Andatee China Marine Fuel Services Corp
Form 10-Q
August 12, 2010

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2010

OR

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

For the transition period from ____________ to __________

Commission file number 001-34608

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	80-0445030 (IRS Employer) Identification No.)

Dalian Ganjingzi District, Dalian Wan Lijiacun
Unit C, No. 68 West Binhai Road, Xigang District Dalian
People’s Republic of China
011 (86411) 8360 4683
(Address of Principal Executive Offices)(Zip Code)
(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer ¨	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 10, 2010, the Company had 9,610,159 shares of its common stock, par value $0.001 per share, issued and outstanding.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.
COMBINED AND CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,426,813	$ 1,539,009
Accounts receivable, net	2,209,445	2,515,403
Other receivables, net	1,365,753	1,307,474
Inventories	17,051,730	13,302,530
Advances to suppliers	10,859,388	7,691,266
Related party receivable	-	122,667
Deferred expense	-	150,943
Deferred tax assets	113,216	112,743
Total current assets	45,026,345	26,742,035
Property, plant and equipment, net	11,973,600	10,441,246
Construction in progress	456,544	632,202
Intangible assets, net	2,778,511	2,691,974
Goodwill	1,122,619	1,117,923
Total assets	$ 61,357,619	$ 41,625,380
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 179,992	$ 565,802
Short-term loan	5,140,558	10,238,109
Taxes payable	9,828,743	11,001,715
Advances from customers	2,116,712	456,715
Dividends payable	232,835	231,861
Other payable	159,911	287,914
Total current liabilities	17,658,751	22,782,116
Total liabilities	17,658,751	22,782,116
Commitments and contingencies		
Equity		
Stockholder’s equity of the Company		
Common stock: par value $.001; 50,000,000 shares authorized; 9,610,159 and 6,000,000 shares issued and outstanding at June 30, 2010 and December 31, 2009 respectively	9,610	6,000

Additional paid-in capital.	29,533,555	9,533,619
Other comprehensive income	634,239	488,640
Retained earnings	11,591,168	7,543,994
Total stockholders' equity of the Company	41,768,572	17,572,253
Noncontrolling interest	1,930,296	1,271,011
Total equity	43,698,868	18,843,264
Total liabilities and equity	$ 61,357,619	$ 41,625,380

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.
COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	$ 44,053,481	$ 27,843,394	$ 73,834,571	$ 53,080,312
Cost of revenues	38,781,366	24,435,690	64,982,061	46,671,231
Gross profit	5,272,115	3,407,704	8,852,510	6,409,081
Operating expenses				
Selling expenses	736,327	436,150	1,473,878	1,255,722
General and administrative expenses	676,750	611,243	1,301,045	807,670
Total operating expenses	1,413,077	1,047,393	2,774,923	2,063,392
Income from operations	3,859,038	2,360,311	6,077,587	4,345,689
Other income (expense)				
Interest income	-	(24,560)	-	-
Interest expense	(131,615)	(65,667)	(252,079)	(65,667)
Other expense	2,029	(1,593)	1,857	(1,593)
Total other income (expense)	(129,586)	(91,820)	(250,222)	(67,260)
Net income before tax provision	3,729,452	2,268,491	5,827,365	4,278,429
Tax provision	1,047,664	467,562	1,614,400	974,402
Net income	2,681,788	1,800,929	4,212,965	3,304,027
Net income attributable to the noncontrolling interest	24,799	61,022	165,791	114,003
Net income attributable to the Company	$ 2,656,989	$ 1,739,907	$ 4,047,174	$ 3,190,024
Foreign currency translation adjustment	166,015	363	145,599	14,542
Comprehensive income attributable to the Company	2,823,004	1,740,270	4,192,773	3,204,566
Comprehensive income attributable to the noncontrolling interest	24,799	61,022	165,791	114,003
Comprehensive income	$ 2,847,803	$ 1,801,292	$ 4,358,564	$ 3,318,569
Basic and diluted weighted average shares outstanding	9,606,313	6,000,000	9,014,261	6,000,000
Basic and diluted net earnings per share	$ 0.28	$ 0.29	$ 0.45	$ 0.53

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

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

	Six months ended June 30, 2010 (Unaudited)	Six months ended June 30, 2009 (Unaudited)
Cash flows from operating activities:		
Net income attributable to the Company	$ 4,047,174	$ 3,190,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interest	165,791	114,003
Option issued for services	63,938	-
Depreciation	253,187	92,038
Amortization	23,119	34,735
Changes in operating assets and liabilities:		
Accounts receivable	305,806	(764,788)
Inventories	(3,749,200)	(3,190,129)
Other receivables	(109,917)	1,187,582
Advances to suppliers	(3,168,122)	(882,440)
Prepaid expense	150,943	(13,411)
Accounts payable	(385,810)	481,323
Advances from customers	1,659,997	275,906
Taxes payable	(1,173,445)	609,841
Other payable	(195,403)	913,754
Net cash provided by (used in) operating activities	(2,111,942)	2,048,438
Cash flows from investing activities		
Consideration for acquisition	(534,618)	(2,209,483)
Certificate of deposit	-	1,519,750
Purchase of property and equipment	(132,708)	(3,266)
Construction contracts	(491,319)	(4,898,381)
Payment received from related party	122,667	4,357,376
Net cash used in investing activities	(1,035,978)	(1,234,004)
Cash flows from financing activities		
Proceeds from shareholders	19,989,504	-
Repayment of short term loans	(5,097,551)	(876,779)
Net cash provided by (used in) financing activities	14,891,953	(876,779)
Effect of exchange rate on cash	143,771	6,775
Net increase in cash and cash equivalents	11,887,804	(55,570)
Cash and cash equivalents, beginning of period	$ 1,539,009	$ 4,923,913
Cash and cash equivalents, end of period	$ 13,426,813	$ 4,868,343
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 260,518	$ 176,259
Income taxes	$ 1,276,549	$ 653,682

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. Description of Business, Organization, VIE and Basis of Consolidation and Combination

Andatee China Marine Fuel Services Corporation ("Andatee" or "the Company") was incorporated in the State of Delaware on July 10, 2009. Upon incorporation, the Company had authorized 50,000,000 common stock shares, par value $0.001per share. On October 16, 2009 the Company issued 8,000,000 shares in the share exchange with Goodwill Rich, as described below. On October 19, 2009, the Company affected a reverse share split on the basis of the 1-for-1.333334 ratio. As a result of the split, the number of common stock issued and outstanding has decreased from 8,000,000 to 6,000,000 shares. The effect of reverse share split has been retroactively reflected for all periods presented herein.

The Company was organized as a holding company to acquire Goodwill Rich International Limited ("Goodwill Rich"), a company incorporated in Hong Kong, and its subsidiary in connection with a contemplated initial public offering of the Company's common stock on the Nasdaq Stock Market. Goodwill Rich was incorporated on October 28, 2008.

Andatee became the owner of 100% of the outstanding common stock of Goodwill Rich as the result of a share exchange arrangement entered in August 2009 and completed on October 16, 2009, in which 8,000,000 common share of Andatee (on a pre-reverse stock split basis or 6,000,000 common shares after the effect of the reverse stock split) were exchanged for all of the outstanding shares of Goodwill Rich. The stockholders of Andatee and the stockholders of Goodwill Rich were the same, and therefore the August 2009 share exchange was accounting for as a recapitalization of Goodwill Rich. As a result, Goodwill is deemed to be the predecessor of Andatee for financial reporting purposes, and the financial statements of Andatee for the periods prior to the share exchange as presented here are the historical financial statements of Goodwill Rich for those periods, after being adjusted to retroactively reflect the effects of the recapitalization to 6,000,000 issued and outstanding shares.

In March 2009, Goodwill Rich established a subsidiary company in Dalian, People's Republic of China (the "PRC"), named Dalian Fusheng Consulting Company ("Fusheng"), which afterward was changed to "Dalian Fusheng Petrochemical Company" in March 2010.

Dalian Xingyuan Marine Bunker Co., Ltd. ("Xingyuan") was established in September 2001 with a registered capital of RMB7 million and began providing refueling services to the marine vessels in Dalian Port in Dalian City. Xingyuan holds 100% ownership of Donggang Xingyuan Marine Fuel Company ("Donggang Xingyuan"), a company incorporated in Dalian, PRC, in April, 2008. In addition, in December 2008, Xingyuan acquired 90% ownership of Rongcheng Xinfa Petroleum Company ("Xinfa") and 63% ownership of Xiangshan Yongshi Nanlian Petroleum Company ("Nanlian"), respectively.

