Andatee China Marine Fuel Services Corp
Form 10-Q
August 11, 2011

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, 2011

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.)

No. 1 Bintao Garden, 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 ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 3, 2011, the Company had 9,610,159 shares of common stock 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.
CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	$5,188,000	$10,813,103
Accounts receivable, net	4,080,386	6,203,662
Other receivables, net	2,063,826	2,909,634
Inventories	11,875,433	12,542,421
Advances to suppliers	11,363,064	14,396,859
Deposit for acquisition of land use rights	680,798	1,397,443
Prepaid expense	577,404	455,700
Deferred tax assets	46,040	45,004
Other current assets	-	452,928
Total current assets	35,874,951	49,216,754
Property, plant and equipment, net	40,537,670	21,443,141
Construction in progress	1,762,458	14,622,609
Intangible assets, net	2,869,796	2,839,383
Goodwill	1,182,650	1,156,034
Restricted cash	12,842,333	17,022,770
Total assets	$95,069,858	$106,300,691
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$373,858	$1,445,218
Short-term loan	5,414,668	4,536,586
Taxes payable	1,381,676	10,195,420
Advances from customers	1,715,028	6,900,193
Accrued liabilities	48,658	193,517
Dividends payable	245,286	239,766
Bank notes payable	30,635,928	31,761,396
Construction project payable	-	480,403
Other payable	485,881	635,332
Total current liabilities	40,300,983	56,387,831
Total liabilities	40,300,983	56,387,831
Commitments and contingencies		
Equity		
Stockholder’s equity of the Company		
	9,610	9,610

Common stock: par value $.001; 50,000,000 shares authorized; 9,610,159 shares issued and outstanding at June 30, 2011 and December 31, 2010 respectively		
Treasury stock, at cost	(497,693)	(497,693)
Additional paid-in capital.	29,827,160	29,827,160
Other comprehensive income	3,020,955	1,806,405
Retained earnings	20,100,313	16,443,005
Total stockholders' equity of the Company	52,460,345	47,588,487
Noncontrolling interest	2,308,530	2,324,373
Total equity	54,768,875	49,912,860
Total liabilities and equity	$95,069,858	$106,300,691

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	$ 63,142,639	$ 44,053,481	$ 107,400,199	$ 73,834,571
Cost of revenues	58,964,300	38,781,366	97,980,119	64,982,061
Gross profit	4,178,339	5,272,115	9,420,080	8,852,510
Operating expenses				
Selling expenses	600,692	736,327	1,519,947	1,473,878
General and administrative expenses	986,380	676,750	1,737,545	1,301,045
Total operating expenses	1,587,072	1,413,077	3,257,492	2,774,923
Income from operations	2,591,267	3,859,038	6,162,588	6,077,587
Other income (expense)				
Interest expense	(796,361)	(131,615)	(1,263,929)	(252,079)
Other expense	(6,544)	2,029	(7,912)	1,857
Total other income (expense)	(802,905)	(129,586)	(1,271,841)	(250,222)
Net income before tax provision	1,788,362	3,729,452	4,890,747	5,827,365
Tax provision	455,847	1,047,664	1,249,282	1,614,400
Net income	1,332,515	2,681,788	3,641,465	4,212,965
Net income (loss) attributable to the noncontrolling interest	(31,163)	24,799	(15,843)	165,791
Net income attributable to the Company	$ 1,363,678	$ 2,656,989	$ 3,657,308	$ 4,047,174
Foreign currency translation adjustment	806,459	166,015	1,214,550	145,599
Comprehensive income attributable to the Company	2,170,137	2,823,004	4,871,858	4,192,773
Comprehensive income (loss) attributable to the noncontrolling interest	(31,163)	24,799	(15,843)	165,791
Comprehensive income	$ 2,138,974	$ 2,847,803	$ 4,856,015	$ 4,358,564
Basic and diluted weighted average shares outstanding	9,822,284	9,606,313	9,822,284	9,014,261
Basic and diluted net earnings per share	$ 0.14	$ 0.28	$ 0.37	$ 0.45

