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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended: **December 31, 2017**

☐ 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**

*(State or other jurisdiction of  
incorporation or organization)*

**87-0430320**

*(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  
**Common Stock, par value \$0.001 per share**

Name of each exchange on which registered  
**NYSE American**

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 ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 ☐ No ☒

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐  
Non-accelerated filer ☐

Accelerated filer ☐  
Smaller reporting company ☒  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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 26,759,570 and \$5,351,914 respectively.

There were 45,774,490 shares of common stock outstanding as of March 31, 2018.

Documents Incorporated by Reference: None.

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## 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.
- “Shenzhen Lorain” refers to Lorain Food (Shenzhen) 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,” “believe,” 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:

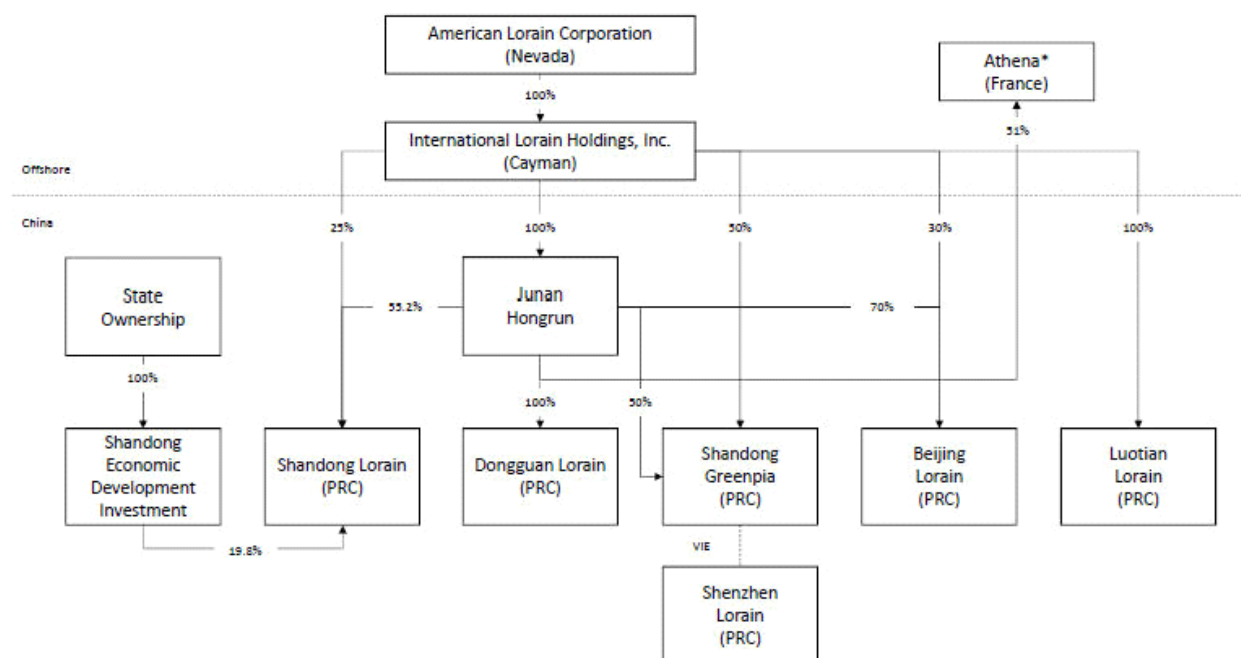
- Chestnut products;
- Convenience foods (including ready-to-cook, or RTC, foods, and ready-to-eat, or RTE, foods); and
- Frozen food products.

We conduct our production activities in China. 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.

### 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, owns 100% of 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%). Shenzhen Lorain is a variable interest entity (the “VIE entity”), which entered into a series of agreements (the “VIE Agreements”) with Shandong Greenpia in December 2017. We sometimes refer to our six Chinese operating subsidiaries, the VIE Entity and the Athena Group 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 majority 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.

On June 6, 2015, Athena approved the merger of its wholly owned subsidiary Conserverie Minerve into Athena. Athena assumed all contracts, rights

On June 6, 2015, Athena approved the merger of its wholly owned subsidiary Conserverie Minerve into Athena. Athena assumed all contracts, rights, assets and liabilities of Conserverie Minerve after the merger. Athena was a holding company with no operations and its only asset was the equity of Conserverie Minerve. On August 8, 2015, the merger was completed. In April 2016, Athena ceased operations as discussed above.

### *Products*

Our products are categorized into the following three segments:

- Chestnut products,
- Convenience food products, and
- Frozen food products.

We produced 143 products in 2017. We produced 56 frozen food products in 2017. We also discontinued 71 products in 2017.

#### Chestnut Products

We produced 55 high value-added processed chestnut products in 2017. In 2017 and 2016, this segment contributed 41% and 57% of our total revenues, respectively.

Our best selling products in 2016 and 2017 included our frozen chestnuts. 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.

We position our chestnut products as middle to high end products. We differentiate our chestnut products based on production process, high quality raw materials inputs, 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, and
- Ready-to-eat, or RTE, 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 2016 and 2017 were French fries.

RTEs can be served without any cooking. Our best-selling RTEs in 2016 and 2017 were various bean products and various fried vegetables.

We produced 92 convenience food products in 2016 and 42 convenience food products in 2017. In 2017 and 2016, this segment contributed 20.1% and 20.3%, 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 2016 and 56 frozen food products in 2017. Our best-selling frozen food products in 2016 and 2017 was sweet corn products.

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. The frozen foods accounted for in our total revenue increased from 22.7% in 2016 to 38.9% in 2017. 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 four facilities in China, two of which are located in Junan County, Shandong Province, one in Luotian County, Hubei Province, and one in Miyun County, Beijing.

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
Beijing Lorain	2003	21,000
Luotian Lorain	2003	9,558
Shandong Greenpia	2010	9,179

#### Production Lines

We currently manufacture our products using 29 production lines. Except Chinese doughnuts production lines, each production line is used to produce between 10 and 50 products. We currently run four 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;
- Convenience food lines, which are used for producing RTCs and RTEs, all of which have nitrogen preservation capacity; and
- Chinese doughnuts lines, which are used to produce Chinese doughnut products.

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	2017 Capacity
Junan Hongrun	3 Deep-freezing line 4 Convenience food lines 4 Canning lines 4 Chinese doughnut lines	Chestnut products, frozen foods, beans, bean paste	Multi-purpose production lines with 74,000 tons of production capacity Chinese doughnut lines with 2000 tons production capacity 24,900 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 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 6,500 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 1,500 tons of cold and frozen storage



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 South Korea and Japan, with Japan being our top overseas markets in value term.

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.

#### 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 (-18°C to -20°C) or constant temperature storages (-5°C to 5°C). 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	11	5,300
Beijing Lorain	Frozen Storage	6	2,850
	Constant Temperature	3	1,800
Luotian Lorain	Frozen Storage	8	4,500
	Constant Temperature	4	2,000
Shandong Greenpia	Constant Temperature	4	1,500
TOTAL		60	41,050

All of the listed storage facilities are owned by us. We did not add to our storage capacity during 2017.

#### 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, 2017, the supplies coming from agricultural operations were still a low proportion of the total.

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

<b>Harvest</b>	<b>Area (acres)</b>	<b>Location (PRC)</b>
Chestnut (South Korean, Japanese, Australian cultivar)	1,052	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	Shandong
Mixed Vegetables	417	Shandong
Mixed Vegetables	83	Beijing
		Inner
Japanese Pumpkin	197	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. In the end of 2016, we leased two woods in Junan County Shandong Province, China to plant more chestnuts trees.

In 2017, we grew strawberries in Shandong, which is used in our frozen fruit products.

#### *Raw Materials*

In 2017 and 2016, approximately 65% and 85% of our procured raw materials, respectively, consisted of agricultural products, including primarily chestnuts and vegetables, approximately 26% and 6%, respectively, consisted of packaging materials and approximately 9% and 9% consisted of condiments such as sugar, salt and flour.

#### Our Supply Sources

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 93.2% and 4.8%, respectively, of our total raw material costs in 2017, while self-supply accounted for 2%. Domestic and overseas procurement accounted for 91% and 6.8%, respectively, of our total raw material costs in 2016, while self-supply accounted for 2.2%. We obtained substantially all of our agricultural raw materials from domestic sources during 2016 and 2017.

In 2017 and 2016, respectively, we procured approximately 1,670 and 31,892 metric tons of chestnuts and approximately 457 and 32,487 metric tons of vegetables and other raw materials from a number of third party suppliers, domestic and overseas, and produced approximately 959 and 438 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 12.1% and 13.6% of the total procurement in 2017 and 2016 in value terms respectively. 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.

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 personnel 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 and South Korea. In 2017 and 2016, approximately 84.1% and 82.1%, respectively of our sales were made domestically in China and approximately 15.9% and 17.9% were to international customers, primarily Japan and South Korea. Our top ten customers contributed 12% and 12.1% of our total revenues in 2017 and 2016 respectively.

#### Domestic

In China, we sell our products through our own sales team and through third-party distributors. We have 18 sales offices in 12 provinces in China. In 2017 and 2016, we sold approximately 75.6% and 72.6%, respectively, of our products directly to our Chinese and overseas customers and approximately 24.4% and 27.4% through third-party distributors. In view of a significant decline in our sales volume in 2017, we decided to cut spending. The performance of our third-party distributors was significantly lower than expected, and our direct-selling business is the main source of revenue. In addition, due to the low demand of the market, the third-party distributors needed fewer products, which result that our relationship not as close as the previous years, leading to the increase of bad debts. Therefore, we decided to reduce the proportion of third-party distributors and enhance our own sales team.

We sell our products in first-tier cities in China, including Beijing, Shanghai, Tianjin and Guangzhou. 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.

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% to 1.5% of total revenues generated by such distributor which exceed previously established sales targets.

#### International

Our export sales destinations include Asia Pacific, primarily Japan and South Korea. Outside China, sales in Europe decreased by 100% in 2017 as a result of a bad sales performance in France and Portugal and the shutdown of Athena Group. Sales in Asia countries also decreased by 93.6% due to weak demand in Asia countries.

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 and Japan. Our sales team sells directly to wholesalers, food processors and mass merchandisers.

#### *Our Sales and Marketing Efforts*

We have not spent a significant amount of capital on advertising in the past, and our advertising budget continues to be limited. In 2017 our marketing and branding efforts included supermarket advertising and internet advertising.

#### *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 Beijing Liliangzi Food Co. Ltd., Hangzhou Dadi Food Co. Ltd. and Tianjin Jinkaili Food Co. Ltd., all of which are located in China.

### *Intellectual Property*

#### Trademarks



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

#### Patents

We were granted two patents by the State Intellectual Property Office of the PRC during 2012, including the preparation of aerated snack beans and frozen bottom open chestnuts. One patent for preparation of liquor preserved fish and soup was approved in 2013. In 2014, our patent application during 2012 for the preservation, storage and processing procedures for chestnuts was approved. We made application for three patents to State Intellectual Property Office of the PRC during 2015.

In addition to the above-mentioned patents, we also possess 16 patents for utility models and 15 patents for appearance design.

We take reasonable steps to protect our proprietary information and trade secrets, such as limiting disclosure of proprietary plans, methods and other similar information 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, 2017, we had a total of 1,067 employees. Approximately 717 of our full-time employees are directly employed by our subsidiary companies and the remaining employees are employed by outsourcing agents that we use to meet our staffing needs. Compared to 2016, the total employees decreased by 25.1% due to our significant production capacity declining and bad operating performance.

All of the departments were hit as a result of huge losses in 2017, especially the production department and domestic sales department. Since our revenue from main business decreased significantly, 358 full-time employees were dismissed. We shut down 8 sales offices in 2017 to reduce the personnel and administrative expenses. As required by Chinese law, all employees are party to a written employment contract. We compensate the employees outsourced from agents directly and pay agents a service fee. Agents are 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.

<b>Department</b>	<b>Number of Employees</b>
Production	810
Quality Control	38
Domestic Sales	100
Human Resources	20
Research and Development	21
International Sales	15
Finance	20
Procurement	18
Administration	20
Strategic Planning	5
Total	1,067

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.

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 staffs from time to time to enhance their technical and product knowledge, including knowledge of industry quality standards.

Our employees participate in state pension scheme and various types of social insurance organized by municipal and provincial governments. Outsourcing agents are responsible for contributions on behalf of the leased employees.

#### *Our Research and Development Activities*

We have research and development staffs at each of our facilities. In total, 21 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.

The amount we spent on research and development activities during the years ended December 31, 2017 and 2016 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.