On March 26, 2009, Fusheng, Xingyuan and the stockholders of Xingyuan entered into a series of agreements, as described below (the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and the Proxy and Voting Agreement). Under these agreements Goodwill Rich obtained the ability to direct the operations of Xingyuan and its subsidiaries and to obtain the economic benefit of their operations. Therefore, management determined that Xingyuan became a variable interest entity ("VIE") under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 (originally issued as FASB Interpretation ("FIN") No. 46(R) "Consolidated Variable Interest Entities - an interpretation of ARB No. 51"), and Goodwill Rich (and the Company after the October 16, 2009 share exchange described above) was determined to be the primary beneficiary of Xingyuan and its subsidiaries. Accordingly, beginning March 26, 2009, Goodwill Rich (and the Company after the October 16, 2009 share exchange described above) has consolidated the assets, liabilities, results of operations and cash flows of Xingyuan and its subsidiaries its financial statements. The agreements between the Goodwill Rich and Xingyuan were entered into to facilitate raising capital for the operations of Xingyuan through an offering of the Company's common stock on the Nasdaq Capital Market, and Goodwill Rich paid no consideration to Xingyuan or its stockholders for entering into the agreements under which Xingyuan became a VIE, provided, however, that Mr. An Fengbin, the principle stockholder of Xingyuan became the chairman and CEO of the Company, and Mr. An Fengbin and the other stockholders of Xingyuan have certain rights or options to acquire the 6,000,000 shares of the Company's common stock issued in the share exchange between the Company and Goodwill Rich at later dates when permitted by PRC laws and regulations. Mr. An Fengbin remains the principle stockholder of Xingyuan after the completion of the share exchange between Goodwill Rich and Andatee described above.

Upon the October 28, 2008 incorporation of Goodwill Rich, Goodwill Rich and the stockholders of Xingyuan has entered into a series of separate agreements under which Goodwill Rich and Xingyuan were deemed, until March 2009, to be under the common control of the stockholders of Xingyuan. Those separate agreements provided that the majority stockholder of Goodwill Rich appointed Mr. An Fengbin to (i) act as a director of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (ii) act for the majority stockholder of Goodwill Rich at any meetings of the directors, managers, financial controllers or other senior management of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (iii) exercise all voting and dispositive rights over the common stock of Xingyuan, Xingyuan's majority stockholder, and Fusheng. The agreements further provided that the majority stockholder of Xingyuan would not appoint any additional directors to the boards of any of these entities without Mr. An Fengbin's approval. As a result, Mr. An Fengbin was deemed to control Goodwill Rich and Fusheng, and those companies and Xingyuan were deemed to be under common control.

All of the transactions among Andatee, Goodwill Rich, Fusheng and Xingyuan were deemed to be transactions between companies under common control, and therefore the bases of the assets and liabilities in each of the companies was not adjusted in any of the transactions.

As a result of the above, the accompanying combined and consolidated financial statements contain:

- for the period from October 28, 2008 to March 26, 2009, the assets, liabilities, results of operations and cash flows of Goodwill Rich and its subsidiary (adjusted for the effects of the August, 2009 recapitalization with Andatee) combined with those of Xingyuan and its subsidiaries; and

- for the period from March 26, 2009 to June 30, 2010, the assets, liabilities, results of operations and cash flows of Goodwill Rich and its subsidiary (adjusted for the effects of the August, 2009 recapitalization with Andatee) consolidated with those of its VIE, Xingyuan, and its subsidiaries.

The Company, its subsidiaries, its VIE and its VIE's subsidiaries (collectively the "Group") are principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

Consulting Services Agreement. Pursuant to the exclusive consulting services agreement between Fusheng and Xingyuan, Fusheng has the exclusive right to provide to Xingyuan business consulting and related services in connection with the production and sale of marine bunker (the "Services"). Under this agreement, Fusheng owns the intellectual property rights arising from the performance of the Services, including, but not limited to, any trade secrets, copyrights, patents, know-how, un-patented methods and processes and otherwise, whether developed by Fusheng or Xingyuan based on Fusheng's provision of Services under the agreement. Xingyuan pays 50% of its total net profit to Fusheng on a quarterly basis as consulting service fee. The consulting services agreement is in effect for a term of 10 years starting from March 26, 2009 unless terminated by (a) Xingyuan upon six-months prior written notice and payment to Fusheng of (i) RMB2,000,000 as liquidated damages and (ii) all of Fusheng's losses resulting from such early termination; (b) Fusheng upon Xingyuan's breach of the agreement; or (c) Fusheng at any time upon thirty-days written notice to Xingyuan. This agreement may be renewed at Fusheng's sole discretion.

Operating Agreement. Pursuant to the operating agreement among Fusheng, Xingyuan and the stockholders of Xingyuan who collectively hold all of the outstanding shares of Xingyuan (collectively "Xingyuan Stockholders"), Fusheng provides guidance and instructions on Xingyuan's daily operations, financial management and employment issues. The stockholders of Xingyuan must appoint the candidates recommended by Fusheng to Xingyuan's board of directors. Fusheng has the right to appoint personnel to high level managerial positions of Xingyuan, including General Manager and Chief Financial Officer. In addition, Fusheng agrees to guarantee Xingyuan's performance under any agreements, contracts or transactions executed by Xingyuan relating to Xingyuan's business. Xingyuan, in return, agrees to pay Fusheng a quarterly fee equal to 50% of Xingyuan's total net profits for such quarter. Moreover, Xingyuan agrees that without the prior consent of Fusheng, Xingyuan will not engage in any transactions that could materially affect the assets, obligations, rights or the business of Xingyuan, including, without limitation, (a) borrowing money from a third party or assuming any debt, (b) selling to a third party or acquiring from a third party any assets or rights, including without limitation, any plant, equipment, real or personal property, or any intellectual property rights, (c) providing any guaranty for any third party obligations, (d) assigning to a third party any agreements related to Xingyuan's business, (e) engaging in any other business consulting agreements with a third party or engaging in any other business activities other than the business of producing and selling marine bunker, and (f) pledging any of Xingyuan's assets or intellectual property rights to a third party as a security interest. The term of this agreement is 10 years from March 26, 2009 and will be automatically renewed for additional 10 year period upon the expiration of the initial term or any renewal term, unless previously terminated. Fusheng may terminate the agreement at any time upon thirty (30) days written notice to Xingyuan and the Xingyuan Stockholders.

Equity Pledge Agreement. Under the equity pledge agreement between Xingyuan, the Xingyuan Stockholders and Fusheng, the Xingyuan Stockholders pledged all of their equity interests in Xingyuan to Fusheng to guarantee Xingyuan's performance of its obligations under the following agreements entered into by Fusheng and Xingyuan: (a) the Exclusive Consulting Agreement dated March 26, 2009, (b) the Operating Agreement dated March 26, 2009 and (c) any other agreements to be entered into by and between Fusheng and Xingyuan from time to time with respect to Fusheng's provision of services to Xingyuan and Fusheng's collection of appropriate charges from Xingyuan (collectively, (a), (b) and (c) are the "Service Agreements"). If Xingyuan or Xingyuan's Stockholders breach its respective contractual obligations, Fusheng, as pledgee, will be entitled to certain rights, including but not limited to the right to sell the pledged equity interests. The stockholders of Xingyuan agreed that without Fusheng's prior written consent, they will not transfer any equity interest, create or permit to exist any pledge that may damage Fusheng's rights or interests in the pledged equity interests, or cause Xingyuan's meeting of stockholders or board of directors to pass any resolutions about the sale, transfer, pledge or other disposal of the lawful right to derive income from any equity interest in Xingyuan or about the permission of the creation of any other security interests thereon. The term of this agreement is the same as the longest of the Service Agreements. If the term of any Service Agreement is renewed, the term of this agreement will extend accordingly.

Option Agreement. Under the option agreement between Xingyuan, the Xingyuan Stockholders and Fusheng, the Xingyuan Stockholders irrevocably, unconditionally and exclusively granted Fusheng a purchase option (the "Purchase Option") whereby, to the extent permitted under Chinese law, Fusheng has the right to request the Xingyuan Stockholders transfer, to it or its designated entity or person, the total equity interests held by them in the registered capital of Xingyuan, which as a group equals 100% of the outstanding equity of Xingyuan. Fusheng has sole discretion to decide the specific time, method and number of the exercise of the Purchase Option. At the time of each exercise of the Purchase Option by Fusheng, the total consideration to be paid to Xingyuan Stockholders by Xingyuan or its designated entity or person shall be determined from one of following two prices i) RMB 10.00; or ii) the lowest price permitted under PRC laws. This agreement will terminate after 100% of the outstanding equity of Xingyuan has been duly transferred to Fusheng and/or Fusheng's designee(s).

Proxy and Voting Agreements. Pursuant to the proxy and voting agreements between Fusheng, Xingyuan, and each of Xingyuan's Stockholders, Xingyuan's Stockholders agreed to irrevocably entrust the person designated by Fusheng with his stockholder voting rights and other stockholder rights for representing him to exercise such rights at the stockholders' meeting of Xingyuan in accordance with applicable laws and its Article of Association, including, but not limited to, the right to sell or transfer all or any of his equity interest in Xingyuan, and appoint and vote for the directors and Chairman as the authorized representative of the Xingyuan Stockholders. The term of each Proxy and Voting Agreement is twenty (20) years from March 26, 2009 and may be extended prior to its expiration by written agreement of the parties.

2010 Business Acquistion

In May 2010, Xingyuan acquired 52% equity interest of Rongcheng Mashan Xingyuan Marine Bunker Co., Ltd. ("Mashan") (see more details in Note 3 "Business Acquisitions").

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim combined and consolidated financial statements of Andatee have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year, 2009, as reported in Form 10-K have been omitted.

Basis of Consolidation

The combined and consolidated financial statements include the combined revenues, expenses and cash flows of Xingyuan and its subsidiaries as of and for the period ended March 26, 2009 and on a consolidated basis from the date that Xingyuan became a consolidated VIE of the Company (see Note 1). All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar ("U.S. dollar"). The functional currency of the Company's subsidiary in Hong Kong is the U.S. dollar while the local currency of the Company's subsidiary, VIE and its subsidiaries in China is the Renminbi ("RMB"). Accordingly, assets and liabilities of the China entities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates in effect during the reporting period to U.S. dollar. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in the statements of changes in shareholders' equity for the years presented.