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

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

	Six months ended June 30, 2011 (Unaudited)	2010 (Unaudited)
Cash flows from operating activities:		
Net income attributable to the Company	$3,657,308	$4,047,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interest	(15,843)	165,791
Option issued for services	-	63,938
Depreciation	435,419	253,187
Amortization	34,592	23,119
Changes in operating assets and liabilities:		
Accounts receivable	2,120,201	305,806
Inventories	666,988	(3,749,200)
Other receivables	845,808	(109,917)
Advances to suppliers	3,033,795	(3,168,122)
Prepaid expense	(121,704)	150,943
Accounts payable	(1,071,360)	(385,810)
Accrued liabilities	(144,859)	-
Advances from customers	(5,185,165)	1,659,997
Taxes payable	(8,814,780)	(1,173,445)
Construction project payable	(480,403)	-
Other payable	(149,451)	(195,403)
Other assets	452,928	-
Net cash used in operating activities	(4,736,526)	(2,111,942)
Cash flows from investing activities		
Consideration for acquisition	-	(534,618)
Purchase of property and equipment	(545,622)	(132,708)
Construction contracts	(6,124,175)	(491,319)
Refunds toward purchase of land use right	716,645	-
Payment received from related party	-	122,667
Net cash used in investing activities	(5,953,152)	(1,035,978)
Cash flows from financing activities		
Proceeds from Initial Public Offering	-	19,989,504
Proceeds from short term loans	878,082	-
Repayment of short term loans	-	(5,097,551)
Payment to escrow account for bank notes	4,180,437	-
Proceeds from bank notes	24,586,138	-
Repayment of bank notes	(25,711,606)	-
Net cash provided by financing activities	3,933,051	14,891,953
Effect of exchange rate on cash	1,131,524	143,771
Net increase(decrease) in cash and cash equivalents	(5,625,103)	11,887,804
Cash and cash equivalents, beginning of period	$10,813,103	$1,539,009
Cash and cash equivalents, end of period	$5,188,000	$13,426,813
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$1,264,941	$260,518

Income taxes	$4,639,194	$1,276,549
Non-cash investing and financing activities:		
Construction completed, reclassified to property and equipment	$18,639,852	$-

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

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Unaudited)

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.

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.

In May 2010, Xingyuan acquired 52% equity interest of Rongcheng Mashan Xingyuan Marine Bunker Co., Ltd. ("Mashan"), furthermore, in July 2010, Fusheng acquired 52% ownership of Hailong Petrochemical Co., Limited ("Hailong").

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, 2010, as reported in Form 10-K have been omitted.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and those entities in which we have a variable interest. 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 the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company's subsidiary in Hong Kong is the US dollars while the local currencies 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 into US dollars at the spot rates in effect as of the balance sheet date. Revenues, costs and expenses are translated using monthly average exchange rates during the reporting period. 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 spot rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured 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.

Financial Instruments

ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash and cash equivalent, accounts receivable, inventories, advance to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities. Pursuant to ASC 820 and 825, the fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

Treasury Stock

We account for treasury stock under the cost method and include treasury stock as a component of 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 of completion and the estimated costs necessary 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 over two years on a straight line basis. The amounts of the amortization are included in the cost of the related assets or profit or loss.

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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, 2011, all of the Company's cash was on deposit at financial institutions in the PRC where there is currently no rule or 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, 2011, there were two customers accounted for 13.0% and 11.5% of the Company's total revenues. 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.

For the six months ended June 30, 2011, the company purchased 32.9% and 10.2% of its raw materials from two suppliers. The balances of advances to these two suppliers were $39,268 and $917,417 at June 30, 2011, respectively. The balances of advances to these two suppliers were $48,963 and $6,124,167 at December 31, 2010, respectively. The total balance of advances to suppliers at June 30, 2011 and December 31, 2010 was $11,363,064 and $14,396,859, 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 other income and expenses.

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, 2011 and December 31, 2010, 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 on an annual basis. The Company determined that there was no impairment of goodwill as of June 30, 2011 and December 31, 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 cost of land use rights are as follows:

Location	Land Size (square meter)	Amount	Terms
Nanhui Village, Shipu Town, Zhejiang Province	8,906.90	$2,325,545	April 1, 2004 – May 12, 2047
Development Zone, Donggang, Liaoning Province	21,994.80	$598,115	July 16, 2008 – May 15, 2058
Mashan Village, Chengshan Town, Shandong Province	3,659.57	$115,519	Government assignment
Total Land Use Rights		$3,039,180	

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"), 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. SFAS No. 160 (now codified at FASB ASC Topic 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. FASB ASC Topic 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. SFAS No. 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted SFAS No. 160 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 and Hailong, respectively, 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.

As an industry wide practice, we require advances from customers for substantially all sales. Such advances are not recognized as revenues when received as they represent down payments from customers for the marine fuel products and the delivery is not yet completed .

Stock-Based Compensation

In December 2004, the FASB issued SFAS No 123(R) "Share-Based Payment (now codified at FASB ASC Topic718)" which prescribes accounting and reporting standards for all stocks based compensation plans, including employer stock options, restricted stock, employee stock options plans and appreciation rights.

The Company uses the Black-Scholes options pricing model to determine the fair value of stock options. The fair value of the Company's restricted stock unit is calculated based on the fair market value of the Company's stock on the date of grant. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables.

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.

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

The Company computes net earnings per share in accordance with FASB ASC Topic 260 Earnings Per Share, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement.

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for that period.

Diluted net income per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential shares consist of incremental common shares issuable upon exercise of stock options, vesting of restricted stock units and conversion of preferred stock (none outstanding) for all periods, except in situations where inclusion is anti-dilutive.

Comprehensive Income (Loss)

FASB ASC Topic 220 Comprehensive Income establishes standards for reporting and display of comprehensive income and its components in the financial statements.

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.

Comprehensive income consists of net income and net unrealized foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income.