We have obtained approvals from Chinese authorities for products that requires the approval under regulations, including chestnuts, frozen vegetables and fruits, fish, and canned products. Production of new products that do not fall into 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**

### **Business Risks**

*We lack the ability to sustain our operations if our cash flow continues to decline and cannot be replenished through financings.*

Our financial statements have been prepared on a going-concern basis. The going-concern basis assumes that assets will be realized and liabilities will be settled in the ordinary course of business in the amounts disclosed in the financial statements. Our ability to continue as a going concern is greatly dependent on our ability to realize our non-cash current assets such as receivables and inventory into cash in order to settle its current obligations. For the year ended December 31, 2017, we incurred a loss of \$78,305,354. As of December 31, 2017, we had a working capital deficit of approximately \$53,517,412. For the year ended December 31, 2016, we incurred a substantial loss of \$136,361,080. As of December 31, 2016, we had a working capital deficit of approximately \$21,271,226. In addition, as described herein, we have defaulted on all of our outstanding loans. These conditions raise substantial doubt as to whether we may continue as a going concern. If we are unable to raise additional financing when needed, upon terms that are favorable to us, 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 no longer be able to compete in Europe and have suffered significant losses in China.*

We terminated the French operation due to its operational loss. We suffered from the investigation with respect to the origin of canned chestnuts sold by Conserverie Minerve ("Minerve", a former subsidiary of Athena) issued Centre Technique Conservation of Produits Agricoles ("CTCPA"), an industry trade association for canned, preserved and dehydrated food products in France. CTCPA stated that only chestnuts based on the European or Japanese cultivars can be used in canned chestnut products sold in France according to CTCPA policies and that canned chestnut products must also have received certification from the International Featured Standards ("IFS"), a qualified third party certification agency in Europe that certifies food products, especially for retail industry. Although, a proceeding from local court provided Minerve (now Athena) protection from creditors initiating any actions against Athena until March 2016, Athena still cost a lot to recycle market products, seal the finished products, and thousands of tons of chestnuts during 2016. We did not have our business in European market due to the non-operating of our French company, Athena during 2017.

Since the sales of revenue from Chinese market decreased by 100% in 2017 and we have lost our Europe market due to the termination of our French company, our competition advantage has been greatly weakened.

*Chinese chestnut sales declined due to natural hazard and fierce market competition.*

Chinese Domestic sales of chestnuts has decreased due to competition from the market and the raw material expense increased. Our chestnuts mainly relied on the raw materials purchased from Luotian, Hubei, our main chestnuts supply area accounted for 8% of the Chinese chestnut production. If the production area hit by flooding, the chestnuts production would be cut significantly and the purchase price would be increased remarkably.

*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. 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. 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 China in 2017 and 2016 was approximately \$1,846 per metric ton and \$1,765 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 any major 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.



*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.

*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 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% and 12.1% of our total revenues in 2017 and 2016, 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 2017, we sold our products through over 92 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.

*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 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 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.

*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 may have liquidity risk in relating to the decrease of cash flow and the bad debt loss.*

We have a markedly decrease on our revenue from sales in 2017. At December 31, 2017 and 2016, cash and cash equivalents (including restricted cash) were \$0.09 million and \$0.4 million, respectively. The decrease of cash and cash equivalents (including restricted cash) are by \$0.31 million, or by 77.5% due to the bad debt loss. If we cannot increase the quantity of our products sales, we may not be able to manage cash flow.

### **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 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.

*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.

*Chinese government forcing relocation may require us to incur significant costs.*

Shandong Lorain was demanded to move its production lines to the factory of Junan Hongrun according to a new city zoning plan where Shandong Lorain resident, so that the land can be used for other urban use. Shandong Lorain has started this relocation process in July 2016 and finished this process in December 2016. During the relocation process, we were not allowed to produce our products with full capacity. Shandong Lorain was barely operating during 2017 to reduce the cost of our business, because it is relocated to Junan Hongrun's site, where the main business is almost the same. As a result, the revenue from sales of chestnuts food products was \$ 0.4 million and \$30.4 million in 2017 and in 2016, respectively, decreasing by approximately 98.7% ..

We cannot predict when the compensation for relocation will be received and whether the amount of compensation for land requisition can make up for our loss during the relocation period. If we cannot receive sufficient compensation next year, the relocation will cost us a significant loss.

## **Financial Risks**

*We have defaulted on all of our outstanding debt due to our poor operation performance and lack of finance from funding activities.*

As of December 31, 2017, the balance of our short-term loans was approximately \$23.8 million, all of which have been in default and have not been repaid. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. We are in negotiations to renew these loans or modify the repayment terms. If we fail to satisfy our creditors' demands, our creditors may apply for enforcement to sell our encumbered assets, which would result in a material adverse effect on our operations.

We are also in default of the debentures for \$9.5 million and \$15.4 that were issued by Guoyuan Securities Co., Ltd. and Daiwa SSC Securities Co. Ltd., respectively, and negotiating with the debenture holders to extend repayment terms. If we fail to repay, a third party guarantor would be required to repay these the debenture holders. However, the outcome of any discussions among the parties is unknown and our operations may be adversely impacted if such obligations are not repaid.

*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 funded approximately 40.1% of our working capital requirements from the proceeds of short-term loans from Chinese banks in 2017. Our average loan balance from short-term bank loans in 2016 was approximately \$30.7 million and in 2017 was approximately \$23.8. 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 are not adequate to satisfy our liquidity requirements through 2018. Our plans include considering pursuing alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements, as well as pursuing acquisitions using our publicly traded equity as consideration. However, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending, or successfully consummate acquisitions, to provide the required liquidity. Accordingly, we cannot be sure of the availability or terms of any third party financing or our ability to continue operating.

*We are subject to credit risk in respect of accounts 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 2016, we gradually shortened credit terms for many of our domestic customers from between 30 and 180 days to between 30 and 60 days; international customers are typically extended 90 days credit. In 2017, we took the same credit terms policy for our customers. 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.

*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. We may also grant registration rights to investors purchasing our equity or debt securities in the future.

*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 France 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 in China.

*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 vehicle, 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 Circular 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.

On July 14, 2014, the SAFE issued the Circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Roundtrip Investment by Domestic Residents Through Special Purpose Vehicles, or Circular 37. Circular 37 repeals and replaces the Notice Concerning Foreign Exchange Controls on Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or Circular 75. Under Circular 37, PRC residents are required to register with the SAFE or its local branches prior to establishing, or acquiring control of, an offshore company for the purpose of investment or financing that offshore company with equity interests in, or assets of, a PRC enterprise or with offshore equity interest or assets legally held by such PRC resident. In addition, PRC residents are required to amend their registrations with the SAFE and its local branches to reflect any material changes with respect to such PRC resident's investment in such offshore company, including changes to basic information of such PRC resident, increase or decrease in capital, share transfer or share swap, merger or division. In the event that a PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from contributing additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various foreign exchange registration requirements described above could result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

We have requested our relevant shareholders who are subject to the SAFE regulations to make the necessary registrations under the SAFE regulations. However, we may not be fully informed of the identities of the beneficial owners of our company. We do not have control over our beneficial owners and cannot assure you that all of our PRC resident beneficial owners will comply with SAFE regulations. The failure of our beneficial owners who are PRC residents to comply with these SAFE registrations may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Furthermore, since Circular 37 was recently promulgated and it is unclear how this regulation, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

If the failure to identify, characterize and register Mr. Chen as a beneficial owner of ILH is determined by the PRC authorities to be a violation of the requirements of registration and disclosure under new Circular 37, the Lorain Group Companies may be ordered by the authority in the PRC to make corrections on its filed registration, to be fined an amount up to RMB 50,000 for Mr. Chen and up to RMB 300,000 for the Lorain Group Companies.

Furthermore, since Circular 37 was recently promulgated and it is unclear how this regulation, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

*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, as well as Euro and Renminbi. In the event that the Renminbi appreciates against the U.S. dollar and Euro, our costs will increase.

*We may encounter credit risks from our suppliers in China.*

Our Procurement staff left before goods were verified and received into inventory. We did not place significant new orders or make additional payments to vendors and suppliers, especially, peasant suppliers whom do not abide by contract law and have not fulfilled their obligations.

#### **Risks Related To the Market For Our Stock**

*We may be forced to delisting from the NYSE American if we fail to satisfy their continued listing standards.*

On April 18, 2017, we received a letter from NYSE American (the “Exchange”) stating that the Exchange has determined that we are not in compliance with their continued listing standards due to our failure to timely file with the SEC our Annual Report on Form 10-K for the year ended December 31, 2016. Although we believe that we are now in compliance with the Exchange’s continued listing standards, there is no guarantee that we will continue to be in compliance with such standards and that our shares of common stock will continue to be listed on the Exchange. In the event that our shares of common stock are delisted by the Exchange, and our shares are listed on an over-the-counter market, the price of our shares may decline and you may be forced to sell your shares at a loss, if at all.

*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.*

DEG is the record owner of approximately 28.2% of our outstanding voting securities. As a result, DEG possesses significant influence over our business.

*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.

*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:

<u>Facility</u>	<u>Location</u>	<u>Approximate Size (Square Meters)</u>	<u>Owned or Leased</u>
Junan Hongrun	Junan County, Shandong Province, PRC	197,637	Owned
Beijing Lorain	Miyun County, Beijing Province, PRC	22,677	Owned
Luotian Lorain	Luotian County, Hubei Province, PRC	54,251	Owned
Shandong Greenpia	Junan County, Shandong Province, PRC	33,332	Owned

In the aggregate, we currently have land use rights to, or lease, 70 properties with approximately 307,897 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

There is a lawsuit currently pending in the Supreme Court of Shandong Province, which was initially filed by Shandong Lorain, a subsidiary of the Company, against Junan Hengji Real Estate Development Co., Ltd. ("Junan Hengji") in November 2013 at Linyi City Intermediate People's Court of Shandong Province (the "Linyi Court").

Shandong Lorain added Jiangsu Hengan Industrial Investment Group Co., Ltd. ("Heng An Investment") as a co-defendant after the case was first filed at Linyi Court.

In September 2010, Shandong Lorain and Junan Hengji entered into a cooperative development agreement (the "Agreement") and in March 2011, Heng An Investment, an affiliated company of Junan Hengji also entered into the Agreement with Shandong Lorain to jointly develop the project with Junan Hengji. Pursuant to the Agreement, Junan Hengji and Heng An Investment are required to pay Shandong Lorain a total RMB 20 million (approximately \$3,225,806) fixed return according to the development status of the project developed by Junan Hengji and Heng An Investment. The payment was due and unpaid to Shandong Lorain. Shandong Lorain and the Company evaluated the potential claims against Junan Hengji and Heng An Investment, disputes between the parties with respect to out of pocket expenses paid by Junan Hengji, as well as the litigation fee that is required to be paid to the court based upon the amount claimed. Ultimately, Shandong Lorain decided to file the lawsuit with Linyi Court to claim a fixed return of RMB 10 million (approximately \$1,636,902) first.

In January 2014, the Linyi Court had its first trial session. During the trial, Heng An Investment filed a counterclaim against Shandong Lorain for repayment of out of pocket expenses which would off-set the entire fixed return plus additional unpaid expenses of RMB 4,746,927 (approximately \$765,633). Shandong Lorain responded that Heng An Investment does not have standing to file the counter-claim because the out of pocket payments was made by Junan Hengji. In November 2014, the court had a second trial session and completed its discovery process. On March 21, 2015, Shandong Lorain received Linyi Court's decision that rejected Shandong Lorain's claim for RMB 10,000,000 against Junan Hengji and Heng An Investment. On April 3, 2015, Shandong Lorain appealed the decision to the Supreme Court of Shandong Province. In November 2015, Supreme Court of Shandong Province vacated the decision of the Linyi Court and remanded the case back to the Linyi Court for a retrial. The retrial took place on April 25, 2016, at the Linyi City Intermediate People's Court, and the decision thereon is currently pending. The Company anticipates that Shandong Lorain will prevail on retrial.



**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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## 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 American (formerly known as the American Stock Exchange, the NYSE Amex Equities Exchange and the NYSE MKT) under the symbol "ALN". At April 9, 2018, the closing price for our common stock was \$0.19 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, 2017		
First Quarter	\$ 0.60	\$ 0.58
Second Quarter	\$ 0.57	\$ 0.44
Third Quarter	\$ 0.50	\$ 0.36
Fourth Quarter	\$ 0.37	\$ 0.17
Fiscal Year Ended December 31, 2016		
First Quarter	\$ 1.22	\$ 0.07
Second Quarter	\$ 1.30	\$ 1.06
Third Quarter	\$ 1.15	\$ 0.62
Fourth Quarter	\$ 0.72	\$ 0.50

#### Approximate Number of Holders of Our Common Stock

As of March 31, 2018, there were 307 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

On December 28, 2017, we entered into a securities purchase agreement, pursuant to which Yi Li and Beili Zhu, each an individual residing in the People's Republic of China, agreed to invest an aggregate of \$1.275 million in the Company in exchange for an aggregate of 7,500,000 shares of our common stock, representing a purchase price of \$0.17 per Share. The transaction closed on January 23, 2018.

#### 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, and ready-to-eat, or RTE, foods); 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 and South Korea. We produced 143 products in 2017. We derive most of our revenues from sales in China, South Korea and Japan.

### *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 2017, the cost of our raw materials decreased from \$143,226,607 to \$6,848,930 for a decrease of approximately 95.2%. 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. 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 the China domestic market in 2017 and 2016 was approximately \$1,846 metric ton and \$1,765 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 40.1% and 30.2% of our working capital requirements in 2017 and 2016, 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 2017 and 2016 were approximately \$23.8 million and \$30.7 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. We obtained long term loans, private placement financing and a convertible promissory note during the period 2011 to 2017. 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.

