aggregate purchase price of 1,995,000 (or approximately US$2,702,650) of which 500,000 (or approximately US$677,350) (Deferred Payment) remains due and payable to Intiraimi on February 7, 2015 under the Intiraimi Purchase Agreement if certain conditions are met. Under the terms of the Intiraimi Purchase Agreement, we agreed to pledge 12,750 shares, or 51% share capital, of Athena to Intiraimi to guarantee the Deferred Payment.

Athena is a holding company which holds all of the capital and the voting shares of Conserverie Minerve, a company organized under French law. Conserverie Minerve specializes in the processing and sale of chestnut and prepared foods products in the Europe. Conserverie Minerve operates its businesses through the following, direct and indirect, wholly owned subsidiaries:

- Sojafrais, a company under French law;
- SCI SIAM, a real estate company under French law;
- SCI GIU LONG, a real estate company under French law; and
- CACOVIN, a company under Portuguese law.

In connection with the Athena acquisition, on March 13, 2014, we issued a Convertible Promissory Note (Note) in the principal amount of US$3.5 million (the Principal Amount) to an investor. Under the terms of the Note, interest on the outstanding Principal Amount accrues at a rate of 4.5% per annum, and all accrued but unpaid interest is due and payable on June 30, 2014 and on the last day of each quarter thereafter. If the Note is not converted pursuant to the terms of the Note, additional interest on the outstanding Principal Amount shall accrue at a rate of 4.5% per annum and payable at the maturity of the Note. Unless the Note is otherwise accelerated or converted, the unpaid Principal Amount of the Note, together with all accrued but unpaid interest, is due and payable, at the election of the investor, on September 13, 2014 or March 13, 2015 (Maturity Date), provided, however, if the investor fails to notify the Company in writing by August 13, 2014 that it elects the maturity date of September 13, 2014, then the Maturity Date will be extended to March 13, 2015. In addition, under the terms of the Note, at any time commencing on or after September 13, 2014 and before March 13, 2015, the investor may convert in whole or in part the outstanding Principal Amount into a number of shares of our Common Stock of the Company on a per share conversion price of $1.15, as may be adjusted from time to time pursuant to the terms and conditions of the Note (Conversion Price); provided, however, the Company will not effect any conversion of the Note, and the investor will not have the right to convert any portion of the Note, to the extent (but only to the extent) that the Holder would beneficially own in excess of the Beneficial Ownership Limitation (as defined below), which beneficial ownership will be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. The Beneficial Ownership Limitation is 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of the Note. The Note is secured by the personal guarantee of Si Chen, our chief executive officer and chairman.

Results of Operations

The following tables set forth key components of our results of operations for the periods indicated, and the differences between the two periods expressed in dollars and percentages.

	Year Ended December 31,		**Increase/Decrease**	**Increase/Decrease**
(in thousands of U.S. dollars)	**2013** ($)	**2012** ($)	($)	(%)
Revenue	215,280	239,673	(24,393)	-10.2%
Cost of Revenue	(172,108)	(188,565)	16,457	-8.7%
Gross profit	43,172	51,108	(7,936)	-15.5%
Operating Expenses:				
Selling and Marketing	(10,508)	(11,742)	1,234	-10.5%
General and administrative	(7,231)	(7,507)	276	-3.7%
Income from continuing operations	25,433	31,859	(6,426)	-20.2%
Non-operating Income (Expenses):				
Government grant	1,607	1,225	381	31.1%
Interest income	80	338	(258)	-76.3%
Other income	1,485	178	1,307	734.3%
Other expense	(189)	(87)	(102)	117.2%

Interest Expense	(5,153)	(4,032)	(1,121)	27.8%
Income before taxes	23,262	29,481	(6,219)	-21.1%
Income Taxes	(5,574)	(7,737)	2,163	-28.0%
Income before Minority Interest	17,689	21,744	(4,055)	-18.7%
Minority Interest	(1,054)	(1,321)	267	-20.2%
Net Income	16,634	20,423	(3,789)	-18.6%

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue

Net Revenues. Net revenues decreased by $24.4 million, or approximately 10.2%, to $215.3 million in 2013 from $239.7 million in 2012. This decrease was attributable to the decreased revenues from sales of our chestnut and convenience food products, as reflected in the following table:

	Year Ended December 31,			
(in thousands of U.S. dollars)	2013 Revenues ($)	2012 Revenues ($)	Increase / Decrease ($)	Increase / Decrease (%)
Chestnut	114,709,005	125,101,585	(10,392,580)	-8.3%
Convenience food	62,213,432	79,575,069	(17,361,637)	-21.8%
Frozen food	38,357,348	34,996,809	3,360,539	9.6%
Total	215,279,785	239,673,463	(24,393,678)	-10.2%

The decrease in revenue was due to decrease in both our Chinese domestic sales and exports. Revenues from sales in the Chinese domestic market decreased by approximately $12.0 million, or approximately 7.0%, in 2013. As a percentage of total revenues, revenues from sales in the domestic PRC market increased slightly to approximately 73.8% from approximately 71.3% in 2012.

In addition, in 2013, revenues from international sales to Japan, South Korea, United Kingdom, and Belgium as well as other countries decreased, in the aggregate, approximately $12.4 million, or 18.0%, compared to 2012. See Note 15 to the financial statements contained in this report for more information on the breakdown of our sales pursuant to geographic region.

Cost of Revenues. Our cost of revenues decreased $16.5 million, or approximately 8.7%, to $172.1 million in 2013 from $188.6 million in 2012. This decrease was attributable to the following factors, by percentage:

Category	Increase (Decrease) in Cost of Revenues (%)
Raw Materials	-3.0%
External Purchases	-42.9%
Other Allocated Overhead (depreciation, utilities, freight, equipment consumables)	2.1%
Wages	30.9%

Raw material costs decreased to $141,159,775, or approximately 3.0%, in 2013 from $145,460,250 in 2012; external purchases of finished products decreased by 42.9%, primarily reflecting our decreased operation and sales. Overhead expenses increased primarily due to increased depreciation expenses and utility expenses. Wages increased primarily due to increase in salary level. The following table reflects the changes in our cost of revenues in 2013 as compared to 2012 among our different segments:

(thousands of U.S. dollars)	2013 Cost of Revenues ($)	2012 Cost of Revenues ($)	Increase/ (Decrease) (%)
Chestnut Products	89,900	96,325	-6.7%
Convenience Products	50,156	62,820	-20.2%
Frozen Products	32,052	29,420	8.9%
Total	172,108	188,565	-8.7%

Gross Profit. Our gross profit decreased $7.9 million, or 15.5%, to $43.2 million in 2013 from $51.1 million in 2012 as a result of lower net revenues, partially offset by lower cost of revenues, for the reasons indicated above.

<u>Operating Expenses</u>

Selling and Marketing Expenses. Our selling and marketing expenses decreased approximately $1.2 million, or 10.5%, to $10.5 in 2013 from $11.7 million in 2012. The following table reflects the main factors that contributed to this increase as well as the dollar amount that each factor contributed to this increase:

(in U.S. dollars)	Decrease in costs in 2013 over 2012 ($)
Advertising	(45,712)
Transportation	(485,222)
Commission	(100,731)
Port Fee	(1,076,115)

The decrease listed in the table above were partially offset by an aggregate of $0.8 million increase of other factors, including wages of sales personnel, storage rental, and supermarket fee.

General and Administrative Expenses. Our general and administrative expenses decreased approximately $0.3 million, or 3.7%, to $7.2 million in 2013 from $7.5 million in 2012. The following table reflects the main factors that contributed to this decrease as well as the dollar amount that each factor contributed to this decrease:

(in U.S. dollars)	**Decrease in costs in 2013 over 2012 ($)**
Wage and Benefit	(218,904)
Provision for Bad Debts	(83,618)
Social Security	(136,910)
Land Use Fees	(83,450)

Government Subsidy Income

Government subsidy income increased from approximately $1.2 million in 2012 to $1.6 million in 2013, representing grants received mostly from the Junan County government and Beijing government to assist us in our research and business development.

Income Before Taxation and Minority Interest

Income before taxation and minority interest decreased $6.2 million, or 21.1%, to $23.3 million in 2013 from $29.5 million in 2012 as a result of lower revenues, partially offset by lower costs of revenues and operating expenses, for the reasons indicated above.

Income Taxes

Income taxes decreased approximately $2.2 million, or 28.0%, to $5.6 million in 2013, as compared to $7.7 million in 2012. This decrease was attributable to the lower income earned in 2013 as compared to 2012.

Minority Interest

Shandong Economic Development Investment holds 19.8% of the equity of our subsidiary Shandong Lorain, which is reflected in the minority interest of $1.1 million in 2013 and $1.3 million in 2012.

Net Income

Net income decreased $3.8 million, or 18.6%, to $16.6 million in 2013 from $20.4 million in 2012, as a result of the factors described above.

Liquidity and Capital Resources

General

Our primary capital needs have been to fund the working capital requirements necessitated by our sales growth, adding new products and expanding our facilities. In the past, our primary sources of financing have been cash generated from operations and short-term loans from banks in China. In October 2009 and September 2010, we obtained approximately $11 million and 9 million, respectively, from two private placement transactions. We also secured a $15 million loan from Deutsche Investitions- und Entwicklungsgesellshaft (DEG) in May 2010 which we have fully drawn down in 2011. Proceeds from the private placement transactions and cash drawn down from the DEG loan, together with cash generated from operations and short-term bank loans, have been primarily used to fund our working capital needs, as well as addition to our construction in progress and purchase of fixed assets. At December 31, 2013 and 2012, cash and cash equivalents (including restricted cash) were $35.7 million and $36.3 million, respectively.

We expect to continue to finance our operations and working capital needs in 2014 from cash generated from operations and short-term bank loans. We expect that anticipated cash flows from operations and short-term bank loans will be sufficient to fund our operations through at least the next twelve months.