Foreign currency transactions are translated at the applicable rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are remeasured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations.

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For the six months ended June 30, 2010, foreign currency translation adjustment of $145,599 have been reported as accumulated other comprehensive income in the consolidated statements of changes in the stockholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash on deposit, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Restricted Cash

In accordance with FASB ASC Topic 210 (originally Accounting Review Board ("ARB") No. 43, Chapter 3A "Current Assets and Current Liabilities"), cash which is restricted as to withdrawal is considered a non-current asset.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for uncollectible accounts, as needed.

When evaluating the adequacy of its allowance for doubtful accounts, the Company reviews the collectability of accounts receivable, historical write-offs, and changes in sales policies, customer credibility and general economic tendency.

Inventories

Inventories are stated at the lower of cost and current market value. Costs include the cost of raw materials, freight, direct labor and related manufacturing overhead. Inventories are stated at cost upon acquisition.

The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes to make the sale.

Reusable materials include low-value consumables and other materials, which can be in use for more than one year but do not meet the definition of fixed assets. Reusable materials are amortized in half when received for use and in another half when cease to work for any purpose. The amounts of the amortization are included in the cost of the related assets or profit or loss.

Concentration of Risks

All of the Group's sales and a majority of its expense transactions are denominated in RMB and a significant portion of the Group's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

As of June 30, 2010, all of the Company's cash was on deposit at financial instructions in the PRC where there is currently no regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure.

For the six months ended June 30, 2010, two of the Company's customers accounted for 13.7% and 11.5% of the Company's total revenues, respectively. One customer accounted for 11.4% of the total revenues for the six months ended June 30, 2009.

For the six months ended June 30, 2010, 33.7% and 30.7% of the Company's raw materials came from two suppliers. The advances to these two suppliers were $1,782,879 and $1,785,073 at June 30, 2010, respectively. The advances to these two suppliers were $791,459 and $1,774,425 at December 31, 2009, respectively. The total balance to suppliers at June 30, 2010 was $10,859,388, which was non-interest bearing and unsecured.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs, which are not considered improvements and do not extend the useful life of the asset, are expensed as incurred; additions, renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the statement of operations in cost of blended products.

Depreciation is provided to recognize the cost of the asset in the results of operations. The Company calculates depreciation using the straight-line method with estimated useful life as follows:

Items	Useful Life
Property and buildings	40 years
Marine bunker	15 years
Boiler equipment	12 years
Laboratory equipment	8 years
Transportation vehicles	8 years
Office equipment	4 years
Electronic equipment	3 years

Construction in Progress

Construction in progress represents property and buildings under construction and consists of construction expenditure, equipment procurement, and other direct costs attributable to the construction. Construction in progress is not depreciated. Upon completion and ready for intended use, construction in progress is reclassified to the appropriate category of property, plant and equipment.

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360 (originally Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), certain assets such as property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets are tested for impairment annually. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets as of June 30, 2010 and December 31, 2009, respectively.

Goodwill

Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in business acquisitions. The Company performs its impairment test at the end of every fiscal year on an annual basis and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable

The Company determined that there was no impairment of goodwill as of June 30, 2010.

Intangible Assets

Intangible assets consist mainly of land use rights and software. The intangible assets are amortized using straight-line method over the life of the rights and assets.

The details of land use rights are as follows:

Location	Land Size (square meter)	Amount	Terms
Nanhui Village, Shipu Town, Zhejiang Province	8,906.90	$2,207,502	April 1, 2004 – May 12, 2047
Development Zone, Donggang, Liaoning Province	21,994.80	$567,755	July 16, 2008 – May 15, 2058
Mashan Village, Chengshan Town, Shandong Province	3,659.57	$109,656	Government assignment

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160 (now codified at FASB ASC Topic 810), "Noncontrolling Interests in Consolidated Financial Statements" ("ASC 810"), which amends Accounting Research Bulletin 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. ASC 810 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. ASC 810 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted ASC 810 for the accompanying consolidated financial statements.

Noncontrolling interest represents a 37% equity interest in Nanlian, a 10% equity interest in Xinfa and a 48% equity interest in Mashan for the minority owners.

Revenue Recognition

The Company recognizes revenues in accordance with the guidance in the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104. Revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when delivery occurs and when collection is probable.

Delivery is typically conveyed via pipeline or tanker and sales revenues are recognized when customers take possession of goods in accordance with the terms of purchase order agreements that evidence agreed upon pricing and when collectability is reasonably assured.

Advances from customers represent monies that customers have paid in advance for the Company's marine fuel products as down payments and where the delivery of these marine fuel products is not yet complete. Supply and demand for our products determines the circumstances requiring advances from customers. As an industry wide practice, we require advances from customers for substantially all sales.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No.123(R), "Share-Based Payment", (now codified at FASB ASC Topic 718) which prescribes accounting and reporting standards for all stock based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. ASC 718 requires compensation expense to be recorded using the fair value method.

Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Research and Development Costs

Research and development costs are recognized in the income statement when incurred.

Income Taxes

The Company provides for income taxes in accordance with FASB ASC Topic 740 (originally SFAS No. 109, "Accounting for Income Taxes") which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Defined Contribution Plan

Pursuant to the relevant laws and regulations in the PRC, the Company participates in various defined contribution retirement plans organized by the respective divisions in municipal and provincial governments for its employees. The Company is required to make contributions to the retirement plans in accordance with the contribution rates and basis as defined by the municipal and provincial governments. The contributions are charged to the respective assets or the income statement on an accrual basis. When employees retire, the respective divisions are responsible for paying their basic retirement benefits. The Company does not have any other obligations in this respect.

The Company contributed $17,841 and $16,759 for the six months ended June 30, 2010 and 2009, respectively.

Housing Fund and Other Social Insurance

In addition to retirement benefits, the Company makes contributions to the housing fund and other social insurances such as basic medical insurance, unemployment insurance, worker injury insurance and maternity insurance for its employees in accordance with relevant laws and regulations. The Company makes monthly contributions to the housing fund and the above insurances based on the applicable rates of the employee salaries. The contributions are charged to the respective liability account and the income statement on an accrual basis.

Earnings per Share

Basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period.

Diluted earnings per share are similar to basic earnings per share except that the denominator is increased to included the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Conversion or exercise of the potential common shares is not reflected in diluted earnings per share unless the effect is dilutive. The dilutive effect, if any, of outstanding common share equivalents is reflected in diluted earnings per share by application of the if-converted and the treasury stock method, as applicable. In determining whether outstanding stock options would be considered for their dilutive effect, the average market price of the common stock for the period has to exceed the exercise price of the outstanding common share equivalent.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets, consists of the cumulative foreign currency translation adjustment.

Segment Reporting

The Company operates and manages its business as a single segment. As the Company primarily generates its revenues from customers in the PRC, no geographical segments are presented.

Recent Accounting Pronouncements

Subsequent Events – Amendments to Certain Recognition and Disclosure Requirements

In February 2010, FASB issued ASU 2010-9 Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-9"). ASU 2010-9 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-9 is effective for interim and annual periods ending after June 15, 2010. The Company does not expect the adoption of ASU 2010-09 to have a material impact on its consolidated results of operations or financial position.

Technical Corrections to Various Topics

In February 2010 the FASB issued ASC Update 2010-08, which contains technical corrections to various Topics within the ASC. Those corrections are effective for interim and annual periods beginning after February 2, 2010. The Company is currently evaluating the potential effects of ASC Update 2010-08.

Fair Value Measurements and Disclosures – Improving Disclosures About Fair Value Measurements

In February, 2010, the FASB issued FASB ASC Update 2010-06, “Fair Value Measurements and Disclosures – Improving Disclosures About Fair Value Measurements,” ASU Update 2010-06 adds new requirements for disclosures of significant transfers into and out of Levels 1, 2 and 3 of the fair value hierarchy, the reasons for the transfers and the policy for determining when transfers are recognized. ASU 2010-06 also adds new requirements for disclosures about purchases, sales, issuances and settlements on a gross rather than net basis relating to the reconciliation of the beginning and ending balances of Level 3 recurring fair value measurements. It also clarifies the level of disaggregation to require disclosures by “class” rather than by “major category of assets and liabilities” and clarifies that a description of inputs and valuation techniques used to measure fair value is required for both recurring and nonrecurring fair value measurements classified as Level 2 or 3. ASU Update 2010-06 is effective January 1, 2010 except for the requirements to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis which are effective January 1, 2011. The adoption of ASU 2010-06 is not expected to have a material impact on the Company’s results of operations or financial position.

Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification

In January 2010, FASB issued ASU 2010-2 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification ("ASU 2010-2"). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification, originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 3, 2010. The implementation of this issue did not have a material impact on the Company’s financial position and results of operations.

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

In June 2009, the FASB approved the “FASB Accounting Standards Codification” (“Codification”, “FASB ASC”) as the single source of authoritative generally accepted accounting principles (GAAP) and created a new Topic 105, Generally Accepted Accounting Principles , in the General Principles and Objective Section of the Codification. Topic 105 is effective for interim and annual periods ending after September 15, 2009, and its adoption did not have an impact on our financial condition or results of operations.