Management anticipates that our existing capital resources and cash flows from operations and current and expected short-term bank loans are not adequate to satisfy our liquidity requirements through 2018. Our plans include considering pursuing alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements, as well as pursuing acquisitions using our publicly traded equity as consideration. However, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending, or successfully consummate acquisitions, to provide the required liquidity. Accordingly, we cannot be sure of the availability or terms of any third party financing or our ability to continue operating.

### 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.

(In thousands of U.S. dollars)	Year Ended December 31,		Increase/(Decrease) (\$)	Increase/(Decrease) (%)
	2017 (\$)	2016 (\$)		
<b>Net Revenue</b>	5,110	79,667	(74,557)	(93.6%)
<b>Cost of Revenue</b>	5,465	69,165	(63,700)	(92.1%)
<b>Gross profit</b>	(355)	10,502	(10,857)	(103.4%)
<b>Operating Expenses:</b>				
Selling and Marketing	432	6,126	(5,694)	(92.9%)
General and administrative	40,566	40,797	(231)	(0.6%)
<b>(Loss)/Income from continuing operations</b>	(47,191)	(85,275)	38,084	(44.7%)
<b>Non-operating Income (Expenses):</b>				
Government grant	-	1,232	(1,232)	(100%)
Interest income	-	47	(47)	(100%)
Other income	740	348	392	112.6%
Other expense	(2,501)	(45,911)	43,410	94.6%
Interest Expense	(4,076)	(4,569)	493	(10.8%)
<b>(Loss)/Income before taxes</b>	(78,144)	(85,274)	(7,130)	(8.4%)
Income Taxes	161	1,899	(1,738)	(91.5%)
Net Loss	(78,305)	(85,173)	(6,868)	(8.1%)
Non-Controlling Interest	(15,073)	(49,188)	34,115	(69.4%)
<b>Net Loss of common stockholders</b>	(63,232)	(87,173)	(23,941)	(27.5%)

### Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

#### Revenue

*Net Revenues.* Net revenues decreased by \$74.6 million, or approximately 93.6%, to \$5.1 million in 2017 from \$79.7 million in 2016.

Over the last several years, more competitors entered the convenience food industry that develop more types of products. Our current products have not met customers' demand during this time period due to our failure to invest in research and development. In addition, we have faced significant competition from Chinese online ordering platforms since 2015, which platforms offer convenient and efficient meals directly from restaurants. In addition, Dongguan Lorain ceased operations in October 2016 due to its high cost of environmental compliance cost, the overlap of products and market with Luotian Lorain, both of which focus on the southern market of China, and poor performance of sales revenue. During the year ended December 31, 2015, the financial position and results of operations of Minerve were accounted for as subsidiaries in the Company's financial statements; however, during the year ended December 31, 2016, Minerve became insolvent and was compelled by its creditors into bankruptcy, and, ultimately, liquidation. Accordingly, the Company lost control of Minerve and recognized a complete write off its investment in Minerve. Balances owed by Minerve to other subsidiaries of the Company have been written off. During 2017, we don't have any revenues received from Athena due to the non-operation of the company.

*Cost of Revenues.* Our cost of revenues decreased \$63.7 million, or approximately 92.1%, to \$5.5 million in 2017 from \$69.2 million in 2016, as a result of decrease of net revenue.

*Gross Profit.* Our gross profit decreased \$10.9 million, or 103.8%, to negative \$0.4 million in 2017 from \$10.5 million in 2016, mainly attributed to the fact that revenues decreased by \$74.6 million. The gross profit ratio decreased from 13.2% to negative 6.9% in 2017, mainly because of our ceasing to sell many of our convenience food products, non-operation of Athena Group, Shandong Lorain and Dongguan Lorain, the cost of chestnuts increased and the sales of chestnuts in China and outside China declined significantly.

#### Operating Expenses

*Selling and Marketing Expenses.* Our selling and marketing expenses decreased approximately \$5.7 million, or 92.9%, to \$0.4 million in 2017 from \$6.1 million in 2016. The decrease is attributable to decreases of employee salary, travel expense, entertainment expense, transportation fee and storage charge by 22%, 80%, 90%, 90% and 90%, respectively, in 2017.

*General and Administrative Expenses.* Our general and administrative expenses decreased approximately \$0.2 million, or 0.6%, to \$ 40.6 million in 2017 from \$40.8 million in 2016. The decrease mainly due to bad debt including unrecovered trade receivables and other receivables \$ 46,825,557 that management determined cannot be recovered, which accounted for 53.0% of total general and administrative expenses in 2017. In 2017, the credit terms for many of our domestic customers was between 30 and 60 days; international customers are typically extended 90 days credit. Our cash flow suffered while waiting for such payments.

#### Government Subsidy Income

Government subsidy income decreased to \$0 in 2017 from approximately \$1.2 million in 2016 due to bad performance of operation.

#### Income Before Taxation and Non-Controlling Interest

Loss before taxation and non-controlling interest decreased \$55.8 million, or 8.1%, to \$78.1 million in 2017 from \$85.3 million in 2016, mainly due to cost of revenue decreased \$63.7 million to \$5.5 million in 2017 from \$69.2 million in 2016 . In addition, decrease of gross profit also led to the decrease of income before taxation and non-controlling interest.

#### Income Taxes

Income taxes decreased approximately \$1.7 million, or 91.5%, to \$0.2 million in 2017, as compared to \$1.9 million in 2016. This decrease was attributable to the lower income (excluding impairment) earned in 2017 as compared to 2016.

#### Non-Controlling Interest

Shandong Economic Development Investment holds 19.8% of the equity of our subsidiary Shandong Lorain, which is reflected in the non-controlling interest of negative \$7.7 million in 2017 and \$7.3 million in 2016.

### Loss attributable to common stockholders

Loss attributable to common stockholders increased approximately \$23.9 million, or 27.5%, to negative \$63.2 million in 2017 from negative \$87.2 million in 2016.

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

The financial statements have been prepared on a going-concern basis. The going-concern basis assumes that assets will be realized and liabilities will be settled in the ordinary course of business in the amounts disclosed in the financial statements. Our ability to continue as a going concern is greatly dependent on our ability to realize our non-cash current assets such as receivables and inventory into cash in order to settle its current obligations. For the year ended December 31, 2017, we incurred a substantial loss of \$78,305,354. As of December 31, 2017, we had a working capital deficit of approximately \$53,517,412. These conditions raise substantial doubt as to whether we may continue as a going concern. However, subsequent to December 31, 2017, we closed a private placement transaction in which we issued 7,500,000 shares of common stock for \$1.275 million as consideration. Management has designated the funds for use in general corporate purposes.

Our primary capital needs have been to fund our working capital requirements. In the past, our primary sources of financing have been cash generated from operations and short-term loans from banks in China. In addition, we obtained long term loans, private placement financing and convertible promissory notes.

As of December 31, 2017, the balance of our short-term loans was approximately \$23.8 million, all of which have been in default and have not been repaid. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. We are in negotiations to renew these loans or modify the repayment terms. If we fail to satisfy our creditors' demands, our creditors may apply for enforcement to sell our encumbered assets, which would result in a material adverse effect on our operations.

We are also in default of the debentures for \$9.5 million and \$15.4 that were issued by Guoyuan Securities Co., Ltd. and Daiwa SSC Securities Co. Ltd., respectively, and negotiating with the debenture holders to extend repayment terms. If we fail to repay, a third party guarantor would be required to repay these the debenture holders. However, the outcome of any discussions among the parties is unknown and our operations may be adversely impacted if such obligations are not repaid.

As of December 31, 2017 and 2016, cash and cash equivalents (including restricted cash) were \$0.09 million and \$0.4 million, respectively. The debt to assets ratio was 113.3% and 55.4% as of December 31, 2017 and 2016, respectively. We expect to continue to finance our operations and working capital needs in 2018 from cash generated from private financings. As such, we are in discussions regarding potential financing and acquisition transactions. 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. 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 statement periods presented in this report.

<b>Cash Flows Data:</b> (In thousands of U.S. dollars)	<b>For year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash flows (used in)/provided by operating activities	(360)	(29,786)
Net cash flows used in investing activities	751	8,906
Net cash flows (used in)/provided by financing activities	(754)	3,043

### Operating Activities

Net cash used in operating activities for 2017 and 2016 was approximately \$0.4 million and \$29.8 million respectively. The decrease of approximately \$29.4 million in net cash flows used in operating activities resulted primarily from net loss of approximately \$47.4 million, the decrease in advance to suppliers of approximately \$29 million and in accounts and other payables of approximately \$1.6 million in 2017.

### Investing Activities

Net cash used in investing activities for 2017 and 2016 were \$0.8 million and \$8.9 million, respectively, with the decrease of approximately \$8.1 million cash provided in investing activities primarily from a decrease in restricted cash of \$6.1 million and payment of construction in progress, the purchase of land use rights and the purchase of intangible assets all for \$0 million in 2017.

### Financing Activities

Net cash provided by (used in) financing activities for 2017 and 2016 were approximately (\$0.8 million) and \$3.0 million, respectively, with the decrease of \$3.8 million cash provided by financing activities from proceeds from bank borrowings and debentures for approximately \$0.8 million in 2017.

### Loan Facilities

As of December 31, 2017 and 2016, we carried \$23.8 million and \$22.7 million short term bank loans from foreign and Chinese domestic banks. In 2017, the repayment of bank borrowing was \$30,242 and \$23.8 million was in default.

### **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 maintains its 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 the Company 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 the 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, 2017, the particulars of the commonly controlled entities are as follows:

<i>Name of Company</i>	<i>Place of incorporation</i>	<i>Attributable equity interest %</i>	<i>Registered capital \$</i>
International Lorain Holding Inc.	Cayman Islands	100	46,659,135
Junan Hongrun Foodstuff Co., Ltd.	PRC	100	44,861,741
Shandong Lorain Co., Ltd.	PRC	80.2	12,123,985
Beijing Lorain Co., Ltd.	PRC	100	1,540,666
Luotian Lorain Co., Ltd.	PRC	100	3,797,774
Shandong Greenpia Foodstuff Co., Ltd.	PRC	100	2,303,063
Dongguan Lorain Co., Ltd.	PRC	100	149,939

In 2014, the Company invested \$2,100,000 in Athena/Minerve Group whereby the Company controlling shareholder of Minerve. Minerve conducted operations in manufacturing, packaging and sales activities in France and import and storage operations in Portugal. During the years ended December 31, 2015, the financial position and results of operations of Minerve were accounted for as subsidiaries in the Company's financial statements; however, during the year ended December 31, 2016, Minerve became insolvent and compelled into bankruptcy by creditors, and, ultimately liquidation. Accordingly, the Company lost control of Minerve and written of the value of its investment in Minerve. All receivables due by Minerve to subsidiaries still controlled by the Company have been written off.

Management has eliminated all significant inter-company balances and transactions in preparing the accompanying consolidated financial statements. Ownership interests of subsidiaries that the Company does not wholly-own are accounted for as non-controlling interests.

Shandong Economic Development Investment Corporation, which is a PRC state-owned entity, holds 19.8% equity interest in Shandong Lorain.

*Accounting for the Impairment of Long-Lived Assets* -- The Company annually reviews its long-lived assets for impairment or whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment may be the result of becoming obsolete from a change in the industry, introduction of new technologies, or if the Company has inadequate working capital to utilize the long-lived assets to generate the adequate profits. Impairment is present if the carrying amount of an asset is less than its expected future undiscounted cash flows.

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. The Company recognized impairment losses on certain long-lived assets during 2017.

*Revenue recognition* -- The Company recognizes revenue when all the following criteria have been met: it has negotiated the terms of the transaction with the customer which includes setting a fixed sales price, it has transferred of possession of the product to the customer, the customer does not have the right to return the product, the customer is able to further sell or transfer the product onto others for economic benefit without any other obligation to be fulfilled by the Company, and the Company is reasonably assured that funds have been or will be collected from the customer. The Company's the amount of revenue recognized to the books reflects the value of goods invoiced, net of any value-added tax (VAT) or excise tax.

#### *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, have carrying amounts that 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.
- 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, 2017 and 2016, the Company did not identify any assets and liabilities whose carrying amounts were required to be adjusted in order to present them at fair value.

#### **Recent accounting pronouncements**

In January 2017, the FASB issued guidance which simplifies the accounting for goodwill impairment. The updated guidance eliminates Step 2 of the impairment test, which requires entities to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value, determined in Step 1. The Company is currently evaluating the impact on the financial statements of this guidance.

In January 2017, the FASB amended the existing accounting standards for business combinations. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company is currently evaluating the impact on the financial statements of this guidance.

In November 2016, the FASB issued guidance, which addresses the presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In October 2016, the FASB issued guidance, which amends the existing accounting for Intra-Entity Transfers of Assets Other Than Inventory. The guidance requires an entity to recognize the income tax consequences of intra-entity transfers, other than inventory, when the transfer occurs. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In August 2016, the FASB issued guidance, which amends the existing accounting standards for the classification of certain cash receipts and cash payments on the statement of cash flows. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In June 2016, the FASB issued guidance, which requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In February 2016, the FASB issued guidance, which amends the existing accounting standards for leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification. Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than twelve months. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In January 2016, the FASB issued guidance, which amends the existing accounting standards for the recognition and measurement of financial assets and financial liabilities. The updated guidance primarily addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

As of December 31, 2017, there are no other recently issued accounting standards not yet adopted that would or could 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, 2017 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, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that As of December 31, 2017, 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, 2017, our internal controls over financial reporting are not effective.