Based upon our present plans, we believe that cash on hand, cash flows from operations and funds available under our bank facilities will be sufficient to fund our capital needs for the next twelve (12) months. However, if available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet our cash requirements. However, there is no assurance that we will be able to raise additional capital or reduce discretionary spending to provide liquidity, if needed. Currently, the capital markets for small capitalization companies are difficult. Accordingly, we cannot be sure of the availability or terms of any alternative financing arrangements.

The following table provides detailed information about our net cash flow for all financial statements periods presented in this report.

Cash Flows Data:	**For year ended December 31,**	
(in thousands of U.S. dollars)	**2013**	**2012**
Net cash flows provided by (used in) operating activities	(8,446)	8,955
Net cash flows provided by (used in) investing activities	(20,969)	(3,347)
Net cash flows provided by (used in) financing activities	28,988	8,325

Operating Activities

Net cash used in operating activities for 2013 was $8.4 million and net cash provided by operating activities for 2012 was $9.0 million. The decrease of approximately $17.4 million in net cash flows provided by operating activities resulted primarily from a lower net income of $4.1 million, a higher prepayment of $1.5 million, and a higher increase in accounts and other receivables of $13.6 million.

Investing Activities

During 2013, our uses of cash for investment activities are primarily to purchase equipment and land use rights. Net cash used in investing activities for 2013 and 2012 were $21.0 million and $3.3 million, respectively, with the increase of approximately $17.6 million cash used in investing activities resulted primarily from $11.4 million higher payment for the purchase of land use rights, $15.0 million higher payment for the purchase of plant and equipment, partially offset by $15.3 million decrease of security deposit.

Financing Activities

Net cash provided by financing activities for 2013 and 2012 were $29.0 million and $8.3 million, respectively. The increase of approximately $20.7 million in net cash provided by financing activities resulted primarily from an increase of $30.2 million in long-term borrowings and notes payable, partially offset by $8.7 million decrease in long term bank borrowings.

Loan Facilities

As of December 31, 2013 and 2012, we carried $29.4 million and $28.7 million short term bank loans from Chinese domestic banks. Please refer to Note 9 of the consolidated financial statements for details.

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

Method of Accounting -- We maintain our general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by us conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

Use of estimates -- The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however, actual results could differ materially from those estimates.

The use of estimates is critical to carrying value of asset accounts such as accounts receivable, inventory, fixed assets, and intangible assets. We use estimates to account for the related bad debt allowance, inventory impairment charges, depreciation and amortization of our assets. In the food processing industry these accounts have a significant impact on the valuation of our balance sheet and the results of our operations.

Principles of consolidation -- The consolidated financial statements are presented in US Dollars and include the accounts of the Company and its commonly controlled entity. All significant inter-company balances and transactions are eliminated in combination.

As of December 31, 2013, the particulars of the commonly controlled entities are as follows:

Name of Company	***Place of incorporation***	***Attributable equity interest***	***Registered capital***
		%	$
Shandong Lorain Co., Ltd	PRC	80.2	13,238,040
Luotian Lorain Co., Ltd	PRC	100	4,145,195
Junan Hongrun Foodstuff Co., Ltd	PRC	100	48,965,698
Beijing Lorain Co., Ltd	PRC	100	1,636,554
Shandong Greenpia Foodstuff Co., Ltd	PRC	100	2,513,747
Dongguan Lorain Co., Ltd	PRC	100	163,655
International Lorain Holding Inc.	Cayman Islands	100	50,927,518

Accounting for the Impairment of Long-Lived Assets -- The long-lived assets held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Determination of recoverability of assets to be held and used is by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the assets.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

During the reporting years, there was no impairment loss.

Revenue recognition -- Our revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, we have no other significant obligations and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Our revenue consists of invoiced value of goods, net of a value-added tax (VAT). No product return or sales discount allowance is made as products delivered and accepted by customers are normally not returnable and sales discount is normally not granted after products are delivered.

We believe that when custody and title of goods has been passed to our customers, or third party transporters, revenue is recognized. Our industry does not call for revenue recognition under multiple deliverable arrangements.

Financial Instruments

Our financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, accrued liabilities, and long-term liabilities.

The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

We have the accounting policy regarding financial instruments for our financial statements in 2013 and 2012. We consider it critical because our business is becoming more global in nature and the use of fair value for financial instruments has been widely adopted by accounting bodies around the globe. With financial statements that are widely accepted and comparable in many jurisdictions we will have greater access to capital locally.

Recent accounting pronouncements

In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01).*The Update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, Update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in *FASB Accounting Standards Codification*® or subject to a master netting arrangement or similar agreement. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Management does not expect the adoption of this standard has a significant effect on the Company s consolidated financial position or results of operations.

For public entities, the amendments that are subject to the transition guidance is effective for fiscal periods beginning after December 15, 2012. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). The amendments require an organization to:

a. Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

b. Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-03, Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities (ASU 2013-03). The amendment clarifies that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (as Level 1, Level 2, or Level 3) does not apply to private companies and nonpublic not-for-profits for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. The amendments are effective upon issuance. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (ASU 2013-04). The update provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). The ASU clarifies that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Accounting Standards Codification 830-30 to release any related cumulative translation adjustment into net income. The ASU provides that the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The amendments take effect prospectively for public companies for fiscal years beginning after December 15, 2013, and interim reporting periods within those years. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-07, Liquidation Basis of Accounting (ASU 2013-07). The ASU requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation would be considered imminent when the likelihood is remote that the reporting entity would return from liquidation and either: (a) a plan for liquidation has been approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or the entity will return from liquidation, or (b) a plan for liquidation is imposed by other forces, and the likelihood is remote that the entity will return from liquidation. If a plan for liquidation was specified in an entity s governing documents at its inception (for example, limited-life entities), then liquidation would be imminent only if the approved plan for liquidation differs from the plan specified at the entity s inception. The amendments take effect for all entities reporting under U.S. GAAP, except investment companies that are regulated under the Investment Company Act of 1940. The standard is effective for annual reporting periods beginning after December 31, 2013, and interim reporting periods therein. Early adoption is permitted. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice.

As of December 31, 2013, there are no other recently issued accounting standards not yet adopted that would have a material effect on the Company s consolidated financial statements

Off-Balance Sheet Arrangements

We do not have any off-balance arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

The full text of our audited consolidated financial statements as of December 31, 2013 begins on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (Exchange Act)) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2013, our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting described below.

Internal Controls Over Financial Reporting

Management s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that, as of December 31, 2013, our internal controls over financial reporting are not effective.

The material weakness and significant deficiency identified by our management as of December 31, 2013 relates to the ability of the Company to record transactions and provide disclosures in accordance with U.S. GAAP. We did not have sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of U.S. GAAP commensurate with our financial reporting requirements. For example, our staff members do not hold licenses such as Certified Public Accountant or Certified Management Accountant in the U.S., have not attended U.S. institutions for training as accountants, and have not attended extended educational programs that would provide sufficient relevant education relating to U.S. GAAP. Our staff will require substantial training to meet the demands of a U.S. public company and our staff s understanding of the requirements of U.S. GAAP-based reporting are inadequate.

Remediation Initiative

We plan to provide U.S. GAAP training sessions to our accounting team. The training sessions will be organized to help our corporate accounting team gain experience in U.S. GAAP reporting and to enhance their awareness of new and emerging pronouncements with potential impact over our financial reporting. In November 2013, we organized a corporate wide, three day training session for all finance and accounting staff. In October 2013, we participated in a speech in given by Mr. Robert Khuzami, former Director of Enforcement at the U.S. Securities & Exchange Commission from 2009- 2013 who led a key reorganization of the Division of Enforcement. The speech covered the current SEC and DOJ enforcement environments, the implications of increased local government enforcement activities, SEC compliance obligations for foreign issuers, among other things. In January 2014, we attended the training session featuring a COSO update from Mr. Robert B. Hirth, Chairman of the COSO. We plan to continue to participate in such educational seminars, tutorials, and conferences in future.

Changes in Internal Controls over Financial Reporting.

During the fiscal year ended December 31, 2013, there were no material changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal year covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations Over Internal Controls.

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent or detect all misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of such controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of misstatements, if any, have been detected or prevented. Also, projections of any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained in our Proxy Statement related to our 2014 Annual Stockholders' Meeting and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in our Proxy Statement related to our 2014 Annual Stockholders' Meeting and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be contained in our Proxy Statement related to our 2014 Annual Stockholders' Meeting and is incorporated herein by reference.

Equity Compensation Plan Information

Information for our equity compensation plans in effect as of the end of fiscal year 2013 is as follows:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	N/A	N/A	0
Equity compensation plans not approved by security holders	1,334,573*	$ 1.58	0
Total	1,334,573*	$ 1.58	0

* Consists of options granted under the 2009 Incentive Stock Plan (2009 Plan) and assumed by the Company in a merger. No additional options may be granted under the assumed 2009 Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item will be contained in our Proxy Statement related to our 2014 Annual Stockholders' Meeting and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item will be contained in our Proxy Statement related to our 2014 Annual Stockholders' Meeting and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1 and 2) **Financial Statement and Schedules**

The financial statements contained in the Audited Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

