American Lorain CORP
Form 10-Q
August 15, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2011

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

Commission File No. 001-34449

AMERICAN LORAIN CORPORATION
(Exact name of registrant as specified in its charter)

Nevada	**87-0430320**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Beihuan Road
Junan County
Shandong, China 276600
(Address, including zip code, of principal executive offices)

(86) 539-7318818
(Registrant s telephone number, including area code)

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

Yes [X] No [__]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X]   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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer [__]   Accelerated filer [__]   Non-accelerated filer [__]   Smaller reporting company [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]

The numbers of shares outstanding of the issuer s class of common stock as of August 12, 2011 was 34,471,801.

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PART I FINANCIAL INFORMATION

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REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying interim consolidated Balance Sheets of American Lorain Corporation (the Company) as of June 30, 2011 and December 31, 2010, and the related statements of income, stockholders equity, and cash flows for the three-month and six-month periods ended June 30, 2011 and 2010. These interim consolidated financial statements are the responsibility of the Company's management.

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

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

San Mateo, California
August 10, 2011

Samuel H. Wong & Co., LLP
Certified Public Accountants

AMERICAN LORAIN CORPORATION
CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

	Note	At June 30, 2011	*(Audited)* At December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	2(d)	$ 9,605,538	$ 12,730,626
Restricted cash	3	7,064,127	2,308,898
Short-term investment		6,769,421	9,447,585
Trade accounts receivable	4	27,002,950	33,226,612
Other receivables	5	1,841,750	1,492,850
Inventories	6	41,097,859	29,807,198
Advance to suppliers		8,027,308	7,744,976
Prepaid expenses and taxes		467,407	434,061
Deferred tax asset		106,100	103,713
Security deposits and other Assets		628,998	693,858
Total current assets		$ 102,611,458	$ 97,990,377
Non-current assets			
Investment		464,181	-
Property, plant and equipment, *net*	7	73,771,569	72,095,007
Land use rights, *net*	8	4,911,645	4,877,438
Deposit		169,910	20,297
TOTAL ASSETS		$ 181,928,763	$ 174,983,119
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities			
Short-term bank loans	9	$ 16,428,735	$ 25,164,469
Long-term debt current portion	13	56,089	218,935
Notes payable	10	3,868,173	4,249,977
Accounts payable		4,091,972	6,284,532
Taxes payables	11	1,357,095	3,266,502
Accrued liabilities and other payables	12	1,463,710	1,335,947
Customers deposits		586,414	89,370
Total current liabilities		$ 27,852,188	$ 40,609,732
Long-term liabilities			
Long-term debt	13	15,330,667	5,030,930
TOTAL LIABILITIES		$ 43,182,855	$ 45,640,662

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

	Note	At June 31, 2011	*(Audited)* At December 31, 2010
STOCKHOLDERS EQUITY			
Preferred Stock, $.001 par value, 5,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		-	-
Common stock, $0.001 par value, 200,000,000 shares authorized; 34,444,709 and 34,419,709 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	14	34,445	34,420
Additional paid-in capital	14	52,676,854	52,371,481
Statutory reserves	2(r)	12,069,925	11,340,739
Retained earnings		53,647,928	48,688,375
Accumulated other comprehensive income		12,535,972	9,475,745
Non-controlling interests	15	7,780,784	7,431,697
TOTAL STOCKHOLDER S EQUITY		$ 138,745,908	$ 129,342,457
TOTAL LIABILITIES AND STOCKHOLDER S EQUITY		$ 181,928,763	$ 174,983,119

