

American Lorain CORP
Form 10-Q
December 11, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 2017**

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

Commission File No. **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 No.)*

BeihuanZhong Road
Junan County
Shandong, People's Republic of China, 276600
(Address, including zip code, of principal executive offices)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The numbers of shares outstanding of the issuer's class of common stock as of November 30, 2017 was 38,274,347.

AMERICAN LORAIN CORPORATION

FORM 10-Q

For the Quarterly Period Ended September 30, 2017

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Caution Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to the factors described in the section captioned "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, predicts, projects, should, would or the negative of such terms. These expressions are intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Use of Certain Defined Terms

Except where the context otherwise requires and for the purposes of this report only:

- 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.).
- Minervea refers to Conserverie Minerve*, a limited liability company organized under the laws of France that is majority- owned by JunanHongrun.
- ILH refers to International Lorain Holding, Inc., a Cayman Islands company that is wholly - owned by ALN.
- Junan Hongrun refers to Junan Hongrun Foodstuff Co., Ltd.
- Luotian Lorain refers to Luotian Green Foodstuff Co., Ltd.
- Beijing Lorain refers to Beijing Green Foodstuff Co., Ltd.
- Shandong Lorain refers to Shandong Green Foodstuff Co., Ltd.
- Dongguan Lorain refers to Dongguan Green Foodstuff Co., Ltd.
- Shandong Greenpia refers to Shandong Greenpia Foodstuff Co., Ltd.
- RMB refers to Renminbi, the legal currency of China.
- U.S. dollar , \$ and US\$ refer to the legal currency of the United States.
- China and PRC refer to the People s Republic of China (excluding Hong Kong and Macau).

*On August 8, 2015, the Company re-organized its French operations by merging the operations of Conserverie Minerve into its immediate parent and 100% shareholder Athena, and concurrently, Athena wound up and dissolved Conserverie Minerve. Athena subsequently changed its own legal name to Conservie Minerve to continue its business.

ITEM 1. Financial Statements

AMERICAN LORAIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Stated in US Dollars)

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Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying interim consolidated balance sheets of American Lorain Corporation (the Company) as of September 30, 2017 and December 31, 2016, and the related statements of income and cash flows for the nine months ended September 30, 2017 and 2016. These interim consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the balance sheets of American Lorain Corporation as of December 31, 2016, and the related statements of income, comprehensive income, retained earnings, and cash flows for the year then ended (not presented herein); and in our report dated October 30, 2017, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

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 year and had working capital deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 3. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

San Mateo, California
December 11, 2017

WC, P.C.
Certified Public Accountants

AERICAN LORAIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Stated in US Dollars)

	9/30/2017 (Unaudited)	12/31/2016
Assets		
Current assets		
Cash and cash equivalents	\$ 103,239	\$ 426,054
Restricted cash	831,558	971,471
Trade receivables, net	1,677,093	3,253,333
Inventories	23,059,928	11,840,748
Advances and prepayments to suppliers	9,845,563	29,873,479
Other receivables and other current assets	379,952	708,892
Discontinued operations assets held for sale	14,613,750	19,745,847
Total current assets	\$ 50,511,083	\$ 66,819,824
Non-current assets		
Investment	-	118,471
Plant and equipment, net	54,772,257	51,897,283
Intangible assets, net	12,842,705	12,586,515
Construction in progress, net	9,824,995	468,501
Other assets and goodwill	653,488	
Discontinued operations long term assets held for sale	12,812,006	16,362,855
Total Assets	\$ 141,416,534	\$ 148,253,449
Liabilities and Stockholders Equity		
Current liabilities		
Short-term bank loans	\$ 23,245,751	\$ 22,667,482
Long-term debt current portion	30,341,827	28,948,300
Capital lease current portion	1,050,956	1,007,185
Accounts payable	4,010,698	5,514,477
Taxes payable	348,349	248,807
Accrued liabilities and other payables	10,005,792	8,611,816
Customers deposits	3,172,223	1,347,136
Discontinued operations - liabilities	12,257,993	13,811,908
Total current liabilities	\$ 84,433,589	\$ 82,157,111
Stockholders Equity		
Preferred Stock, \$0.001 par value, 5,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	\$ -	\$ -
Common Stock, \$0.001 par value, 200,000,000 shares authorized; 38,274,490 and 38,274,490 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	38,275	38,275
Additional paid-in capital	57,852,249	57,852,249
Statutory reserves	25,103,354	25,103,354
Accumulated deficits	(49,891,138)	(36,396,455)
Accumulated other comprehensive income	18,187,043	12,171,006
Non-controlling interests	5,693,162	7,327,909
Total Stockholders Equity	\$ 56,982,945	\$ 66,096,338

Total Liabilities and Stockholders Equity	\$ 141,416,534	\$ 148,253,449
See Accompanying Notes to the Financial Statements		

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AMERICAN LORAIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Stated in US Dollars)