Consolidation of Variable Interest Entities – Amendments to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”, which has been codified as an update to FASB ASC Topic 810 which requires ongoing analyses to determine whether an entity’s variable interest gives it a controlling financial interest in a variable interest entity (“VIE”), making it the primary beneficiary, based on whether the entity (i) has the power to direct activities of the VIE that most significantly impact its economic performance, including whether it has an implicit financial responsibility to ensure the VIE operates as designed, and (ii) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Enhanced disclosures regarding an entity’s involvement with variable interest entities are also required under the provisions of FASB ASC 810. These requirements are effective January 1, 2010. The adoption of these requirements did not have a material impact on the Company’s financial statements.

3. Business Acquisitions

On May 11, 2010, we entered into an agreement with Mashan Group Ltd to acquire 52% ownership of its wholly own subsidiary, Rongcheng Mashan Marine Bunker Company (“Mashan”). Mashan was established in Shandong province, People’s Republic of China (the “PRC”) on March 12, 2010 with registered capital of RMB 7 million. The principal activities of Mashan are storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels.

The acquisition price was RMB3.64 million (approximately $0.53 million) consisted entirely of cash and was paid in full in May 2010. The acquisition of Mashan was accounted for using the purchase accounting. The financial positions and results of operations of Mashan have been included in our consolidated financial statements since the acquisition date together with the 48% noncontrolling interest that we did not acquire. The revenue and net income contributed by our acquisition of Mashan is not significant as we only obtained 52% ownership of the company and hence no pro forma information was provided.

The purchase price of the Mashan acquisition was allocated to the acquired net assets based on their estimated fair values appraised by an independent valuation expert. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Mashan
Property and equipment	$ 1,095,512
Payables	(67,400)
Noncontrolling interests	(493,494)
Net Assets Acquired	$ 534,618
Cash Paid	$ 534,618

4. Accounts Receivables

The Company's account receivables at June 30, 2010 and December 31, 2009 are summarized as follows:

	As of June 30, 2010	As of December 31, 2009
Trade accounts receivables	$ 2,245,836	$ 2,551,642
Allowances for doubtful accounts	(36,391)	(36,239)
Accounts receivables, net	$ 2,209,445	$ 2,515,403

5. Other Receivables

The Company's other receivables at June 30, 2010 and December 31, 2009 are follows:

	As of June 30, 2010	As of December 31, 2009
Other receivables	$ 1,782,227	$ 1,722,206
Allowances for doubtful accounts	(416,474)	(414,732)
Other receivables	$ 1,365,753	$ 1,307,474

6. Inventories

Inventories at June 30, 2010 and December 31, 2009 consisted of the following:

	As of June 30, 2010	As of December 31, 2009
Marin Fuel	$ 17,019,953	$ 13,298,794
Other consumables	31,778	3,736
Total	$ 17,051,730	$ 13,302,530

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As of June 30, 2010 and December 31, 2009, $0 and $5,022,679, respectively, of Dalian Xingyuan's inventory has been pledged as the collateral for a loan from Shenzhen Development Bank ("SD Bank").

7. Property Plant and Equipment

The Company's property, plant and equipment at June 30, 2010 and December 31, 2009 are as follows:

	As of	
	June 30, 2010	December 31, 2009
Property and buildings	$ 12,005,098	$ 10,226,544
Laboratory equipment	337,825	336,412
Boiler equipment	228,713	227,756
Marine bunker	207,427	206,559
Transportation vehicles	531,610	529,386
Office equipment	35,038	34,891
Electronic equipment	51,273	49,895
Total	13,396,984	11,611,443
Less: Accumulated depreciation	(1,423,384)	(1,170,197)
Net Value	$ 11,973,600	$ 10,441,246

The depreciation expenses were $253,187 and $92,038 for six months ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, $1,145,530 of Xingyuan's property has been pledged as the collateral for a loan from Shanghai Pudong Development Bank ("SPD Bank").

8. Construction in Progress

The Company's construction in progress at June 30, 2010 and December 31, 2009 are summarized as follows:

	As of	
	June 30, 2010	December 31, 2009
Construction in progress, cost	$ 456,544	$ 632,202
Total	$ 456,544	$ 632,202

The construction projects as of June 30, 2010 and December 31, 2009 were constructions to build facilities to expand production capacity in Donggang and Nanlian. Balances represent mainly construction expenditures and equipment cost.

The following table states costs incurred as each of the balance sheet date presented:

	As of	
	June 30, 2010	December 31, 2009
Berth and berth improvement	$ 172,043	$ 437,109

Oil blending and storage tank		284,501		195,093
Total	$	456,544	$	632,202

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9. Intangible Assets

	As of June 30, 2010	As of December 31, 2009
Land use rights	$ 2,884,913	$ 2,763,649
Software	4,406	4,388
Total	2,889,319	2,768,037
Less: accumulated amortizations	(110,808)	(76,063)
Intangible assets, net	$ 2,778,511	$ 2,691,974

Nanlian's land use rights of $2,149,915 have been pledged as collateral for a loan from Baotou Commerce Bank as of June 30, 2010.

Donggang Xingyuan's land use rights of $550,772 have been pledged as collateral for a loan from Shanghai Pudong Development Bank as of June 30, 2010.

Amortization expenses for the six months ended June 30, 2010 and 2009 were $23,119 and $34,735 respectively.

10. Related Party Transactions

The amounts due from related parties were as follows:

	As of June 30, 2010	As of December 31, 2009
Amount due from An Fengbin	-	122,667
Total	$ -	$ 122,667

In November, 2009 Xingyuan advanced $122,667 to Donggang Aquatic Product Trading Center and Donggang Xingyuan Ship Repair Yard, both companies were under the common control of Mr. An Fengbin. The fund was used to construct facilities in the Donggang port area that would provide marine services to complement the services offered by the Company. Mr. An Fengbin is personally liable to the Company for these advances.

In March, 2010 Donggang Aquatic Product Trading Center and Donggang Xingyuan Ship Repair Yard repaid the amount in full to the Company.

11. Short Term Loans

	Interest Rate (Per Annum)	06-30-10	12-31-09	Terms
SD Bank	5.84%	$ -	$ 1,462,587	December 9, 2009 – June 9, 2010
SD Bank	4.86%	-	1,901,363	December 11, 2009 – June 11, 2010
SD Bank	4.86%	-	1,755,104	December 15, 2009 – June 15, 2010
SPD Bank	5.31%	2,203,096	2,193,881	November 30, 2009 – July 27, 2010
SPD Bank	5.84%	1,028,112	1,023,811	August 27, 2009 – July 27, 2010

Baotou Commerce Bank	5.84%	1,909,350	1,901,363	July 22, 2009 – July 22, 2010
Total		$ 5,140,558	$ 10,238,109	

12. Stock Options

On January 25, 2010, the Company granted non-qualified stock options under the Company's 2009 Equity Incentive Plan to its directors. The exercise prices were determined by the Board at the time of grant. The stock options granted become exercisable ("vested") immediately upon the grant date. Unless earlier terminated, these stock options granted shall expire three years after the grant date.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected Life	Expected Volatility		Dividend Yield		Risk Free Interest Rate		Grant Date Fair Value
3 Years	86.91	%	0	%	1.40	%	$ 3.10

Expected Life: The expected life was determined based on the option's contractual term and employees' expected early exercise and post-vesting employment termination behavior.

Expected Volatility: The expected volatility is computed based on the standard deviation of the continuously compounded rate of return of days when the stock price changed over the past four years. Since the Company's shares were not publicly traded until January 2010, the expected volatility was calculated based on the average volatilities of three comparable publicly listed companies.

Dividend Yield: The expected dividend yield is zero. The Company has not paid a dividend and does not anticipate paying dividends in the foreseeable future.

Risk Free Rate: Risk-free interest rate of 1.4% was used. The risk-free interest rate was based on U.S. Treasury yields with a remaining term that corresponds to the expected term of the option calculated on the granted date.

Stock compensation expense was recognized based on awards expected to vest. There was no estimated forfeiture as the Company has a short history of issuing options. FASB ASC Topic 718 requires forfeiture to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

During the first quarter ended March 31, 2010, the Company granted 13,125 stock options to its directors. All options were vested immediately and the Company recognized $40,738 for the 13,125 option as stock compensation expense during the quarter ended March 31, 2010. The Company did not issue any options during the second quarter ended June 30, 2010.

The following is a summary of the stock options activity:

	Number of Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2009	-	$ -
Granted	13,125	$ 6.30
Forfeited	-	$ -
Exercised	-	$ -
Balance at June 30, 2010	13,125	$ 6.30

13. Initial Public Offering

On January 26, 2010, the Company completed its initial public offering of common stock (“IPO”) of 3,134,921 shares of common stock at an offering price of $6.30 per share resulting in net proceeds to the Company of approximately $17.2 million, after deducting offering costs of $2.5 million.

On March 4, 2010 the underwriters of the initial public offering of common stock had exercised their over-allotment option, which resulted in the issuance of an additional 470,238 shares of common stock resulting in net proceeds of $2.6 million to the Company, after deducting offering costs of $227,750.

The combined and consolidated financial statements, including share and per share amounts, include the effects of the IPO because it was completed at January 26, 2010. Costs directly associated with the Company’s IPO have been recorded as a reduction of the proceeds received in arriving at the amount to be recorded in additional paid-in capital as of June 30, 2010. The Company filed its initial Form S-1 with the SEC on August 27, 2009 and closed its IPO on March 4, 2010.

