

Andatee China Marine Fuel Services Corp
Form 10-Q
May 12, 2011

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 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

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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 "
Non-accelerated Filer "

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 May 12, 2011, the Company had 9,610,159 shares of its common stock, par value \$0.001 per share, issued and outstanding.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,032,989	\$ 10,813,103
Accounts receivable, net	5,796,933	6,203,662
Other receivables, net	1,215,645	2,909,634
Inventories	10,415,729	12,542,421
Advances to suppliers	8,589,079	14,396,859
Deposit for acquisition of land use rights	670,721	1,397,443
Prepaid expense	130,567	455,700
Deferred tax assets	45,359	45,004
Other current assets	-	452,928
Total current assets	34,897,022	49,216,754
Property, plant and equipment, net	21,698,957	21,443,141
Construction in progress	16,207,029	14,622,609
Intangible assets, net	2,844,531	2,839,383
Goodwill	1,165,144	1,156,034
Restricted cash	18,825,933	17,022,770
Total assets	\$ 95,638,616	\$ 106,300,691
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 470,125	\$ 1,445,218
Short-term loan	5,334,522	4,536,586
Taxes payable	4,866,942	10,195,420
Advances from customers	1,669,722	6,900,193
Accrued liabilities	47,160	193,517
Dividends payable	241,655	239,766
Bank notes payable	29,420,283	31,761,396
Construction project payable	450,484	480,403
Other payable	507,822	635,332
Total current liabilities	43,008,715	56,387,831
Total liabilities	43,008,715	56,387,831
Commitments and contingencies		
Equity		
Stockholder's equity of the Company		

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Common stock: par value \$.001; 50,000,000 shares authorized; 9,610,159 shares issued and outstanding at March 31, 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
Other comprehensive income	2,214,496	1,806,405
Retained earnings	18,736,635	16,443,005
Total stockholders' equity of the Company	50,290,208	47,588,487
Noncontrolling interest	2,339,693	2,324,373
Total equity	52,629,901	49,912,860
Total liabilities and equity	\$ 95,638,616	\$ 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 March 31,	
	2011	2010
	(Unaudited)	(Unaudited)
Revenues	\$ 44,257,560	\$ 29,781,090
Cost of revenues	39,015,819	26,200,695
Gross profit	5,241,741	3,580,395
Operating expenses		
Selling expenses	919,255	737,551
General and administrative expenses	751,165	624,295
Total operating expenses	1,670,420	1,361,846
Income from operations	3,571,321	2,218,549
Other income (expense)		
Interest expense	(467,568)	(120,464)
Other expense	(1,368)	(172)
Total other income (expense)	(468,936)	(120,636)
Net income before tax provision	3,102,385	2,097,913
Tax provision	793,435	566,736
Net income	2,308,950	1,531,177
Net income attributable to the noncontrolling interest	15,320	140,992
Net income attributable to the Company	\$ 2,293,630	\$ 1,390,185
Foreign currency translation adjustment	408,091	(20,416)
Comprehensive income attributable to the Company	2,701,721	1,369,769
Comprehensive income attributable to the noncontrolling interest	15,320	140,992
Comprehensive income	\$ 2,717,041	\$ 1,510,761
Basic and diluted weighted average shares outstanding	9,822,284	8,415,631
Basic and diluted net earnings per share	\$ 0.23	\$ 0.16