	Three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net revenues	\$ 875,574	\$ 27,567,975	\$ 4,060,100	\$ 73,281,796
Cost of revenues	252,268	23,077,988	3,480,759	60,212,859
Gross profit	623,306	4,489,987	579,341	13,068,937
Operating expenses:				
Selling and marketing expenses	34,330	970,517	4,491,272	3,199,242
General and administrative expenses	2,232,225	716,182	2,514,175	1,937,239
Total operating expenses	2,266,555	1,686,699	7,005,447	5,136,481
Operating (loss) income	(1,643,249)	2,803,288	(6,426,106)	7,932,456
Other income (expenses):				
Government subsidy	7,037	(43,185)	587,743	820,919
Interest income	214,185	7,389	1,308	25,573
Interest expense	-	(2,272,910)	(1,430,217)	(4,182,017)
Other income	6,280,690	(401,299)	2,956,428	343,450
Other expenses	-	288,322	(1,914,496)	(6,612,016)
Gain (loss) from investment	-	1	-	(4,607,691)
	6,501,912	(2,421,683)	200,766	(9,604,091)
Income (loss) before taxes from continuing operations	4,858,663	381,605	(6,225,340)	(1,671,635)
Provision for income taxes	156,635	471,560	156,636	1,844,959
Income (loss) from continuing operations	4,702,028	(89,955)	(6,381,976)	(3,516,594)
Discontinued operations:				
(Loss) income from discontinued operations	(397,539)	861,234	(7,112,707)	1,697,222
Provision for income taxes	-	215,308	-	424,355
(Loss) income from discontinued operations, net of taxes	(397,539)	645,926	(7,112,707)	1,272,867
Net income (loss)	\$ 4,304,489	\$ 555,971	\$ (13,494,683)	\$ (2,243,727)
Net income available (loss attributable) to:				
- Common shareholders	4,570,667	304,704	(11,859,936)	(2,762,450)
- Non-controlling interests	(266,178)	251,267	(1,634,747)	518,723
Other comprehensive income:				
Foreign currency translation gain (loss)	1,315,392	(830,568)	4,381,290	5,503,495
Comprehensive income (loss)	\$ 5,619,881	\$ (274,597)	\$ (9,113,393)	\$ 3,259,768

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(Loss) income per share from continuing operations

- Basic and diluted	0.12	(0.00)	(0.17)	(0.09)
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Income (loss) per share from continuing operations

- Basic and diluted	(0.00)	0.01	(0.14)	0.02
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Income (loss) per share

- Basic and diluted	0.12	0.01	(0.31)	(0.07)
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Basic and diluted weighted average shares outstanding

38,274,490	38,261,641	38,274,490	38,261,641
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See Accompanying Notes to the Financial Statements

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AMERICAN LORAIN CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(STATED IN US DOLLARS)

	For the nine months ended	
	September 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ (6,381,976)	\$ (2,243,727)
Stock compensation expense	-	10,200
Depreciation of fixed assets	1,497,637	2,737,649
Amortization of intangible assets	796,811	272,680
Write down of assets from investment loss from deconsolidation	-	(13,279,243)
Increase in accounts and other receivables	1,937,550	23,565,341
Increase in inventories	(10,723,104)	(2,052,732)
Decrease (increase) in advance to suppliers	21,898,311	(6,525,030)
(Increase) decrease in prepayment	(535,226)	488,702
(Increase) decrease in deferred tax asset	-	(170,612)
Decrease in accounts and other payables	(1,081,393)	(14,317,967)
Increase in taxes payable	88,883	
Increase in customer deposits	1,769,595	
Decrease in related party payable	-	(1,755,216)
Net cash provided by (used in) operating activities	9,267,088	(13,269,955)
Cash flows from investing activities		
Decrease in restricted cash	-	8,718,244
Purchase of plant and equipment	-	(202,765)
Payment of construction in progress	(9,352,282)	-
Increase in deposits	-	6,123,266
Net cash (used in) provided by investing activities	(9,352,282)	14,638,745
Cash flows from financing activities		
Repayment of bank borrowings	(271,859)	(12,888,655)
Proceeds from bank borrowings and debentures	-	14,222,777
Repayment of capital lease	-	-89,100
Net cash (used in) provided by financing activities	\$ (271,859)	\$ 1,245,022
Net (decrease) increase of Cash and Cash Equivalents	(357,053)	2,613,812
Effect of foreign currency translation on cash and cash equivalents	34,238	5,266,724
Cash and cash equivalents beginning of year	426,054	20,664,487
Cash and cash equivalents end of year	\$ 103,239	\$ 28,545,023
<i>Supplementary cash flow information:</i>		
Interest received	\$ 70	\$ 13,166
Interest paid	\$ 513,825	\$ 548,087
Income taxes paid	\$ 310,820	\$ 2,099,560

See Accompanying Notes to the Financial Statements

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Stated in US Dollars)

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.

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

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.

Discontinued operations

In 2017, the Company discontinued the operations in Shandong Lorain and Dongguan Lorain. As a result, the financial results of these two subsidiaries are presented as discontinued operations.

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American Lorain Corporation
Notes to Financial Statements

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.

Cash and cash equivalents

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

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

Trade receivables

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

Inventories

Inventories consist of raw materials and finished goods which are stated at the lower of cost or market value. Finished goods are comprised of direct 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

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American Lorain Corporation
Notes to Financial Statements

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 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

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.

American Lorain Corporation
Notes to Financial Statements

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>9/30/2017</u>	<u>12/31/2016</u>	<u>9/30/2016</u>
Period/year end RMB: US\$ exchange rate	6.6545	6.9437	6.4479
Period/annual average RMB: US\$ exchange rate	6.8057	6.6430	6.5395

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 in accordance to guidance found in Staff Accounting Bulletin (SAB) 104, where persuasive evidence of arrangement exists, the price has been fixed or is determinable, the delivery has been completed and no other significant obligations of the Company exists, and collectability of payment is reasonably assured. Payments received prior to all of the foregoing criteria are recorded as customer deposits. Recorded revenue is derived from the value of goods invoiced less value-added tax (VAT).

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.

American Lorain Corporation
Notes to Financial Statements

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.