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

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance eliminates the current option to report other comprehensive income within the statement of changes in equity and requires an entity to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or alternatively in two, but consecutive, statements. For the Company, the new guidance is effective for 2012 reporting. The adoption of this new guidance is not expected to have a material effect on the Company’s financial statements.

In April 2011, the FASB amended the fair value measurement guidance in order to achieve common measurement and disclosure requirements between U.S. generally accepted accounting principles and the International Financial Reporting Standards. These amendments are also intended to provide increased transparency around valuation inputs and investment categorization and, for the Company, are effective for 2012 reporting. The adoption of this new guidance is not expected to have a material effect on the Company’s financial statements.

3. Accounts Receivables

The Company's Accounts Receivables are summarized as follows:

	As of	
	June 30, 2011	December 31, 2010
Trade accounts receivables	$ 4,263,477	$ 6,383,678
Allowances for doubtful accounts	(183,091)	(180,016)
Accounts receivables, net	$ 4,080,386	$ 6,203,662

4. Other Receivables

The Company's Other Receivable are summarized as follows:

	As of	
	June 30, 2011	December 31, 2010
Other receivables	$ 2,063,826	$ 2,909,634
Allowances for doubtful accounts	-	-
Other receivables	$ 2,063,826	$ 2,909,634

5. Inventories

The Company's inventory consists of the following:

	As of	
	June 30, 2011	December 31, 2010
Marine Fuel	$ 11,875,433	$ 12,537,974
Other consumables	-	4,447
Total	$ 11,875,433	$ 12,542,421

As of June 30, 2011 and December 31, 2010, $9,676,430 and $7,529,080, respectively, of Dalian Xingyuan's inventory has been pledged as the collateral for Bankers Acceptance Notes and loans from Huaxia Bank.

6. Property Plant and Equipment

The Company's Property Plant and Equipment are summarized as follows:

	As of June 30, 2011	2010
Property and buildings	$ 39,456,828	$ 20,676,056
Laboratory equipment	1,183,013	491,142
Boiler equipment	335,546	318,946
Marine bunker	218,518	213,600
Transportation vehicles	1,166,922	1,140,660
Office equipment	51,127	48,128
Electronic equipment	80,639	76,330
Leasehold improvement	98,602	96,385
Total	42,591,195	23,061,247
Less: Accumulated depreciation	(2,053,525)	(1,618,106)
Net Value	$ 40,537,670	$ 21,443,141

The depreciation expenses were $435,419 and $253,187 for six months ended June 30, 2011 and 2010, respectively.

As of June 30, 2011, $1,134,110 of Xingyuan's property has been pledged as the collateral for a loan from Huaxia Bank.

7. Construction in Progress

The Company's construction in progress is summarized as follows:

	As of June 30, 2011	December 31, 2010
Construction in progress, cost	$ 1,762,458	$ 14,622,609
Total	$ 1,762,458	$ 14,622,609

The construction projects as of June 30, 2011and December 31, 2010 were constructions to build facilities to expand production capacity in Tianjin, Donggang, Panjin, Dongying and Nanlian. Balances represent mainly construction expenditures and equipment cost.

The following table states the details about costs incurred at each of the balance sheet date presented:

	As of June 30, 2011	December 31, 2010
Berth and berth improvement	$ 323,415	$ 64,725
Oil blending and storage tank	1,439,043	14,557,884
Total	$ 1,762,458	$ 14,622,609

8. Intangible Assets

The Company’s Intangible Assets are summarized as follows:

	As of June 30, 2011	As of December 31, 2010
Land use rights	$ 3,039,180	$ 2,970,782
Software	20,114	19,662
Total	3,059,294	2,990,444
Less: accumulated amortizations	(189,498)	(151,061)
Intangible assets, net	$ 2,869,796	$ 2,839,383

Nanlian's land use rights of $2,325,545 have been pledged as collateral for a loan from Baotou Commerce Bank as of June 30, 2011.

Donggang Xingyuan's land use rights of $598,115 have been pledged as collateral for a loan from Huaxia Bank as of June 30, 2011.

Amortization expenses for the six months ended June 30, 2011 and 2010 were $34,592 and $23,119 respectively.

The estimated aggregate amortization expense for intangible assets for the five succeeding year is $345,920 for years 2011 to 2015.

9. Short Term Loans

The Company has loans payable to financial institutions with interest rates ranging from 5.84% to 7.27% and maturity dates through February 6, 2012.

	Interest Rate (Per Annum)		June 30, 2011	December 31, 2010	Terms
Baotou Commerce Bank	5.84	%	2,011,450	2,570,404	August 5, 2010 – July 15, 2011
Huaxia Bank	6.37	%	2,629,584	1,966,182	August 12, 2010 – August 12, 2011
Huaxia Bank	7.27	%	773,634	-	February 28, 2011 – February 6, 2012
Total			$ 5,414,668	$ 4,536,586	

The loans are secured by certain properties, inventories and land use right of the Company, as fully described in Note 5, 6 and 8.