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2011 (Unaudited)	2010 (Unaudited)
Cash flows from operating activities:		
Net income attributable to the Company	\$ 2,293,630	\$ 1,390,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interest	15,320	140,992
Option issued for services	-	40,738
Depreciation	265,883	125,643
Amortization	17,175	16,711
Changes in operating assets and liabilities:		
Accounts receivable	406,729	(56,523)
Inventories	2,126,692	(4,123,493)
Other receivables	1,693,989	(107,063)
Advances to suppliers	5,807,780	266,922
Prepaid expense	325,133	150,943
Accounts payable	(975,093)	237,954
Accrued liabilities	(146,357)	-
Advances from customers	(5,230,471)	1,264,739
Taxes payable	(5,328,478)	67,480
Construction project payable	(29,919)	-
Other payable	(127,510)	458,345
Other assets	452,928	-
Net cash provided by (used in) operating activities	1,567,431	(126,427)
Cash flows from investing activities		
Purchase of property and equipment	(521,699)	(3,032)
Construction contracts	(1,584,420)	(259,607)
Refunds toward purchase of land use right	726,722	-
Payment received from related party	-	122,667
Net cash used in investing activities	(1,379,397)	(139,972)
Cash flows from financing activities		
Proceeds from Initial Public Offering	-	19,989,504
Proceeds from short term loans	797,936	-
Payment to escrow account for bank notes	(1,803,163)	-
Proceeds from bank notes	23,370,493	-
Repayment of bank notes	(25,711,606)	-
Net cash provided by (used in) financing activities	(3,346,340)	19,989,504
Effect of exchange rate on cash	378,192	(18,855)
Net increase (decrease) in cash and cash equivalents	(2,780,114)	19,704,250
Cash and cash equivalents, beginning of period	\$ 10,813,103	\$ 1,539,009
Cash and cash equivalents, end of period	\$ 8,032,989	\$ 21,243,259
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$ 509,548	\$ 107,934

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Income taxes	\$	2,963,845	\$	606,832
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The accompanying notes are an integral part of these consolidated financial statements.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION
NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 \$0.001 per 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 effected 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 Xinfu Petroleum Company (“Xinfu”) and 63% ownership of Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”), respectively (see more details in Note 3 “Business Acquisitions”).

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”) (see more details in Note 3 “Business Acquisitions”).

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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 March 31, 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 three months ended March 31, 2011, there were two customers accounted for 10.5% and 10.2% of the Company's total revenues.. There was one customer accounted for 13.1% of the total revenues for the three months ended March 31, 2010.

For the three months ended March 31, 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 \$49,349 and \$707,045 at March 31, 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 March 31, 2011 was \$8,589,079, 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 March 31, 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 March 31, 2011.

Intangible Assets

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

The details of land use rights are as follows:

Location	Land Size (square meter)	Amount	Terms
Nanhui Village, Shipu Town, Zhejiang Province	8,906.90	\$ 2,291,124	April 1, 2004 – May 12, 2047
Development Zone, Donggang, Liaoning Province	21,994.80	\$ 589,262	July 16, 2008 – May 15, 2058
Mashan Village, Chengshan Town, Shandong Province	3,659.57	\$ 113,809	Government assignment
Total Land Use Rights		\$ 2,994,195	

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

In December 2010, the FASB issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations (amendments to FASB ASC Topic 805, Business Combinations). The guidance in ASU 2010-29 provides amendments to clarify the acquisition date which should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented. The amendments also improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination(s). The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of this guidance did not have to have a material impact on the Company's consolidated financial statements.

In December, 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (amendments to FASB ASC Topic 350, Intangibles—Goodwill and Other). The objective of this ASU is to address diversity in practice in the application of goodwill impairment testing by entities with reporting units with zero or negative carrying amounts, eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. This ASU is effective for interim periods after January 1, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

3. Accounts Receivables

The Company's Accounts Receivables are summarized as follows:

	March 31, 2011	As of December 31, 2010
Trade accounts receivables	\$ 5,978,367	\$ 6,383,678
Allowances for doubtful accounts	(181,434)	(180,016)
Accounts receivables, net	\$ 5,796,933	\$ 6,203,662

4. Other Receivables

The Company's Other Receivable are summarized as follows:

	March 31, 2011	As of December 31, 2010
Other receivables	\$ 1,215,645	\$ 2,909,634
Allowances for doubtful accounts	-	-
Other receivables	\$ 1,215,645	\$ 2,909,634

5. Inventories

The Company's inventory consists of the following:

	March 31, 2011	As of December 31, 2010
Marine Fuel	\$ 10,415,729	\$ 12,537,974
Other consumables	-	4,447
Total	\$ 10,415,729	\$ 12,542,421

As of March 31, 2011 and December 31, 2010, \$8,255,085 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 ("HX Bank").