(b) **Exhibits**

Exhibit No.	Description
3.1	Articles of Incorporation of the registrant, as filed with the Nevada Secretary of State on June 15, 2009, Incorporated by reference to Exhibit 3.1 to the registrant s registration statement on Form S-3 filed on January 29, 2010.
3.2	Bylaws of the registrant, Incorporated by reference to Exhibit 3.2 to the registrant s registration statement on Form S-3 filed on January 29, 2010.
4.1	Certificate of Designation of Series A Voting Convertible Preferred Stock of the registrant as filed with the Secretary of State of Delaware on April 9, 2007. Incorporated by reference to Exhibit 4.1 to the registrant s current report on Form 8- K filed on May 9, 2007 in commission file number 0- 31619.
4.2	Certificate of Designation of Series B Voting Convertible Preferred Stock of registrant as filed with the Secretary of State of Delaware on April 30, 2007. Incorporated by reference to Exhibit 4.2 to the registrant s current report on Form 8-K filed on May 9, 2007.
4.3	Form of Series A Warrant. Incorporated by reference to Exhibit 4.1 to the registrant s current report on Form 8-K filed on October 29, 2009.
4.4	Form of Series B Warrant. Incorporated by reference to Exhibit 4.2 to the registrant s current report on Form 8-K filed on October 29, 2009.
4.5	Registration Rights Agreement, dated as of October 28, 2009. Incorporated by reference to Exhibit 4.3 to the registrant s current report on Form 8-K filed on October 29, 2009.
4.6	Registration Rights Agreement, dated as of September 9, 2010, by and among American Lorain Corporation and the purchasers named therein. Incorporated by reference to Exhibit 99.3 to the registrant s current report on Form 8-K filed on September 13, 2010.
4.7	Stockholder Agreement, dated as of September 9, 2010, by and among American Lorain Corporation, the purchasers named therein and Si Chen. Incorporated by reference to Exhibit 99.4 to the registrant s current report on Form 8-K filed on September 13, 2010.
10.1	Securities Purchase Agreement dated as of October 28, 2009, by and between American Loan Corporation and the purchasers named therein. Incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on October 29, 2009.
10.2	Securities Purchase Agreement dated as of September 9, 2010, by and among American Loan Corporation, Si Chen and the purchasers named therein. Incorporated by reference to Exhibit 99.1 to the registrant s current report on Form 8-K filed on September 13, 2010.
10.3	Make Good and Escrow Agreement, dated as of September 9, 2010, by and among American Lorain Corporation, the purchasers named therein, Si Chen and the collateral agent named therein. Incorporated by reference to Exhibit 99.2 to the registrant s current report on Form 8-K filed on September 13, 2010.
10.4	Loan Agreement, dated May 31, 2010, between Junan Hongrun Foodstuff Co. Ltd. and DEG-Deutsche Investitions- Und Entwicklungsgesellschaft MBH. Incorporated by reference to Exhibit 10.12 to the registrant s quarterly report on Form 10-Q filed on August 11, 2010.
10.5	Share Purchase Agreement dated February 7, 2014 by and between Junan Hongrun Foodstuff Co., Ltd. and Intiraimi. Incorporated by reference to Exhibit 10.5 to the registrant s current report on Form 8-K filed on February 13, 2014.

10.6	Reiterative Share Purchase Agreement dated February 7, 2014 by and between Junan Hongrun Foodstuff Co., Ltd. and Biobranco II. Incorporated by reference to Exhibit 10.6 to the registrant s current report on Form 8-K filed on February 13, 2014.
10.7	Shareholders Agreement dated February 7, 2014 by and among Junan Hongrun Foodstuff Co., Ltd., Athena, and the other shareholders of Athena. Incorporated by reference to Exhibit 10.7 to the registrant s current report on Form 8-K filed on February 13, 2014.

14	Business Ethics Policy and Code of Conduct, adopted on April 30, 2007. Incorporated by reference to Exhibit 14 to the registrant s current report on Form 8-K filed on May 9, 2007.
21.1	List of subsidiaries of the registrant *
23.1	Consent of Independent Registered Public Accounting Firm *
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

***** Filed herewith

SIGNATURES

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

AMERICAN LORAIN CORPORATION

Date: March 31, 2014 By:/s/ Si Chen

Si Chen, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Si Chen Si Chen	President , Director and Chief Executive Officer (Principal Executive Officer)	March 31, 2014
/s/ David She David She	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2014
/s/ Yundong Lu Yundong Lu	Chief Operating Officer and Director	March 31, 2014
/s/ Dekai Yin Dekai Yin	Director	March 31, 2014
/s/ Maoquan Wei Maoquan Wei	Director	March 31, 2014
/s/ William Jianxiao Wu William Jianxiao Wu	Director	March 31, 2014

AMERICAN LORAIN CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(Stated in US Dollars)

AMERICAN LORAIN CORPORATION

REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

To: The Board of Directors and Stockholders of
American Lorain Corporation

We have audited the accompanying consolidated balance sheets of American Lorain Corporation of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 American Lorain Corporation as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ WWC, P.C.
WWC, P.C.
Certified Public Accountants

San Mateo, California
March 31, 2014

AMERICAN LORAIN CORPORATION
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2013 AND 2012
(Stated in US Dollars)

ASSETS		At December 31, 2013		At December 31, 2012
Current assets				
Cash and cash equivalents	$	33,857,193	$	32,345,603
Restricted cash		1,842,989		3,998,956
Trade accounts receivable		54,071,475		48,734,017
Other receivables		5,698,020		4,861,280
Inventory		41,950,253		38,072,704
Advance to suppliers		42,400,517		22,295,529
Prepaid expenses and taxes		2,168,573		381,905
Deferred tax asset		180,679		175,211
Security deposits and other assets		3,242,259		9,293,615
Total current assets	$	185,411,958	$	160,158,820
Non-current assets				
Investment		-		270,019
Property, plant and equipment, *net*		87,561,341		84,639,726
Construction in Progress, net		13,665,470		-
Land use rights, *net*		16,407,543		5,296,668
TOTAL ASSETS	$	303,046,312	$	250,365,233
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Short-term bank loans	$	29,400,694	$	28,725,143
Long-term debt current portion		5,713,865		4,226,107
Accounts payable		4,015,502		3,646,560
Taxes payable		4,422,133		5,005,346
Accrued liabilities and other payables		2,315,815		979,797
Customers deposits		166,450		1,428
Total current liabilities	$	46,034,459	$	42,584,381
Long-term liabilities				
Long-term bank loans		8,079,831		14,382,306
Notes payable and debenture		45,823,514		12,696,196
TOTAL LIABILITIES	$	99,937,804	$	69,662,883

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2013 AND 2012
(Stated in US Dollars)

		At December 31, 2013		At December 31, 2012
STOCKHOLDERS EQUITY				
Preferred Stock, $.001 par value, 5,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2013 and 2012, respectively		-		-
Common Stock, $0.001 par value, 200,000,000 shares authorized; 34,616,714 shares issued and outstanding as of December 31, 2013 and 2012, respectively		34,617		34,617
Additional paid-in capital		53,487,389		53,487,389
Statutory reserves		18,396,513		16,922,494
Retained earnings		99,257,837		84,097,961
Accumulated other comprehensive income		20,928,244		16,210,661
Non-controlling interests		11,003,908		9,949,228
TOTAL STOCKHOLDER S EQUITY	$	203,108,508	$	180,702,350
TOTAL LIABILITIES AND STOCKHOLDER S EQUITY	$	303,046,312	$	250,365,233

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Stated in US Dollars)

	For the years ended December 31, 2013		2012
Net revenues	$ 215,279,785	$	239,673,463
Cost of revenues	(172,107,742)		(188,565,488)
Gross profit	$ 43,172,043	$	51,107,975
Operating expenses			
Selling and marketing expenses	(10,507,616)		(11,741,692)
General and administrative expenses	(7,231,171)		(7,506,881)
	(17,738,787)		(19,248,573)
Operating income	$ 25,433,256	$	31,859,402
Government subsidy income	1,606,558		1,225,227
Interest income	79,615		338,027
Other income	1,484,702		177,728
Other expenses	(188,876)		(86,824)
Interest expense	(5,152,923)		(4,032,148)
Earnings before tax	$ 23,262,332	$	29,481,412
Income tax	(5,573,757)		(7,737,643)
Net income	$ 17,688,575	$	21,743,769
Other comprehensive income:			
Foreign currency translation gain	4,717,583		856,776
Comprehensive Income	22,406,158		22,600,545
Net income attributable to:			
-Common stockholders	$ 16,633,895	$	20,422,668
-Non-controlling interest	1,054,680		1,321,101
	$ 17,688,575	$	21,743,769
Earnings per share			
- Basic	$ 0.48	$	0.59
- Diluted	$ 0.48	$	0.59
Weighted average shares outstanding			
- Basic	34,616,714		34,533,817
- Diluted	34,616,714		34,533,817

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Stated in US Dollars)

	For the years ended December 31, 2013	2012
Cash flows from operating activities		
Net income	$ 17,688,575	$ 21,743,769
Stock and share based compensation	-	503,493
Depreciation of fixed assets	4,226,873	2,767,511
Amortization of intangible assets	301,079	186,994
Adjustment to statutory reserve	-	681,175
(Increase)/decrease in accounts & other receivables	(26,114,165)	(12,499,231)
(Increase)/decrease in inventories	(3,877,549)	(3,723,707)
Decrease/(increase) in prepayment	(1,786,668)	(249,195)
Decrease/(increase) in deferred tax asset	(5,468)	(10,818)
Increase/(decrease) in accounts and other payables	1,121,747	(444,515)
Net cash (used in)/provided by operating activities	(8,445,576)	8,955,476
Cash flows from investing activities		
Sale of Short-term investment	270,019	-
Purchase of plant and equipment	(18,034,288)	(3,029,930)
Payment for the purchase of land use rights	(11,411,953)	(58,410)
(Increase)/decrease in restricted cash	2,155,968	9,018,415
(Increase)/decrease in deposit	6,051,356	(9,277,243)
Net cash used in investing activities	(20,968,898)	(3,347,168)
Cash flows from financing activities		
Repayment of bank borrowings	(8,180,860)	(12,347,050)
Proceeds from bank borrowings	-	5,123,419
Proceeds from long-term borrowings and notes payable	45,823,514	15,580,037
Repayment of notes	(8,654,503)	-
Issuance of common stock	-	109
Repayment of financing cost (APIC)	-	(31,740)
Net cash provided by/(used in) financing activities	$ 28,988,151	$ 8,324,775
Net Increase/(decrease) of Cash and Cash Equivalents	(426,323)	13,933,083
Effect of foreign currency translation on cash and cash equivalents	1,937,913	1,059,026
Cash and cash equivalents beginning of period	32,345,603	17,353,494
Cash and cash equivalents end of period	$ 33,857,193	$ 32,345,603
Supplementary cash flow information:		
Interest received	$ 79,615	$ 322,285
Interest paid	$ 4,386,788	$ 3,891,864
Income taxes paid	$ 6,364,077	$ 7,233,483