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Stated in US Dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	2011	2010	2011	2010
Net revenues	2(t),16	$ 35,726,650	$ 29,218,314	$ 66,176,455	$ 53,778,530
Cost of revenues		(28,070,066)	(22,499,645)	(51,744,961)	(41,335,771)
Gross profit		$ 7,656,584	$ 6,718,669	$ 14,431,494	$ 12,442,759
Operating expenses					
Selling and marketing expenses		(1,088,768)	(1,194,996)	(2,451,454)	(2,567,348)
General and administrative expenses		(1,593,366)	(932,210)	(3,069,313)	(1,948,662)
		(2,682,134)	(2,127,206)	(5,520,767)	(4,516,010)
Operating income		$ 4,974,450	$ 4,591,463	$ 8,910,727	$ 7,926,749
Investment income		-	589	-	589
Government subsidy income		302,260	196,003	595,353	377,424
Interest and other income		102,372	8,901	149,457	130,982
Other expenses		(21,483)	(44,714)	(181,055)	(72,237)
Interest expense		(610,111)	(1,023,129)	(1,263,235)	(1,943,553)
Earnings before tax		$ 4,747,488	$ 3,729,113	$ 8,211,247	$ 6,419,954
Income tax	2(q),17	(1,277,553)	(857,604)	(2,173,421)	(1,529,596)
Net income		$ 3,469,935	$ 2,871,509	$ 6,037,826	$ 4,890,358
Other comprehensive income:					
Foreign currency translation gain		1,875,108	400,424	3,107,991	419,885
Comprehensive income		$ 5,345,043	$ 3,271,933	$ 9,145,817	$ 5,310,243
Net income attributable to:					
-Common Stockholders		$ 3,262,451	$ 2,679,613	$ 5,688,739	$ 4,540,144
-Non-controlling Interest		207,484	191,896	349,087	350,214
Net income		$ 3,469,935	$ 2,871,509	$ 6,037,826	$ 4,890,358
Earnings per share	2(u), 18				
- Basic		$ 0.09	$ 0.10	$ 0.17	$ 0.17

- Diluted	$	0.09	$	0.10	$	0.16	$	0.17
Weighted average shares outstanding								
- Basic		34,427,582		26,075,413		34,427,582		26,075,413
- Diluted		35,030,343		26,750,592		35,030,343		26,750,592

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Stated in US Dollars)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash flows from operating activities				
Net income	$ 3,469,935	$ 2,871,509	$ 6,037,826	$ 4,890,358
Stock and share based compensation	131,671	205,943	305,373	454,949
Depreciation	669,969	322,416	1,141,935	687,985
Amortization	49,549	33,341	94,435	69,061
Write down/(gain) on short-term investment	(92,673)	-	(47,763)	-
(Increase)/decrease in accounts & other receivables	(5,627,103)	4,205,909	6,371,808	8,294,930
(Increase)/decrease in inventories	(2,366,929)	1,798,055	(11,290,660)	(7,675,643)
(Increase)/decrease in prepayment	(77,666)	972,209	(315,679)	734,094
(Increase)/decrease in deferred tax asset	(1,411)		(2,388)	-
Increase/(decrease) in accounts and other payables	(1,583,873)	(1,648,161)	(3,974,205)	(1,950,117)
Net cash (used in)/provided by operating activities	(5,428,531)	8,761,221	(1,679,318)	5,505,617
Cash flows from investing activities				
Proceeds from short-term investments	467,879	-	2,166,220	22,227
(Increase)/decrease in restricted cash	(2,205,347)	376,613	(4,755,229)	558,448
Payment of construction in progress	(90,840)		(471,105)	
Payment of land use rights	(76,740)	(18,318)	(128,642)	(33,205)
Payments for purchase of equipment & plant	(1,567,871)	(9,618,218)	(2,347,391)	(10,045,753)
Decrease (increase) in deposit	(154,032)	-	(84,754)	-
Net cash used in investing activities	(3,626,951)	(9,259,923)	(5,620,901)	(9,498,283)
Cash flows from financing activities				
Bank borrowings	6,733,544	5,297,856	18,183,012	23,151,602
Repayment of bank loans	(9,406,948)	(2,900,729)	(20,980,396)	(20,861,829)
Notes payable	763,346	-	3,816,736	-
Issue of common stock	25	-	25	-
	$ (1,910,033)	$ 2,397,127	$ 1,019,377	$ 2,289,773

Net cash provided by/(used in) financing activities				
Net Increase/(decrease) of Cash and Cash Equivalents	(10,965,515)	1,898,425	(6,280,842)	(1,702,893)
Effect of foreign currency translation on cash and cash equivalents	1,967,781	(89,298)	3,155,754	(69,848)
Cash and cash equivalents beginning of period/year	18,603,272	8,529,664	12,730,626	12,111,532
Cash and cash equivalents end of period/year	$ 9,605,538	$ 10,338,791	$ 9,605,538	$ 10,338,791