6. Property Plant and Equipment

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

	As of March 31, 2011	2010
Property and buildings	\$ 21,178,380	\$ 20,676,056
Laboratory equipment	495,013	491,142
Boiler equipment	321,459	318,946
Marine bunker	215,284	213,600
Transportation vehicles	1,149,650	1,140,660
Office equipment	48,507	48,128
Electronic equipment	77,510	76,330
Leasehold improvement	97,143	96,385
Total	23,582,946	23,061,247
Less: Accumulated depreciation	(1,883,989)	(1,618,106)
Net Value	\$ 21,698,957	\$ 21,443,141

The depreciation expenses were \$265,883 and \$125,643 for three months ended March 31, 2011 and 2010, respectively.

As of March 31, 2011, \$1,117,324 of Xingyuan's property has been pledged as the collateral for a loan from Huaxia Bank ("HX Bank").

7. Construction in Progress

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

	March 31, 2011	As of December 31, 2010
Construction in progress, cost	\$ 16,207,029	\$ 14,622,609
Total	\$ 16,207,029	\$ 14,622,609

The construction projects as of March 31, 2011 and 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:

	March 31, 2011	As of December 31, 2010
Berth and berth improvement	\$ 238,447	\$ 64,725
Oil blending and storage tank	15,968,582	14,557,884
Total	\$ 16,207,029	\$ 14,622,609

8. Intangible Assets

The Company's Intangible Assets are summarized as follows:

	March 31, 2011	As of December 31, 2010
Land use rights	\$ 2,994,195	\$ 2,970,782
Software	19,816	19,662
Total	3,014,011	2,990,444
Less: accumulated amortizations	(169,480)	(151,061)
Intangible assets, net	\$ 2,844,531	\$ 2,839,383

Nanlian's land use rights of \$2,291,123 have been pledged as collateral for a loan from Baotou Commerce Bank as of March 31, 2011.

Donggang Xingyuan's land use rights of \$589,262 have been pledged as collateral for a loan from Huaxia Bank as of March 31, 2011,.

Amortization expenses for the three months ended March 31, 2011 and 2010 were \$17,175 and \$16,711 respectively.

The estimated aggregate amortization expense for intangible assets for the five succeeding year is \$353,110 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)	March 31, 2011	December 31, 2010	Terms
Baotou Commerce Bank	5.84%	2,590,662	2,570,404	August 5, 2010 – July 15, 2011
Huaxia Bank	6.37%	1,981,677	1,966,182	August 12, 2010 – August 12, 2011
Huaxia Bank	7.27%	762,183		- February 28, 2011 – February 6, 2012
Total		\$ 5,334,522	\$ 4,536,586	

10. Bank Notes Payable

The Company executed credit facilities with Shenzhen Development Bank ("SD Bank"), Yingkou Bank ("YK Bank") and Huaxia Bank ("HX 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 Fusheng PetroChemical	HX Bank	10-11-2010	04-11-2011	\$ 6,097,467
Panjin Dalian Group	YK Bank	02-15-2011	08-14-2011	3,048,734
Panjin Dalian Group	YK Bank	02-16-2011	08-15-2011	2,743,861
Panjin Dalian Group	YK Bank	02-21-2011	08-20-2011	3,048,734
Dalian Fusheng PetroChemical	HX Bank	02-28-2011	08-28-2011	1,524,367
Panjin Dalian Group	SD Bank	03-10-2011	09-09-2011	4,573,101
Panjin Dalian Group	SD Bank	03-14-2011	09-13-2011	4,573,101
Donggang Xingyuan Marine	HX Bank	03-29-2011	09-29-2011	3,810,918
Total				\$ 29,420,823

Borrowings under this credit facility 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 \$18,825,933 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 March 31, 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 March 31, 2011 and December 31, 2010, for each period ended March 31, 2011 and December 31, 2010 are disclosed in Note 14.

12. Taxes Payable

Taxes Payable consisted of the followings:

	March 31, 2011	December 31, 2010
Income Tax Payable	2,326,471	4,216,770
VAT Payable	2,072,876	5,138,502
Other Tax Payable	467,595	840,148
Total	4,866,942	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 March 31, 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 March 31, 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	496,743
For the year 2012	615,385
For the year 2013	692,308
Thereafter	—
Total	\$ 1,804,436

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 a price of an annual payment of RMB 1 million (approximately USD 0.15 million) for the first three years to Jinghai. Similarly, under the terms of its arrangement with Haiyu, the Company will receive exclusive rights to supply Haiyu with up to 12,000 tons of marine fuel per year and, for a period of 10 years.