The material weakness and significant deficiency identified by our management As of December 31, 2017 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 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. We plan to continue to recruit experienced and professional accounting and financial personnel and participate in educational seminars, tutorials, and conferences and employ more qualified accounting staff in future.

### *Changes in Internal Controls over Financial Reporting.*

Other than as described above, during the fiscal year ended December 31, 2017, 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

##### *Directors*

The following table sets forth the name, age and position of each of our current directors as well as the date that each officer began their service as a director.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>
Si Chen	48	Chairman, Chief Executive Officer, President and Director	2007
Yimin Jin	46	Chief Strategy Officer and Director	2017
Yuguo Zhang	60	Director	2017
Maoquan Wei	64	Director	2008
Hongxiang Yu	37	Director	2016

**MR. SI CHEN.** Mr. Chen became our chief executive officer and director in May 2007 upon the completion of our recapitalization, and was also appointed our president in September 2009. Mr. Chen founded Shandong Lorain, our first subsidiary, in 1994, and served as the chairman of our subsidiaries since that time. Mr. Chen earned an associate degree from Linyi Normal University. Mr. Chen has been our Company's founder and Chairman and Chief Executive Officer since inception. He is the individual most familiar with our business and industry, including the regulatory structure and other industry-specific matters, as well as being most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy.

**MR. YIMIN JIN.** Mr. Jin became our chief strategy officer and a director in November 2017. From 1995 to 2001, Mr. Jin served as the General Manager in Shanghai Pudong Development Bank, and from 2001-2017, Mr. Jin served as the Managing Director of Shanghai Xiefeng Science and Technology Investment Co., Ltd. Mr. Jin received his college diploma from Shanghai Shanda College in 1993 and received his Bachelor of Finance degree from Shanghai Television University in 1998. Mr. Jin obtained his MSBA degree from Madonna University in 2001.

**MR. YUGUO ZHANG.** Mr. Zhang was appointed as one of our directors of the Board and as a member of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee on November 8, 2017. He has served as the president of Jiangsu Siyuan Port Co, Ltd. from 2014 to 2016. From 2012 to 2014, Mr. Zhang served as the president of Jiangsu Xinmin Port Co., Ltd., and from 2008 to 2012, Mr. Zhang served as the president of Rugao Port Group. Mr. Zhang received his Bachelor of Chinese Language degree from Huadong Normal University in 1991 and obtained his MSBA degree from Madonna University in 1999.

**MR. MAOQUAN WEI.** Mr. Wei, who has served as a member of our board of directors since 2008, is a retired government official who held various positions in the government of Junan County, Shandong Province, China from 1990 to 2003, during which time Mr. Wei was responsible for overseeing the agricultural development of Junan County in the Shandong Province of China. Most recently, from 1998 to 2003, Mr. Wei was the Chairman of the Political Conservative Conference of Junan County. Mr. Wei also served as the Deputy Secretary of County Committee and Deputy Chairman of Junan County. Mr. Wei has helped lead Junan County to win numerous honors, including Top 100 National Fruit Products County and National Chestnut Base County. Although retired, Mr. Wei's expertise and experience with the agricultural economy and resources in the countryside is invaluable to our business.

**MR. HONGXIANG YU.** Hongxiang Yu, age 37, has served as the head of the internal auditing department of Hongrun Construction Group Co., Ltd., a company listed on the Shenzhen Stock Exchange, and as general manager for Hongrun's foundation engineering subsidiary from August 2006. In September 2015, Mr. Yu established and has been the Chairman of Shanghai Highlights Asset Management Co., Ltd., a company engaged in assets management and private equity investment in China. Since April 1, 2016, Mr. Yu has also served as the Vice Chairman of Tianjin Dragon Film Limited, a company engaged in investment in film industry including the both upstream and downstream chain of film production business in China. Mr. Yu received his Bachelor degree in International Trade in 2004 from University of Portsmouth and his Master degree in International Human Resources Management in 2006 from University of Portsmouth in U.K.

There are no arrangements or understandings between any of our directors and any other person pursuant to which any director was selected to serve as a director of our company. Directors are elected until their successors are duly elected and qualified. There are no family relationships among our directors or officers.

#### *Executive Officers*

Our executive officers are appointed by our Board and serve at their discretion. The following table sets forth the name, age and position of each of our current executive officers as well as the date that each officer began their service as an executive officer.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Executive Officer Since</u>
Si Chen	48	Chairman, Chief Executive Officer President and Director	2007
Yunqiang Sun	44	Chief Financial Officer	2016
Yimin Jin	46	Chief Strategy Officer and Director	2017

See “Directors” on page 1 above for information on Messrs. Chen.

**MR. YUNQIANG SUN.** Mr. Sun has been an accounting manager of Shandong Lorain Co., Ltd. since 2014. From 2009 to 2014, Mr. Yunqiang Sun served as the Chief Financial officer of Shandong Quanrixing Food Co., Ltd. From 2007 to 2009, he served as Account Manager of Shandong Linyi Kaijia Food Co., Ltd. From 1992 to 2007, he served as Chief Financial Officer of Shandong Chunyuan Food Co., Ltd. Mr. Yunqiang holds a degree in Economics from Linyi Trading College. There are no arrangements or understandings between any of our executive officers and any other person pursuant to which any executive officer was selected to serve as an executive officer of our company.

#### **Board of Directors**

Our board met on two occasions during fiscal year 2017 and acted by unanimous written consent on two occasions. Each of the members of our board attended more than 75% of the total number of meetings held by our board and the committees on which each director served during fiscal year 2017.

#### **Committees of the Board**

##### *Audit Committee*

The Audit Committee assists our board in monitoring:

- our accounting, auditing, and financial reporting processes;
- the integrity of our financial statements;
- internal controls and procedures designed to promote our compliance with accounting standards and applicable laws and regulations; and
- the appointment and evaluation of the qualifications and independence of our independent auditors.

Yuguo Zhang, Hongxiang Yu, and Maoquan Wei, all of whom are independent directors under SEC rules and the rules of NYSE American, are currently serving as members of the Audit Committee. Mr. Yu is the chairman of the Audit Committee and is our audit committee financial expert.

The Audit Committee has adopted a written charter, a copy of which is available on our website on the Corporate Governance page under the Investor link at <http://www.usalr.cn/>, and a printed copy of which is available to any shareholder requesting a copy by writing to: American Lorain Corporation, c/o Board of Director Office, Beihuan Zhong Road, Junan County, Shandong, People’s Republic of China, 276600. During the fiscal year 2017, our Audit Committee held two meetings.

### *Compensation Committee*

The functions of the Compensation Committee are as follows:

- to assist our board in discharging its responsibilities with respect to compensation of our executive officers and directors;
- to evaluate the performance of our executive officers;
- to assist our board in developing succession plans for executive officers; and
- to administer our stock and incentive compensation plans and recommend changes in such plans to our board as needed.

The current members of the Compensation Committee are Messrs. Zhang, Yu and Wei. Mr. Zhang is the chairman of the Compensation Committee. All current members of the Compensation Committee are independent directors, and all past members were independent directors at all times during their service on such Committee. None of the past or present members of our Compensation Committee are present or past employees or officers of the Company or any of our subsidiaries. No member of the Compensation Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K. None of our executive officers serves on the board of directors or compensation committee of a company that has an executive officer that serves on our Board of Directors or Compensation Committee.

The Compensation Committee may not delegate its responsibilities to another committee, individual director or member of management.

The Compensation Committee meets on an annual basis and holds special meetings as needed. The Compensation Committee meetings may be called by the Committee chairman, the Chairman of the Board of Directors or a majority of Committee members. The Chief Executive Officer and Chief Financial Officer also provide recommendations to the Compensation Committee relating to compensation of other executive officers. The Compensation Committee held two meetings in fiscal year 2017.

### *Nominating and Corporate Governance*

The Nominating and Corporate Governance assists the Board of Directors in identifying individuals qualified to become our directors and in determining the composition of the Board of Directors and its committees. The Nominating and Corporate Governance is responsible for, among other things:

- to make recommendations to the Board of Directors with respect to the size and composition of the Board of Directors;
- to make recommendations to the Board of Directors on the minimum qualifications and standards for director nominees and the selection criteria for the Board members;
- to review the qualifications of potential candidates for the Board of Directors;
- to make recommendations to the Board of Directors on nominees to be elected at the Annual Meeting of Stockholders; and
- to seek and identify a qualified director nominee, in the event that a director vacancy occurs, to be recommended to the Board of Directors for either appointment by the Board of Directors to serve the remainder of the term of a director position that is vacant or election at the Annual Meeting of the Stockholders.

The current members of the Nominating and Corporate Governance are Messrs. Zhang, Yu and Wei. Mr. Wei is the chairman of the Compensation Committee.

During the fiscal year 2017, our Nominating and Corporate Governance Committee held two meetings.

#### *Shareholder Nominations for Director*

Shareholders may propose candidates for board membership by writing to American Lorain Corporation, c/o Board of Director Office, Beihuan Zhong Road, Junan County, Shandong, People's Republic of China, 276600. Any such proposal shall contain the name, holdings of our securities and contact information of the person making the nomination; the candidate's name, address and other contact information; any direct or indirect holdings of our securities by the nominee; any information required to be disclosed about directors under applicable securities laws and/or stock exchange requirements; information regarding related party transactions with our company and/or the stockholder submitting the nomination; any actual or potential conflicts of interest; the nominee's biographical data, current public and private company affiliations, employment history and qualifications and status as "independent" under applicable securities laws and stock exchange requirements. Nominees proposed by stockholders will receive the same consideration as other nominees.

#### *Compensation Committee Interlocks and Insider Participation*

None of our officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more officers serving on our board of directors.

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

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who beneficially own more than 10% of our common stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission, which we also refer to throughout this report as the SEC. Based solely on our review of the copies of such forms furnished to us and written representations from our executive officers, directors and such beneficial owners, we believe that all filing requirements of Section 16(a) of the Exchange Act were timely complied with during the fiscal year ended December 31, 2017.

#### *Code of Ethics*

Our Board adopted a Code of Ethics that applies to all of our directors, executive officers, including our principal executive officer, principal financial officer and principal accounting officer, and employees. The Code of Ethics addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on inside information, and reporting of violations of the code. The Code of Ethics is available on the Corporate Governance page of our website under the Investor link at <http://www.usalr.cn/>, and a copy of the Code of Ethics is available to any shareholder requesting a copy by writing to: American Lorain Corporation, c/o Board of Director Office, Beihuan Zhong Road, Junan County, Shandong, China 276600. We intend to disclose on our website, in accordance with all applicable laws and regulations, amendments to, or waivers from, our Code of Ethics.

### **ITEM 11. EXECUTIVE COMPENSATION**

#### **Summary Compensation Table**

The following table sets forth information concerning all forms of compensation earned by our named executive officers during the fiscal years ended December 31, 2016 and 2017 for services provided to us and our subsidiaries. None of our current executive officers earned compensation that exceeded \$100,000 during the fiscal years ended December 31, 2016 or 2017.

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus (d)	Stock Awards (e)	Option Awards (f)	All Other Compensation (g)	Total (h)
Si Chen, Chairman of Board of Directors, and Chief Executive Officer	2017	\$ 66,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 66,000
	2016	\$ 66,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 66,000
Yundong Lu, Former Chief Operating Officer and Former Director	2017	\$ 16,154	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 16,154
	2016	\$ 0	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Yunqiang Sun, Chief Financial Officer	2017	\$ 27,096	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 27,096
	2016	\$ 27,096	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 27,096
Yimin Jin, Chief Strategic Officer and Director	2017	\$ 16,154	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 16,154
	2016	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-



Pursuant to Mr. Chen's employment agreement, we paid Mr. Chen a base salary of \$66,000 in cash during fiscal years ended December 31, 2017 and 2016. Mr. Chen's employment agreement does not provide any change in control or severance benefits and we do not have any separate change-in-control agreements with Mr. Chen or any of our other executive officers.

Pursuant to Mr. Sun's employment agreement, we are obligated to pay Mr. Sun a base salary of RMB 15,000 per month (\$2,258 at then current exchange rate).

On November 8, 2017, the Board appointed Yimin Jin as a member of the Board and the Chief strategic officer. Pursuant to Mr. Jin's engagement letter, we are obligated to pay Mr. Jin a compensation of \$16,154 per year.

On November 8, 2017, the Board of the Company received a resignation letter from Yundong Lu, the Chief Operating Officer (the "COO") and a member of the Board, effective immediately.

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

The following table sets forth information regarding beneficial ownership of our common stock as of April 6, 2018 (i) by each person who is known by us to beneficially own more than 5% of our common stock; (ii) by each of our named executive officers and directors and (iii) by all of our officers and directors as a group. Beneficial ownership is determined in accordance with the rules of the SEC that deem shares to be beneficially owned by any person who has voting or investment power with respect to such shares. Except as otherwise indicated, the persons listed below have advised us that they have direct sole voting and investment power with respect to the shares listed as owned by them.