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(STATED IN US DOLLARS)

	Number Of Shares	Common Stock	Additional Paid-in Capital	Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total
Balance, January 1, 2012	34,507,874	34,508	53,015,636	13,976,899	65,939,713	15,353,885	8,628,127	156,948,768
Issuance of share based compensation	108,840	109	503,493	-	-	-	-	503,602
Repayment of financing cost	-	-	(31,740)	-	-	-	-	(31,740)
Net income	-	-	-	-	21,743,769	-	-	21,743,769
Allocation to non-controlling interests	-	-	-	-	(1,321,101)	-	1,321,101	
Appropriations to statutory reserve	-	-		2,264,420	(2,264,420)	-	-	
Adjustment to statutory reserve	-	-	-	681,175	-	-	-	681,175
Foreign currency translation adjustment	-	-	-	-	-	856,776	-	856,776
Balance, December 31, 2012	34,616,714	34,617	53,487,389	16,922,494	84,097,961	16,210,661	9,949,228	180,702,350
Balance, January 1, 2013	34,616,714	34,617	53,487,389	16,922,494	84,097,961	16,210,661	9,949,228	180,702,350
Net income	-	-	-	-	17,688,575	-	-	17,688,575
Allocation to non-controlling interests	-	-	-	-	(1,054,680)	-	1,054,680	
Appropriations to statutory reserve	-	-	-	1,474,019	(1,474,019)	-	-	
Foreign currency translation adjustment	-	-	-	-	-	4,717,583	-	4,717,583
	34,616,714	34,617	53,487,389	18,396,513	99,257,837	20,928,244	11,003,908	203,108,508

Balance,
December 31,
2013

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Stated in US Dollars)

1. ORGANIZATION, BASIS OF PRESENTATION, AND PRINCIPAL ACTIVITIES

(a) Organization history of American Lorain Corporation (formerly known as Millennium Quest, Inc.)

American Lorain Corporation (the Company or ALN) was originally a Delaware corporation incorporated on February 4, 1986. On November 12, 2009, the Company filed a statement of merger in the state of Nevada to transfer the Company s jurisdiction from Delaware to Nevada.

(b) Organization History of International Lorain Holding Inc. and its subsidiaries

ALN owns 100% of the equity of International Lorain Holding Inc. (ILH). ILH is a Cayman Islands company incorporated on August 4, 2006 and was wholly-owned by Mr. Hisashi Akazawa until May 3, 2007. ILH presently has two direct wholly-owned subsidiaries, Junan Hongrun and Luotian Lorain, and three indirectly wholly-owned subsidiaries through Junan Hongrun, which are Beijing Lorain, Dongguan Lorain, and Shandong Greenpia Foodstuff Co., Ltd. (Shandong Greenpia).

In addition, the Company directly and indirectly has 80.2% ownership of Shandong Lorain. The rest of the 19.8%, which is owned by the State under the name of Shandong Economic Development Investment Co. Ltd., is not included as a part of the Group.

On April 9, 2009, the Company, through its Junan Hongrun subsidiary, invested cash to establish Dongguan Lorain. Dongguan Lorain is indirectly 100% beneficially owned by the Company.

On June 28, 2010, the Company signed an equity transfer agreement with Shandong Greenpia. Shandong Greenpia was originally directly owned by Taebong Inc. and Shandong Luan Trade Company. The Company paid $2,100,000 to Korean Taebong Inc. for 50% equity of Shandong Greenpia on September 20, 2010. On September 23, 2010, the Company issued 731,707 shares of restricted stock at an agreed price of $2.87 per share to the owner of Shandong Luan Trade Company, Mr. Ji Zhenwei, for the remaining 50% equity of Shandong Greenpia. Since September 23, 2010, Shandong Greenpia was directly owned by both Junan Hongrun and ILH. As a result, Shandong Greenpia is 100% owned by the Company. Accordingly, the Company booked a gain of $383,482 which is included in the statement of income as other income.

(c) Business Activities

The Company develops, manufactures, and sells convenience foods (including ready-to-cook (or RTC) foods; ready-to-eat (or RTE) foods and meals ready-to-eat (or MRE); chestnut products; and frozen foods, in hundreds of varieties. The Company operates through indirect Chinese subsidiaries. The products are sold in domestic markets as well as exported to foreign countries and regions such as Japan, South Korea and Europe.

AMERICAN LORAIN CORPORATION
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(b) Principles of consolidation

The consolidated financial statements which include the Company and its subsidiaries are compiled in accordance with generally accepted accounting principles in the United States of America. All significant inter-company accounts and transactions have been eliminated. The consolidated financial statements include 100% of assets, liabilities, and net income or loss of those wholly-owned subsidiaries; ownership interests of non-controlling investors are recorded as non-controlling interests.

As of December 31, 2013, the detailed identities of the consolidating subsidiaries are as follows:

Name of Company	*Place of incorporation*	*Attributable equity interest %*	*Registered capital*
Shandong Lorain Co., Ltd.	PRC	80.2	$ 13,238,040
Luotian Lorain Co., Ltd.	PRC	100	4,145,195
Junan Hongrun Foodstuff Co., Ltd.	PRC	100	48,965,698
Beijing Lorain Co., Ltd.	PRC	100	1,636,554
Shandong Greenpia Foodstuff Co., Ltd.	PRC	100	2,513,747
Dongguan Lorain Co., Ltd.	PRC	100	163,655
International Lorain Holding Inc.	Cayman Islands	100	50,927,518

(c) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

(d) Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

(e) Investment securities

The Company classifies securities it holds for investment purposes into trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. All securities not included in trading securities are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in the net income. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from net income and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged as an expense to the statement of income and comprehensive income and a new cost basis for the security is established. To determine whether impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the investee.

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Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

(f) *Trade receivables*

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(g) *Inventories*

Inventories consisting of finished goods and raw materials are stated at the lower of cost or market value. Finished goods are comprised of direct materials, direct labor and an appropriate proportion of overhead.

(h) *Customer deposits and advances to suppliers*

Customer deposits were received from customers in connection with orders of products to be delivered in future periods.

Advance to suppliers is a good faith deposit paid to the supplier for the purpose of committing the supplier to provide product promptly upon delivery of the Company s purchase order for raw materials, supplies, equipment, building materials etc. Pursuant to the Company s arrangements with its suppliers, this deposit is generally 20% of the total amount contracted for. This type of transaction is classified as a prepayment category under the account name Advance to Suppliers until such time as the Company s purchase order is delivered, at which point this account is reduced by reclassification of the applicable amount to the appropriate asset account such as inventory or fixed assets or construction in progress.

(i) *Property, plant and equipment*

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method with a salvage value of 10%. Estimated useful lives of the plant and equipment are as follows:

Buildings	40 years
Landscaping, plant and tree	30 years
Machinery and equipment	10 years
Motor vehicles	10 years
Office equipment	5 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and betterments are capitalized.

(j) *Construction in progress*

Construction in progress represents direct and indirect construction or acquisition costs. The construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the asset is completed and ready for intended use.

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(k) Land Use Rights

Land use rights are carried at cost and amortized on a straight-line basis over a specified period. Amortization is provided using the straight-line method over 40-50 years.

(l) Accounting for the Impairment of Long-Lived Assets

The long-lived assets held by the Company are reviewed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 360-10-35, Accounting for the Impairment or Disposal of Long-Lived Assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Impairment is present if carrying amount of an asset is less than its undiscounted cash flows to be generated.

If an asset is considered impaired, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company believes no impairment has occurred to its assets during 2013 and 2012.

(m) Advertising

All advertising costs are expensed as incurred.

(n) Shipping and handling

All shipping and handling are expensed as incurred.

(o) Research and development

All research and development costs are expensed as incurred.

(p) Retirement benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged to the consolidated statement of income as incurred.

(q) Income taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

The Company has implemented ASC Topic 740, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People s Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

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Effective January 1, 2008, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.

The Company is subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of:

	Taxable Income		
Rate	*Over*	*But Not Over*	*Of Amount Over*
15%	0	50,000	0
25%	50,000	75,000	50,000
34%	75,000	100,000	75,000
39%	100,000	335,000	100,000
34%	335,000	10,000,000	335,000
35%	10,000,000	15,000,000	10,000,000
38%	15,000,000	18,333,333	15,000,000
35%	18,333,333	-	-

(r) *Statutory reserves*

Statutory reserves are referring to the amount appropriated from the net income in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and are to be used to expand production or operations. The Company transferred $0 and $2,264,420 from retained earnings to statutory reserves for the period ended December 31, 2013 and year ended December 31, 2012. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise s PRC registered capital.

(s) *Foreign currency translation*

The accompanying financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). The financial statements are translated into United States dollars from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.

	12/31/2013	*12/31/2012*
Year end RMB: US$ exchange rate	6.1104	6.3011
Average yearly RMB: US$ exchange rate	6.1905	6.3034

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US Dollars at the rates used in translation.

(t) Revenue recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

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The Company's revenue consists of invoiced value of goods, net of a value-added tax (VAT). The Company allows its customers to return products if they are defective. However, this rarely happens and amounts returned have been de minimis.

The Company gradually switched its sales model from direct sales to third party distributor model and issues 1% sales incentive to distributors. The Company modified its accounting policy for the recognition of revenue accordingly. Given the circumstances of how the Company conducts its incentive program, the Company books the payments settled in cash as a contra account to Gross Revenue, and includes the amount in its reported net revenue . The Company has considered the guidance in FASB ASC 605-50 (EITF 01-9) and will account for its sales incentive program accordingly.

(u) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted average number of ordinary shares outstanding and potential dilutive securities during the year. During the period ended December 31, 2013, no warrants were issued and no options were granted. For the year ended December 31, 2010, 81,155 warrants were issued to certain service providers. For the year ended December 31, 2009, 1,334,573 stock options were granted to employees pursuant to the Company s equity incentive plan; 2,255,024 warrants were issued to investors in connection with a PIPE financing. These warrants and options could be potentially dilutive if the market price of the Company s common stock exceeds the exercise price for these securities.