Legal Proceeding

On January 16, 2008, Xingyuan obtained a judgment in its favor in the sales contract dispute at the trial court level against Yantai Development Zone Fuchang Bunker Co., Ltd. ("Fuchang"). Under this judgment for specific performance, Fuchang is required to deliver approximately 163 tons of marine fuel to Xingyuan within 20 days following the court decision or to pay to Xingyuan a restitution amount of RMB 791,473 (approximately \$116,000) plus legal expenses of the lawsuit of RMB 16,510 (approximately \$2,400). There have not been any material developments on this matter as of the date hereof.

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

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

15. Parent Company Only Condensed Financial Information

Condensed Balance Sheets

	March 31, 2011	As of December 31, 2010
ASSETS		
Noncurrent assets		
Investment in subsidiaries	50,290,208	47,588,487
Total noncurrent assets	50,290,208	47,588,487
Total assets	\$ 50,290,208	\$ 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 March 31, 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 (Deficit)	2,214,496	1,806,405
Other comprehensive income	18,736,635	16,443,005
Total stockholders' equity	50,290,208	47,588,487
Total liabilities and stockholders' equity	\$ 38,972,264	\$ 47,588,487

Condensed Statements of Income:

	March 31, 2011	As of December 31, 2010
Operating income		
Equity in profit of subsidiaries & VIE	2,293,630	8,899,011
Net income attributable to the Company	2,293,630	8,899,011

Condensed Cash Flow Statements

	March 31, 2011	As of December 31, 2010
Cash flows from operating activities:		
Net income	\$ 2,293,630	\$ 8,899,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in profit of subsidiaries & VIE	(2,293,630)	(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 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 Petrochemical Company, its variable interest entity (VIE), Dalian Xingyuan Marine Bunker Co. Ltd., through which entity we conduct all of our business operations, and the subsidiaries of our VIE entity, which are Donggang Xingyuan Marine Bunker Company Ltd., Xiangshan Yongshinanlian Petrol Company Ltd., Rongcheng Xinfu Petrol Company Ltd., Rongcheng Mashan Xingyuan Marine Bunker Co., Ltd. and Hailong Petrochemical Co., Limited;
- 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

- the term “Fusheng” refers to Dalian Fusheng Petrochemical Company, a subsidiary of Goodwill, which a subsidiary of 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 three months ended March 31, 2011 and 2010 were 9.9 and 7.8 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 March 31, 2011 and 2010 was a gain of \$408,091 and a loss of \$20,416, 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 Combined and 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 57.5% of our products through distributors and approximately 42.5% to retail customers. Our products are substitutes for diesel used throughout east coast of China fishing industry by small to medium sized cargo vessels. Our core facilities include storage tanks, berths (the space allotted to a vessel at the wharf), marine fuel pumps, blending facilities and tankers. Our sales network covers major depots along the towns of Dandong, Shidao and Shipu along the east coast of China.

Our marine fuel for cargo vessels is classified as CST180 and CST120; our marine fuel for fishing boats/vessels, - #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 17,000m² tanks on site in Zibo City, of which estimated capital expenditure is at RMB 68 million (US\$ 10.1 million), are close to the network of refineries in Shandong province, which will make best use of by-products produced by nearby refineries to reduce the cost of raw materials and transportation fee incurred by shipping products to customers in Shidao City, Shandong province when all construction work will be finished in May 2011 as planned. The facilities in Panjin City, Liaoning Province, when finished in June 2011, will provide additional 15,000 m²-tank capacities in a region close to the areas where our current major suppliers operate, the cost for construction is expected to be approximately RMB 62 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 quarter of 2011, our revenues for the three months ended March 31, 2011 have increased to \$ 44.3 million as the result of 21.4% increase in our volume of sales, and our gross margin stayed at 11.8%, compared with 12.0% in same period of 2010. Our gross margin remained stable thanks to the portion of our total sales which was to retail customers. For the three months ended March 31, 2011, 42.5% of our sales were to retail customers as compared with 43.8% in the same period of 2010.