Unaudited interim financial information

These unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission that permit

reduced disclosure for interim periods. Therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

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The consolidated balance sheets and certain comparative information as of December 31, 2016 are derived from the audited consolidated financial statements and related notes for the year ended December 31, 2016 (2016 Annual Financial Statements), included in the Company's 2016 Annual Report on Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the 2016 Annual Financial Statements.

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.

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 nine months ended September 30, 2017, the Company incurred a substantial loss of \$ 49,891,138. As of September 30, 2017, the Company had accumulated deficit of \$49,891,138 and working capital deficit of approximately \$33,922,506. These conditions raise substantial doubt as to whether the Company may continue as a going concern.

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.

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American Lorain Corporation
Notes to Financial Statements

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.

	<u>9/30/2017</u>	<u>12/31/2016</u>
Trade accounts receivable	\$ 1,892,551	\$ 3,948,880
<u>Less:</u> Allowance for doubtful accounts	(215,458)	(695,547)
	\$ 1,677,093	\$ 3,253,333
Allowance for doubtful accounts:		
Beginning balance	\$ (695,547)	\$ (5,901,810)
Additions to allowance	-	-
Bad debt written-off	480,089	5,206,263
Ending balance	\$ (215,458)	\$ (695,547)

6. Inventories

Inventories consisted of the following as of September 30, 2017 and December 31, 2016

	<u>9/30/2017</u>	<u>12/31/2016</u>
Raw materials	\$ 8,989,270	\$ -
Packing material	50,732	-
Inventory of supplies	25,826	-
Finished goods	13,994,100	11,840,748
	\$ 23,059,928	\$ 11,840,748

7. Plant and Equipment

Property, plant, and equipment consisted of the following as of September 30, 2017 and December 31, 2016:

	<u>9/30/2017</u>	<u>12/31/2016</u>
At Cost:		
Buildings	\$ 62,041,307	\$ 58,866,129
Machinery and equipment	8,473,691	6,917,774
Office equipment	406,300	418,048
Motor vehicles	161,410	154,687
	\$ 71,082,708	\$ 66,356,638
<u>Less:</u> Accumulated depreciation	(16,310,451)	(14,459,355)

\$ 54,772,257 \$ 51,897,283

Depreciation expense for the nine months ended September 30, 2017 and 2016 was \$1,497,637 and \$2,737,649, respectively.

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American Lorain Corporation
Notes to Financial Statements

8. Intangible Assets

	<u>9/30/2017</u>	<u>12/31/2016</u>
At Cost:		
Land use rights	15,456,016	14,208,013
Utilities rights	46,747	44,800
	\$ 15,502,763	\$ 14,252,813
<u>Less: Accumulated amortization</u>	(2,660,058)	(1,666,298)
	\$ 12,842,705	\$ 12,586,515

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 nine months ended September 30, 2017 and 2016 was \$796,811 and \$272,680, 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 has been de-recognized.

10. Bank Loans

Bank loans include bank overdrafts, short-term bank loans, and current portion of long-term loan, which consisted of the following as of September 30, 2017 and December 31, 2016:

<u>Short-term Bank Loans</u>	<u>9/30/2017</u>	<u>12/31/2016</u>
<i>Loan from Industrial and Commercial Bank of China,</i>		
Interest rate at 6.955% per annum; due 4/20/2016*	3,752,761	3,596,461
Interest rate at 4.30% per annum; due 4/30/2017*	1,127,057	1,080,116
Interest rate at 4.30% per annum; due 5/30/2017*	1,184,161	1,134,842
Interest rate at 4.30% per annum; due 6/29/2017*	1,127,057	1,080,116
Interest rate at 4.30% per annum; due 8/2/2017*	991,810	950,502

Loan from China Minsheng Bank Corporation, Linyi Branch

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Interest rate at 5.98% per annum due 9/22/2016*	1,501,743	1,440,154
<i>Loan from Agricultural Bank of China, Luotian Branch</i>		
Interest rate at 5.65% per annum due 4/22/2017*	1,502,743	1,440,154

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American Lorain Corporation
Notes to Financial Statements

<i>Luotian Sanliqiao Credit Union,</i>		
Interest rate at 9.72% per annum due 1/14/2017*	1,502,743	1,440,154
Interest rate at 9.72% per annum due 2/4/2017*	450,823	432,046
Interest rate at 9.72% per annum due 9/7/2017*	90,165	432,046
<i>Bank of Ningbo,</i>		
Interest rate at 7.80% per annum due 10/27/2016*	1,202,194	1,152,124
<i>Hankou Bank, Guanggu Branch,</i>		
Interest rate at 6.85% per annum due 10/24/2016*	1,360,907	1,347,047
<i>Postal Savings Bank of China,</i>		
Interest rate at 9.72% per annum due 7/27/2016*	390,713	374,440
<i>China Construction Bank,</i>		
Interest rate at 6.18% per annum due 11/29/2016*	751,371	720,077
<i>Huaxia Bank,</i>		
Interest rate at 5.66% per annum due 5/19/2017*	1,502,743	1,440,154
<i>City of Linyi Commercial Bank, Junan Branch,</i>		
Interest rate at 8.4% per annum due 2/16/2016*	1,501,232	1,438,707
Interest rate at 8.4% per annum due 11/24/2016*	3,005,485	2,880,310
<i>Hubei Jincui Credit and Financial Services Co. Ltd.</i>		
Interest rate at 9.00% per annum due 1/12/2017*	300,043	288,032
	\$ 23,245,751	\$ 22,667,482

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.