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Supplementary cash flow information:				
Interest received	$ 7,879	$ 3,998	$ 10,355	$ 6,802
Interest paid	$ 610,675	$ 1,018,530	$ 1,263,799	$ 1,938,954
Income taxes paid	$ 1,816,289	$ 649,208	$ 3,845,257	$ 2,489,131

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE PERIOD ENDED JUNE 30, 2011 AND YEAR ENDED DECEMBER 31, 2010
(STATED IN US DOLLARS)

	Number Of Shares	Common Stock	Additional Paid-in Capital	Statutory Reserves	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interests	To
Balance, January 1, 2010	30,240,202	$ 30,240	$ 35,268,603	$ 8,895,477	$ 38,455,349	$ 6,068,569	$ 6,022,883	$ 94,74
Issuance of share based compensation	7,000	7	890,203	-	-	-	-	89
Issuance of common stock for cash	3,440,800	3,441	9,630,800	-	-	-	-	9,63
Issuance cost of common stock	-	-	(678,567)	-	-	-	-	(67
Appropriations to additional paid in capital	-	-	5,161,175	-	(5,161,175)	-	-	
Acquisition of Shandong Greenpia	731,707	732	2,099,267	-	-	-	-	2,09
Net income	-	-	-	-	19,248,277	-	-	19,24
Appropriations to statutory reserves	-	-	-	2,445,262	(2,445,262)	-	-	
Allocation to non-controlling interests	-	-	-	-	(1,408,814)	-	1,408,814	
Unrealized gain (loss) on investment	-	-	-	-	-	(587,117)	-	(5
Foreign currency translation adjustment	-	-	-	-	-	3,994,293	-	3,99
Balance, December 31, 2010	34,419,709	$ 34,420	$ 52,371,481	$ 11,340,739	$ 48,688,375	$ 9,475,745	$ 7,431,697	$ 129,34
Balance, January 1, 2011	34,419,709	$ 34,420	$ 52,371,481	$ 11,340,739	$ 48,688,375	$ 9,475,745	$ 7,431,697	$ 129,34
Issuance of share based compensation	-	-	305,373	-	-	-	-	30
Issuance of common stock	25,000	25	-	-	-	-	-	

Net income	-	-	-	-	6,037,826	-	-	6,0
Appropriations to statutory reserves	-	-	-	729,186	(729,186)	-	-	
Allocation to non-controlling interests	-	-	-	-	(349,087)	-	349,087	
Unrealized gain (loss) on investment	-	-	-	-	-	(47,763)	-	(4
Foreign currency translation adjustment	-	-	-	-	-	3,107,991	-	3,1
Balance, June 30, 2011	34,444,709	$ 34,445	$ 52,676,854	$ 12,069,925	$ 53,647,928	$ 12,535,972	$ 7,780,784	$ 138,7

See Accompanying Notes to the Financial Statements and Accountant s Report

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

1. ORGANIZATION, BASIS OF PRESENTATION, AND PRINCIPAL ACTIVITIES

(a) Organization history of American Lorain Corporation (formerly known as Millennium Quest, Inc.)

American Lorain Corporation (the Company or ALN) was originally a Delaware corporation incorporated on February 4, 1986. From inception through May 3, 2007, the Company did not engage in any active business operations other than in search and evaluation of potential business opportunity to become an acquiree of a reverse-merger deal. On May 3, 2007, the Company entered into a share exchange agreement as described under Reverse-Merger below. On November 12, 2009, the Company filed a statement of merger in the state of Nevada to transfer the Company s jurisdiction from Delaware to Nevada.

(b) Organization History of International Lorain Holding Inc. and its subsidiaries

ALN owns 100% of the equity of International Lorain Holding Inc. (ILH). ILH is a Cayman Islands company incorporated on August 4, 2006 and was wholly-owned by Mr. Hisashi Akazawa until May 3, 2007. ILH presently has two direct wholly-owned subsidiaries, Junan Hongrun and Luotian Lorain, and three indirectly wholly-owned subsidiaries through Junan Hongrun, which are Beijing Lorain, Dongguan Lorain, and Shandong Greenpia Foodstuff Co., Ltd. (Shandong Greenpia).