14. Restricted Net Assets

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group’s PRC subsidiary only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s subsidiary and VIE.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise’s PRC statutory accounts. A wholly-owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Fusheng were established as a wholly-owned foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise’s PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Xingyuan and its subsidiaries were established as domestic invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company’s PRC subsidiary and VIE are restricted in their ability to transfer a portion of their net assets to the Company.

Amounts restricted include paid-in capital and statutory reserve funds of the Company’s PRC subsidiary and VIE as determined pursuant to PRC generally accepted accounting principles, totaling approximately US$2,074,000 and

US$2,065,000 as of June 30, 2010 and December 31, 2009, respectively; therefore in accordance with Rules 504 and 4.08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of March 31, 2010 and December 31, 2009, for each of the years in the period ended June 30, 2010 and December 31, 2009 are disclosed in Note 17.

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15. Taxes Payable

Taxes Payable as of June 30, 2010 and December 31, 2009 were made up of the followings:

	June 30, 2010	December 31, 2009
Income Tax Payable	$ 3,534,614	$ 3,248,283
VAT Payable	6,157,101	7,504,252
Other Tax Payable	137,028	249,180
Total	$ 9,828,743	$ 11,001,715

Value Added Tax ("VAT")

The Group's PRC entities are subject to VAT at an effective rate of 17% of the revenues.

Donggang City provided special tax exemptions to the enterprises incorporated in Donggang. Donggang Xingyuan is entitled to enjoy a special 15% tax exemption of its monthly paid VAT as a refund to the Company.

Income Taxes

Goodwill Rich is subject to income taxes in Hong Kong at the rate of 16.5%.

The Group's PRC entities are subject to Chinese new Enterprise Income Tax("EIT") of 25% effective January 1, 2008. Prior to 2008, the EIT rate was 33%

Donggang Xingyuan was granted a special tax exemption by Donggang City whereby 20% of its paid EIT will be refunded to the Company.

No provision for US tax is made as the Company has no assessable income in the US for the six months ended June 30, 2010 and 2009. The Corporation income tax of US is 35%.

16. Commitment and Contingency

Lease Obligation

The Company has entered into several tenancy agreements for the lease of storage facilities, offices premises and berth use rights. The Company's commitment for minimum lease payments under these operating leases for the next five years and thereafter is as follows:

For the year 2010	234,552
For the year 2011	496,753
For the year 2012	—
For the year 2013	—
Thereafter	—
Total	$ 731,305

Rental expenses, including storage tank leasing charges and office rental charges, were approximately $235,638 and $291,469, for six months ended June 30, 2010 and 2009, respectively, and were charged to the statement of operations as incurred.

Share Purchase Agreement

In December 2008, the Company entered into a share purchase agreement with Chen Weiwen to purchase its 63% ownership of Xiangshan Yongshinanlian Petroleum Company, according to the foresaid agreement, the Company is bound to pay RMB 8,880,000 (approximately $1.3 million) for the remaining 37% ownership of Nalian to Mr. Chen upon his request after the year of 2010.

Litigation and Claims

On January 16, 2008, Xingyuan obtained a judgment in its favor in the sales contract dispute at the trial court level against Yantai Development Zone Fuchang Bunker Co., Ltd. ("Fuchang"). Under this judgment for specific performance, Fuchang is required to deliver approximately 163 tons of marine fuel to Xingyuan within 20 days following the court decision or to pay to Xingyuan a restitution amount of RMB 791,473 (approximately $116,000) plus legal expenses of the lawsuit of RMB 16,510 (approximately $2,400).

On May 6, 2008, Xingyuan, obtained a judgment in a contractual dispute in its favor against Dalian Dafangshen Ocean Fishery Co., Ltd. ("Dafangshen") in the amount of RMB 1,431,487 (approximately $209,000) and the penalty of approximately RMB 1,000,000 (approximately $146,000). Dafangshen did not appeal the judgment and, therefore, the Company intends to collect on this judgment to the full extent permissible under the PRC law.

In June 2008, in a separate joint-cooperation contract dispute by and between Dalian Xingyuan and Fuchang, Fuchang obtained a judgment against Dalian Xingyuan following a trial in the amount of RMB1,000,000. On August 15, 2009, the people's court of first instance formed a new collegial panel and rendered its judgment in favor of Dalian Xingyuan, as a result of which judgment Dalian Xingyuan will not be required to pay the RMB1,000,000 penalty to Fuchang. Fuchang has appealed the verdict and lost on the appeal with the people's court, thereby exhausting all of its appeals in this matter. Dalian Xingyuan is in the process of enforcing and collecting upon the judgment in this matter.

17. Subsequent Events

On July 15, 2010, Dalian Xingyuan obtained bank acceptance notes of RMB 50 million (approximately $7.4million) with SD Bank by depositing RMB 15 million (approximately $2.2 million) in advance for six months, maturing on January 19, 2010.

On July 20, 2010, the Company entered into an agreement with Tianjin Hailong LTD to acquire 52% ownership of the company for RMB 346 million (approximately $0.5 million).

On July 22, 2010, Nanlian repaid its bank loan of RMB 13 million (approximately $1.9 million) with Baotou Commerce Bank.

On July 23, 2010, the Company filed with the SEC a registration statement on Form S-8 to register 5,000,000 shares (subject to adjustment to prevent dilution from stock dividends, stock splits, recapitalization or similar transactions) of the Company's common stock issuable under the Company's 2009 Equity Incentive Plan (the "Plan"). Under the Plan, the Compensation Committee of the Board may grant, from time to time, awards in the form of incentive stock options, as defined in Section 422 of the Internal Revenue Code, as well as options which do not so qualify, stock units, stock awards, stock appreciation rights and other stock-based awards to the Company's executive officers, directors, employees, outside consultants and advisors. As of the date hereof, the Company has issued 173,125 options under the Plan, with 4,826,875 options available for issuance.

On July 27, 2010, Dalian Xingyuan repaid its bank loan of RMB 22 million (approximately $3.2 million) with Shanghai Pudong Development Bank.

On August 2, 2010, the Company secured a credit line of up to RMB 30 million (approximately $4.4 million) from Shanghai Pudong Development Bank.

18. Parent Company Only Condensed Financial Information

Condensed Balance Sheets

	As of June 30, 2010	As of December 31, 2009
ASSETS		
Noncurrent assets		
Investment in subsidiaries	41,768,572	17,572,253
Total noncurrent assets	41,768,572	17,572,253
Total assets	$ 41,768,572	$ 17,572,253
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commitments and contingencies	—	—
Stockholders' equity		
Common stock; par value $0.001; 50,000,000 shares authorized; 9,605,159 and 6,000,000 shares issued and outstanding as of March 31, 2010 and December 31, 2009 respectively	9,610	6,000
Additional paid in capital	29,533,555	9,533,619
Retained earnings (Deficit)	11,591,168	7,543,994
Other comprehensive income	634,239	488,640
Total stockholders' equity	41,768,572	17,572,253
Total liabilities and stockholders' equity	$ 41,768,572	$ 17,572,253

Condensed Statements of Income:

	As of June 30, 2010	As of June 30, 2009
Operating income		
Equity in profit of subsidiaries & VIE	4,047,174	3,190,024
Net income attributable to the Company	4,047,174	3,190,024

Condensed Cash Flow Statements

	As of June 30, 2010	As of June 30, 2009
Cash flows from operating activities:		
Net income	$ 4,047,174	$ 3,190,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in profit of subsidiaries & VIE	(4,047,174)	(3,190,024)
Net cash provided by operating activities	—	—
Net change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of period	—	—
Cash and cash equivalents, end of period	$ —	$ —

Basis of Presentation

For the presentation of the parent company only condensed financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in APB opinion No. 18, “ The Equity Method of Accounting for Investments in Common Stock ”. Such investment is presented on the balance sheet as “Investment in Subsidiaries” and 100% of the subsidiaries profit or loss as “Equity in profit or loss of subsidiaries” on the statement of income.

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

This Quarterly Report on Form 10-Q (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, as well as information relating to Andatee China Marine Fuel Services Corporation that is based on management's exercise of business judgment and assumptions made by and information currently available to management. Although forward-looking statements in this Quaterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. When used in this document and other documents, releases and reports released by us, the words "anticipate," "believe," "estimate," "expect," "intend," "the facts suggest" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements. Other unknown, unidentified or unpredictable factors could materially and adversely impact our future results. You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report , as well as the audited financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Except where the context otherwise requires and for purposes of this Quarterly Report:

- the terms "we," "us," "our company," "our" refer to Andatee China Marine Fuel Services Corporation, a Delaware corporation, its subsidiaries Goodwill Rich International Limited and Dalian Fusheng Consulting Co. Ltd., its variable interest entity (VIE), Dalian Xingyuan Marine Bunker Co. Ltd., through which entity we conduct all of our business operations, and the subsidiaries of our VIE entity, which are Donggang Xingyuan Marine Bunker Company Ltd., Xiangshan Yongshinanlian Petrol Company Ltd., Rongcheng Mashan Marine Bunker Company and Rongcheng Xinfa Petrol Company Ltd.;

- the term "Andatee" refers to Andatee China Marine Fuel Services Corporation, the parent company;

- the term Goodwill'' refers to Goodwill Rich International Limited, a subsidiary of Andatee, which for financial reporting purposes is the predecessor to Andatee; and

- "China" and "PRC" refer to the People's Republic of China, and for the purpose of this Annual Report only, excluding Taiwan, Hong Kong and Macau.