* Note: As of September 30, 2017, these loans have not been repaid and are considered in default. The Company is in negotiations to renew these loans or modify the repayment terms.

11. Current Portion Long Term Debt

Current portions of notes payable, debentures, and long-term debt consisted of the following as of September 30, 2017 and December 31, 2016:

	9/30/2017	12/31/2016
<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	\$ 9,306,484	\$ 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	15,410,343	14,401,544

Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH

(*DEG*)

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
	\$ 30,341,827	\$ 28,948,300

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American Lorain Corporation

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The Company began repaying its loan with DEG in semi-annual installments on December 15, 2012. As of September 30, 2017 and December 31, 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. Taxes Payable

Taxes payable consisted of the following as of September 30, 2017 and December 31, 2016:

	9/30/2017	12/31/2016
Value added tax	\$ 122,527	\$ 10,563
Corporate income tax	16,853	16,151
Employee payroll tax withholdings	12,934	13,684
Property tax	73,739	72,245
Stamp duty	-	161
Land use tax	122,296	134,827
Local tax	-	1,176
	\$ 348,349	\$ 248,807

13. Equity

For the nine months ended September 30, 2017, the Company had not issued shares as stock compensation to employees. There were 38,259,490 shares of common stock outstanding as of September 29, 2017.

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

14. 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 following as of September 30, 2017 and 2016:

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	<u>9/30/2017</u>	<u>9/30/2016</u>
Loss attributed to PRC continuing operations	\$ (6,163,091)	\$ (84,936,317)
Loss attributed to U.S. operations	(62,250)	(338,200)
Loss before tax	(6,225,341)	(85,274,517)
PRC Statutory Tax at 25% Rate	156,636	1,898,616
Effect of tax exemption granted	-	-
Income tax	\$ 156,636	\$ 1,898,616
<u>Per Share Effect of Tax Exemption</u>		
	<u>9/30/2017</u>	<u>9/30/2016</u>
Effect of tax exemption granted	\$ -	\$ -
Weighted-Average Shares Outstanding Basic	38,259,490	38,264,874
Per share effect	\$ -	\$ -

The difference between the U.S. federal statutory income tax rate and the Company's effective tax rate was as follows of September 30, 2017 and 2016:

	9/30/2017	9/30/2016
U.S. federal statutory income tax rate	35%	35%
Lower rates in PRC, net	-10%	-10%
Non-deductible GAAP expenses in the PRC	-27.54%	-27.22%
The Company's effective tax rate	-2.54%	-2.22%

15. Earnings/(Loss) Per Share

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

	For the nine months ended	
	September 30,	
	2017	2016
Basic and diluted (loss) earnings per share numerator:		
(Loss) income from continuing operations (attributable) available to common stockholders	\$ (6,381,976)	(3,516,594)
(Loss) income from discontinued operations (attributable) available to common stockholders	(5,477,960)	754,144
(Loss) income (attributable) available to common stockholders	(11,859,936)	(2,762,450)
Basic and diluted (loss) earnings per share denominator:		
Original Shares:	38,274,490	38,259,490
<i>Additions from Actual Events</i>		
-Issuance of Common Stock		15,000
Basic Weighted Average Shares Outstanding	38,274,490	38,261,141

Dilutive Shares:		
<i>Additions from Potential Events</i>		
-Exercise of Investor Warrants & Placement Agent Warrants		
- Exercise of Employee & Director Stock Options		
Diluted Weighted Average Shares Outstanding:	38,274,490	38,261,141
Loss per share from continuing operations		
- Basic and diluted	(0.17)	(0.09)
(Loss) income per share from discontinued operations		
- Basic and diluted	(0.14)	0.02
Loss per share		
- Basic and diluted	(0.31)	(0.07)
Weighted Average Shares Outstanding		
- Basic and diluted	38,274,490	38,261,141

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American Lorain Corporation
Notes to Financial Statements

16. 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 September 30, 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	787,612	952,085	115,144
	\$ 1,159,712	\$ 1,398,375	\$ 168,699

The outstanding lease commitments for the three greenhouses as of December 31, 2017 was \$2,726,786.

17. Capital Lease Obligations

The Company leases certain machinery and equipment under leases classified as capital leases. For the nine months ended September 30, 2017, 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.

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(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 September 30, 2017:

Year 1	\$	1,050,957
Year 2		-
Year 3		-
Total minimum lease payments		1,050,957
<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		1,050,957
<u>Less:</u> Amount representing interest		
Present value of net minimum lease payments	\$	1,050,957

As of December 31, 2016, the present value of minimum lease payments due within one year is \$1,050,957. The Company recorded impairment on the leased assets that underlie these lease obligations; the Company's management believes it is appropriate to account for all remaining lease obligations as current given that these leased assets are no longer generating long term benefits to the Company.

18. 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. The payment was due but unpaid. 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

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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.

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American Lorain Corporation
Notes to Financial Statements

19. Discontinued Operations

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

Results of Operations

	For the nine months ended 9/30/2017	For the nine months ended 9/30/2016
Sales	\$ 319,597	\$ 66,032,083
Cost of Sales	370,800	57,390,872
Gross Profit	(51,203)	8,641,211
Operating Expenses	3,000,403	9,539,844
Other Income (Expenses)	(4,061,101)	(7,557,485)
Earnings before Taxes	(7,112,707)	(8,456,118)
Taxes	-	1,153,151
Net Income	\$ (7,112,707)	\$ (9,609,269)

Financial Position

	At 9/30/2017	At 12/31/2016
Current Assets	\$ 14,613,750	\$ 70,570,853
Non-Current Assets	12,812,006	32,051,046
Total Assets	\$ 27,425,756	\$ 102,621,899
Current Liabilities	\$ 12,257,993	\$ 43,165,043
Total Long Term Liabilities	-	326,591
Total Liabilities	\$ 12,257,993	\$ 43,491,634
Net Assets	\$ 15,167,763	\$ 59,130,265
Total Liabilities & Net Assets	\$ 27,425,756	\$ 102,621,899

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

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American Lorain Corporation
Notes to Financial Statements

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.