The Company computes earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128, Earnings per share (SFAS No. 128), and SEC Staff Accounting Bulletin No. 98 (SAB 98). SFAS No. 128 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as the income or loss available to common shareholders divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options, and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

(v) Financial Instruments

The Company s financial instruments, including cash and equivalents, accounts and other receivables, accounts and other payables, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. ASC Topic 820, Fair Value Measurements and Disclosures, requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, Financial Instruments, defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, Distinguishing Liabilities from Equity, and ASC 815.

As of December 31, 2013 and 2012, the Company did not identify any assets and liabilities that were required to be presented on the balance sheet at fair value.

The following tables present the Company s financial assets and liabilities at fair value in accordance to ASC 820-10:

At December 31, 2013:	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Cash	$ 33,857,193	$ -	$ -	$ 33,857,193
Restricted Cash	1,842,989	-	-	1,842,989
Total financial assets	$ 35,700,182	$ -	$ -	$ 35,700,182
Financial liabilities:				
Notes payable	$ -	$ -	$ -	$ -
Total financial liabilities	$ -	$ -	$ -	$ -

At December 31, 2012:	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:				
Cash	$ 32,345,603	$ -	$ -	$ 32,345,603
Restricted Cash	3,998,956	-	-	3,998,956
Total financial assets	$ 36,344,559	$ -	$ -	$ 36,344,559
Financial liabilities:				
Notes payable	$ -	$ -	$ -	$ -
Total financial liabilities	$ -	$ -	$ -	$ -

(w) *Commitments and contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(x) *Comprehensive income*

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company s current component of other comprehensive income includes the foreign currency translation adjustment and unrealized gain or loss.

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The Company uses FASB ASC Topic 220, Reporting Comprehensive Income . Comprehensive income is comprised of net income and all changes to the statements of stockholders equity, except the changes in paid- in capital and distributions to stockholders due to investments by stockholders. Comprehensive income for the periods ended December 31, 2013 and 2012 included net income and foreign currency translation adjustments.

(y) Recent accounting pronouncements

In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01).* The Update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, Update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in *FASB Accounting Standards Codification®* or subject to a master netting arrangement or similar agreement. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Management does not expect the adoption of this standard has a significant effect on the Company s consolidated financial position or results of operations.

For public entities, the amendments that are subject to the transition guidance is effective for fiscal periods beginning after December 15, 2012. Management does not expect the adoption of this standard has a significant effect on the Company s consolidated financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). The amendments require an organization to:

a. Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

b. Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

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The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). The ASU clarifies that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Accounting Standards Codification 830-30 to release any related cumulative translation adjustment into net income. The ASU provides that the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The amendments take effect prospectively for public companies for fiscal years beginning after December 15, 2013, and interim reporting periods within those years. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU No. 2013-07, Liquidation Basis of Accounting (ASU 2013-07). The ASU requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation would be considered imminent when the likelihood is remote that the reporting entity would return from liquidation and either: (a) a plan for liquidation has been approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or the entity will return from liquidation, or (b) a plan for liquidation is imposed by other forces, and the likelihood is remote that the entity will return from liquidation. If a plan for liquidation was specified in an entity's governing documents at its inception (for example, limited-life entities), then liquidation would be imminent only if the approved plan for liquidation differs from the plan specified at the entity s inception. The amendments take effect for all entities reporting under U.S. GAAP, except investment companies that are regulated under the Investment Company Act of 1940. The standard is effective for annual reporting periods beginning after December 31, 2013, and interim reporting periods therein. Early adoption is permitted. Management does not expect the adoption of this standard will have a significant effect on the Company s consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice.

As of December 31, 2013, there are no other recently issued accounting standards not yet adopted that would have a material effect on the Company s consolidated financial statements

3. RESTRICTED CASH

Restricted Cash represents interest bearing deposits placed with banks to secure banking facilities in the form of loans and notes payable. The restriction of funds is based on time. The funds that collateralize loans are held for 60 days in savings account that pay interest at the prescribed national daily savings account rate. For funds that underline notes payable, the cash is deposited in six month time deposits that pay interest at the national time deposit rate.

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4. TRADE ACCOUNTS RECEIVABLE

	12/31/2013	12/31/2012
Trade accounts receivable	$ 54,511,350	$ 49,177,915
Less: Allowance for doubtful accounts	(439,875)	(443,898)
	$ 54,071,475	$ 48,734,017

Allowance for bad debt:	12/31/2013	12/31/2012
Beginning balance	$ (443,898)	$ (379,693)
Additions to allowance	-	(64,205)
Bad debt written-off	4,023	-
Ending balance	$ (439,875)	$ (443,898)

The Company offers credit terms of between 30 to 60 days to most of their domestic customers, including supermarkets and wholesalers, around 90 days to most of their international customers, and between 0 to 15 days for most of the third-party distributors the Company works with.

5. OTHER RECEIVABLES

Other receivables consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Advances to employees for job/travel disbursements	637,808	79,367
Amount due by a non-related enterprise	163,656	326,270
Other non-related receivables	333,411	76,168
Other related receivables	149,350	99,263
Short-term investment sale receivable	4,413,795	4,280,212
	$ 5,698,020	$ 4,861,280

Advances to employees for job/travel disbursements consisted of advances to employees for transportation, meals, client entertainment, commissions, and procurement of certain raw materials. The advances issued to employees may be carried for extended periods of time because employees may spend several months out in the field working to procure new sales contracts or fulfill existing contracts.

Specifically, the company uses every available employee to arrange purchases with desirable chestnut or other raw material growers. However, because many of these growers are in rural farming areas of China where traditional banking and credit arrangements are difficult to implement, the Company must utilize cash purchases and also must contract for its future needs by placing a good faith deposit in cash with the growers. However none of these advances to employees for delivery to the growers on behalf of the Company are personal loans to the employees. Advances to employees for purchase of materials in other receivables are adjusted to advances to suppliers as of December 31, 2013.

Related party receivable consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Chen, Si	$ 67,523	$ 67,523
You, Huadong	81,827	31,740
	$ 149,350	$ 99,263

Related party receivable represented advances issued by management for job or travel disbursement in the normal course of business. The receivable had no impact on earnings. As with other employees, officers sign notes when cash is issued to them as job or travel disbursement.

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In order to satisfy certain criteria for obtaining the long-term loan with DEG, as noted in footnote 12, Junan Hongrun lent money to Mr. You, Huadong to purchase life insurance.

Related party receivable amounts are disclosed as other related receivables in other receivables.

On March 13, 2011, the Company entered into an agreement with Jiangsu Heng An Industrial Investment Group Co., Ltd. to sell the Company s short-term investment in the amount of $ 7,764,577 (RMB 49,604,000) of a parcel of land located in Junan Town, Shandong Province, to construct residential buildings. The land was sold to Jiangsu Heng An at a total sale price of RMB 69,604,000 and a guaranteed gross profit of RMB 20,000,000 without consideration of profit/(loss) of the residential building project. The gain on the sale of the short-term investment excluding taxes payable was recorded as other income on the statements of income and comprehensive income. Title of the land transferred from the Company to Jiangsu Heng An with receipt of an initial deposit of RMB 15,000,000. As of December 31, 2013, a total of RMB 42,029,955 has been received and RMB 26,970,045 (USD 4,413,794) is classified as Other Receivable. According to the contract, the Company will be entitled to receive RMB 9,000,000 within 5 days after the title transfer and construction approval is complete, and RMB 27,000,000 within 5 days after the residential building main frame is completed.

6. INVENTORIES

Inventories consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Raw materials	$ 26,262,278	$ 18,700,879
Finished goods	15,687,975	19,371,825
	$ 41,950,253	$ 38,072,704

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
At Cost:		
Buildings	$ 81,325,426	$ 78,730,172
Landscaping, plant and tree	10,974,003	7,943,605
Machinery and equipment	12,837,463	11,374,635
Office equipment	681,060	363,306
Motor vehicles	582,128	839,874
	$ 106,400,080	$ 99,251,592
Less: Accumulated depreciation		
Buildings	(7,975,238)	(5,911,972)
Landscaping, plant and tree	(3,081,369)	(2,108,661)
Machinery and equipment	(6,916,526)	(5,842,946)
Office equipment	(524,931)	(221,800)
Motor vehicles	(340,675)	(526,487)
	(18,838,739)	(14,611,866)

$	87,561,341	$	84,639,726

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Landscaping, plants, and trees accounts for the orchards that the Company has developed for agricultural operations. These orchards as well as the young trees which were purchased as nursery stock are capitalized into fixed assets. The depreciation is then calculated on a 30-year straight-line method when production in commercial quantities begins. The orchards have begun production in small quantities and the Company has accounted for depreciation commencing July 1, 2010. During the year ended December 31, 2013, the Company purchased three greenhouses to grow seasonal crops in order to lower cost.

8. LAND USE RIGHTS, NET

Land use rights consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Land use rights, *at cost*	$ 17,600,945	$ 6,192,379
Utilities rights, *at cost*	50,909	49,368
Software, *at cost*	59,496	57,695
Patent, *at cost*	1,543	1,497
	17,712,893	6,300,939
Less: Accumulated amortization	(1,305,350)	(1,004,271)
	$ 16,407,543	$ 5,296,668

All lands are owned by the government in China. Land use rights represent the Company s purchase of usage rights for a parcel of land for a specified duration of time, typically 50 years. The land use rights are then amortized over the period of usage. Amortization expense for the years ended December 31, 2013 and 2012 were $301,079 and $186,994, respectively.

9. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following as of December 31, 2013 and 2012:

	Remark	12/31/2013	12/31/2012
Loan from Junan County Industrial and Commercial Bank of China,			
Interest rate at 6.44% per annum; due 1/8/2013		-	1,031,567
Interest rate at 5.88% per annum; due 4/10/2013		-	1,142,658
Interest rate at 5.88% per annum; due 4/19/2013		-	999,825
Interest rate at 5.88% per annum; due 4/24/2013	A	-	634,810
Interest rate at 5.88% per annum; due 5/17/2013		-	1,348,971
Interest rate at 6.3% per annum; due 2/21/2014		4,091,386	-
Interest rate at 5.88% per annum; due 1/8/2014		1,145,588	-
Interest rate at 5.88% per annum; due 4/15/2014		1,129,222	-
Interest rate at 5.88% per annum; due 4/23/2014		1,088,308	-

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Loan from Linyi Commercial Bank,		
Interest rate at 12.136% per annum due 1/10/2013	-	714,161
Interest rate at 1.512% per annum due 1/9/2014	1,636,554	-
Interest rate at 1.26% per annum due 1/10/2014	1,472,899	-
Loan from China Minsheng Bank Corporation, Linyi Branch		
Interest rate at 7.8% per annum due 8/29/2013	-	2,380,537
Interest rate at 7.8% per annum due 2/26/2014	2,454,831	-
Loan from China Agricultural Bank, Luotian Branch		
Interest rate at 8.4% per annum due 3/3/2013	-	158,702
Interest rate at 8.4% per annum due 6/3/2013	-	317,405
Interest rate at 8.4% per annum due 9/3/2013	-	1,110,917
Interest rate at 7.8% per annum due 8/20/2014	1,636,554	-
Interest rate at 7.8% per annum due 9/3/2014	1,636,554	-
China Agricultural Development Bank		
Interest rate at 6.0% per annum due 1/3/2014	654,622	-
Interest rate at 6.0% per annum due 8/19/2014	818,277	-
Bank of Beijing,		
Variable Interest rate, due 6/29/2013	-	1,269,620
Interest rate at 7.2% per annum due 6/19/2014	1,309,243	-
Shenzhen Development Bank,		
Interest rate at 6.16% per annum due 1/30/2013	-	1,110,917
Interest rate at 6.04% per annum due 9/6/2013	-	793,512
Interest rate at 6.71% per annum due 10/23/2013	-	634,810
Luotian Sanliqiao Credit Union,		
Interest rate at 9.360% per annum due 1/6/2013	-	952,215
Beijing International Trust Co., Ltd.,		
Variable interest rate, due 9/16/2013	-	1,587,024
Interest rate at 6.00% per annum due 9/23/2014	1,636,554	-
Weihai City Commercial Bank,		
Interest rate at 6.90% per annum due 3/7/2013	-	3,174,049

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Bank of Ningbo ,			
Interest rate at 6.71% per annum due 9/27/2013		-	1,587,024
Interest rate at 7.20% per annum due 9/25/2014		1,636,554	-
Hankou Bank, Guanshan Branch,			
Interest rate at 6.00% per annum due 9/6/2013		-	793,512
Interest rate at 6.60% per annum due 9/14/2013		-	1,587,024
Interest rate at 6.60% per annum due 9/12/2014		1,636,554	-
China Agricultural Bank, Shandong Branch			
Interest rate at 10.2% per annum due 7/16/2013	C	-	3,174,049
Interest rate at 7.2% per annum due 8/29/2013	B	-	1,587,024
Interest rate at 7.2% per annum due 8/22/2014		1,636,554	-
Ping An Bank, Jinan Branch			
Interest rate at 6.72% per annum due 1/3/2014		1,145,588	-
Interest rate at 6.72% per annum due 5/2/2014		818,277	-
Luzhen Credit Union,			
Interest rate at 10.40% per annum due 2/27/2014		490,966	-
Postal Savings Bank of China			
Interest rate at 6.60% per annum due 11/26/2013		-	634,810
China Construction Bank			
Variable Interest rate, due 3/31/2014		801,912	-
Variable Interest rate, due 4/30/2014		523,697	-
		$ 29,400,694	$ 28,725,143

The short-term loans, which are denominated in the functional currency Renminbi (RMB), were primarily obtained for general working capital. If not otherwise indicated in the below remarks, short-term loans are guaranteed by either companies within the group or personnel who hold a management role within the group.

Remark:
A: Accounts receivable in the amount of was used as collateral for this loan.
B: Junan Hongrun Foodstuff Co., Ltd. s factory was used as collateral for this loan
C: Personal guarantee from Mr. Si Chen was used as collateral for this loan

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10. TAXES PAYABLES

Taxes payable consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Value added tax payable	$ 592,341	$ 428,889
Corporate income tax payable	2,572,663	3,370,655
Employee payroll tax withholding	6,344	4,936
Property tax payable	73,768	55,877
Stamp tax payable	1,485	1,440
Business tax payable	158,921	154,112
Land use tax payable	64,062	65,525
Import tariffs	271	454
Capital gain tax payable	952,278	923,458
	$ 4,422,133	$ 5,005,346

11. ACCRUED EXPENSES AND OTHER PAYABLE

Accrued expenses and other payables consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Accrued salaries and wages	$ 32,731	$ 3,174
Accrued utility expenses	39,765	55,639
Accrued interest expenses	927,986	219,630
Accrued transportation expenses	144,061	290,228
Other accruals	-	103,827
Business and other taxes	885,972	182,378
Disbursement payable	-	87,078
Accrued staff welfare	285,300	37,843
	$ 2,315,815	$ 979,797

12. LONG-TERM DEBT

Current portions of long-term debt consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Loans from China Development Bank		
Interest rate at 7.07% per annum due 5/20/2013	$ -	$ 158,702
Interest rate at 7.07% per annum due 11/20/2013	-	317,405
Interest rate at 7.07% per annum due 5/20/2014	981,933	-
Interest rate at 7.07% per annum due 11/20/2014	981,932	-
Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG)		
Interest rate at 5.510% per annum due 3/15/2013	-	1,875,000

Interest rate at 5.510% per annum due 9/15/2013		-		1,875,000
Interest rate at 5.510% per annum due 3/15/2014		1,875,000		-
Interest rate at 5.510% per annum due 9/15/2014		1,875,000		-
	$	5,713,865	$	4,226,107

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Non-current portions of long-term debt consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG)		
Interest rate at 5.510% per annum due 9/16/2016	5,625,000	10,097,340
Loans from China Development Bank		
Interest rate at 7.07% per annum due 9/24/2015	2,454,831	4,284,966
	$ 8,079,831	$ 14,382,306

The Company s loan with DEG began repaying the loan in semi-annual installments on September 15, 2012. As of December 31, 2013, the Company has repaid $5,625,000 in principal. The loan was collateralized with the following terms:

(a.) Create and register a first ranking mortgage in the amount of about USD 12,000,000 on its land and building in favor of DEG.
(b.) Undertake to provide a pledge of Mr. Si Chen's shares in the sponsor in the amount of about USD 12,000,000 and being the majority shareholder in the sponsor in form and substance satisfactory to DEG.
(c.) The total amount of the first ranking mortgage as indicated in the Loan Agreement (Article 12(1)(a)) and the value of the pledged shares of Mr. Si Chen (Loan Agreement (Article 12(1)(a))) should be at least USD 24,000,000.
(d.) Undertake to provide a guarantee from the Shareholder in form and substance satisfactory to DEG.

Non-current portions of notes payable and debentures consisted of the following as of December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Note payable issued by Shanghai Pudong Development Bank		
Interest rate at 5.9% per annum due 12/28/2015	13,092,432	12,696,196
Debenture issued by Guoyuan Securities Co., Ltd.		
Interest rate at 10% per annum due 8/28/2016	16,365,541	-
Debenture issued by Daiwa SSC Securities Co. Ltd.		
Interest rate at 9.5% per annum due 11/8/2015	16,365,541	-
	$ 45,823,514	$ 12,696,196

13. CAPITALIZATION

Dating back to May 3, 2007, the Company underwent a reverse-merger and a concurrent financing transaction that resulted in 24,923,178 shares of outstanding common stock that remained unchanged until through December 31, 2007. In connection with the financing, the Company also issued 1,037,858 and 489,330 warrants to the PIPE investors and placement agent, respectively. During 2008, several holders of warrants issued in connection with the financing transaction exercised their rights to purchase shares at the prescribed exercise price. The holders of the warrants exercised the right to purchase a total of 360,207 shares; however, because the holders did not pay in cash for the warrants, 110,752 of those shares were cancelled as consideration in lieu of the warrant holders paying in cash. Ultimately, 249,455 of new shares were issued to those who exercised their warrant. The Company also made an adjustment to its outstanding share count for rounding errors as result of the split and reverse splits made at the time of the reverse merger. The number of shares in the adjustment was an addition of seven shares. The Company believes the adjustment of seven shares is immaterial to both prior and current earnings per share calculation. As detailed in the table below, the total number of outstanding shares at December 31, 2013 was 34,616,714.

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During the year 2009, the Company issued 56,393 shares of stock to its employees and vendors and 5,011,169 shares to investors. The Company issued 1,334,573 stock options to employees on July 28, 2009; 1,753,909 shares of Series A warrants and 501,115 shares of Series B warrants were issued to investors on October 28, 2009.

During the year 2010, the Company issued 2,000 shares to a service provider on February 10, 2010 and 81,155 warrants to various service providers on January 5, 2010. The Company issued to investors 3,440,800 shares at an agreed price of $2.80 per share for a PIPE financing on September 10, 2010. This financing brought $8,955,730 net proceeds to the Company. The Company issued 5,000 shares to its employee on September 23, 2010. 731,707 shares of restricted stock were issued to the owner of Shandong Greenpia, Mr. Ji Zhenwei on September 24, 2010 as part of acquisition cost.

For the year 2010, the Company transferred $5,161,176 from retained earnings to additional paid up capital and $2,445,262 from retained earnings to statutory reserve. These transfers are to be used for future company development, recovery of losses and increase of capital, as approved, to expand production or operations.

For the year 2011, the Company transferred $2,636,160 from retained earnings to statutory reserve. These transfers are to be used for future company development, recovery of losses and increase of capital, as approved, to expand production or operations.