Critical Accounting Policies

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our combined and consolidated financial statements and related notes. We periodically evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

We primarily generate revenue from blended products sales to distributors and end users. We also generate revenue from raw materials sales. We consider revenue from the sale of our blended products and raw materials realized or realizable and earned upon meeting all of the following criteria: persuasive evidence of a sale arrangement exists, delivery has occurred, the price to the distributor is fixed or determinable, and collectability of payment is reasonably assured. These criteria are met at the time of shipment when the risk of loss passes to the distributor or end user. Revenue represents the invoiced value of sold goods, net of VAT. Our products, all of which are sold in China, are subject to a Chinese VAT at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by VAT we paid on raw materials and other materials included in the cost of producing the finished product. The VAT amounts paid and available for offset are maintained in our current liabilities.

Accounts Receivables

During the normal course of business, we extend to some of our customers interest-free unsecured credit for an initial term of 30 - 60 days, depending on a customer’s credit history, as well as local market practices. Our accounts receivable turnover in days for the six months ended June 30, 2010 and 2009 were 5.8 and 7.0 days, respectively. We review our accounts receivables quarterly and determined the amount of allowances, if any, necessary for doubtful accounts. Historically, we have not had any bad debt write-offs and, as such, we do not provide an arbitrary reserve amount for possible bad debts based upon a percentage of sales or accounts receivable balances. Rather, we review our accounts receivable balances to determine whether specific reserves are required due to such issues as disputed balances with customers, declines in customers’ credit worthiness, or unpaid balances exceeding agreed-upon terms. Based upon the results of these reviews, we determine whether a specific provision should be made to provide a reserve for possible bad debt write-offs.

In addition, we also communicate with our customers each month to identify any potential issues and reassess our credit limits and terms with them based on their prior payment history and practice. We also plan to continue building upon our existing relationships and history with each of our customers to assist us in the full and timely collection of outstanding payments.

As of June 30, 2010 and December 31, 2009, we had outstanding accounts receivable totaling US$2.25 million and US$2.55 million, respectively, among which we identified and provided for doubtful debts of US$36,391 and US$36,239, respectively. We believe that the remaining outstanding amounts will be collected pursuant to the terms, conditions, and within the time frames agreed upon between our customers and us primarily due to the enhanced collection measures.

During the reported periods, we did not experience any material problems relating to distributor payments and our only bad debt write off, recorded in 2009 and included in other expense, related to certain 2007 advances to suppliers which we determined to be unrecoverable.

Assessment of Impairment for Long-lived Assets

Our long-lived assets include fixed assets, intangible assets and goodwill. Fixed assets comprise property and buildings, marine bunker, boiler equipment, laboratory equipment, transportation vehicles and other office equipment, and are depreciated over the estimated useful lives of the assets on a straight-line basis. Intangible assets mainly comprise land use right and other finite-lived intangible assets. We amortize the cost of intangible assets over their expected future economic lives. Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed upon the business acquisitions. Goodwill is stated at cost less provision for impairment loss. Management's judgment is required in the assessment of the economic lives of intangible assets and useful lives of the fixed assets. Based on the existence of one or more indicators of impairment, we measure any impairment of fixed assets, intangible assets and goodwill based on a projected discounted cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our business model. An impairment charge would be recorded if we determined that the carrying value of fixed assets, intangible assets and goodwill may not be recoverable. Our estimates of future cash flows require significant judgment based on our historical results and anticipated results and are subject to many factors.

Determination of Functional Currencies

Our reporting currency is the U.S. dollar. The functional currency of Andatee and Goodwill are the U.S. dollar. The functional currency of our PRC subsidiary, our VIE and its subsidiaries in China is the RMB. An entity's functional currency is the currency of the primary economic environment in which it operates. Normally, that is the currency of the environment in which it primarily generates and expends cash. Management's judgment is essential in the determination of the functional currency which is made by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. Assets and liabilities of our subsidiary and VIE entities in China are translated into U.S. dollars, our reporting currency, at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the current exchange rate in effect during the reporting period. Foreign currency translation adjustments are not included in determining net income for the period but are accumulated in a separate component of consolidated equity on the balance sheet. The accumulated foreign currency translation adjustment as of June 30, 2010 and 2009 was a gain of $145,599 and $14,542, respectively.

Business and Operations Overview

Andatee China Marine Fuel Services Corporation is a Delaware corporation. Our executive offices are located in the City of Dalian, a key international shipping hub and international logistics center in North China. Our main offices are located in the city of Dalian, Dalian Ganjingzi District, Dalian Wan Lijiacun, at Unit C, No. 68 West Binhai Road, Xigang District Dalian, China

We carry out all of our business through our Hong Kong subsidiary, Goodwill, and its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's variable interest entity (VIE), Dalian Xingyuan, and Dalian Xingyuan's subsidiaries (Dalian Xingyuan and its subsidiaries collectively referred to as the VIE entities). Through these VIE entities, we are engaging in the production, storage, distribution and wholesale purchases and sales of blended marine fuel oil for cargo and fishing vessels with operations mainly in Liaoning, Shandong and Zhejiang Provinces in People's Republic of China (PRC). Our operations in China are conducted through our VIE, Dalian Xingyuan Marine Bunker Company, Ltd. and its four subsidiaries: Donggang Xingyuan Marine Bunker Company, Ltd. (located in Dandong City, Liaoning Province, and established in April 2008 under the laws of the PRC), Xiangshan Yongshi Nanlian Petrol Company, Ltd. (located in Xiangshan City, Zhejiang Province, and established in May 1997 under the laws of the PRC), Rongcheng Xinfa Petrol Company, Ltd. (located in Rongcheng City, Shandong Province, and established in September 2007 under the laws of the PRC) and Rongcheng Mashan Xingyuan Marine Bunker Company, Ltd. (located in Rongcheng City, Shandong Province, and established in April 2010 under the laws of the PRC). We compete by providing our customers value added benefits, such as single-supplier convenience, competitive pricing, logistical support and fuel quality control.

Currently, we sell approximately 51% of our products through distributors and approximately 49% to retail customers. Our products are substitutes for diesel used throughout east coast of China fishing industry by small to medium sized cargo vessels. Our core facilities include storage tanks, berths (the space allotted to a vessel at the wharf), marine fuel pumps, blending facilities and tankers. Our sales network covers major depots along the towns of Dandong, Shidao and Shipu along the east coast of China.

Our marine fuel for cargo vessels is classified as CST180 and CST120; our marine fuel for fishing boats/vessels, - #2 fuel (for engines with 1,800 rpm capacity), #3 fuel (for engines with 1,600 rpm capacity) and #4 fuel (for engines with 1,400 rpm capacity). We also produce blended marine fuel according to customer specifications using our proprietary blending technology. Our own blend of marine diesel oil, #3 fuel and #4 fuel are substitutes for the traditional diesel oil, commonly known as #0 diesel oil, used by most small to medium vessels. We generate virtually all of our revenues from our own brands of blended oil products.

Business Development and Outlook

Our overall strategies are to (i) increase our share of retail sales since such sales are less price-sensitive than sales to the distributors, (ii) acquire our own retail facilities to reduce the risk of opportunistic negotiations from our retail customers during periods of volatile oil prices and (iii) build retail points in strategic locations (often close to recently acquired locations) to capture a majority of active local markets.

During the first half of 2010, crude oil prices fluctuated around $79 a barrel, an average increase of approximately $24 per barrel as compared with the same period in 2009. We had seen that the demand from fishing industry has been substantially picking up, as the water temperature returned to normal level, the whole industry has stepped up its efforts in a bid to gain back what they missed in the first quarter. From Donggang in the north down to Zhejiang province, the fishing activities have surged as compared with the first quarter, which boosted the demand for our marine fuel products. Therefore, the revenue for the six months ended June 30, 2010 has increased by 39.1% to $73.8 million as compared with the same period in 2009, along with that the sales volume has increased by 4.3% to 120,000 tons as compared with the same period in 2009. The increase in revenue is mainly due to the rise of the average marine fuel product price, growth in sales volume and the increase in revenue from retail customers. In the first half of 2010, 48.8% of our sales were to retail customers as compared with 38% in 2009.

We believe that improving our retail sales and distribution channels will generate stable gross margins which, in turn, will offset the pressure imposed on our profit margin by crude oil prices. We believe that higher retail sales and closer ties with our end users as well as wider distribution network are at the core of our strength and business viability going forward. We intend to (i) control more facilities closer to end markets, through business acquisitions, partner cooperation, building local platform for our products and added-value services, which would enhance the brand awareness of the “Xingyuan” brand and (ii) expand our product line and upgrade production facilities to explore the increasing markets opportunities and increase our share in retail market.

We maintained gross profit margins of 12% for both of the six months ended June 30, 2010 and 2009, respectively. We had revenues of US$73.8 million and US$53.1 million and net income attributable to our shareholders of US$4.1 million and US$3.2 million for the six months ended June 30, 2010 and 2009, respectively. This is mainly due to higher revenues and higher general and administrative expenses in the subject period.

Principal Factors Affecting our Financial Performance

We believe that the following factors will continue to affect our financial performance:

- Increasing demand for blended marine fuel - The increasing demand for blended marine fuel has a positive impact on our financial position. The strong growth in the blended marine fuel industry since 2002 has been driven by several factors, including, among others, steady population growth in the PRC, improvements in the living standards, national energy conservation efforts.