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.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Overview

Overview

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

- Chestnut products;
- Convenience foods (including ready-to-cook, or RTC, foods, ready-to-eat, or RTE, foods); and
- 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 have developed brand equity for our chestnut products in China, Japan and South Korea over the past 18 years. We produced 214 products in 2016. We derive most of our revenues from sales in China, South Korea and Japan.

Recent Development

Domestic sales in the third quarter of 2017 and 2016 was \$4.1 million and \$62.6million respectively, accounting for 100% of our sales in this reporting period in 2017 as compared to 85.39% over the same period of last year. The reasons for the decrease in revenues in China decreased are:

- o Shandong Lorain was required to move its production lines to our factory in Junan Hongrun according to a new city zoning plan, so that Shandong Lorain's land can be used for other urban use. Shandong Lorain started this relocation process in July 2016 and finished this process in December 2016. Shandong Lorain stopped production since the beginning of 2017.
- o Dongguan Lorain also ceased running since the end of 2016 due to the loss of sales.

Outside China, sales decreased by approximately \$10.7 million. We liquidated our French operations in 2016 following an 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.

As a result of such liquidation, our exports have decreased substantially due to weak demand in the international market. Revenue from sales in international markets decreased by approximately \$10.7 million, or approximately 100%. We mainly relied on Athena, our French subsidiary, to sell our products in European market. But since we suffered a significant loss from the result of investigation of CTCPA during 2015 and 2016, we decided to shut down the operation of Athena. As a result, the export amount of chestnuts to Europe markets decreased markedly by 100% in the third quarter of 2017.

Frozen foods are sold primarily to selected export markets in Europe and supermarkets and wholesale customers in China. Those sales contributed approximately 35% in revenues in the third quarter of 2017.

Seasonality

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. Since most chestnuts are produced and sold in the fourth quarter, the Company generally performs best in the fourth quarter.

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 that we prepay for their supplies in cash or pay 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 on favorable terms, we may not have sufficient liquidity to fund our operating costs and our business could be adversely affected.

We funded approximately 70% of our working capital from the proceeds of short-term loans from Chinese banks in the third quarter of 2017, as compared to 59.62% over the same period last year. We expect to continue to fund our working capital requirements with such loans in the future. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. Our balance of short-term bank loans as of September 30, 2017 was approximately \$23.2 million. The term of almost all such loans is one year or less. Historically, we have rolled over such loans on an annual basis. However, commencing in 2010, the Chinese government began implementing more stringent credit policies to curb inflation and soaring property prices. These new policies could negatively impact our ability to obtain or roll over these short term loans, and hence our possession of sufficient available funds 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 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.

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 its non-cash current assets such as receivables and inventory into cash in order to settle its current obligations. 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. These conditions raise substantial doubt as to whether we may continue as a going concern. Our primary capital needs have been to fund the working capital requirements necessitated by our sales growth and loans. In addition, we obtained long term loans, private placement financing and convertible promissory note during the period 2011 to 2015. In 2016 and the reporting period in 2017, our primary sources of financing have been cash generated from operations and short-term loans from banks in China. However, if our available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include obtaining alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements. There is no assurance that, if required, we will be able to raise additional capital on favorable terms or reduce discretionary spending to provide the required liquidity. Currently, the capital markets for small capitalization companies are extremely difficult and banking institutions have become stringent in their lending requirements. Accordingly, we cannot be sure of the availability or terms of any third-party financing.

Our business, operating results and financial condition will be adversely affected in the event of unfavorable economic conditions, including the ongoing global economy and capital markets disruptions. For example, we may experience declines in revenues, profitability and cash flows as a result of reduced orders, delays in receiving orders, delays or

defaults in payment or other factors caused by the economic problems of our customers and prospective customers. We may experience supply chain delays, disruptions or other problems associated with financial constraints faced by our suppliers and subcontractors. In addition, changes and volatility in the equity, credit and foreign exchange markets and in the competitive landscape make it increasingly difficult for us to predict our revenues and earnings into the future.

Results of Operations**Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016**

The following table summarizes the results of our operations during the three month periods ended September 30, 2017 and September 30, 2016, respectively and provides information regarding the dollar and percentage increase or (decrease) from the three month period ended September 30, 2017 compared to the three month period ended September 30, 2016.