Unless otherwise specified, the address of each of the persons set forth below is c/o American Lorain Corporation, Beihuan Zhong Road, Junan County, Shandong, China 276600.

In the table below, percentage ownership is based on 45,759,490 shares of our common stock outstanding as of April 6, 2017.

Name and title of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Mr. Si Chen, Chairman, CEO and President <sup>(1)</sup>	3,978,988	8.69%
DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH <sup>(2)</sup>	10,794,066	23.58%
Tongley Investments Ltd. <sup>(3)</sup>	4,183,234	9.14%
YiLi <sup>(4)</sup>	3,750,000	8.19%
Beili Zhu <sup>(4)</sup>	3,750,000	8.19%
Mr. Yimin Jin, CSO and Director	-	
Mr. Yuguo Zhang, Director	-	
Mr. Maoquan Wei, Director	174	
Mr. Hongxiang Yu, Director <sup>(5)</sup>	-	
Mr. Yunqiang Sun	-	
All officers and directors as a group (6 persons)	3,979,162	8.69%

\* Less than 1%

- (1) 10,794,066 shares of common stock that has been pledged under the Share Pledge Agreement, dated October 19, 2010, for the benefit of DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (“DEG”) in order to secure the obligations of the Company and its subsidiary Junan Hongrun Foodstuff Co., Ltd. under a Loan Agreement, dated May 31, 2010, among the Company, DEG and Mr. Si Chen (the “Loan Agreement”) transferred to DEG on September 7, 2016 by DEG notifying the Agent under the Pledge Agreement that the Company was in default under the Loan Agreement.
- (2) On September 7, 2016, DEG acquired beneficial ownership of 10,794,066 shares of Common Stock upon foreclosure of the pledge from Mr. Si Chen.
- (3) Based on information supplied by Tongley Investment Ltd. in a Schedule 13G/A filed with the SEC on February 18, 2014. The address of Tongley Investment Ltd. is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
- (4) On December 28, 2017, we entered into a securities purchase agreement, pursuant to which Yi Li and Beili Zhu, each an individual residing in the People’s Republic of China, agreed to invest an aggregate of \$1.275 million in the Company in exchange for an aggregate of 7,500,000 shares of our common stock, representing a purchase price of \$0.17 per Share. The transaction closed on January 23, 2018.
- (5) On August 25, 2016, the Board appointed Hongxiang Yu as a member of the Board, the Chairman of the Corporate Governance and Nominating Committee, a member of the Audit Committee and the Compensation Committee of the Board, to serve until him successor has been duly elected and qualified.

#### **Changes in Control**

N/A

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

#### ***Related Party Transactions***

Pursuant to a Share Pledge Agreement, dated October 19, 2010 (the “Share Pledge Agreement”), the Mr. Si Chen, our chief executive officer and chairman, has pledged 5,313,574 shares of Common Stock (the “Pledged Shares”) for the benefit of DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (“DEG”) in order to secure the obligations of the Company and its subsidiary Junan Hongrun Foodstuff Co., Ltd. (“Junan Hongrun”) under a Loan Agreement, dated May 31, 2010, among the Company, DEG and Mr. Si Chen (the “Loan Agreement”). In the event that the value of the pledged assets is less than 150% of the amounts made available to the Junan Hongrun under the Loan Agreement, DEG has the right to require additional security in the form of fixed assets or shares under the Loan Agreement and Share Pledge Agreement. Pursuant to a letter agreement, dated November 15, 2012, Mr. Si Chen has pledged an additional 5,480,492 shares of Common Stock to DEG under the Pledge Agreement in order to secure the obligations of the Borrower under the Loan Agreement. The total number of shares pledged under the Pledge Agreement is now 10,794,066 shares of Common Stock. For so long as no event of default under the Loan Agreement has occurred, Mr. Si Chen continues to retain all voting rights with respect to the Pledged Shares.

On March 13, 2014, Mr. Si Chen, our chief executive officer and chairman, provided a personal guaranty of the March 13, 2014 Convertible Promissory Note issued by the Company to an investor in the principal amount of \$3.5 million.

On September 7, 2016, DEG acquired beneficial ownership of 10,794,066 shares of Common Stock upon foreclosure of the pledge from Mr. Si Chen. Such shares constitute approximately 28.2% of the total number of shares of Common Stock of the Issuer outstanding as of September 30, 2015.

#### **Policy for Approval of Related Party Transactions**

Our Audit Committee Charter provides that all related party transactions required to be disclosed under SEC rules are to be reviewed by the Audit Committee.

#### **Director Independence**

NYSE American listing standards require that a majority of our board of directors be independent. An “independent director” is defined generally as a person other than an officer or employee of the company or its subsidiaries or any other individual having a relationship which in the opinion of the company’s board of directors, would interfere with the director’s exercise of independent judgment in carrying out the responsibilities of a director. Our board of directors has determined that Messrs. Zhei, Wang and Yu are “independent directors” as defined in the NYSE American listing standards and applicable SEC rules.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

WWC, P.C. is the Company's independent registered public accounting firm for the fiscal years ended December 31, 2016 and 2017 and the accounting fees in each such period were \$170,000. Such fees related to audit services provided by WWC, P.C. No audit-related or tax services were provided by WWC, P.C. during such periods.

## 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
<a href="#"><u>3.1</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>10.1</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>10.2</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>10.3</u></a>	<a href="#"><u>American Lorain Corporation 2014 Equity Incentive Plan Incorporated by reference from Appendix A to the Company’s Definitive Schedule 14A filed on April 30, 2014. †</u></a>
<a href="#"><u>10.4</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Beijing Lorain Co., Ltd. and Haitong Securities, Inc. dated August 28, 2013 Incorporated by reference to Exhibit 10.8 to the registrant’s Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>10.5</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Beijing Lorain Co., Ltd. and Everbright Securities Assets Management Co., Ltd. dated August 28, 2013 Incorporated by reference to Exhibit 10.9 to the registrant’s Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>10.6</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Beijing Lorain Co., Ltd. and SWS MU Fund Management Co., Ltd. dated August 28, 2013 Incorporated by reference to Exhibit 10.10 to the registrant’s Form 10-K/A filed on February 23, 2015.</u></a>

<a href="#"><u>10.7</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Beijing Lorain Co., Ltd. and Essence Securities, Inc. dated August 28, 2013 Incorporated by reference to Exhibit 10.11 to the registrant's Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>10.8</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Beijing Lorain Co., Ltd. and Guoyuan Securities, Inc. dated August 28, 2013 Incorporated by reference to Exhibit 10.12 to the registrant's Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>10.9</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Junan Hongrun Foodstuff Co., Ltd. and Harfor Fund Management Co., Ltd. dated October 18, 2013 Incorporated by reference to Exhibit 10.13 to the registrant's Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>10.10</u></a>	<a href="#"><u>Small and Medium Size Enterprise Private Placement Notes Subscription Agreement of 2013 between Junan Hongrun Foodstuff Co., Ltd. and Oppl Lighting Corporation. dated November 6, 2013 Incorporated by reference to Exhibit 10.14 to the registrant's Form 10-K/A filed on February 23, 2015.</u></a>
<a href="#"><u>14.1</u></a>	<a href="#"><u>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.</u></a>
<a href="#"><u>21.1</u></a>	<a href="#"><u>List of subsidiaries of the registrant. Incorporated by reference to Exhibit 21.1 to the registrant's current report on Form 10-K filed on April 14, 2016.</u></a>
<a href="#"><u>23.1</u></a>	<a href="#"><u>Consent of Independent Registered Public Accounting Firm *</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *</u></a>
<a href="#"><u>32.1</u></a>	<a href="#"><u>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 **</u></a>
<a href="#"><u>32.2</u></a>	<a href="#"><u>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 **</u></a>
<a href="#"><u>101.INS</u></a>	<a href="#"><u>XBRL Instance Document*</u></a>
<a href="#"><u>101.SCH</u></a>	<a href="#"><u>XBRL Taxonomy Extension Schema*</u></a>
<a href="#"><u>101.CAL</u></a>	<a href="#"><u>XBRL Taxonomy Calculation Linkbase*</u></a>
<a href="#"><u>101.LAB</u></a>	<a href="#"><u>XBRL Taxonomy Label Linkbase*</u></a>
<a href="#"><u>101.PRE</u></a>	<a href="#"><u>XBRL Definition Linkbase Document*</u></a>
<a href="#"><u>101.DEF</u></a>	<a href="#"><u>XBRL Definition Linkbase Document*</u></a>

\* Filed herewith

\*\* Furnished herewith

† **Management contract, compensatory plan or arrangement.**

**ITEM 16. FORM 10-K SUMMARY**

Not applicable.

## 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: April 17, 2018

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.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Si Chen</u> Si Chen	President, Director and Chief Executive Officer (Principal Executive Officer)	April 17, 2018
<u>/s/ Yunqiang Sun</u> Yunqiang Sun	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	April 17, 2018
<u>/s/ Yimin Jin</u> Yimin Jin	Chief Strategy Officer and Director	April 17, 2018
<u>/s/ Yuguo Zhang</u> Yuguo Zhang	Director	April 17, 2018
<u>/s/ Maoquan Wei</u> Maoquan Wei	Director	April 17, 2018
<u>/s/ Hongxiang Yu</u> Hongxiang Yu	Director	April 17, 2018





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**WWC, P.C.** CERTIFIED PUBLIC ACCOUNTANTS

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

### **Report of Independent Registered Public Accounting Firm**

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of American Lorain Corporation (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity/(deficit), and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company had incurred substantial losses during the years ended December 31, 2017 and 2016, and has a working capital deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are described in Note 3. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

WWC, P.C.  
Certified Public Accountants

San Mateo, California  
April 17, 2018

We have served as the Company's auditor since 2007

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**American Lorain Corporation**  
**Consolidated Balance Sheets**  
**As of December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 85,493	\$ 426,054
Restricted cash	-	971,471
Trade receivables, net	729,919	3,253,333
Inventories	10,593,403	11,840,748
Advances and prepayments to suppliers	3,129,835	29,873,479
Other receivables and other current assets	1,612,282	708,892
Discontinued operations – assets held for sale	790,550	19,745,847
Total current assets	<u>\$ 16,941,482</u>	<u>\$ 66,819,824</u>
Non-current assets		
Investment	-	118,471
Plant and equipment, net	36,663,290	51,897,283
Intangible assets, net	13,167,870	12,586,515
Construction in progress, net	819,301	468,501
Discontinued operations – long term assets held for sale	896,099	16,362,855
Total Assets	<u>\$ 68,488,042</u>	<u>\$ 148,253,449</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Short-term bank loans	\$ 23,773,780	\$ 22,667,482
Long-term debt – current portion	30,511,656	28,948,300
Capital lease – current portion	1,074,829	1,007,185
Accounts payable	4,150,604	5,514,477
Taxes payable	355,142	248,807
Accrued liabilities and other payables	9,317,038	8,611,816
Customers deposits	485,295	1,347,136
Discontinued operations - liabilities	9,610,994	13,811,908
Total current liabilities	<u>\$ 79,279,338</u>	<u>\$ 81,972,526</u>
Total Liabilities	<u>\$ 79,279,338</u>	<u>\$ 82,157,111</u>
Stockholders' Equity/(Deficit)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2017 and 2016	\$ -	\$ -
Common stock, \$0.001 par value, 200,000,000 shares authorized; 38,274,490 shares issued and outstanding as of December 31, 2017 and 2016	38,275	38,275
Additional paid-in capital	57,852,249	57,852,249
Statutory reserves	25,103,354	25,103,354
Retained earnings	(99,628,547)	(36,396,455)
Accumulated other comprehensive income	13,588,726	12,171,006
Total stockholders' equity	<u>(3,045,943)</u>	<u>58,768,429</u>
Non-controlling interests	(7,745,353)	7,327,909
Total Equity/(Deficit)	<u>\$ (10,791,296)</u>	<u>\$ 66,096,338</u>
Total Liabilities and Equity	<u>\$ 68,488,042</u>	<u>\$ 148,253,449</u>

See Accompanying Notes to the Financial Statements

**American Lorain Corporation**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the years ended December 31, 2017 and 2016**

	For the years ended	
	December 31, 2017	December 31, 2016
Net revenues	\$ 5,109,998	\$ 79,666,740
Cost of revenues	5,464,979	69,164,801
Gross (loss)/profit	(354,981)	10,501,939
Operating expenses:		
Selling and marketing expenses	431,921	6,125,771
General and administrative expenses	40,566,439	40,797,058
Total operating expenses	40,998,360	46,922,829
Operating loss	(41,353,341)	(36,420,890)
Other income (expenses):		
Government subsidy	-	1,231,521
Interest income	-	47,188
Interest expense	(4,076,495)	(4,569,019)
Other income	739,725	348,138
Other expenses	(2,500,799)	(45,911,455)
Total other income and (expenses)	(5,837,569)	(48,853,627)
Loss before taxes from continuing operations	(47,190,910)	(85,274,517)
Provision for income taxes	161,192	1,898,616
Loss from continuing operations	(47,352,102)	(87,173,133)
Discontinued operations:		
Loss from discontinued operations	(30,953,252)	(48,733,531)
Provision for income taxes	-	454,416
Loss from discontinued operations, net of taxes	(30,953,252)	(49,187,947)
Net loss	\$ (78,305,354)	\$ (136,361,080)
Net loss attributable to:		
- Common shareholders	(63,232,092)	(135,973,101)
- Non-controlling interests	(15,073,262)	(387,979)
Other comprehensive income:		
Foreign currency translation income	1,417,720	1,911,097
Comprehensive loss	<u>\$ (76,887,634)</u>	<u>\$ (134,449,983)</u>
Loss per share from continuing operations - Basic and diluted	(2.05)	(2.28)
Loss per share from discontinued operations - Basic and diluted	(3.56)	(1.28)
Loss per share - Basic and diluted	(5.61)	(3.55)
Basic and diluted weighted average shares outstanding	38,274,490	38,264,874