We believe that maintaining our retail sales and distribution channels will lead to stable gross margins which can help offset the pressure imposed on our profit margin by crude oil price downturn. We 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. However, we mitigated this in the short-term by increasing the price of our products and passing the entirety of the increase to our customers.

Results of Operations

Comparison of the three months ended March 31, 2011 and 2010

Revenue

Our revenue increased by US\$14.5 million, or 48.6%, from US\$29.8 million for the three months ended March 31, 2010 to US\$44.3 million for three months ended March 31, 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 three months ended March 31, 2011 the international oil prices stayed around the level of \$99 per barrel in comparison to average oil price of \$82 per barrel in the first quarter of 2010.

Our overall sales volume increased by 21.4% or 10,000 tons, from 47,000 tons for the three months period ended March 31, 2010 to 57,000 tons for the three months period ended March 31, 2011. During the first quarter 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 7,000 tons in sales volume.

For the three months ended March 31, 2011, 1# marine fuel represented 12.0% of our sales, 2# marine fuel represented 7.9% of our sales, 3# marine fuel represented 10.8% of our sales, 4# marine fuel represented 53.5% of our sales, 180CST represented 7.1% of our sales and 120CST represented 8.6% of our sales. For the three months ended March 31, 2010, 2# marine fuel represented 10.2% of our sales, 3# marine fuel represented 10.0% of our sales, 4# marine fuel represented 66.5% of our sales, 180CST represented 6.9% of our sales and 120CST represented 6.3% of our sales.

Cost of Revenue

Our cost of revenues increased US\$12.8 million, or 48.9%, from US\$26.2 million for the three months ended March 31, 2010 to US\$39.0 million for the three months ended March 31, 2011. This increase reflects our 48.6% increase in sales during 2011. As a percentage of revenues, the cost of revenues remained flat at 88.1% for the three months ended March 31, 2011 compared to 87.9% 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, in the first quarter of 2011, provide over 44% of all raw materials. Other supplies, including Liaoyang Huaxian, Fushun Shengli, Dalian Haichang and Dongying Haikeruulin providing the remaining of our need for raw materials.

Gross Profit

Our gross profit increased by US\$1.7 million, or 46.4%, from US\$3.6 million for the three months ended March 31, 2010 to US\$5.3 million for the three months ended March 31, 2011. As a percentage of revenues, our gross profit margin remained consistent at or around at 11.8% for the three months ended March 31, 2011 compared to 12.0% for the three months ended March 31, 2010. The decrease in our gross profit percentage results primarily from a very slight decrease in the sales to higher margin retail customers (42.5% of sales in 2011 compared to 43.8% of sales in 2010) as the result of our efforts to promote the wholesales of 1# marine fuel.

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 consist primarily of employee compensation and benefits for our sales and marketing staff, expenses for promotional and advertising activities. Our selling expenses increased US\$0.2 million, or 24.6%, from US\$0.7 million for the three months ended March 31, 2010 to US\$0.9 million for the three months ended March 31, 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 2.5% for the three months ended March 31, 2010 to 2.1% 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

Our general and administrative expenses consist primarily of employee compensation and benefits for our general management, finance and administrative staff, depreciation and amortization with respect to equipment used for general corporate purposes, professional, legal and consultancy fees, and other expenses incurred for general corporate purposes. General and administrative expenses increased US\$0.1 million, or 20.3%, from US\$0.6 million for the three months ended March 31, 2010 to US\$0.7 million for the three months ended March 31, 2011. This increase was primarily due to increased expenses incurred to run a public reporting company in the United States. As a percentage of revenues, general and administrative expenses decreased from 2.1% for the three months ended March 31, 2010 to 1.7% for 2011.

Operating Income

As a result of the factors discussed above, our operating income increased US\$1.4 million, or 60.9%, from US\$2.2 million for the three months ended March 31, 2010 to US\$3.6 million for the three months ended March 31, 2011. As a percentage of revenues, our operating income increased from 7.5% for the three months ended March 31, 2010 to 8.0% for 2011.

Interest Expense

Interest expense (net) increased US\$347,104, from US\$120,464 for the three months ended March 31, 2010 to US\$467,568 for the three months ended March 31, 2011 as the result of rise in benchmark interest rate and tightening in credit policy by China government in early 2011. The benchmark interest rate has risen by 0.25% from 5.81% for 2010 to 6.06% in 2011.