10. Bank Notes Payable

The Company executed credit facilities with Shenzhen Development Bank ("SD Bank"), Yingkou Bank ("YK Bank") and Huaxia Bank that provided for working capital in the form of bank acceptance notes. Borrowings under the credit facility were made at bankers' acceptance.

Beneficiary	Endorser	Origination Date	Maturity Date		Amount
Dalian Xingyuan	Huaxia Bank	6-16-2011	12-16-2011	$	6,962,712
Panjin Dalian Group	YK Bank	02-15-2011	08-14-2011		3,094,538
Panjin Dalian Group	YK Bank	02-16-2011	08-15-2011		2,785,084
Panjin Dalian Group	YK Bank	02-21-2011	08-20-2011		3,094,538
Dalian Xingyuan	Huaxia Bank	02-28-2011	08-28-2011		1,547,269
Panjin Dalian Group	SD Bank	03-10-2011	09-09-2011		4,641,807
Panjin Dalian Group	SD Bank	03-14-2011	09-13-2011		4,641,807
Donggang Xingyuan Marine	Huaxia Bank	03-29-2011	09-29-2011		3,868,173
Total				$	30,635,928

Borrowings under these credit facilities noted above are made on a when-and-as-needed basis at the Company's discretion. Ten thousand tons of marine fuel was pledged to be served as collateral against credit default. The Company is required to hold Restricted Cash of $12,842,333 with the above financial institutions as additional collateral against these bankers acceptance notes.

11. 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$3,085,000 and US$3,078,000 as of June 30, 2011 and December 31, 2010; therefore in accordance with Rules 504 and 4.08 (e) (3) of Regulation S-X, the condensed parent company only financial statements as of June 30, 2011 and December 31, 2010, for each period ended June 30, 2011 and December 31, 2010 are disclosed in Note 16.

12. Taxes Payable

Taxes Payable consisted of the followings:

	June 30, 2011	December 31, 2010
Income Tax Payable	745,969	4,216,770
VAT Payable	286,888	5,138,502

Other Tax Payable	348,819	840,148
Total	1,381,676	10,195,420

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 taxes in Hong Kong at 16.5%.

Under Chinese income tax laws, prior to January 1, 2008, companies were subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments. Beginning January 1, 2008, the new Enterprise Income Tax ("EIT") law replaced the income tax laws. The new standard EIT rate of 25% replaced the 33% rate (or other reduced rates previously granted by tax authorities). The new standard rate of 25% was applied to calculate certain deferred tax benefits that are expected to be realized in future periods.

13. Treasury Stock

	As of June 30, 2011	
	Amount	Cost
Shares repurchased	91,192	$ 497,693
Total	91,192	$ 497,693

In October 2010, the Board of Directors of the Company approved and adopted the share repurchase plan of its common stock up to a value of $0.5 million, The plan remains valid through October 2011. We may (but are not obligated to) repurchase shares of our common stock from time to time on the open market or in privately negotiated transactions pursuant to the Exchange Act Rule 10b-5, Rule 10b5-1, Rule 10b-18 and other applicable SEC legal requirements. As of June 30, 2011, a total of 91,192 shares have been purchased from the open market at average price of $5.4576 per share, which means the maximum share repurchase amount has been reached and, therefore, no additional shares may be repurchased under the plan.

14. 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 2011	331,162
For the year 2012	615,385
For the year 2013	692,308
Thereafter	—
Total	$ 1,638,855

The leases are for one year and are renewable at the management's discretion. Management believes that they will remain at these facilities for the next three years and have estimated that the commitments for minimum lease payments under these operating leases are approximately $1.8 million.

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 December 31, 2010.

Supply Agreements

In June 2010, the Company signed agreements with Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai") to supply marine fuel, on an exclusive basis, for a period of 10 years. Both Haiyu and Jinghai are located in Rongcheng City, Shandong province.

Under the terms of the agreement with Jinghai, the Company will be granted exclusive rights to supply Jinghai with up to 18,000 tons of marine fuel per year, for a period of 10 years, at local wholesale market value within that particular area. A purchase discount which equivalent to an annual payment of RMB 1 million (approximately USD 0.15 million) will be earned by Jinghai for the first three years if quantity purchase level are accomplished.

As of June 30, 2011, approximately 6,300 tons of marine fuels were sold to Jinghai. As such discount did not take effect.

15. Subsequent Events

On July 1, 2011, the Company granted 48,000 options to independent directors on the Board of Directors of the Company, respectively, as a part of their respective compensation, with an exercise price of $2.38, the closing price of the Company’s stock on July 1, 2011.

On July 19, 2011, Nanlian renewed its bank loan of RMB 13 million (approximately $2.0 million) with Baotou Commerce Bank at annual interest rate of 6.888%, and matures on July 19, 2012.