See Accompanying Notes to the Financial Statements

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**American Lorain Corporation**  
**Consolidated Statements of Stockholders' Equity/(Deficiency)**  
**For the years ended December 31, 2017 and 2016**

	Number of Shares	Common Stock	Additional Paid-in Capital	Statutory Reserves	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total
Balance, January 1, 2016	38,259,490	38,260	57,842,064	24,660,666	100,019,334	10,259,909	7,715,888	200,536,121
Net loss					(136,361,080)			(136,361,080)
Issuance of share-based compensation	15,000	15	10,185	-	-	-	-	10,200
Appropriations to statutory reserve	-	-	-	442,688	(442,688)	-	-	-
Allocation to non-controlling interests	-	-	-	-	387,979	-	(387,979)	-
Foreign currency translation adjustment	-	-	-	-	-	1,911,097	-	1,911,097
Balance, December 31, 2016	38,274,490	38,275	57,852,249	25,103,354	(36,396,455)	12,171,006	7,327,909	66,096,338
Balance, January 1, 2017	38,274,490	38,275	57,852,249	25,103,354	(36,396,455)	12,171,006	7,327,909	66,096,338
Net loss	-	-	-	-	(78,305,354)	-	-	(78,305,354)
Appropriations to statutory reserve	-	-	-	-	-	-	-	-
Allocation to non-controlling interests	-	-	-	-	15,073,262	-	(15,073,262)	-
Foreign currency translation adjustment	-	-	-	-	-	1,417,720	-	1,417,720
Balance, December 31, 2017	38,274,490	38,275	57,852,249	25,103,354	(99,628,547)	13,588,726	(7,745,353)	(10,791,296)

See Accompanying Notes to the Financial Statements

**American Lorain Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Net loss	\$ (47,352,102)	\$ (87,173,133)
Impairment of construction in progress		13,207,563
Impairment of leased plant and equipment	-	1,184,309
Impairment of inventory – raw materials	-	20,383,366
Write-off of trade receivables, other receivables, advances to suppliers, and other current assets	-	35,590,795
Write-off of fixed assets	16,567,001	-
Foreign exchange loss from disposal of assets	-	1,453,553
Stock compensation expense	-	10,200
Depreciation of fixed assets	1,850,685	1,934,411
Amortization of intangible assets	259,718	299,177
Decrease/(increase) in accounts and other receivables	421,806	(12,996,841)
Decrease/(increase) in inventories	2,009,657	(5,156,603)
Decrease/(increase) in advance to suppliers	28,986,637	(5,848,784)
Increase in prepayment	(699,779)	-
Decrease in deferred tax asset	-	132,058
(Decrease)/increase in accounts and other payables	(1,554,979)	9,681,273
Increase/(decrease) in taxes payable	88,179	(2,209,871)
(Decrease)/increase in customer deposits	(936,964)	1,176,244
Net cash used in by operating activities	<u>(360,141)</u>	<u>(29,785,836)</u>
Cash flows from investing activities		
Decrease in restricted cash	1,020,002	7,103,997
Purchase of plant and equipment	(314,187)	-
Payment of construction in progress	-	(142,126)
Disposal of investments	-	1,944,420
Increase in deposits	4,957	-
Net cash provided by investing activities	<u>750,772</u>	<u>8,906,291</u>
Cash flows from financing activities		
Repayment of bank borrowings	(784,093)	-
Proceeds from bank borrowings and debentures	30,242	3,122,729
Repayment of capital lease	-	(79,729)
Net cash (used in)/provided by financing activities	<u>\$ (753,851)</u>	<u>\$ 3,043,000</u>
Net Increase/(decrease) of Cash and Cash Equivalents	(363,220)	(17,836,545)
Effect of foreign currency translation on cash and cash equivalents	22,659	(1,120,365)
Cash and cash equivalents—beginning of year	<u>426,054</u>	<u>17,142,234</u>
Cash and cash equivalents—end of year	<u>\$ 85,493</u>	<u>\$ 426,054</u>
<i>Supplementary cash flow information:</i>		
Interest received	\$ -	\$ 47,188
Interest paid	\$ 1,160,864	\$ 1,137,063
Income taxes paid	\$ 563,453	\$ 3,408,119

See Accompanying Notes to the Financial Statements

**American Lorain Corporation**  
**Notes to Financial Statements**

**1. Organization and Principal Activities**

American Lorain Corporation (the “Company” or “ALN”) is registered as a corporation in the state of Nevada. The Company conducts its primary business activities through its subsidiaries located in the People’s Republic of China. Those subsidiaries develop, manufacture, and market convenience foods, chestnut products, and frozen foods; these products are sold to both domestic markets and international markets.

The Company incorporated Lorain Foodstuff (Shenzhen) Co., Ltd. (“Shenzhen Lorain”), a limited company formed under the laws of the People’s Republic of China, on December 11, 2017. Shenzhen Lorain is a variable interest entity (the “VIE entity”), which entered in to a series of agreements with Shandong Greenpia in December 2017.

Subsequent to December 31, 2017, the Company entered into a private placement where it issued 7,500,000 new shares of its common stock for \$1.275 million as consideration. Management has designated the funds for use in general corporate purposes.

**2. Summary of Significant Accounting Policies**

**Method of accounting**

Management has prepared the accompanying financial statements and these notes in accordance to generally accepted accounting principles in the United States of America; the Company maintains its general ledger and journals with the accrual method accounting.

**Principles of consolidation**

The accompanying consolidated financial statements include the assets, liabilities, and results of operations of the Company, and its subsidiaries, which are listed below:

Name of Company	Place of incorporation	Attributable equity interest %	Registered capital
International Lorain Holding Inc.	Cayman Islands	100.0	\$46,659,135
Junan Hongrun Foodstuff Co., Ltd.	PRC	100.0	44,861,741
Shandong Lorain Co., Ltd.	PRC	80.2	12,123,985
Beijing Lorain Co., Ltd.	PRC	100.0	1,540,666
Luotian Lorain Co., Ltd.	PRC	100.0	3,797,774
Shandong Greenpia Foodstuff Co., Ltd.	PRC	100.0	2,303,063
Dongguan Lorain Co., Ltd.	PRC	100.0	149,939
Lorain Foodstuff (Shenzhen) Co., Ltd.	PRC	VIE	500,000

In 2014, the Company invested \$2,100,000 in Athena/Minerve Group whereby the Company controlling shareholder of Minerve. Minerve conducted operations in manufacturing, packaging and sales activities in France and import and storage operations in Portugal. During the years ended December 31, 2015, the financial position and results of operations of Minerve were accounted for as subsidiaries in the Company’s financial statements; however, during the year ended December 31, 2016, Minerve became insolvent and was compelled by its creditors into bankruptcy, and, ultimately, liquidation. Accordingly, the Company lost control of Minerve and recognized a complete write off its investment in Minerve. Balances owed by Minerve to other subsidiaries of the Company have been written off.

Management has eliminated all significant inter-company balances and transactions in preparing the accompanying consolidated financial statements. Ownership interests of subsidiaries that the Company does not wholly-own are accounted for as non-controlling interests.

Shandong Economic Development Investment Corporation, which is a PRC state-owned entity, holds 19.8% equity interest in Shandong Lorain.

*Consolidation of Variable Interest Entity*

VIEs are entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision-making ability. Any VIE with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. Management makes ongoing reassessments of whether the Company is the primary beneficiary of Shenzhen Lorain.

On December 14, 2017, the Company formed Shenzhen Lorain as a limited company under the laws of the PRC. Through Shandong Greenpia, the Company entered into exclusive arrangements with Shenzhen Lorain and its shareholders that give the Company the ability to substantially influence Shenzhen Lorain’s daily operations and financial affairs and appoint its senior executives. The Company is considered the primary beneficiary of Shenzhen Lorain and it consolidates its accounts as a VIE. The Company’s arrangements with Shenzhen Lorain consist of the following agreements:

1. Consultation and Service Agreement, dated December 14, 2017. Under this agreement entered into between Shandong Greenpia Foodstuff Co., Ltd. and Lorain Foodstuff (Shenzhen) Co., Ltd.
2. Business Cooperation Agreement, dated December 14, 2017. Under this agreement entered into between Shandong Greenpia Foodstuff Co., Ltd. and Lorain Foodstuff (Shenzhen) Co., Ltd.



3. Equity Pledge Agreement, dated December 14, 2017. Under this agreement entered into between Mingyue Cai, Shandong Greenpia Foodstuff Co., Ltd., and Lorain Foodstuff (Shenzhen) Co., Ltd.
4. Equity Option Agreement, dated December 14, 2017. Under this agreement entered into between Mingyue Cai, Shandong Greenpia Foodstuff Co., Ltd., and Lorain Foodstuff (Shenzhen) Co., Ltd.
5. Voting Rights Proxy and Financial Supporting Agreement dated December 14, 2017. Under this agreement entered into between Mingyue Cai, Shandong Greenpia Foodstuff Co., Ltd., and Lorain Foodstuff (Shenzhen) Co., Ltd.

**Use of estimates**

The preparation of the financial statements 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.

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**American Lorain Corporation**  
**Notes to Financial Statements**

**Cash and cash equivalents**

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

**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.

**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 against allowances.

**Inventories**

Inventories consist of raw materials and finished goods are stated at the lower of cost or market value. Finished goods costs include: materials, direct labor, inbound shipping costs, and allocated overhead. The Company applies the weighted average cost method to its inventory.

**Advances and prepayments to suppliers**

The Company makes advance payment to suppliers and vendors for the procurement of raw materials. Upon physical receipt and inspection of the raw materials from suppliers the applicable amount is reclassified from advances and prepayments to suppliers to inventory.

**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. The Company's typically applies a salvage value of 0% to 10%. The estimated useful lives of the plant and equipment are as follows:

Buildings	20-40 years
Landscaping, plant and tree	30 years
Machinery and equipment	1-10 years
Motor vehicles	10 years
Office equipment	5 years

**American Lorain Corporation**  
**Notes to Financial Statements**

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts, and any gain or loss are included in the Company's results of operations. The costs of maintenance and repairs are recognized to expenses as incurred; significant renewals and betterments are capitalized.

**Construction in progress and prepayments for equipment**

Construction in progress and prepayments for equipment represent direct and indirect acquisition and construction costs for plants, and costs of acquisition and installation of related equipment. Amounts classified as construction in progress and prepayments for equipment are transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. Depreciation is not provided for assets classified in this account.

**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.

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. The Company conducts an annual assessment of its goodwill for impairment. If the carrying value of its goodwill exceeds its fair value, then impairment has incurred; accordingly, a charge to the Company's results of operations will be recognized during the period. Fair value is generally determined using a discounted expected future cash flow analysis.

**Accounting for the impairment of long-lived assets**

The Company annually reviews its long-lived assets for impairment or whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment may be the result of becoming obsolete from a change in the industry, introduction of new technologies, or if the Company has inadequate working capital to utilize the long-lived assets to generate the adequate profits. Impairment is present if the carrying amount of an asset is less than its expected future undiscounted cash flows.

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 are reported at the lower of the carrying amount or fair value less costs to sell.

**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. PRC laws prescribe that an enterprise operating at a profit must appropriate and reserve, 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.

**Foreign currency translation**

The accompanying financial statements are presented in United States dollars. The functional currencies of the Company are the Renminbi (RMB) and the Euro (EUR). The Company's assets and liabilities are translated into United States dollars from RMB and EUR at year-end exchange rates, and its revenues and expenses are translated at the average exchange rate during the period. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.

	<u>12/31/2017</u>	<u>12/31/2016</u>
Year end RMB: US\$ exchange rate	6.5067	6.9437
Annual average RMB: US\$ exchange rate	6.6133	6.6430
Year end EUR: US\$ exchange rate	0.8347	0.8919
Annual average EUR: US\$ exchange rate	0.8867	0.8960

**American Lorain Corporation**  
**Notes to Financial Statements**

The RMB is not freely convertible into foreign currencies and all foreign exchange transactions must be conducted through authorized financial institutions.

**Revenue recognition**

The Company recognizes revenue when all the following criteria have been met: it has negotiated the terms of the transaction with the customer which includes setting a fixed sales price, it has transferred of possession of the product to the customer, the customer does not have the right to return the product, the customer is able to further sell or transfer the product onto others for economic benefit without any other obligation to be fulfilled by the Company, and the Company is reasonably assured that funds have been or will be collected from the customer. The Company's the amount of revenue recognized to the books reflects the value of goods invoiced, net of any value-added tax (VAT) or excise tax.