Provision for Income Taxes

Provision for income taxes increased US\$0.2 million, or 40%, from US\$0.6 million for the three months ended March 31, 2010 to US\$0.8 million for the three months ended March 31, 2011. This increase in the provision for income taxes was primarily attributable to the increase in our pre-tax income by 47.8% over the first quarter of 2010. Our effective tax rates were 27.0% for the three months ended March 31, 2010 and 25.6% in 2011.

Net Income

As a result of the foregoing, net income increased by US\$0.9 million, or 65.0%, from US\$1.4 million for the first quarter of 2010 to US\$2.3 million for the first quarter of 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 March 31, 2011, we had cash of US\$8.0 million in our bank accounts, and additionally, we have set aside US\$18.8 million for restricted cash on bankers acceptance. The decrease in our cash balance at March 31, 2011 reflects the combined result of cash generated from operating activities of US\$1.6 million, cash used in construction of US\$1.4 million and cash used in financing activities of US\$3.3 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 March 31,	
	2011	2010
Cash flow data:		
Net cash provided by (used in) operating activities	1,567,431	(126,427)
Net cash used in investing activities	(1,379,397)	(139,972)
Net cash provided by (used in) financing activities	(3,346,340)	19,989,504
Effect of exchange rate on cash	378,192	(18,855)
Net changes in cash	(2,780,114)	19,704,250
Cash at beginning of period	10,813,103	1,539,009
Cash at end of period	8,032,989	21,243,259

Operating Activities

Net cash provided by operating activities for three months ended March 31, 2011 was US\$1.6 million, which was primarily as a result of the following factors:

- net income of US\$2.3 million;
- a decrease in accounts receivable of US\$406,729 as a result of decreased revenue in the first quarter compared with the fourth quarter in 2010;
- a decrease in inventories of US\$2.1 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;
- a decrease in advances to suppliers of \$5.8 million as a result of reducing purchasing activities;
- a decrease in other receivables of US\$1.6 million due to decreased prepayment for services and deposits under signed agreements;
- a decrease in advance from customers of US\$5.2 million due to decreased revenue in the first quarter and reluctance to pay in advance from customers facing high and volatile oil prices;
- a decrease in accounts payable of US\$0.9 million in line with decreased purchasing;
- a decrease in tax payable of US\$5.3million;
- an increase in other payable of US\$0.1 million resulting from increased 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 three months ended March 31, 2010 was US\$0.1 million, which was primarily as a result of the following factors:

- net income of US\$1.4 million,
- an increase in accounts receivable of US\$56,523 as a result of increased revenue and the retail ratio,
- an increase in inventories of US\$4.1 million resulting from inventory rebuilding in order to meet increasing demand, as discussed below,
- a decrease in advances to suppliers of \$0.3 million,

- a decrease in other receivables of US\$0.1 million,
- an increase in advance from customers of US\$1.3 million due to increased revenue,
- an increase in accounts payable of US\$0.2 million in line with increased purchasing, and
- an increase in other payable of US\$0.5 million.

The increase in our inventories at March 31, 2010 reflects both our increased sales and inventories established to meet the requirements of coming peak selling season in the second quarter of 2010. Normally, the revenue generated in the second quarter of a year accounts for over 25% of our total sales for a year.

Investing Activities

Cash used in investing activities was US\$1.4 million for three months ended March 31, 2011, which was attributable to:

- expenditures in construction projects of US\$1.6 million to expand the production capacity in Nanlian, Zhejiang province; Panjin, Liaoning province; Dongying, Shandong province
- expenditures in purchase of property and equipment of US\$0.5 million.
- refunds of US\$0.7 million for purchase of land use right.

Cash used in investing activities was US\$0.14 million for the three months ended March 31, 2010, which was attributable to

- expenditures in construction projects of US\$0.3 million to expand the production capacity in Donggang, Liaoning province and Nanlian, Zhejiang province;
- expenditures in purchase of property and equipment of US\$3,032, and
- collection of related party receivables of \$0.1 million.