- Expansion of our sources of supply, production capacity and sales network - To meet the increasing demand for our products, we need to expand our sources of supply and production capacity. We plan to make capital improvements in our existing production facilities, which would improve both their efficiency and capacity. In the short-run, we intend to increase our investment in our reliable supply network, personnel training, information technology applications and logistic system upgrades.

- Fluctuations in Crude Oil Price - We use oil refinery by-products as raw materials for our production. The recent increase in oil prices had a direct impact on the price we pay for these products. However, we mitigated this in the short-term by increasing the price of our products and passing the entirety of the increase to our customers.

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Results of Operations

Comparison of second quarters and six months ended June 30, 2010 and 2009

Revenue

Our revenue increased by US$16.2 million, or 58.2%, from US$27.8 million for the second quarter ended June 30, 2009 to US$44.1 million for second quarter ended June 30, 2010. The increase in our revenues was due to the increased sales volume and higher average crude oil price. The sales volume increase by 13,000 tons, or 22%, from 60,000 tons for the second quarter ended June 30, 2009 to 73,000 tons for the second quarter ended June 30, 2010. While the international crude oil price has rised from $63 per barrel in the second quarter of 2009 to $79 per barrel in the second quarter of 2010. The increase in sales volume was mainly the result of growing fishing activities in fishing industry, which tried to make up the loss in the first quarter of 2010 due to the lower water temperature.

Our revenue increased by US$20.7 million, or 39.1%, from US$53.1 million for the six months ended June 30, 2009 to US$73.8 million for six months ended June 30, 2010. The increase in our revenues was the result of increased retail sales due to the expansion of our sales network, increased sales volume and higher average international crude oil price. The portion of retail sales in our total revenues had increased to 48.8% for the first half of 2010 from 38% for the first half of 2009. During the six months ended June 30, 2010 the international oil prices stayed around the level of $79 per barrel in comparison to average oil price of $55 per barrel in the first half of 2009.

Our overall sales volume increased by 4.3% or 5,000 tons, from115,000 tons for the six months period ended June 30, 2009 to approximately 120,000 tons for the six months period ended June 30, 2010. During the second quarter of 2010, as the water temperature returned to normal level fishing industry increased its working hours to make up the loss its experienced in the first quarter, which, in turn, resulted in higher demand for our fuel products.

For the six months ended June 30, 2010, 2# marine fuel represented 9.5% of our sales, 3# marine fuel represented 10.0% of our sales, 4# marine fuel represented 65.1% of our sales, 180CST represented 10.3% of our sales and 120CST represented 5.1% of our sales. In 2009, 2# marine fuel represented 8.7% of our sales; 3# marine fuel represented 10.5% of our sales, 4# marine fuel represented 70.9% of our sales, 180CST represented 8.4% of our sales and 120CST represented 1.5% of our sales.

Cost of Revenue

Our cost of revenues increased by US$14.3 million, or 58.7%, from US$24.4 million for the second quarter ended June 30, 2009 to US$38.8 million for the second quarter ended June 30, 2010 due to higher sales.

Our cost of revenues increased by US$18.2 million, or 39.2%, from US$46.7 million for the six months ended June 30, 2009 to US$64.9 million for the six months ended June 30, 2010 due to higher sales.

However, as a percentage of revenues, the cost of revenues remained flat at 88.1% for the six months ended June 30, 2010 and 2009.

Gross Profit

As a result of the efforts discussed above, our gross profit increased by US$1.8 million, or 54.7%, to US$5.3 million for the second quarter of 2010 as compared to US$3.4 million in the second quarter of 2009. As a percentage of revenues, our gross profit margin was 12% for the second quarter of 2010 and 2009, respectively.

Our gross profit increased by US$2.4 million, or 38.1%, to US$8.8 million for the first half of 2010 as compared to US$6.4 million in 2009. As a percentage of revenues, our gross profit margin was 11.9% for the first half of 2010 and 2009, respectively. The increase in our gross profit percentage resulted primarily from an increase in the sale of products with higher gross profit margin. As the result of our expansion and acquisition of retail distribution facilities in Xinfa, Nanlian and Mashan, our sales to retail customers, which generally carry a higher gross profit margin, increased from 38% of total sales for the first half of 2009 to 48.8% of sales in the first half of 2010.

Selling Expenses

Selling expenses increased by US$0.3 million, or 68.8%, from US$0.4 million for the second quarter of 2009 to US$0.7 million in second quarter of 2010. The increase was primarily due to the increase in sales employees' compensation as a result of increased sales and an increase in promotional expense to market our products in the area of Mashan, where our newly acquired subsidiary is located. As a percentage of revenues, selling expenses increased from 1.6% for the second quarter of 2009 to 1.7% for 2010.

Selling expenses increased by US$0.2 million, or 17.4%, from US$1.3 million for the first half of 2009 to US$1.5 million in 2010. The increase was primarily due to the increase in sales employees' compensation and other promotional expenses in Donggang and Mashan areas. As a percentage of revenues, selling expenses decreased from 2.4% for the first half of 2009 to 2.0% for 2010.

General and Administrative Expenses

General and administrative expenses increased by US$65,507, or 10.7%, from US$611,243 for the second quarter of 2009 to US$676,750 for the second quarter of 2010. The increase was primarily due to increased professional and other various expenses associated with maintaining the public company status in the United States. As a percentage of revenues, general and administrative expenses decreased from 2.2% for the second quarter of 2009 to 1.5% for 2010.

General and administrative expenses increased by US$0.5 million, or 61.1%, from US$0.8 million for the first half of 2009 to US$1.3 million for the first half of 2010. The increase was primarily due to increased professional and other various expenses associated with maintaining the public company status in the United States. As a percentage of revenues, general and administrative expenses increased from 1.5% for the first half 2009 to 1.7% for the first half of 2010.

Operating Income

As a result of the factors discussed above, our operating income increased by US$1.5 million, or 63.5%, from US$2.4 million for the second quarter of 2009 to US$3.9 million for the second quarter of 2010. As a percentage of revenues, our operating income increased from 8.5% for the second quarter of 2009 to 8.8% for 2010.

Our operating income increased by US$1.7 million, or 39.8%, from US$4.3 million for the first half of 2009 to US$6.0 million for the first half of 2010. As a percentage of revenues, our operating income increased from 8.1% for the first half of 2009 to 8.2% for the first half of 2010.

Interest Expense

Interest expense increased by USD$65,948, or 100.0%, from US$65,667 for the second quarter of 2009 to US$131,615 for the second quarter of 2010. The increase in interest expense was the result of increase in the level of our loan financing.

Interest expense increased by USD$186,412, or 283.8%, from US$65,667 for the first half of 2009 to US$252,079 for the first half of 2010. The increase in interest expense was the result of increase in the level of our loan financing.

Provision for Income Taxes

Provision for income taxes increased US$0.6 million, or 124%, from US$0.4 million for the second quarter of 2009 to US$1.0 million for the second quarter of 2010. This increase in the provision for income taxes was primarily attributable to the increase in our pre-tax income by 64.4% over 2009.

Provision for income taxes increased US$0.7 million, or 65.7%, from US$0.9 million for the first half of 2009 to US$1.6 million for the first half of 2010. This increase in the provision for income taxes was primarily attributable to the increase in our pre-tax income by 36.2% over 2009. Our effective tax rates were 27.7% in 2010 and 23% in 2009.

Net Income

As a result of the foregoing, net income increased by US$0.9 million, or 52.7%, from US$1.7 million for the second quarter of 2009 to US$2.6 million for 2010.

Net income increased by US$0.9 million, or 26.9%, from US$3.2 million for the first half of 2009 to US$4.1 million for the first half of 2010.

Liquidity and Capital Resources

We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. In addition to cash from operating activities, we also maintain a revolving loan arrangement with Shenzhen Development Bank Co., Ltd., as discussed below, for our capital requirements. Our future capital expenditures will include building new fueling facilities, improving and upgrading our existing production facilities, expanding product lines, research and development capabilities, and making acquisitions as we deem appropriate.

We estimate $8.1 million will be needed in the fiscal 2010 to fund the construction projects for new manufacturing facilities and the improvement and upgrades of our existing manufacturing facilities. In addition, we intend to reserve approximately $5.3 million for future acquisitions.

On May 18, 2010, Xingyuan acquired 52% ownership of Rongcheng Mashan Marine Bunker Company (“Mashan”), for a total consideration of RMB3.64 million (approximately $0.53 million) in cash, which was fully paid in May 2009.

On January 26, 2010, the Company completed its initial public offering of common stock (“IPO”) of 3,134,921 shares of common stock at an offering price of $6.30 per share resulting in net proceeds to the Company of approximately $17.2 million, after deducting offering costs of $2.5 million. On March 4, 2010 the underwriters of the initial public offering of common stock had exercised their over-allotment option, which resulted in the issuance of an additional 470,238 shares of common stock. The Company received proceeds of another $2.6 million, net of offering costs of $227,750.

We believe that the net proceeds of approximately $20 million from our IPO, together with our cash flow from operating activities and bank borrowings, will be sufficient to meet our anticipated cash requirements for the next 12 months. If we need additional cash, we may seek to raise capital either through the issuance of stock or increase our borrowing level with our lender.