For the year 2012, the Company issued 108,840 shares to its employees as employee stock compensation. The Company transferred 2,264,420 from retained earnings to statutory reserve. These transfers are to be used for future company development, recovery of losses and increase of capital, as approved, to expand production or operations.

American Lorain Corporation
Capitalization Reconciliation Table

		Par value authorized	Issuance date	Shares outstanding
	Common stock at 1/1/2009	200,000,000		25,172,640
	New shares issued to employees and vendors during 2009		Various dates	56,393
	New shares issued to PIPE investors		10/28/2009	5,011,169
	New shares issued to service provider during 2010		2/10/2010	2,000
	New shares issued to PIPE investors		9/10/2010	3,440,800
	New shares issued to employee		9/23/2010	5,000
	New shares issued as acquisition consideration		9/24/2010	731,707
	New shares issued to service provider during 2011		5/5/2011	25,000
	New shares issued to employees per stock incentive plan		7/20/2011	27,092
	New shares issued to employees per stock incentive plan		11/21/2011	36,073
	New shares issued to employees per stock incentive plan		10/5/2012	108,840
	Common stock at 12/31/2013			34,616,714

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	Warrants and options	Number of warrants or options	Issuance date	Expiration date
	Warrants issued to investors in 2007 PIPE	1,037,858	5/3/2007	5/2/2010
	Warrants issued to placement agent in 2007 PIPE	489,330	5/3/2007	5/2/2010
	Employee stock options	1,334,573	7/28/2009	7/27/2014
	Warrants issued to investors in 2009 PIPE - Series A	1,753,909	10/28/2009	4/28/2015
	Warrants issued to investors in 2009 PIPE - Series B	501,115	10/28/2009	10/28/2012
	Issued to service provider A during 2010	50,722	1/5/2010	1/2/2014
	Issued to service provider B during 2010	20,289	1/5/2010	1/2/2014
	Issued to service provider C during 2010	10,144	1/5/2010	1/2/2014
	Total warrants and options	5,197,940		

14. NON-CONTROLLING INTERESTS

The non-controlling interest represents the 19.8% equity of Shandong Lorain held by the Shandong Economic Development Investment Corporation, which is a state-owned interest.

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15. SALES BY PRODUCT TYPE

Sales by categories of product consisted of the following as of December 31, 2013 and 2012:

Category	*12/31/2013*	*12/31/2012*
Chestnut	$ 114,709,005	$ 125,101,585
Convenience food	62,213,432	79,575,069
Frozen food	38,357,348	34,996,809
Total	$ **215,279,785**	$ **239,673,463**

Revenue by geography consisted of the following as of December 31, 2013 and 2012:

Country	*12/31/2013*	*12/31/2012*
Australia	$ 59,317	$ 89,573
Belgium	4,296,553	6,049,825
Canada	142,620	-
China	158,785,053	170,818,669
Denmark	-	53,922
France	2,282,220	2,344,824
Germany	1,232,648	208,870
Hong Kong	164,921	212,174
Israel	566,651	277,028
Japan	25,763,794	37,942,286
Malaysia	1,663,077	2,221,990
Netherlands	808,505	431,808
Philippines	614,276	413,529
Poland	115,672	213,943
Portugal	3,557,232	711,006
Russia	118,795	471,559
Singapore	2,413,137	1,290,802
South Korea	9,335,811	11,845,499
Spain	-	147,648
Taiwan	108,946	742,669
Thailand	604,268	177,529
United Kingdom	1,269,986	2,513,634
United States	1,361,680	494,676
Vietnam	14,623	-
Total	**$ 215,279,785**	**$ 239,673,463**

16. INCOME TAXES

All of the Company s operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate income tax rate is 25%.

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The following tables provide the reconciliation of the differences between the statutory and effective tax expenses for the periods ended December 31, 2013 and 2012:

	12/31/2013	12/31/2012
Income attributed to PRC	$ 23,547,394	$ 30,283,824
Loss attributed to US	(285,062)	(802,412)
Income before tax	23,262,332	29,481,412
PRC Statutory Tax at 25% Rate	5,573,756	7,737,643
Effect of tax exemption granted	-	-
Income tax	$ 5,573,756	$ 7,737,643

Per Share Effect of Tax Exemption

	12/31/2013	12/31/2012
Effect of tax exemption granted	$ -	$ -
Weighted-Average Shares Outstanding Basic	34,616,714	34,533,817
Per share effect	$ -	$ -

The difference between the U.S. federal statutory income tax rate and the Company s effective tax rate was as follows for the periods ended December 31, 2013 and 2012:

	12/31/2013	12/31/2012
U.S. federal statutory income tax rate	35%	35%
Lower rates in PRC, net	-10%	-10%
Tax holiday for foreign investments	-1.04%	1.25%
The Company s effective tax rate	23.96%	26.25%

Effective January 1, 2008, the PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as two-year exemption followed by three-year half exemption hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays were terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.

The Company has accrued a deferred tax asset as a result of its net operating loss in and before December 31, 2013 because the Company planned to setup operations in the United States. The company anticipates that the operations within the United States will generate income in the future so that it will be able to take full advantage of the accrued asset. Accordingly the Company has not provided a valuation allowances for the accrued tax asset.

The Company s has detailed the tax rates for its subsidiaries for 2013 and 2012 in the following table.

	China Income Tax Rate	
Subsidiary	2013	2012
International Lorain	0%	0%
Junan Hongrun	25%	25%
Luotian Lorain	25%	25%
Beijing Lorain	25%	25%

Shandong Lorain	25%	25%
Shandong Greenpia	25%	25%
Dongguan Lorain	25%	25%

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17. EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows:

	12/31/2013	12/31/2012
Basic Earnings Per Share Numerator		
Net Income	$ 16,633,895	$ 20,422,668
Income Available to Common Stockholders	$ 16,633,895	$ 20,422,668
Diluted Earnings Per Share Numerator		
Income Available to Common Stockholders	$ 16,633,895	$ 20,422,668
Income Available to Common Stockholders on Converted Basis	$ 16,633,895	$ 20,422,668
Original Shares:		
Additions from Actual Events		
-Issuance of Common Stock	34,616,714	34,533,817
Basic Weighted Average Shares Outstanding	34,616,714	34,533,817
Dilutive Shares:		
Additions from Potential Events		
-Exercise of Investor Warrants & Placement Agent Warrants	-	-
- Exercise of Employee & Director Stock Options	-	-
Diluted Weighted Average Shares Outstanding:	34,616,714	34,533,817
Earnings Per Share		
- Basic	$ 0.48	$ 0.59
- Diluted	$ 0.48	$ 0.59
Weighted Average Shares Outstanding		
- Basic	34,616,714	34,533,817
- Diluted	34,616,714	34,533,817

18. SHARE BASED COMPENSATION

On July 27, 2009, the Company s Board of Directors adopted the American Lorain Corporation 2009 Incentive Stock Plan (the Plan). The Plan provides that the maximum number of shares of the Company s common stock that may be issued under the Plan is 2,500,000 shares. The Company s employees, directors, and service providers are eligible to participate in the Plan.

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For the year ended December 31, 2009, the Company recorded a total of $166,346 of shared based compensation expense. The Company issued warrants that upon exercise would result in the issuance of 1,334,573 common shares. These stock options vest over three years, where 33.33% vest annually. The expense related to the stock options was $107,375. The Company also recorded expense of $58,971 for the issuance of 56,393 common shares to participants, respectively. The common shares vested immediately. Given the materiality and nature of share based compensation, the entire expense has been recorded as general and administrative expenses. For the year ended December 31, 2010, the Company recorded a total of $890,209 stock option and its related general and administrative expenses.

During the period ended December 31, 2012 and 2011, the Company recorded a total of $503,493 and $644,243 stock option and its related general and administrative expenses.

During the period ended December 31, 2013, the Company did not grant any stock option.

The range of the exercise prices of the stock options granted since inception of the plan are shown in the following table:

Price Range	Number of Shares
$0 - $4.99	1,334,573 shares
$5.00 - $9.99	0 shares
$10.00 - $14.99	0 shares

No tax benefit has yet to be accrued or realized. For the period ended December 31, 2013, the Company has yet to repatriate its earnings. Accordingly it has not recognized any deferred tax assets or liability in regards to benefits derived from the issuance of stock options.

The Company used the Black-Scholes Model to value the warrants granted. The following shows the weighted average fair value of the grants and the assumptions that were employed in the model:

	2012	2011
Weighted-average fair value of grants:	$ 1.3629	$ 1.1909
Risk-free interest rate:	0.33%	0.96%
Expected volatility:	59.93%	4.58%
Expected life in months:	36.00	36.00

19. LEASE COMMITMENTS

(a.) The Company entered into an operating lease agreement leasing a factory building located in Dongguan, China. The lease was signed by Shandong Lorain on behalf of Dongguan Lorain and expires on August 9, 2018.

The minimum future lease payments for this property at December 31, 2013 are shown in the following table:

From	To	Lease payment
1/1/2014	12/31/2014	$ 92,685
1/1/2015	12/31/2015	92,685
1/1/2016	12/31/2016	92,685

1/1/2017	12/31/2017		92,685
1/1/2018	8/9/2018		56,641
		$	427,381

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The outstanding lease commitment as of December 31, 2013 was $427,381.

The minimum future lease payments for this property at December 31, 2012 are shown in the following table:

From	To	Lease payment
1/1/2013	12/31/2013	$ 87,536
1/1/2014	12/31/2014	92,685
1/1/2015	12/31/2015	92,685
1/1/2016	12/31/2016	92,685
1/1/2017	12/31/2017	92,685
1/1/2018	8/9/2018	56,641
		$ 514,917

The outstanding lease commitment as of December 31, 2012 was $514,917.

(b.) During the year ended December 31, 2013, the Company entered into three operating lease agreement leasing three plots of land of where greenhouses are maintained to grow seasonal crops. The lease was signed by Junan Hongrun Foodstuff Co., Ltd. and expires on April 25, 2033, May 19, 2033, and June 19, 2033, respectively.