Financing Activities

Cash used in financing activities was US\$3.3 million for three months ended March 31, 2011. It consists of bank borrowings of 23.3 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\$1.8 million, respectively .

Cash provided by financing activities was \$20 million for the three months ended March 31, 2010. It consists of proceeds from our initial public offering.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

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

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate risk due primarily to our short-term notes. Although the interest rates on our short-term notes are fixed during their respective terms, the terms are typically 12 months or less and interest rates are subject to change upon renewal. The interest rates on our short-term notes are determined by reference to the benchmark interest rates set by the People's Bank of China, or the PBOC. Since April 28, 2006, the PBOC has increased the benchmark interest rate of RMB bank notes with a term of 6 to 12 months 12 times, seven consecutive increases followed by five consecutive decreases, by 0.27% on most occasions. As a result, from 2006 to March 31, 2011, the benchmark interest rate for these RMB bank notes increased from 5.85% to 7.47% then decreased to 5.31%, in the first quarter of 2011 interest rate bounced back to 6.08% again and the interest rate applicable to us increased from 6.696% to 8.217% then decreased to 5.841%, thereafter back to 7.27% over the same period. Any future increase in the PBOC's benchmark interest rate will result in an increase in our interest expenses. A 1.0% increase in the annual interest rates for all of our credit facilities as of March 31, 2011 would decrease income from continuing operations before income taxes by approximately RMB300,000 (\$45,589) for the three months ended March 31, 2011. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Exchange Rate Risk

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

While our reporting currency is the U.S. dollar, to date all of our revenue and expenses are denominated in RMB and the majority of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollar and RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. For example, as reported in our U.S. dollar financial statements included in this report, our revenues for the three months ended March 31, 2011 were \$44.2 million, representing revenues of RMB291.4 million at the average rate of RMB6.5804 to \$1.00 for the three months ended March 31, 2011. If the value of the RMB were to depreciate by approximately 10% to RMB7.2384 to \$1.00, the value of the same amount of RMB-denominated revenue in U.S. dollars would be \$40.3 million. The fluctuations in the exchange rate would affect our financial results translated in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

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

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

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average(1)	High	Low	Period-End
Year ended December 31,				
2004(1)	8.2768	8.2774	8.2764	8.2765
2005(1)	8.1826	8.2765	8.0702	8.0702
2006(1)	7.9579	8.0702	7.8041	7.8041
2007(1)	7.5806	7.8127	7.2946	7.2946
2008(1)	6.9193	7.2946	6.7800	6.8225
2009(1)	6.8408	6.8430	6.7880	6.8372
2010(1)	6.7787	6.8336	6.5543	6.61180
For the months of				
January 2011	6.5967	6.6357	6.5819	6.5831
February 2011	6.5769	6.6035	6.5543	6.5730
March 2011	6.5672	6.5755	6.5560	6.5601
April 2011	6.5276	6.5514	6.4940	6.4957
May 2011(2)	6.4933	6.4978	6.4911	6.4925

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

(2) Through May 9, 2011.

Our business is primarily conducted in China and all of our revenues are denominated in Renminbi. This report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the noon buying rate in New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. On May 9, 2011, the noon buying rate was approximately RMB6.57 to \$1.00. No representation is made that the Renminbi amounts referred to in this report could have been or could be converted into U.S. dollars at any particular rate or at all.

Since July 2005, the Renminbi has not been pegged solely to the U.S. dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.5% each day. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the future. See "Risk Factors — Risks Related to Doing Business in China — The foreign currency exchange rate between U.S. Dollars and Renminbi could adversely affect our financial condition."

Inflation

Inflationary factors, such as increases in the cost of our products and overhead costs, could impact our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of revenue if the selling prices of our products do not increase with these increased costs.

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 March 31, 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

There were no material changes from the risk factors as previously disclosed in our Amended and Restated 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 March 31, 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

None.

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Andatee China Marine Fuel Services Corporaiton

Date: May 12, 2011

By:

/s/ An Fengbin

An Fengbin President, Chief Executive Officer

(Principal Executive Officer)

Date: May 12, 2011

By:

/s/ Wen Tong

Wen Tong, Chief Financial Officer

(Princial Financial Officer)

EXHIBIT INDEX

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

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