16. Parent Company Only Condensed Financial Information

Condensed Balance Sheets

	As of			
	June 30, 2011		December 31, 2010	
ASSETS				
Noncurrent assets				
Investment in subsidiaries		52,460,345		47,588,487
Total noncurrent assets		52,460,345		47,588,487
Total assets	$	52,460,345	$	47,588,487
LIABILITIES AND STOCKHOLDERS' EQUITY				
Commitments and contingencies		—		—
Stockholders' equity				
Common stock: par value $.001; 50,000,000 shares authorized; 9,610,159 shares issued and outstanding at June 30, 2011 and December 31, 2010 respectively		9,610		9,610
Treasury stock, at cost		(497,693)		(497,693)
Additional paid in capital		29,827,160		29,827,160
Retained earnings		3,020,955		1,806,405
Other comprehensive income		20,100,313		16,443,005
Total stockholders' equity		52,460,345		47,588,487
Total liabilities and stockholders' equity	$	52,460,345	$	47,588,487

Condensed Statements of Income:

	As of	
	June 30, 2011	December 31, 2010
Operating income		
Equity in profit of subsidiaries & VIE	3,657,308	8,899,011
Net income attributable to the Company	3,657,308	8,899,011

Condensed Cash Flow Statements

	As of			
	June 30, 2011		December 31, 2010	
Cash flows from operating activities:				
Net income	$	3,657,308	$	8,899,011
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in profit of subsidiaries & VIE		(3,657,308)		(8,899,011)
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 Quarterly 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/A for the fiscal year ended December 31, 2010. 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., 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, 2011 and 2010 were 8.6 and 5.8 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.

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.

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, 2011 and 2010 was a gain of $1,214,550 and a loss of $145,599, 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, at No. 1 Bintao Garden West Binhai Road, Xigang District, Dalian, China

We carry out all of our business through our Hong Kong subsidiary, Goodwill, its wholly-owned Chinese subsidiary, Fusheng, Fusheng's subsidiaries and Fusheng's variable interest entity (VIE), Xingyuan, and Xingyuan's subsidiaries (Xingyuan and its subsidiaries being collectively referred to as the VIE entities). A VIE is an entity under FASB Interpretation No. 46R ("Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51") where equity investors do not have the characteristics of a controlling financial interest (see Note 1 of Notes to Consolidated Financial Statements). Through Fusheng and Xingyuan, we are a leading marine fuel supplier along the coast of east China. Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as#1,#2, #3 and #4, which are close substitutes for diesel used throughout the region's fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels. Backed by core facilities, including storage tanks, tankers and berths, our sales network covers major depots along the towns of Dandong, Tianjin, Shidao and Shipu, which are famous for their fishing tradition and industry.

Currently, we sell approximately 57.1% of our products through distributors and approximately 42.9% 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, Tianjin 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, - #1 fuel (for engines with 2,000 rpm capacity or higher), #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, #1, #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

Since our inception in 2001, we have taken several steps to increase investment in facilities and product line expansion in order to provide our customers with easier access to our products and services and to build a delivery network closer to target market. These steps include acquiring additional local companies and facilities, and development of new products, all aimed at meeting customer demands in various markets. Historically, we have funded these activities from our working capital.

We continue to ramp up expansion of our distribution network by expanding organically through the opening of new sales and marketing branches in new port locations, building new facilities improving our existing facilities, and signing sole supply agreements with long-term supply partners.

Furthermore, we also plan to set up market developing offices in large cities, such as Shanghai, Shenzhen, etc. to recruit capable local hands in a bid to establish effective network of information for providing solid foundations to pursue our acquisition-driven growth strategy in neighboring areas around the cities.

Facility Expansion

In September 2010, we commenced the constructions of new blending facilities in Panjin City, Liaoning province and Zibo City, Shandong province, both of which are aimed at improving our production capabilities in blending.

The facilities with 17,000m3 tanks located in Zibo City was completed on May 26, 2011, and the Company believes that this new facility's close proximity to a network of refineries in Shandong province will help to reduce the cost of procuring raw materials and the cost of transportation incurred by shipping products to customers in Shidao City, Shandong province. Total capital expenditure is at RMB 56 million (US$ 8.7 million).

Construction of the Panjin City facilities was completed on June 21, 2011, which will provide additional 15,000 m3-tank capacities in a region close to the areas where our current major suppliers operate. The cost for construction is at approximately RMB 64 million (US$ 9.3 million)

Operational Initiatives in 2011

In 2011, we undertook the following steps designed to reduce the overall production and transportation costs:

- built and/or acquired other distributing facilities to increase our profit margin and sales, enhance our brand and minimize the adverse impact of oil price volatility

- established regional purchase center to timely collect all information for sales and purchase analysis, to process order making and logistics planning. This allows us to negotiate favorable pricing and volume discounts and maintain an appropriate sale levels

- worked closely with the managements of the acquired companies to obtain an in-depth knowledge of local markets and developed a list of suppliers to reduce the purchase cost of certain raw materials.

- relocated our production and storage centers closer to our end users which provide us more opportunity to develop an efficient and flexible manufacturing and operational infrastructure and enjoy savings on transportation costs.