**Advertising**

All advertising costs are expensed as incurred.

**Shipping and handling**

All outbound shipping and handling costs are expensed as incurred.

**Research and development**

All research and development costs are expensed as incurred.

**Retirement benefits**

Retirement benefits in the form of mandatory government sponsored defined contribution plans are charged to the either expenses as incurred or allocated to inventory as part of overhead.

**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.

**Comprehensive income**

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.

**Earnings per share**

The Company computes earnings per share ("EPS") in accordance with ASC Topic 260, "Earnings per share". 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 presents the dilutive effect on a per share basis from the potential conversion of convertible securities or the exercise of options and or warrants; the dilutive effects of potentially convertible securities are calculated using the as-if method; the potentially dilutive effect of options or warrants are calculated using the treasury stock method. Securities that are potentially 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.

### **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, have carrying amounts that 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 used 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.
- 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.

### **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.

### **Recent accounting pronouncements**

In January 2017, the FASB issued guidance which simplifies the accounting for goodwill impairment. The updated guidance eliminates Step 2 of the impairment test, which requires entities to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value, determined in Step 1. The Company is currently evaluating the impact on the financial statements of this guidance.

In January 2017, the FASB amended the existing accounting standards for business combinations. The amendments clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company is currently evaluating the impact on the financial statements of this guidance.

In November 2016, the FASB issued guidance, which addresses the presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In October 2016, the FASB issued guidance, which amends the existing accounting for Intra-Entity Transfers of Assets Other Than Inventory. The guidance requires an entity to recognize the income tax consequences of intra-entity transfers, other than inventory, when the transfer occurs. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In August 2016, the FASB issued guidance, which amends the existing accounting standards for the classification of certain cash receipts and cash payments on the statement of cash flows. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

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In June 2016, the FASB issued guidance, which requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. Further, credit losses on available-for-sale debt securities should be recorded through an allowance for credit losses limited to the amount by which fair value is below amortized cost. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In February 2016, the FASB issued guidance, which amends the existing accounting standards for leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification. Under the new guidance, a lessee will be required to recognize assets and liabilities for all leases with lease terms of more than twelve months. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

In January 2016, the FASB issued guidance, which amends the existing accounting standards for the recognition and measurement of financial assets and financial liabilities. The updated guidance primarily addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company is currently evaluating the timing and the impact of this guidance on the financial statements.

**3. Going Concern**

The accompanying financial statements have been prepared on a going-concern basis. The going-concern basis assumes that assets will be realized, and liabilities will be settled in the ordinary course of business in the amounts disclosed in the financial statements. The Company's ability to continue as a going concern is greatly dependent on the Company's ability to realize its non-cash current assets such as receivables and inventory into cash in order to settle its current obligations. For the years ended December 31, 2017 and 2016, the Company incurred substantial losses of \$78,305,354 and \$136,361,080. As of December 31, 2017 and 2016, the Company had working capital deficits of \$62,996,661 and \$15,152,702. These conditions raise substantial doubt as to whether the Company may continue as a going concern. There was substantial doubt regarding the Company's ability to continue as going concern at December 31, 2016, during the years its results of operations did not improve, and the Company did not raise additional capital; however, subsequent to December 31, 2017, the Company entered into a private placement where it issued 7,500,000 new shares of its common stock for \$1.275 million as consideration. Management has designated the funds for use in general corporate purposes.

To improve its solvency, the Company is working to obtain new working capital through private placements of its common stock or convertible debt securities to qualified investors.

**4. Restricted Cash**

Restricted cash represents interest bearing deposits placed with banks to secure banking facilities in the form of loans and notes payable. The funds are restricted from immediate use and are designated for settlement of loans or notes when they become due.

**5. Trade Receivables**

The Company extends credit terms of 15 to 60 days to the majority of its domestic customers, which include third-party distributors, supermarkets and wholesalers; international customers are typically extended 90 days credit.

	2017	2016
Trade receivables	\$ 1,534,856	\$ 3,948,880
<u>Less: Allowance for doubtful accounts</u>	<u>(804,937)</u>	<u>(695,547)</u>
	<u>\$ 729,919</u>	<u>\$ 3,253,333</u>
Allowance for bad debt:		
Beginning balance	\$ (695,547)	\$ (5,901,811)
Additions to allowance	109,390	-
Bad debt written-off	-	5,206,263
Ending balance	<u>\$ (804,937)</u>	<u>\$ (695,547)</u>

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**Notes to Financial Statements**

**6. Inventories**

	<b>2017</b>	<b>2016</b>
Raw materials	\$ 2,846,507	\$ -
Finished goods	7,746,896	11,840,748
	<u>\$ 10,593,403</u>	<u>\$ 11,840,748</u>

**7. Plant and Equipment**

	<b>2017</b>	<b>2016</b>
At Cost:		
Buildings	\$ 47,004,352	\$ 58,866,129
Machinery and equipment	6,096,099	6,917,774
Office equipment	433,451	418,048
Motor vehicles	162,426	154,687
	<u>\$ 53,696,232</u>	<u>\$ 66,356,368</u>
<u>Less:</u> Accumulated depreciation	<u>(17,032,942)</u>	<u>(14,459,355)</u>
	<u>\$ 36,663,290</u>	<u>\$ 51,897,283</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$1,850,685 and \$1,934,411, respectively.

**8. Intangible Assets**

	<b>2017</b>	<b>2016</b>
At Cost:		
Land use rights	\$ 15,366,444	\$ 14,208,013
Utilities rights	-	4,800
	<u>15,366,444</u>	<u>14,252,813</u>
<u>Less:</u> Accumulated amortization	<u>(2,198,574)</u>	<u>(1,666,298)</u>
	<u>\$ 13,167,870</u>	<u>\$ 12,586,515</u>

All land is 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. Amortization expense for the years ended December 31, 2017 and 2016 were \$259,718 and \$299,177, respectively.

**9. Goodwill**

On August 8, 2015, the Company re-organized its French operations by merging the operations of Conserverie Minerve into its immediate parent Athena, and concurrently, Athena wound up and dissolved Conserverie Minerve. Athena subsequently changed its own legal name to Conserverie Minerve and to continue its business. At the date of acquisition, the net liability of Conserverie Minerve was \$3,255,911 (EUR 2,968,089); the purchase consideration paid for the Athena (aka Conserverie Minerve) was \$2,100,000. The acquisition of Athena and its then subsidiaries gave rise to goodwill in the amount of \$6,786,928. As of December 31, 2015, the surviving business entity, Conserverie Minerve, on a post merged basis, recognized net operating losses during the year ended December 31, 2015. As of December 31, 2015, the Company was unable to determine if the Conserverie Minerve would be able to generate future profit and positive operating cash flows to justify the carrying value of goodwill in the amount of \$6,786,928; accordingly, the Company elected to write-off the goodwill that it had recognized during its acquisition of Conserverie Minerve. Conserverie Minerve had a goodwill of its own that had accumulated over the years as result of its acquisition of subsidiaries; at December 31, 2015, the outstanding balance was \$3,219,172. As mentioned in "Note 2 - Summary of Significant Accounting Policies-Principles of Consolidation", Conserverie Minerve has been liquidated and the Company no longer has any interest in Conserverie Minerve; accordingly, all remaining goodwill written off during the year ended December 31, 2016.

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**10. Bank Loans**

Bank loans include bank overdrafts and short-term bank loans for continuing operations consisted of the following:

<u>Short-term Bank Loans</u>	<u>2017</u>	<u>2016</u>
<i>Loan from Industrial and Commercial Bank of China,</i>		
• Interest rate at 6.955% per annum; due 4/20/2016	3,868,005	3,596,461
• Interest rate at 4.30% per annum; due 4/30/2017	1,152,658	1,080,116
• Interest rate at 4.30% per annum; due 5/30/2017	1,211,059	1,134,842
• Interest rate at 4.30% per annum; due 6/29/2017	1,152,658	1,080,116
• Interest rate at 4.30% per annum; due 8/2/2017	1,014,339	950,502
<i>Loan from China Minsheng Bank Corporation, Linyi Branch</i>		
• Interest rate at 5.98% per annum due 9/22/2016	1,535,340	1,440,154
<i>Loan from Agricultural Bank of China, Luotian Branch</i>		
• Interest rate at 5.65% per annum due 4/22/2017	1,536,877	1,440,154
• Interest rate at 9.72% per annum due 1/14/2017	1,536,877	1,440,154
• Interest rate at 9.72% per annum due 2/4/2017	461,063	432,046
• Interest rate at 9.72% per annum due 9/7/2017	92,213	432,046
<i>Bank of Ningbo,</i>		
• Interest rate at 7.80% per annum due 10/27/2016	1,229,502	1,152,124
<i>Hankou Bank, Guanggu Branch,</i>		
• Interest rate at 6.85% per annum due 10/24/2016	1,391,820	1,347,047
<i>Postal Savings Bank of China,</i>		
• Interest rate at 9.72% per annum due 7/27/2016	399,588	374,440
<i>China Construction Bank,</i>		
• Interest rate at 6.18% per annum due 11/29/2016	768,439	720,077
<i>Huaxia Bank,</i>		
• Interest rate at 5.66% per annum due 5/19/2017	1,536,877	1,440,154
<i>City of Linyi Commercial Bank, Junan Branch,</i>		
• Interest rate at 8.4% per annum due 2/16/2016	1,535,333	1,438,707
• Interest rate at 8.4% per annum due 11/24/2016	3,073,755	2,880,310
<i>Hubei Jincai Credit and Financial Services Co. Ltd.</i>		
• Interest rate at 9.00% per annum due 1/12/2017	307,375	288,032
	<u>\$ 23,773,780</u>	<u>\$ 22,667,482</u>



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The short-term loans, which are denominated in Renminbi and Euros, were primarily obtained for general working capital. If not otherwise specifically indicated above, short-term bank loans are guaranteed either by other companies within the group, or by personnel in senior management positions within the group.

As of December 31, 2017, all short-term loans have been in default and have not been repaid. The Company is in negotiations to renew these loans or modify the repayment terms and principal amount due.

**11. Current Portion – Long Term Debt**

Current portions of notes payable, debentures, and long-term debt for continuing operations consisted of the following:

	2017	2016
<i>Debenture issued by 5 private placement holders underwritten by Guoyuan Securities Co., Ltd.</i>		
• Interest rate at 10% per annum due 8/28/2016	\$ 9,517,882	\$ 8,921,756
<i>Debenture issued by 2 private placement holders underwritten by Daiwa SSC Securities Co. Ltd.</i>		
• Interest rate at 9.5% per annum due 11/8/2015	15,368,774	14,401,544
<i>Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH (“DEG”)</i>		
• Interest rate at 5.510% per annum due 3/15/2015	1,875,000	1,875,000
• Interest rate at 5.510% per annum due 9/15/2015	1,875,000	1,875,000
• Interest rate at 5.510% per annum due 3/15/2016	1,875,000	1,875,000
	<u>\$ 30,511,656</u>	<u>\$ 28,948,300</u>

The Company began repaying its loan with DEG in semi-annual installments on December 15, 2012. As of December 31, 2017 and 2016, the Company had not repaid any principal. The loan was collateralized with the following terms:

- (a.) A first ranking mortgage in the amount of about USD \$12,000,000 on the Company’s land and building in favor of DEG.
- (b.) A share pledge, by Mr. Si Chen (a major shareholder, and Chairman and CEO of the Company) as the sponsor of the loan, to secure approximately USD \$12,000,000 of the loan.
- (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 by Mr. Si Chen (Loan Agreement (Article 12(1)(a))) should be at least USD 24,000,000 in aggregate.
- (d.) A personal guarantee by Mr. Si Chen in form and substance satisfactory to DEG.

The Company defaulted on its loan with DEG; accordingly, on December 7, 2016, DEG exercised its rights to foreclose on 10,794,066 shares pledged by Mr. Si Chen.

The Company is in default of the debentures that were issued by Guoyuan Securities and Daiwa SSC Securities and negotiating with the debenture holders to extend repayment terms.

**12. Equity**

For the year ended December 31, 2016, the Company issued 15,000 shares as stock compensation to employees.

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**13. Income Taxes**

All of the Company's continuing operations are located in the PRC. The corporate income tax rate in the PRC is 25%.

The following tables provide the reconciliation of the differences between the statutory and effective tax expenses for the years ended December 31, 2017 and 2016:

	2017	2016
Loss attributed to PRC continuing operations	\$ (46,791,320)	\$ (84,936,317)
Loss attributed to U.S. operations	(399,590)	(338,200)
Income before tax	(47,190,910)	(85,274,517)
PRC Statutory Tax at 25% Rate	-	-
Non-deductible GAAP expenses in the PRC	161,192	1,898,616
Effect of tax exemption granted	-	-
Income tax	<u>\$ 161,192</u>	<u>\$ 1,898,616</u>

Per Share Effect of Tax Exemption

	2017	2016
Effect of tax exemption granted	\$ -	\$ -
Weighted-Average Shares Outstanding Basic	38,274,490	38,264,874
Per share effect	<u>\$ -</u>	<u>\$ -</u>

The difference between the U.S. federal statutory income tax rate and the Company's effective tax rate was as follows for the years ended December 31, 2017 and 2016:

	2017	2016
U.S. federal statutory income tax rate	35%	35%
Lower rates in PRC, net	-10%	-10%
Non-deductible GAAP expenses in the PRC	-25.21%	-27.22%
The Company's effective tax rate	<u>-0.21%</u>	<u>-2.22%</u>

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Act") resulting in significant modifications to existing law. The Company has considered the accounting impact of the effects of the Act during the year ended December 31, 2017 including a reduction in the corporate tax rate from 34% to 21% among other changes.