In addition, the Company directly and indirectly has 80.2% ownership of Shandong Lorain. The other 19.8% interest is owned by the State under the name of Shandong Economic Development Investment Co. Ltd., which is not included as a part of the Group.

On April 9, 2009, the Company, through its Junan Hongrun subsidiary, invested cash to establish Dongguan Lorain. Dongguan Lorain is indirectly 100% beneficially owned by the Company.

On June 28, 2010, the Company signed an equity transfer agreement with Shandong Greenpia. Shandong Greenpia was originally directly owned by Taebong Inc. and Shandong Luan Trade Company. The Company paid $2,100,000 to Korean Taebong Inc. for 50% equity of Shandong Greenpia on September 20, 2010. On September 23, 2010, the Company issued 731,707 shares of restricted stock at an agreed price of $2.87 per share to the owner of Shandong Luan Trade Company, Mr. Ji Zhenwei, for the remaining 50% equity of Shandong Greenpia. Since September 23, 2010, Shandong Greenpia was directly owned by both Junan Hongrun and ILH. As a result, Shandong Greenpia is 100% owned by the Company.

(c) Reverse-Merger

On May 3, 2007, the Company entered into a share exchange agreement with ILH whereby the Company consummated its acquisition of ILH by issuance of 697,663 Series B voting convertible preferred shares to the shareholders of ILH in exchange of 5,099,503 ILH shares. Concurrently on May 3, 2007, the Company also entered into a securities purchase agreement with certain investors and Mr. Hisashi Akazawa and Mr. Si Chen (each a beneficial owner) whereby the Company issued 319,913 (after reverse-split at 32.84 from 10,508,643) common shares to its shareholders as consideration of the Company s reverse-merger with Lorain.

The share exchange transaction is sometimes referred to hereafter as the reverse-merger transaction. The share exchange transaction has been accounted for as a recapitalization of ALN where the Company (the legal acquirer) is considered the accounting acquiree and ILH (the acquiree) is considered the accounting acquirer. As a result of this transaction, the Company is deemed to be a continuation of the business of ILH.

Accordingly, the accompanying consolidated financial statements are those of the accounting acquirer, ILH. The historical stockholders equity of the accounting acquirer prior to the share exchange has been retroactively restated as if the share exchange transaction occurred as of the beginning of the first period presented. See also Note 14 Capitalization.

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

(d) Business Activities

The Company develops, manufactures, and sells convenience foods (including ready-to-cook (or RTC) foods; ready-to-eat (or RTE) foods and meals ready-to-eat (or MRE); chestnut products; and frozen foods, in hundreds of varieties. The Company operates through indirect Chinese subsidiaries. The products are sold in 26 provinces and administrative regions in China and 42 foreign countries. Food products are categorized into three types: (1) chestnut products, (2) convenience food, and (3) frozen food.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Method of Accounting

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements, which are compiled on the accrual basis of accounting.

The Company regrouped certain accounts in its presentation of changes in assets and liabilities in the statement of cash flows for the three and six months periods ended June 30, 2011 in order to be consistent with the presentation provided for the three and six months periods ended June 30, 2010. There was no impact in earnings for the regrouping.

(b) Principles of consolidation

The consolidated financial statements which include the Company and its subsidiaries are compiled in accordance with generally accepted accounting principles in the United States of America. All significant inter-company accounts and transactions have been eliminated. The consolidated financial statements include 100% of assets, liabilities, and net income or loss of those wholly-owned subsidiaries; ownership interests of minority investors are recorded as minority interests.

As of June 30, 2011, the detailed identities of the consolidating subsidiaries are as follows:

Name of Company	***Place of incorporation***	***Attributable equity interest %***	***Registered capital***
Shandong Lorain Co., Ltd	PRC	80.20	$ 15,605,756
Luotian Lorain Co., Ltd	PRC	100	3,919,047
Junan Hongrun Foodstuff Co., Ltd	PRC	100	46,294,291
Beijing Lorain Co., Ltd	PRC	100	1,547,269
Shandong Greenpia Foodstuff Co.,Ltd	PRC	100	2,376,605
Dongguan Lorain Co,,Ltd	PRC	100	154,727
International Lorain Holding Inc.	Cayman Islands	100	48,149,080

(c) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

(d) Cash and cash equivalents

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

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

(e) Investment securities

The Company classifies securities it holds for investment purposes into trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. All securities not included in trading securities are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in the net income. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from net income and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged as an expense to the statement of income and comprehensive income and a new cost basis for the security is established. To determine whether impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the investee.