(All amounts, other than percentages, stated in U.S. dollar)

(In Thousands of USD)	Three months ended September 30,		Increase/ (Decrease) (\$)	Increase/ (Decrease) (%)
	2017	2016		
Net revenues	876	27,568	(26,692)	(96.82)
Cost of revenues	252	23,078	(22,826)	(98.91)
Gross profit	623	4,490	(3,867)	(86.12)
Operating expenses	2,267	1,687	580	34.38
Selling and marketing expenses	2,267	971	1,296	133.47
General and administrative expenses	-	716	(716)	(100.00)
Operating Income (loss)	(1,643)	2,803	(4,446)	(158.62)
Government subsidy income	7	(43)	50	(116.28)
Interest and other income	6,495	(394)	6,889	(1,748.48)
Other expenses	-	288	(288)	(100.00)
Interest expense	-	(2,273)	2,273	(100.00)
Earnings before tax	4,461	1,243	3,218	258.89
Income tax	157	687	(530)	(77.15)
Income before non-controlling interests	4,304	556	3,748	674.10
Non-controlling interest	(226)	251	(477)	(190.04)
Net income of common stockholders	(1,764)	305	(2,069)	(678.36)

Net Revenues

Our net revenues for the three months ended September 30, 2017 amounted to \$0.876 million, which represents a decrease of approximately \$26.7million, or 96.8%, from the three month period ended on September 30, 2016, in which our revenue was \$27.6 million. The overall decrease was attributable to the decrease in sales of all of our product segments, as reflected in the following table:

(In thousands of U.S. dollars)	Three months ended		Increase/ (Decrease)	Increase/ (Decrease)
	9/30/2017	9/30/2016		
Chestnut	394	12,406	(12,011)	(97)%
Convenience food	175	5,514	(5,338)	(97)%
Frozen food	307	9,649	(9,342)	(97)%
Total	876	27,568	(26,692)	(97)%

The decrease of sales is mainly due to lack of operating capitals, drop in raw material purchase and processing amount, low market share caused by fierce competition.

Cost of Revenues

During the three months ended September 30, 2017, we experienced a decrease in cost of revenue of \$22.8 million, in comparison to the three months ended September 30, 2016, from approximately \$23.1 million to \$0.25 million, reflecting a decrease of approximately 98.1% .The decrease of cost of revenues is mainly due to the decline of raw

materials and third party products cost from \$24.2million in the third quarter of 2016 to \$2million in the same period of 2017.

Gross Profit

Our gross profit decreased \$3.86 million, or 86.12%, to \$0.62 million for the three months ended September 30, 2017 from \$4.49 million for the same period in 2016, it is mainly due to the reason that we ceased to sell convenience foods products(only rice, other leisure food like fried food and chips are still in production) since 2016, shut Athena Group and Dongguan Lorain, the cost of chestnuts slightly increased and the sales of chestnuts in China declined.

Selling and Marketing Expenses

Our selling and marketing expenses increased \$1.3 million, to \$2.2 million in the third quarter of 2017 from \$0.97 million in the third quarter of 2016. The main reason is that the eagerness to promote sales.

The selling and marketing expense to revenue ratio for the three months ended September 30, 2017 and 2016 was 258.8% and 3.52%, respectively. Management actively worked to control sales related expenses in accordance with market and sales conditions.

General and Administrative Expenses

We experienced a decrease in general and administrative expenses of \$0.72million from approximately \$0.72 million to approximately \$0 million for the three months ended September 30, 2017, compared to the same period in 2016. The decrease was mainly due to the lockout of Shandong Lorain Co., Ltd. and Dongguan Lorain Co., Ltd..

Operating Income (loss)

We experienced a decrease in operating income of \$4.4 million from approximately \$2.80 million to approximately -\$1.6million for the three months ended September 30, 2017, compared to the same period in 2016. The decrease is mainly due to the decrease of revenues and the volume of business as well as the stable amount of fixed expenses and interest expenses.

Other expenses

We experienced a decrease in other expenses of \$0.3 million from approximately \$0.3million to approximately -\$0million for the three months ended September 30, 2017, compared to the same period in 2016. The overall decrease was mainly due to the decrease of revenues and the lockout of Shandong Lorain Co., Ltd. and Dongguan Lorain Co., Ltd..

Earnings before tax

We experienced an increase in earnings before tax of \$3.2million from approximately \$1.2million to \$4.5 million for the three months ended September 30, 2017, compared to the same period in 2016. The main reason is the increase of interest and other income.

Income Taxes

Income taxes decreased \$0.53 million to \$0.16 million in the third quarter of 2017, as compared to \$0.69 million in the third quarter of 2016, primarily attributable to the decrease of income from discontinued operations before tax.

Income before non-controlling interests

Income before non-controlling interests increased \$3.7million to \$4.3million in the third quarter of 2017, as compared to \$0.56 million in the third quarter of 2016, mainly due to the increase of earnings before tax.

Non-controlling interest

Non-controlling interests decreased \$0.48 million to -\$0.23 million in the third quarter of 2017, as compared to \$0.25 million in the third quarter of 2016, mainly due to the decrease of income from discontinued operations.

Net income of common stockholders

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Net income of common stockholders decreased \$2.1 million to -\$1.8million in the third quarter of 2017, as compared to \$0.31 million in the third quarter of 2016, mainly due to the decrease of income from discontinued operations.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The following table summarizes the results of our operations during the nine month periods ended September 30, 2017 and September 30, 2016, respectively and provides information regarding the dollar and percentage increase or (decrease) from the nine month period ended September 30, 2017 compared to the nine month period ended September 30, 2016.