We maintain a revolving line of credit with Shenzhen Development Bank Co., Ltd. in the amount of up to RMB60 million (US$8.6 million). The term of the loan is six months at the interest rate of 5.84% per annum. The loan agreement contemplates a 50% penalty interest in the event of our failure to repay the note in a timely manner. As of June 30, 2010, we had no borrowing on this line of credit.

As of June 30, 2010, we had cash of US$13.4 million in our bank accounts and a working capital surplus of $27.4 million. The increase in our cash balance as at June 30, 2010 reflects proceeds received from a successful IPO of $20 million. Regarding our current level of borrowing, see the discussion below on our existing short-term notes. There is no seasonal fluctuation in our borrowing requirements.

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

	As of June 30, 2010	2009
Cash flow data:		
Net cash provided by (used in) operating activities	$ (2,111,942)	$ 2,048,438
Net cash used in investing activities	(1,035,978)	(1,234,004)
Net cash provided by (used in) financing activities	14,891,953	(876,779)
Effect of exchange rate on cash	143,771	6,775
Net changes in cash	11,887,804	(55,570)
Cash at beginning of period	1,539,009	4,923,913
Cash at end of period	$ 13,426,813	$ 4,868,343

Operating Activities

Net cash used in operating activities for six months ended June 30, 2010 was US$2.1 million, which was primarily as a result of the following factors: (1) net income of US$4.0 million, (2) a decrease in accounts receivable of US$0.3 million as a result of increased revenue in cash, (3) an increase in inventories of US$3.7 million resulting from inventory rebuilding in order to meet increasing demand, as discussed below, (4) an increase in advances to suppliers of $3.2 million, (5) an increase in other receivables of US$0.1 million, (6) an increase in advance from customers of US$1.6 million due to increased revenue, (7) a decrease in accounts payable of US$0.4 million in line with increased purchasing, and (8) a decrease in other payable of US$0.2 million.

The increase in our inventories at June 30, 2010 reflects both our increased sales and inventories established to meet the requirements of expanding sales network. As a result, we need more inventories to keep all outlets running to generate revenue growth for the second quarter of 2010.

Net cash provided by operating activities for the six months ended June 30, 2009 was US$2.05 million, which was primarily attributable to the following factors: (1) net income of US$3.19 million, (2) an increase in accounts receivables of US$0.76 million as a result of increased revenue, (3) an increase in inventories of US$3.19 million resulting from inventory rebuilding in order to meet increasing demand, (4) a decrease in other receivables of US$1.19 million, (5) an increase in advances to suppliers of US$0.88 million in line with the policy of inventory rebuilding, (6) an increase in tax payable of US$0.61 million due to increased revenue and earnings, and (7) an increase in other payable of US$0.91 million.

Investing Activities

Cash used in investing activities was US$1.1 million for the six months ended June 30, 2010, which was attributable to (1) consideration paid for acquisition of Mashan of US$0.5 million, (2) expenditures in construction projects of US$0.5 million to expand the production capacity in Nanlian, Zhejiang province, (3) expenditures in purchase of property and equipment of US$0.1 million, and (4) collection of related party receivables of $0.1 million.

Cash used in investing activities was US$1.23 million for the six months ended June 30, 2009, which was attributable to (1) consideration paid for acquisition of Xingshan Nanlian of US$2.21 million, (2) US$1.52 million certificate of deposits collected back from Shanghai Pudong Development Bank, (3) expenditures in construction projects of US$4.90 million to expand the production capacity in Donggang, Liaoning province, and (4) collection of related party receivables of $4.36 million.

Financing Activities

Cash provided by financing activities was US$15 million for the six months ended June 30, 2010. It consists of capital contributions from shareholders, borrowings from and repayments to our short-term notes and proceeds from our IPO. In the six months ended June 30, 2010, the cash used to repay the bank loans was US$5.1 million.

Cash used in financing activities was US$0.88 million for the six months ended June 30, 2009, due to repayment of short term loans.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate risk due primarily to our short-term notes. Although the interest rates on our short-term notes are fixed during their respective terms, the terms are typically 12 months or less and interest rates are subject to change upon renewal. The interest rates on our short-term notes are determined by reference to the benchmark interest rates set by the People's Bank of China, or the PBOC. Since April 28, 2006, the PBOC has increased the benchmark interest rate of RMB bank notes with a term of 6 to 12 months 12 times, seven consecutive increases followed by five consecutive decreases, by 0.27% on most occasions. As a result, from 2006 to the six months ended June 30, 2010, the benchmark interest rate for these RMB bank notes increased from 5.85% to 7.47% then decreased to 5.31% and the interest rate applicable to us increased from 6.696% to 8.217% then decreased to 5.31% over the same period. Any future increase in the PBOC's benchmark interest rate will result in an increase in our interest expenses. A 1.0% increase in the annual interest rates for all of our credit facilities as of June 30, 2010 would decrease income from continuing operations before income taxes by approximately RMB87,500($12,802) for the quarter ended June 30, 2010. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Exchange Rate Risk

Although the conversion of the RMB is highly regulated in China, the value of the RMB against the value of the U.S. dollar (or any other currency) may fluctuate and be affected by, among other things, changes in China's political and economic conditions. Under the currency policy in effect in China today, the RMB is permitted to fluctuate in value within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this currency policy, and if such liberalization occurs, the value of the RMB could appreciate or depreciate against the U.S. dollar.

While our reporting currency is the U.S. dollar, to date all of our revenue and expenses are denominated in RMB and the majority of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollar and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. The fluctuations in the exchange rate would affect our financial results translated in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

In addition, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect the relative purchasing power of the proceeds from this offering, our balance sheet and our financial results in U.S. dollars following this offering. For example, to the extent that we need to convert U.S. dollars received in this offering into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount that we receive from the conversion. Assuming we were to convert the net proceeds received in this offering into RMB, a 1.0% increase in the value of the RMB against the U.S. dollar would decrease the amount of RMB we receive by RMB million. Conversely, if we decide to convert our RMB into U.S. dollars for the purpose of business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. Since our exposure to foreign exchange risks is limited, we have not used any forward contracts or currency borrowings to hedge our exposure and do not currently intend to do so.

The following table sets forth the noon buying rates for U.S. dollars in effect in New York City for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York, for the periods indicated.

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average(1)	High	Low	Period-End
Year ended December 31,				
2004(1)	8.2768	8.2774	8.2764	8.2765
2005(1)	8.1826	8.2765	8.0702	8.0702
2006(1)	7.9579	8.0702	7.8041	7.8041
2007(1)	7.5806	7.8127	7.2946	7.2946
2008(1)	6.9193	7.2946	6.7800	6.8225
2009(1)(2)	6.8408	6.8430	6.7880	6.8372
For the months of				
January 2010	6.8346	6.8295	6.7836	6.8369
February 2010	6.8376	6.8336	6.7941	6.8367
March 2010	6.8359	6.8268	6.8136	6.8361
April 2010	6.8328	6.8280	6.7471	6.8358
May 2010	6.8365	6.8315	6.8000	6.8315
June 2010	6.8309	6.8233	6.7616	6.8086
July 2010	6.7861	6.7813	6.7595	6.789
August 2010(2)	6.7827	6.7745	6.7547	6.7852

(1) The average rate of exchange is calculated using the average of the exchange rates on the last day of each month during the period.

(2) Through August 4, 2010.

Our business is primarily conducted in China and all of our revenues are denominated in Renminbi. This report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the noon buying rate in New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. On May 9, 2010, the noon buying rate was approximately RMB6.8357 to $1.00. No representation is made that the Renminbi amounts referred to in this report could have been or could be converted into U.S. dollars at any particular rate or at all. Since July 2005, the Renminbi has not been pegged solely to the U.S. dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.5% each day. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the future.

Item 4T. Controls and Procedures

As of the end of the period covered by this Quarterly Report, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer (the “Certifying Officers”), the Company conducted an evaluation of its disclosure controls and procedures. Based on this evaluation, the Certifying Officers have concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2010 such that the material information required to be filed in our SEC reports is recorded, processed, summarized and reported within the required time periods specified in the SEC rules and forms.

There was no change in the Company’s internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

At present, the Company is not engaged in or the subject of any material pending legal proceedings.

Item 1A. Risk Factors

Except as set forth below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2010, the Company issued 5,000 unregistered shares of common stock to RedChip Companies, Inc. for consulting services with regard to investor relations. This transaction was exempt from the registration requirement of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) under the Act, as the recipient is an "accredited investor" as defined in the Act.

The Company did not repurchase any of its equity securities during the same fiscal period.

Item 3. Defaults Upon Senior Securities

N/A.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are furnished as part of this report.

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.

	Andatee China Marine Fuel Services Corporaiton	
Date: August 12, 2010	By:	/s/ An Fengbin An Fengbin President, Chief Executive Officer (Principal Executive Officer)
Date: August 12, 2010	By:	/s/ Wen Tong Wen Tong, Chief Financial Officer (Princial Financial Officer)

EXHIBIT INDEX

Number	Exhibit Table
3.1(i)	Certificate of Incorporation(1).
3.1.1(i)	Amendment to the Certificate of Incorporation(1).
3.1(ii)	By-Laws(1).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the SOX of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the SOX of 2002.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C.ss.1350.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C.ss.1350.

(1) Incorporated by reference to the exhibit with the same number to the Company's Registration Statement on Form S-1 (SEC File No. 333-161577) effective as of January 25, 2010.