In 2011, our overall strategy has been to (i) increase our share of retail sales since such sales had shown to be less price-sensitive than our sales to the distributors, (ii) acquire our own retail facilities to reduce the risk of opportunistic negotiations from our retail customers during periods of volatile oil prices, (iii) build retail points in strategic locations (often close to other, recently acquired locations) to capture a majority of active local markets and (iv) add more products to our current product line to further satisfy customers' diversifying demands.

As the result of expansion of our distribution network and contribution from new products put into markets during the first half of 2011, our revenues for the six months ended June 30, 2011 have increased to $ 107.4 million as the result of 45.5% increase in our volume of sales, and our gross margin has dropped to 8.8%, compared with 12.0% in same period of 2010. Our gross margin declined result from increasing raw materials costs, which we couldn't entirely pass on to customers. For the six months ended June 30, 2011, 42.9% of our sales were to retail customers as compared with 48.8% in the same period of 2010.

We believe that maintaining our retail sales and distribution channels will help stabilize gross margins by offsetting part of the pressure imposed on our profit margin from the surge of raw materials costs. We also believe that higher retail sales and closer ties with our customers as well as wider distribution network are at the core of our strength and business viability going forward.

We intend to (i) control more facilities closer to end markets, through business acquisitions, partner cooperation, building local platform for our products and added-value services, which would enhance the brand awareness of the "Xingyuan" brand and (ii) expand our product line and upgrade our production facilities to explore the markets opportunities and increase our share in retail market.

Principal Factors Affecting our Financial Performance

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

- Increasing demand for blended marine fuel - The increasing demand for blended marine fuel has a positive impact on our financial position. The strong growth in the blended marine fuel industry 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. We tried to mitigate this in the short-term by increasing the price of our products and passing as much the increase as possible to our customers. Our efforts to pass on price increase to customers has been complicated by current refined oil pricing mechanism imposed by China authorities.

Results of Operations

Comparison of the three and six months ended June 30, 2011 and 2010

Revenue

Our revenue increased by US$19.1 million, or 43.3%, from US$44.1 million for the second quarter ended June 30, 2010 to US$63.1 million for second quarter ended June 30, 2011. The increase in our revenues was due to the increased sales volume and higher average crude oil price. The sales volume increase by 8,400 tons, or 11.5%, from 73,000 tons for the second quarter ended June 30, 2010 to 81,400 tons for the second quarter ended June 30, 2011. While the international crude oil price increased from $81 per barrel in the second quarter of 2010 to $104 per barrel in the second quarter of 2011. The increase in sales volume was mainly the result of increased sales in 1# marine fuel.

Our revenue increased by US$33.6 million, or 45.5%, from US$73.8 million for the six months ended June 30, 2010 to US$107.4 million for six months ended June 30, 2011. The increase in our revenues was the result of increased sales due to the expansion of our sales network, successful marketing efforts of 1# marine fuel products by finding more reliable distributors and higher average international crude oil price. During the six months ended June 30, 2010 the international oil prices stayed around the level of $80 per barrel in comparison to average oil price of $100 per barrel in the first half of 2011.

Our overall sales volume increased by 15.3% or 18,400 tons, from 120,000 tons for the six months period ended June 30, 2010 to 138,400 tons for the six months period ended June 30, 2011. During the first half of 2011, our existing distribution network continued to contribute to the increase in overall sales volume, in addition, we found our efforts in promoting product 1# were rewarded by obtaining an increase of approximately 12,700 tons in sales volume.

For the six months ended June 30, 2011, 1# marine fuel represented 9.2% of our sales, 2# marine fuel represented 8.1% of our sales, 3# marine fuel represented 9.7% of our sales, 4# marine fuel represented 55.3% of our sales, 180CST represented 9.7% of our sales and 120CST represented 8.0% of our sales.

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.

Cost of Revenue

Our cost of revenues increased by US$20.2 million, or 52.0%, from US$38.8 million for the second quarter ended June 30, 2010 to US$59.0 million for the second quarter ended June 30, 2011 due to higher sales.

Our cost of revenues increased US$33.0 million, or 50.8%, from US$65.0 million for the six months ended June 30, 2010 to US$98.0 million for the six months ended June 30, 2011. This increase reflects our 45.4% increase in sales during 2011. As a percentage of revenues, the cost of revenues rised to 91.2% for the six months ended June 30, 2011 compared to 88.0% for 2010.

Raw materials we use are generally the by-products produced by refineries. We believe that our long standing relationship with major suppliers in the region can provide the supply and price stability that we require in our operations. In our case, we have a long standing contractual relationship with China Petroleum Dalian Branch, Panjin Branch, etc. which, for the six months of 2011, provide over 43% of all raw materials. Other supplies, including Liaoyang Huaxian, Fushun Shengli, Dalian Haichang and Dongying Haikeruilin provide the remainder of our need for raw materials.

Gross Profit

As a result of the efforts discussed above, our gross profit decreased by US$1.1 million, or 20.7%, to US$4.2 million for the second quarter of 2011 as compared to US$5.3 million in the second quarter of 2010. As a percentage of revenues, our gross profit margin was 6.6% and 12% for the second quarter of 2011 and 2010, respectively.