(All amounts, other than percentages, stated in U.S. dollar)

(In Thousands of USD)	Nine months ended September 30,		Increase/ (Decrease) (\$)	Increase/ (Decrease) (%)
	2017	2016		
Net revenues	4,060	73,282	(69,222.00)	(94)
Cost of revenues	3,481	60,213	(56,732.00)	(94)
Gross profit	579	13,069	(12,490.00)	(96)
Operating expenses			0.00	0
Selling and marketing expenses	4,491	3,199	1,292.00	40
General and administrative expenses	2,514	1,937	577.00	30
Operating Income	(6,426)	7,932	(14,358.00)	(181)
Government subsidy income	588	821	(233.00)	(28)
Interest and other income	2,958	369	2,589.00	702
Other expenses	(1,914)	(6,622)	4,708.00	(71)
Interest expense	(1,430)	(4,182)	2,752.00	(66)
Earnings before tax	(13,338)	26	(13,364.00)	(51,400)
Income tax	157	2,269	(2,112.00)	(93)
(Loss) before non-controlling interests	(13,495)	(2,244)	(11,251.00)	501
Non-controlling interest	(1,635)	(519)	(1,116.00)	215
Net income/(Loss) of common stockholders	(11,860)	(2,762)	(9,098.00)	329

Net Revenues

Our net revenues for the nine months ended September 30, 2017 amounted to \$4.1 million, which represents a decrease of approximately \$69.2 million, from the nine month period ended on September 30, 2016, in which our net revenue was \$73.28 million. The overall decrease was attributable to the decrease in sales of certain product segments, as reflected in the following table:

(In thousands of U.S. dollars)	Nine months ended		Increase/ Decrease	Increase/ Decrease
	9/30/2017	9/30/2016		
Chestnut	2,285	35,262	(32,977)	(94)%
Convenience food	546	15,773	(15,227)	(97)%
Frozen food	1,230	22,248	(21,018)	(94)%
Total	4,060	73,282	(69,222)	(94)%

The decrease of sales is mainly due to lack of operating capitals, drop in raw material purchase and processing amount, low market share caused by fierce competition.

Cost of Revenues

During the nine months ended September 30, 2017, we experienced a decrease in cost of revenue of \$56.7 million, in comparison to the nine months ended September 30, 2016, from approximately \$60.21 million to \$3.48 million. The decrease in cost of revenue is mainly attributable to the decline of raw materials and third party products cost

Gross Profit

Our gross profit decreased \$12.5 million, to \$0.57 million for the nine months ended September 30, 2017 from \$13.07 million for the same period in 2016 as a result of decrease of net revenues. It is mainly due to the reason that we ceased to sell convenience foods products(only rice, other leisure food like fried food and chips are still in production) since 2016, shut Athena Group and Dongguan Lorain, the cost of chestnuts slightly increased and the sales of chestnuts in China declined.

Operating Income

Operating income decreased \$14.36 million, to -\$6.43 million for the nine months ended September 30, 2017 from \$7.93 million for the same period in 2016. The decrease is mainly due to the decrease of revenues and the volume of business as well as the stable amount of fixed expenses and interest expenses.

Interest and other income

Interest and other income increased \$2.6 million, to \$2.96 million for the nine months ended September 30, 2017 from \$0.37 million for the same period in 2016, mainly due to the increase of other income.

Earnings before tax

Earnings before tax decreased \$13.4 million, to -\$13.3 million for the nine months ended September 30, 2017 from \$0.026 million for the same period in 2016. The decrease is mainly due to the decrease of revenues.

Income Taxes

Income taxes decreased \$2.11 million, to \$0.157 million for the nine months ended September 30, 2017 from \$2.27 million for the same period in 2016. The decrease is mainly due to the decrease of earnings before tax.

Net income (loss) before non-controlling interests

Net income before non-controlling interests decreased \$11.3 million, to -\$13.5 million for the nine months ended September 30, 2017 from -\$2.24 million for the same period in 2016. The decrease is mainly due to the decrease of earnings before tax.

Non-controlling interest

Non-controlling interest decreased \$1.1 million, to -\$1.6 million for the nine months ended September 30, 2017 from -\$0.52 million for the same period in 2016. The decrease is mainly due to the decrease of net income before non-controlling interests.

Net income/(Loss) of common stockholders

Net income/(Loss) of common stockholders decreased \$9.1 million, to -\$11.9 million for the nine months ended September 30, 2017 from -\$2.76 million for the same period in 2016. The decrease is mainly due to the decrease of net income before non-controlling interests.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents (including restricted cash) of \$0.96 million. Our cash and cash equivalents decreased by approximately \$0.44million from December 31, 2016 primarily due to cash provided by investment activities and financing activities, partially offset by cash used in operating activities. The following table provides detailed information about our net cash flow for all financial statement periods presented in this report.

Cash Flow (in thousands)

	Nine Months Ended	
	September 30,	
	2017	2016
Net cash (used in) / provided by operating activities	9,773	(13,270)
Net cash provided by / (used in) investing activities	(9,857)	3,194
Net cash provided by / (used in) financing activities	(272)	1,245
Net cash inflow	(357)	2,614
<u>Operating Activities</u>		

Net cash provided by operating activities was \$9 million for the nine months period ended September 30, 2017, and net cash used in operating activities was \$13 million for the nine months period ended September 30, 2016, mainly due to the decrease of cost of revenues.

Investing Activities

Net cash used in investing activities for the nine months period ended September 30, 2017 was \$9.9 million, in comparison to \$3.1million net cash provided for the same period of 2017. The difference was primarily a result of decrease in restricted cash and deposit.

Financing Activities

Net cash use in financing activities for the nine months period ended September 30, 2017 was \$0.27 million, in comparison to \$1.25 million net cash provided by financing activities during the same period in 2016. The decrease of net cash from financing activities was primarily a result of less repayment of long term borrowing and notes payable.

Loan Facilities

As of September 30, 2017, the amounts and maturity dates for our short-term bank loans are as set forth in the balance sheet herein. The total amounts outstanding under such loans were \$23.4 million as of September 30, 2017, compared with \$22.7 million as of December 31, 2016.