The minimum future lease payments for this property at December 31, 2013 are shown in the following tables:

From	To	Greenhouse 1	From	To	Greenhouse 2	From	To	Greenhouse 3
1/1/2014	12/31/2014	$ 78,128	1/1/2014	12/31/2014	$ 95,114	1/1/2014	12/31/2014	$ 11,339
1/1/2015	12/31/2015	78,128	1/1/2015	12/31/2015	95,114	1/1/2015	12/31/2015	11,339
1/1/2016	12/31/2016	78,128	1/1/2016	12/31/2016	95,114	1/1/2016	12/31/2016	11,339
1/1/2017	12/31/2017	78,128	1/1/2017	12/31/2017	95,114	1/1/2017	12/31/2017	11,339
1/1/2018	12/31/2018	78,128	1/1/2018	12/31/2018	95,114	1/1/2018	12/31/2018	11,339
1/1/2019	12/31/2019	78,128	1/1/2019	12/31/2019	95,114	1/1/2019	12/31/2019	11,339
1/1/2020	12/31/2020	78,128	1/1/2020	12/31/2020	95,114	1/1/2020	12/31/2020	11,339
1/1/2021	12/31/2021	78,128	1/1/2021	12/31/2021	95,114	1/1/2021	12/31/2021	11,339
1/1/2022	12/31/2022	78,128	1/1/2022	12/31/2022	95,114	1/1/2022	12/31/2022	11,339
1/1/2023	12/31/2023	85,773	1/1/2023	12/31/2023	102,527	1/1/2023	12/31/2023	12,097
1/1/2024	12/31/2024	89,289	1/1/2024	12/31/2024	105,683	1/1/2024	12/31/2024	12,757
1/1/2025	12/31/2025	89,289	1/1/2025	12/31/2025	105,683	1/1/2025	12/31/2025	12,757
1/1/2026	12/31/2026	89,289	1/1/2026	12/31/2026	105,683	1/1/2026	12/31/2026	12,757
1/1/2027	12/31/2027	89,289	1/1/2027	12/31/2027	105,683	1/1/2027	12/31/2027	12,757
1/1/2028	12/31/2028	89,289	1/1/2028	12/31/2028	105,683	1/1/2028	12/31/2028	12,757
1/1/2029	12/31/2029	89,289	1/1/2029	12/31/2029	105,683	1/1/2029	12/31/2029	12,757
1/1/2030	12/31/2030	89,289	1/1/2030	12/31/2030	105,683	1/1/2030	12/31/2030	12,757
1/1/2031	12/31/2031	89,289	1/1/2031	12/31/2031	105,683	1/1/2031	12/31/2031	12,757
1/1/2032	12/31/2032	89,289	1/1/2032	12/31/2032	105,683	1/1/2032	12/31/2032	12,757
1/1/2033	4/25/2033	42,261	1/1/2033	5/19/2033	50,322	1/1/2033	6/19/2033	5,530
		$ 1,634,787			$ 1,960,022			$ 234,491

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The outstanding lease commitment for the three greenhouses as of December 31, 2013 was $3,829,300.

20. SUBSEQUENT EVENTS

A. Acquisition of Athena and wholly owned subsidiaries

On February 7, 2014, the Company through its indirect wholly-owned subsidiary, Junan Hongrun Foodstuff Co., Ltd. entered into a Reiterative Share Purchase Agreement with Biobranco II, a company organized under Portuguese law (the "Biobranco Purchase Agreement") to acquire from Biobranco II 2,750 shares of Athena, a limited liability company organized under the laws of France, or 11% of the share capital of Athena, for an aggregate purchase price of €495,000 (or approximately US$670,600). The transaction was completed on March 13, 2014 upon payment of the purchase price.

On February 7, 2014, Junan Hongrun also entered into a Share Purchase Agreement with Intiraimi, a limited liability company organized under the laws of France (the "Intiraimi Purchase Agreement") to acquire from Intiraimi 10,000 shares of Athena, a limited liability company organized under the laws of France (Athena), or 40% of the share capital of Athena, for an aggregate purchase price of €1,500,000 (or approximately US$2,032,050) of which (i) €1,000,000 (or approximately US$1,354,700) will be payable within 20 days of the execution of the Intiraimi Purchase Agreement, and (ii) the remaining €500,000 (or approximately US$677,350) (Deferred Payment) will be payable on February 7, 2015 if certain conditions are met. The Intiraimi Purchase Agreement also contains customary non-competition and non-solicitation clause for Intiraimi and Pedro Quintana, Intiraimi s President. The initial payment under the Intiraimi Purchase Agreement in the amount of €1,000,000 (or approximately US$1,354,700) was paid on March 13, 2014. As a result of the Biobranco Purchase Agreement and the Intiraimi Purchase Agreement, Junan Hongrun owns 12,750 shares, or 51% share capital, of Athena. Junan Hongrun agreed to pledge 12,750 shares, or 51% share capital, of Athena acquired in the above transactions to Intiraimi to guarantee the Deferred Payment.

In connection with the acquisition of a 51% controlling interest in Athena, on February 7, 2014, Junan Hongrun entered into a Shareholders Agreement (the Shareholder Agreement) with Athena and each of the other shareholders of Athena (Current Shareholders), which defines the rights of the Junan Hongrun and the Current Shareholders, and their respective undertaking as it relates to Athena, including, but not limited to:

- The settlement of certain claims the Current Shareholders have against Athena through the assignment of certain claims Athena, through its wholly owned subsidiary, Conserverie Minerve, has against Branco Group Companies for the benefit of the Current Shareholders;
- The handling of the commitment to install a Nunziata 4 burner chestnut shelling machine at the Cacovin facility, a company indirectly owned by Athena;
- The Junan Hongrun s right to appoint Chief Executive Officer for Athena and its subsidiaries;
- The Junan Hongrun s right, with the prior consent of the Current Shareholders, to appoint general manager for Athena and its subsidiaries;
- Protective provisions granted to Current Shareholders;
- Information rights;
- Certain restrictions on transfer of Athena s shares;
- Rights of pre-emption in connection with assignment; and

- Granting the Company a call option right to purchase 2,250 of the shares of Athena (or 9% of the share capital of Athena) for a purchase price of €900,000 (or approximately US$1,219,230), subject to downward adjustment to 405,000 (or approximately US$548,654) if the Current Shareholders failed to fulfill certain obligations under the Shareholder Agreement. The call option is exercisable within six (6) months after February 7, 2015.

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The Shareholder Agreement expires ten (10) years from the date Junan Hongrun pays the initial purchase price under the Intiraimi Purchase Agreement and the purchase price under the Biobranco Purchase Agreement.

B. 2014 Equity Incentive Plan

On February 19, 2014 the Company s board of directors approved the 2014 Equity Incentive Plan (2014 Plan). Subject to adjustment as provided in the 2014 Plan, the total number of shares of Common Stock reserved and available for delivery in connection with awards under the 2014 Plan is 3,000,000. Currently there are no shares or options granted under the 2014 Plan. The Company will not grant any awards until the 2014 Plan has been approved by the stockholders in compliance with the NYSE Amex Company Guide and favorable federal income tax treatment for grants of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. This 2014 Plan replaces the Company s 2009 Incentive Stock Plan (the Prior Plan) and no additional stock awards shall be granted under the Prior Plan. All outstanding stock awards granted under the Prior Plan shall remain subject to the terms of the Prior Plan with respect to which they were originally granted.

C. Issuance of Convertible Promissory Note

In connection with the Athena acquisition, on March 13, 2014, the Company issued a Convertible Promissory Note (Note) in the principal amount of US$3.5 million (the Principal Amount) to an investor. Under the terms of the Note, interest on the outstanding Principal Amount accrues at a rate of 4.5% per annum, and all accrued but unpaid interest is due and payable on June 30, 2014 and on the last day of each quarter thereafter. If the Note is not converted pursuant to the terms of the Note, additional interest on the outstanding Principal Amount shall accrue at a rate of 4.5% per annum and payable at the maturity of the Note. Unless the Note is otherwise accelerated or converted, the unpaid Principal Amount of the Note, together with all accrued but unpaid interest, is due and payable, at the election of the investor, on September 13, 2014 or March 13, 2015 (Maturity Date), provided, however, if the investor fails to notify the Company in writing by August 13, 2014 that it elects the maturity date of September 13, 2014, then the Maturity Date will be extended to March 13, 2015.

In addition, under the terms of the Note, at any time commencing on or after September 13, 2014 and before March 13, 2015, the investor may convert in whole or in part the outstanding Principal Amount into a number of shares of our Common Stock of the Company on a per share conversion price of $1.15, as may be adjusted from time to time pursuant to the terms and conditions of the Note (Conversion Price); provided, however, the Company will not effect any conversion of the Note, and the investor will not have the right to convert any portion of the Note, to the extent (but only to the extent) that the investor would beneficially own in excess of the Beneficial Ownership Limitation (as defined below), which beneficial ownership will be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. The Beneficial Ownership Limitation is 9.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of the Note.

The Note is secured by the personal guarantee of Si Chen, our chief executive officer and chairman.

21. RISKS

A. *Credit risk*

Since the Company s inception, the age of account receivables have been less than one year indicating that the Company is subject to minimal risk borne from credit extended to customers.

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B. *Interest risk*

The company is subject to the interest rate risk when their short term loans become due and require refinancing.

C. *Economic and political risks*

The Company s operations are conducted in the PRC. Accordingly, the Company s business, financial condition, and results of operations may be influenced by changes in the political, economic, and legal environments in the PRC.

The Company s operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company s results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

D. *Environmental risks*

The Company has procured environmental licenses required by the PRC government. The Company has both a water treatment facility for water used in its production process and secure transportation to remove waste off site. In the event of an accident, the Company has purchased insurance to cover potential damage to employees, equipment, and local environment.

E. *Inflation Risk*

Management monitors changes in prices levels. Historically inflation has not materially impacted the company s financial statements; however, significant increases in the price of raw materials and labor that cannot be passed on the Company s customers could adversely impact the Company s results of operations.