Our gross profit increased by US$0.6 million, or 6.4%, from US$8.8 million for the six months ended June 30, 2010 to US$9.4 million for the six months ended June 30, 2011. As a percentage of revenues, our gross profit margin dropped to 8.7% for the six months ended June 30, 2011 compared to 12.0% for the six months ended June 30, 2010. The decrease in our gross profit percentage results primarily from higher raw materials costs, which can hardly be offset by increased sales price.

Our gross profit margins are impacted by changes in the average prices of our products, product sales mix, the ratio of retail to wholesale and our raw material purchasing price. The average prices of our products are subject to the fluctuations in world crude oil prices and, in recent years, were also affected by the challenging global economic conditions.

Selling Expenses

Selling expenses decreased by US$0.1 million, or 18.4%, from US$0.7 million for the second quarter of 2010 to US$0.6 million in second quarter of 2011. As a percentage of revenues, selling expenses decreased from 1.6% for the second quarter of 2010 to 0.9% for 2011.

Our selling expenses increased US$46,069, or 3.1%, from US$1,473,878 for the six months ended June 30, 2010 to US$1,519,947 for the six months ended June 30, 2011. This increase was primarily due to the increase in sales employee compensation and other expenses for promotion of our products. As a percentage of revenues, selling expenses decreased from 2.0% for the six months ended June 30, 2010 to 1.4% for 2011.

In the near term, we expect that certain components of our selling expenses will increase as we step up efforts to expand our presence in new markets in China. Specifically, we expect that product promoting expenses will increase as we improve the awareness among customers. In addition, we also expect salary expenses to increase as we continue to hire additional sales representatives to help broaden our end-user customer base. This anticipated increase in selling expenses is a part of our plan to grow and support our extensive distribution network.

General and Administrative Expenses

General and administrative expenses increased by US$0.3 million, or 45.8%, from US$0.7 million for the second quarter of 2010 to US$1.0 million for the second quarter of 2011. The increase was primarily due to start-up expenses incurred for opening office in Shanghai. As a percentage of revenues, general and administrative expenses increased from 1.5% for the second quarter of 2010 to 1.6% for 2011.

General and administrative expenses increased US$0.4 million, or 33.6%, from US$1.3 million for the six months ended June 30, 2010 to US$1.7 million for the six months ended June 30, 2011. As a percentage of revenues, general and administrative expenses decreased from 1.7% for the six months ended June 30, 2010 to 1.6% for 2011.

Operating Income

As a result of the factors discussed above, our operating income decreased by US$1.3 million, or 32.9%, from US$3.9 million for the second quarter of 2010 to US$2.6 million for the second quarter of 2011. As a percentage of revenues, our operating income decreased from 8.7% for the second quarter of 2010 to 4.1% for 2011.

Our operating income remained consistent at or around 6.1 million for the six months ended June 30, 2011 and 2010. As a percentage of revenues, our operating income decreased from 8.2% for the six months ended June 30, 2010 to 5.4% for 2011.

Interest Expense

Interest expense increased by USD$0.7 million, or 505.0%, from US$0.1 million for the second quarter of 2010 to US$0.8 million for the second quarter of 2011. The increase in interest expense was the result of rise in benchmark interest rate, tightening in credit policy by China government in 2011 and increase in the level of our loan financing.. The benchmark interest rate has risen by 0.5% from 5.81% for 2010 to 6.31% in 2011.

Interest expense increased US$1,011,850, from US$252,079 for the six months ended June 30, 2010 to US$1,263,929 for the six months ended June 30, 2011.

Provision for Income Taxes

Provision for income taxes decreased US$0.6 million, or 56.5%, from US$1.0 million for the second quarter of 2010 to US$0.4 million for the second quarter of 2011. This decrease in the provision for income taxes was primarily attributable to the decrease in our pre-tax income by 60.9% over 2010.

Provision for income taxes decreased US$0.4 million, or 22.6%, from US$1.6 million for the six months ended June 30, 2010 to US$1.2 million for the six months ended June 30, 2011. This decrease in the provision for income taxes was primarily attributable to the decrease in our pre-tax income by 21.7% over the first half of 2010. Our effective tax rates were 27.3% for the six months ended June 30, 2010 and 27.7% in 2011.

Net Income

As a result of the foregoing, net income attributable to the Company decreased by US$1.3 million, or 48.7%, from US$2.6 million for the second quarter of 2010 to US$1.3 million for 2011.

Net income attributable to the Company decreased by US$0.4 million, or 9.6%, from US$4.0 million for the six months ended June 30, 2010 to US$3.6 million for the six months ended June 30, 2011.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis.

As of June 30, 2011, we had cash of US$5.2 million in our bank accounts, and additionally, we have set aside US$12.8 million for restricted cash on bankers' acceptance. The decrease in our cash balance at June 30, 2011 reflects the combined result of cash used in operating activities of US$4.7 million, cash used in construction of US$5.9 million and cash provided by financing activities of US$3.9 million.