**14. Loss Per Share**

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

	2017	2016
Basic Loss Per Share Numerator		
Net loss	\$ (63,232,092)	\$ (135,973,101)
Loss attributable to common stockholders	\$ (63,232,092)	\$ (135,973,101)
Diluted Loss Per Share Numerator		
Loss attributable to Common Stockholders	\$ (63,232,092)	\$ (135,973,101)
Loss attributable to Common Stockholders on Converted Basis	\$ (63,232,092)	\$ (135,973,101)
Original Shares:	38,274,490	38,259,490
Additions from Actual Events - Issuance of Common Stock	-	15,000
Basic Weighted Average Shares Outstanding	<u>38,274,490</u>	<u>38,264,874</u>
Dilutive Shares:		
Additions from Potential Events		
-Exercise of Investor Warrants & Placement Agent Warrants	-	-
- Exercise of Employee & Director Stock Options	-	-
Diluted Weighted Average Shares Outstanding:	<u>38,274,490</u>	<u>38,264,874</u>
Loss per share from continuing operations - Basic and diluted	(2.05)	(2.27)
Loss per share from discontinued operations - Basic and diluted	(3.56)	(0.99)

Loss per share - Basic and diluted	(5.61)	(3.56)
Weighted Average Shares Outstanding - Basic and diluted	38,274,490	38,264,874

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**American Lorain Corporation**  
**Notes to Financial Statements**

**15. Lease Commitments**

During the year ended December 31, 2013, the Company entered into three operating lease agreements leasing three plots of land where greenhouses are maintained to grow seasonal crops. The leases were signed by Junan Hongrun Foodstuff Co., Ltd. and they expire on April 25, 2033, May 19, 2033, and June 19, 2033.

The minimum future lease payments for these properties at December 31, 2017 are as follows:

<u>Period</u>	<u>Greenhouse 1</u>	<u>Greenhouse 2</u>	<u>Greenhouse 3</u>
Year 1	\$ 74,420	\$ 89,258	\$ 10,711
Year 2	74,420	89,258	10,711
Year 3	74,420	89,258	10,711
Year 4	74,420	89,258	10,711
Year 5	74,420	89,258	10,711
Year 5 and thereafter	769,007	929,771	112,466
	<u>\$ 1,141,107</u>	<u>\$ 1,376,061</u>	<u>\$ 166,021</u>

The outstanding lease commitments for the three greenhouses as of December 31, 2017 was \$2,683,188.

The minimum future lease payments for these properties at December 31, 2016 are as follows:

<u>Period</u>	<u>Greenhouse 1</u>	<u>Greenhouse 2</u>	<u>Greenhouse 3</u>
Year 1	\$ 74,420	\$ 89,258	\$ 10,711
Year 2	74,420	89,258	10,711
Year 3	74,420	89,258	10,711
Year 4	74,420	89,258	10,711
Year 5	74,420	89,258	10,711
Year 5 and thereafter	843,427	1,019,029	123,177
	<u>\$ 1,215,527</u>	<u>\$ 1,465,319</u>	<u>\$ 176,732</u>

The outstanding lease commitments for the three greenhouses as of December 31, 2016 was \$2,857,577.

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**Notes to Financial Statements**

**16. Capital Lease Obligations**

The Company leases certain machinery and equipment under leases classified as capital leases. For the year ended December 31, 2015, the Company entered into the following capital leases:

- (a.) On July 1, 2015, the Company entered into a capital lease agreement in the amount of RMB 1,057,571, which was approximately USD 166,447, with Lessor A leasing: five production machines, two packaging machine, one assembly line, and ten vending machines with an interest rate of 7% for a period of 36 months with an expiration date of June 30, 2018 with an option to buy the leased assets following the lease expiration for RMB 1.
- (b.) On July 1, 2015, the Company entered into a capital lease agreement in the amount of RMB 2,805,493, which was approximately USD 441,546, with Lessor A leasing one hundred vending machines with an interest rate of 7% for a period of 36 months with an expiration date of June 30, 2018 with an option to buy the leased assets following the lease expiration for RMB 1.
- (c.) On August 25, 2015, the Company entered into a capital lease agreement in the amount of RMB 2,163,845, which was approximately USD 340,539, with Lessor B leasing eight production machines with an interest rate of 7% for a period of 30 months with an expiration date of February 25, 2018 with an option to buy the leased assets following the lease expiration for RMB 100.
- (d.) On August 25, 2015, the Company entered into a capital lease agreement in the amount of RMB 530,439, which was approximately USD 83,484, with Lessor B leasing four production machines with an interest rate of 7% for a period of 30 months with an expiration date of February 25, 2018 with an option to buy the leased assets following the lease expiration for RMB 100.
- (e.) On August 25, 2015, the Company entered into a capital lease agreement in the amount of RMB 777,228, which was approximately USD 122,325, with Lessor B leasing one assembly line with an interest rate of 7% for a period of 30 months with an expiration date of February 25, 2018 with an option to buy the leased assets following the lease expiration for RMB 100.
- (f.) On August 25, 2015, the Company entered into a capital lease agreement in the amount of RMB 1,647,563, which was approximately USD 259,304, with Lessor B leasing one freezing unit with an interest rate of 7% for a period of 30 months with an expiration date of February 25, 2018 with an option to buy the leased assets following the lease expiration for RMB 100.

The following is a schedule showing the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2017:

Year 1	\$ 1,074,829
Year 2	-
Year 3	-
Total minimum lease payments	1,074,829
<u>Less:</u> Amount representing estimated executory costs (such as taxes, maintenance, and insurance), including profit thereon, included in total minimum lease payments	-
Net minimum lease payments	1,074,829
<u>Less:</u> Amount representing interest Present value of net minimum lease payments	\$ 1,074,829

Reflected in the balance sheet as current and noncurrent obligations under capital leases of \$1,074,829 and \$0, respectively.

As of December 31, 2017, the present value of minimum lease payments due within one year is \$1,074,829.

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**Notes to Financial Statements**

**17. Contingencies and Litigation**

There is a lawsuit currently pending in the Linyi City Intermediate People's Court of Shandong Province, which was initially filed by Shandong Lorain, a subsidiary of the Company, against Junan Hengji Real Estate Development Co., Ltd. ("Junan Hengji") in November 2013 at Linyi City Intermediate People's Court of Shandong Province (the "Linyi Court"). Shandong Lorain added Jiangsu Hengan Industrial Investment Group Co., Ltd. ("Heng An Investment") as a co-defendant after the case was first filed at the Linyi Court.

In December 2010, Shandong Lorain and Junan Hengji entered into a cooperative development agreement (the "Agreement") and in March 2011, Heng An Investment, an affiliated company of Junan Hengji, also entered into the Agreement with Shandong Lorain to jointly develop the project with Junan Hengji. Pursuant to the Agreement, Junan Hengji and Heng An Investment are required to pay Shandong Lorain a total of RMB 20 million (approximately \$3,225,806) fixed return according to the development status of the project developed by Junan Hengji and Heng An Investment. In deciding to bring suit, Shandong Lorain and the Company evaluated the potential claims against Junan Hengji and Heng An Investment, disputes between the parties with respect to out-of-pocket expenses paid by Junan Hengji, as well as the litigation fee that is required to be paid to the court based upon the amount claimed. Ultimately, Shandong Lorain decided to file the lawsuit with Linyi Court to claim a fixed return of RMB 10 million (approximately \$1,499,390).

In January 2014, the Linyi Court held its first trial session. During the trial, Heng An Investment filed a counterclaim against Shandong Lorain for repayment of out-of-pocket expenses which would offset the entire fixed return plus additional unpaid expenses of RMB 4,746,927 (approximately \$765,633). Shandong Lorain responded that Heng An Investment does not have standing to file the counter-claim because the out-of-pocket payments were made by Junan Hengji. In November 2014, the court held a second trial session and completed its discovery process. On March 21, 2015, Shandong Lorain received the Linyi Court's decision that rejected Shandong Lorain's claim for RMB 10,000,000 against Junan Hengji and Heng An Investment. On April 3, 2015, Shandong Lorain appealed the decision to the Supreme Court of Shandong Province.

In November 2015, the Supreme Court of Shandong Province vacated the decision of the Linyi Court and remanded the case back to the Linyi Court for a retrial. The retrial took place on April 25, 2016, at the Linyi City Intermediate People's Court, and the decision thereon is currently pending. The Company is confident that Shandong Lorain will prevail on retrial.

**18. Other Expenses**

Other expense consisted of the following:

	2017	2016
Impairment of investment	\$ -	\$ 8,833,130
Impairment of inventory	-	20,838,366
Impairment of property and equipment	2,229,451	1,184,309
Impairment of construction in progress	-	13,207,563
Other	271,348	1,848,087
	<u>\$ 2,500,799</u>	<u>\$ 45,911,455</u>

**19. Discontinued Operations**

The Company has reclassified the results of operations and the financial position of Shandong Lorain, Dongguan Lorain, the Minerve Group as discontinued operations. Selected details regarding those discontinued operations are provided below.

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<b>Results of Operations For the years ended December 31,</b>	<b>2017</b>	<b>2016</b>
Sales	\$ 331,050	\$ 35,178,846
Cost of Sales	382,788	29,629,863
Gross Profit	(51,738)	5,548,982
Operating Expenses	28,829,757	24,576,521
Other Income (Expenses)	(2,071,757)	(29,705,992)
Earnings before Taxes	(30,953,252)	(48,733,531)
Taxes	-	454,416
Net Income	<u>\$ (30,953,252)</u>	<u>\$ (49,187,947)</u>
<b>Other Income (Expenses)</b>	<b>2017</b>	<b>2016</b>
Other income	\$ 608,198	\$ 245,778
Impairment of investment	-	(1,505,342)
Impairment of inventory	-	(8,578,662)
Impairment of property and equipment	(2,127,694)	(19,284,481)
Impairment of goodwill	-	-
Other	(552,261)	(583,285)
	<u>\$ (2,071,757)</u>	<u>\$ (29,705,992)</u>
<b>Financial Position At December 31,</b>	<b>2017</b>	<b>2016</b>
Current Assets	\$ 790,550	\$ 19,745,847
Non-Current Assets	896,099	16,362,855
<b>Total Assets</b>	<u>\$ 1,686,649</u>	<u>\$ 36,108,702</u>
Current Liabilities	\$ 9,610,994	\$ 13,811,908
Total Long-Term Liabilities	-	-
<b>Total Liabilities</b>	<u>\$ 9,610,994</u>	<u>\$ 13,811,908</u>
Net Assets	<u>\$ (7,924,345)</u>	<u>\$ 22,296,795</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 1,686,649</u>	<u>\$ 36,108,702</u>
	<b>2017</b>	<b>2016</b>
Trade receivables	\$ -	\$ 1,966,135
<u>Less:</u> Allowance for doubtful accounts	-	-
	<u>\$ -</u>	<u>\$ 1,966,135</u>
<b>Inventories</b>	<b>2017</b>	<b>2016</b>
Raw materials	-	4,503,460
Finished goods	-	-
	<u>\$ -</u>	<u>\$ 4,503,460</u>
<b>Plant and equipment</b>	<b>2017</b>	<b>2016</b>
At Cost:		
Buildings	\$ 2,537,134	\$ 12,603,279
Machinery and equipment	4,721,021	6,201,595
Office equipment	-	2,170
Motor vehicles	300,916	377,456
	<u>\$ 7,559,071</u>	<u>\$ 19,184,500</u>
<u>Less:</u> Accumulated depreciation	(7,559,071)	(6,566,417)
	<u>\$ -</u>	<u>\$ 12,618,083</u>

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<b>Intangible assets</b>	<b>2017</b>	<b>2016</b>
At Cost:		
Land use rights	1,210,297	1,134,128
Software	109,664	102,761
Patent	1,449	1,358
	<u>\$ 1,321,410</u>	<u>\$ 1,238,247</u>
<u>Less:</u> Accumulated amortization	<u>(425,311)</u>	<u>(373,784)</u>
	<u>\$ 896,099</u>	<u>\$ 864,463</u>

**20. Risks**

A. Credit risk

The Company's deposits are made with banks located in the PRC. They do not carry federal deposit insurance and may be subject to loss of the banks become insolvent.

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

B. Interest risk

The company is subject to interest rate risk when 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.

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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 to the Company's customers could adversely impact the Company's results of operations.

**21. Subsequent Events**

On December 28, 2017, the Company entered into a securities purchase agreement, pursuant to which Yi Li and Beili Zhu, each an individual residing in the People's Republic of China, agreed to invest an aggregate of \$1.275 million in the Company in exchange for an aggregate of 7,500,000 shares of the Company's common stock, representing a purchase price of \$0.17 per share. The transaction closed on January 23, 2018.

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