We believe that our currently available working capital, after receiving the aggregate proceeds of the credit facilities referred to above, should be adequate to sustain our operations at our current levels for 2017.

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 our 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 significant judgments and estimates in the preparation of financial statements, including the following:

Restatement of prior financial statements -- The Company has discovered errors in the timing of revenues recognized during the year ended December 31, 2016. The Company recognizes revenue upon shipping of products to its customers where title of the goods passes upon departure from the Company's facilities; however, in certain instances, contractual terms dictate that the customers are afforded seven days after the receipt of goods at their premises to inspect the goods for defects or spoilage and notify the Company. If the Company is not contacted within those seven days, the Company's obligation to the customer are considered fully discharged and revenue should be recognized. Given the timing of these seven days, the Company believes that certain sales transactions have been erroneously recognized during the year ended December 31, 2015. The Company has rectified this error and the impact of the Company's financial position and result of operations are detailed below.

Method of Accounting -- We maintain our general ledger and journals with the accrual method accounting for financial reporting purposes. Accounting policies adopted by us conform to generally accepted accounting principles in the United States and have been consistently applied in the presentation of our 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 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 -- Our consolidated financial statements, which include information about our company and our subsidiaries, are compiled in accordance with generally accepted accounting principles in the United States. All significant inter-company accounts and transactions have been eliminated. Ownership interests of non-controlling investors are recorded as non-controlling interests.

As of September 30, 2017, the detailed identities of the consolidating subsidiaries 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

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

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the reporting period, there was no impairment loss.

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

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

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.

Off-Balance Sheet Arrangements

We do not have any off-balance arrangements.

Correction of Error

The Company discovered errors in the timing of revenues recognized during the year ended December 31, 2015. The Company recognizes revenue upon shipping of products to its customers where title of the goods passes upon departure from the Company's facilities; however, in certain instances, contractual terms dictate that the customers are afforded seven days inspection period after the receipt of goods at their premises to inspect the goods for defects or spoilage and notify the Company. If the Company is not contacted within those seven days, the Company's obligation to the customer are considered fully discharged and revenue should be recognized. Given the timing of these seven days inspection period, the Company believes that certain sales transactions have been erroneously recognized during the year ended December 31, 2015. The Company has corrected this error and adjusted for the

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impact upon the Company's financial position and result of operations as detailed below, which include the regrouping of amounts attributable to Discontinued Operations.

The effect of correction of these errors on results of operations for the above mentioned financial statements is as follows for 2015.

	As previously reported	Adjustment	Restated
Sales	\$ 215,315,437	\$ (8,571,793)	\$ 206,743,644
Cost of sales	179,197,430	(7,076,892)	172,120,538
Gross profit	36,118,006	(1,494,900)	34,623,106
Operating income	14,052,920	(1,494,900)	12,558,020
Total other expense	(10,728,224)	-	(10,728,224)
Loss before tax	3,324,696	(1,494,900)	1,829,796
Net loss	\$ (1,191,239)	\$ (1,494,900)	\$ (2,686,139)

The effect of correction of these errors on retained earnings and significant asset and liability accounts is as follows:

	As previously reported	Adjustment	Restated
Accounts receivable	62,532,017	(9,269,327)	53,262,690
Inventory	43,712,048	6,779,018	50,491,066
Total current asset	191,049,927	(2,449,159)	188,600,768
Total asset	309,537,530	(2,449,159)	307,088,371
Taxes payable	5,863,261	(1,017,181)	4,846,080
Total current liabilities	97,003,426	(1,017,181)	95,986,245
Total liabilities	107,569,431	(1,017,181)	106,552,250
Retained earnings	101,389,920	(1,370,586)	100,019,334
Total stockholders equity	201,968,099	(1,431,978)	200,536,121
Total liabilities and stockholders equity	309,537,531	(2,449,160)	307,088,371

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the 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 the design and operation of our disclosure controls and procedures as of September 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2017, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were not effective due to the continuing material weakness in our internal control over financial reporting.

The material weakness and significant deficiency identified by our management as of September 30, 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 is inadequate.

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.

During the nine months ended September 30, 2017, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the period covered by this 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 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 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.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent or detect all errors and all fraud. 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 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 fraud, if any, have been detected. Also, 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 business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There is a lawsuit currently pending in the Linyi City Intermediate People's Court of Shandong Province (the Linyi Court), 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. 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 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 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 \$1,540,666).

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 did 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.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Report

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Exhibit No.	Description
<u>31.1</u>	<u>Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes(Oxley Act of 2002.*</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
<u>32.1</u>	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes(Oxley Act of 2002.**</u>
<u>32.2</u>	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes(Oxley Act of 2002.**</u>
<u>101.INS</u>	<u>XBRL Instance Document *</u>
<u>101.SCH</u>	<u>XBRL Taxonomy Extension Schema *</u>
<u>101.CAL</u>	<u>XBRL Taxonomy Extension Calculation Linkbase *</u>
<u>101.DEF</u>	<u>XBRL Taxonomy Extension Definition Linkbase *</u>
<u>101.LAB</u>	<u>XBRL Taxonomy Extension Label Linkbase *</u>
<u>101.PRE</u>	<u>XBRL Taxonomy Extension Presentation Linkbase *</u>

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

Date: December 11, 2017

AMERICAN LORAIN CORPORATION

/s/ Si Chen

Si Chen

Chief Executive Officer

(Principal Executive Officer)

/s/ Yunqiang Sun

Yunqiang Sun

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)