On an on-going basis, we take steps to identify and plan our needs for liquidity and capital resources, to fund our planned ongoing construction and day to day business operations. In addition to working capital to support our routine activities, we will also require funds for the construction and upgrading of crucial facilities, acquisition of assets and/or equity, and repayment of debt.

Our future capital expenditures will include building new fueling facilities, increase blending and storage capacity, berth improvement, expanding product lines, research and development capabilities, and making acquisitions as deemed appropriate.

Our operating and capital requirements in connection with supporting our expanding operations and introducing our products to the expanded areas have been and will continue to be significant to us. Although we are profitable, and have been profitable, our growth strategy, which is initially focused on accretive acquisitions and organically expanding our product into expanded areas will require substantial capital which we may not be able to satisfy solely through our operations.

We estimate $9.5 million will be needed in the fiscal 2011 to fund the construction projects for new blending and storage facilities and the improvement and upgrades of our existing facilities.

Based on our current plans for the next 12 months, we anticipate that additional revenues earned from our expanded operation and broadened distribution channels will be the primary organic source of funds for future operating activities in 2011. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, we may rely on bank borrowing, if available as well as capital raises.

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

	As of June 30,	
	2011	2010
Cash flow data:		
Net cash used in operating activities	4,736,526	(2,111,942)
Net cash used in investing activities	(5,953,152)	(1,035,978)
Net cash provided by financing activities	3,933,051	14,891,953

Effect of exchange rate on cash	1,131,524	143,771
Net changes in cash	(5,625,103)	11,887,804
Cash at beginning of period	10,813,103	1,539,009
Cash at end of period	5,188,000	13,426,813

Operating Activities

Net cash used in operating activities for six months ended June 30, 2011 was US$4.7 million, which was primarily as a result of the following factors:

- net income of US$3.7 million;
- a decrease in accounts receivable of US$2.1million as a result of increased efforts in tightening policy of sales on credit during the second quarter in 2011;
- a decrease in inventories of US$0.7 million resulting from cutting back on inventory level on account of the fast increasing cost of raw material and growing volatility of oil price, which requires less inventory to manage the risks followed and upcoming slack season;
- a decrease in advances to suppliers of $3.0 million as a result of reducing purchasing activities;
- a decrease in other receivables of US$0.8 million due to decreased prepayment for services and deposits under signed agreements;
- a decrease in advance from customers of US$5.2 million;
- a decrease in accounts payable of US$1.0 million in line with decreased purchasing;
- a decrease in tax payable of US$8.8million;
- a decrease in other payable of US$0.1 million resulting from repayment of temporary borrowings from various parties;
- a decrease in accrued liabilities of US$0.1 million attributable to paying fees for leasing storage tanks;
- a decrease in other assets of US$0.5 million as refunds from taxation authorities after obtaining approval of operations;

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, (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, (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.

Investing Activities

Cash used in investing activities was US$5.9 million for six months ended June 30, 2011, which was attributable to:

- expenditures in construction projects of US$6.3 million to expand the production capacity in Panjin, Liaoning province, Zibo, Shandong province, Nanlian, Zhejiang province and Tianjin City.
- expenditures in purchase of property and equipment of US$0.36 million due to the finished construction in Zibo, Shandong province and Panjin, Liaoning province.
- refunds of US$0.7 million for purchase of land use right.

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.

Financing Activities

Cash provided by financing activities was US$3.9 million for six months ended June 30, 2011. It consists of bank borrowings of 24.6 million in short-term bank notes and $0.8 million in short term loans .The cash used to repay the bank notes and payment to escrow account for bank notes was US$25.7 million and US$4.1 million, respectively.

Cash provided by financing activities was US$15 million for the six months ended June 30, 2010. It consists of 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.

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 4. 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, 2011 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/A filed with the Securities and Exchange Commission for the year ended December 31, 2010.

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

During the three months ended June 30, 2011, the Company did not (i) sell any unregistered securities, or (ii) repurchase any of its equity securities.

Item 3. Defaults Upon Senior Securities

N/A.

Item 4. Removed and Reserved.

Item 5. Other Information

As previously reported, on June 25, 2011, the Board of Directors of the Company approved, among other things, certain option grants to the Company’s executive management and independent members of the Board. Following such approval and effective as of July 29, 2011, the Board accepted cancellations by An Fengbin (Chief Executive Officer) and Wen Tong (Chief Financial Officer) of their respective grants of 150,000 and 60,000 stock options.

There were no material changes to the procedures by which security holders may recommend nominees to the registrant's Board of Directors during the fiscal quarter ended June 30, 2011.

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 11, 2011	By: /s/ An Fengbin An Fengbin President, Chief Executive Officer (Principal Executive Officer)
Date: August 11, 2011	By: /s/ Wen Tong Wen Tong Chief Financial Officer (Principal 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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

(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.

* To be filed by amendment to this Quarterly Report on Form 10-Q pursuant to Regulation S-T.