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

(f) Trade accounts receivables

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

(g) Inventories

Inventories consisting of finished goods and raw materials are stated at the lower of cost or market value. Finished goods are comprised of direct materials, direct labor and an appropriate proportion of overhead.

(h) Customer deposits and advances to suppliers

Customer deposits were received from customers in connection with orders of products to be delivered in future periods.

Advances to suppliers are good faith deposits paid to suppliers for the purpose of committing suppliers to provide products promptly upon delivery of the Company s purchase order for raw materials, supplies, equipment, building materials etc. Pursuant to the Company s arrangements with its suppliers, this deposit is generally 20% of the total amount contracted for. This type of transaction is classified as a prepayment category under the account name Advance to Suppliers until such time as the Company s purchase order is delivered, at which point this account is reduced by reclassification of the applicable amount to the appropriate asset account such as inventory or fixed assets or construction in progress.

(i) Property, plant and equipment, net

Property, plant and equipment, net are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method. Estimated useful lives of the property, plant and equipment are as follows:

AMERICAN LORAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND DECEMBER 31, 2010
(Stated in US Dollars)

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

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals and betterments are capitalized.

(j) Construction in progress

Construction in progress represents direct and indirect construction or acquisition costs. The construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the asset is completed and ready for intended use.

(k) Land Use Rights

Land use rights are carried at cost and amortized on a straight-line basis over a specified period.

(l) Accounting for the Impairment of Long-Lived Assets

The long-lived assets held by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. An impairment is present if carrying amount of an asset is less than its undiscounted cash flows to be generated.

If an asset is considered impaired, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company believes no impairment has occurred to its assets during 2010 and through June 30, 2011.

(m) Advertising

All advertising costs are expensed as incurred.

(n) Shipping and handling

All shipping and handling are expensed as incurred.

(o) Research and development

All research and development costs are expensed as incurred.

(p) Retirement benefits

Retirement benefits in the form of contributions under defined contribution retirement plans to the relevant authorities are charged to the consolidated statement of income as incurred.

(q) Income taxes

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

AMERICAN LORAIN CORPORATION
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The Company has implemented Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Income tax liabilities computed according to the United States and People s Republic of China (PRC) tax laws are provided for the tax effects of transactions reported in the financial statements and consists of taxes currently due plus deferred taxes related primarily to differences between the basis of fixed assets and intangible assets for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future income taxes. A valuation allowance is created to evaluate deferred tax assets if it is more likely than not that these items will either expire before the Company is able to realize that tax benefit, or that future realization is uncertain.

Effective January 1, 2008, PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as "two-year exemption followed by three-year half exemption" hitherto enjoyed by tax payers. As a result of the new tax law of a standard 15% tax rate, tax holidays terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.

The Company is subject to United States Tax according to Internal Revenue Code Sections 951 and 957. Corporate income tax is imposed on progressive rates in the range of: -

Taxable Income			
Rate	Over	But Not Over	Of Amount Over
15%	0	50,000	0
25%	50,000	75,000	50,000
34%	75,000	100,000	75,000
39%	100,000	335,000	100,000
34%	335,000	10,000,000	335,000
35%	10,000,000	15,000,000	10,000,000
38%	15,000,000	18,333,333	15,000,000
35%	18,333,333	-	-

(r) *Statutory reserves*

Statutory reserves are referring to the amount appropriated from the net income in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and are to be used to expand production or operations. The Company transferred $729,186 and $2,445,262 from retained earnings to statutory reserves for the periods ended June 30, 2011 and December 31, 2010. PRC laws prescribe that an enterprise operating at a profit, must appropriate, on an annual basis, an amount equal to 10% of its profit. Such an appropriation is necessary until the reserve reaches a maximum that is equal to 50% of the enterprise s PRC registered capital.

(s) *Foreign currency translation*

The accompanying financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). The financial statements are translated into United States dollars from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred.

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	6/30/2011	*3/31/2011*	*12/31/2010*	*6/30/2010*	*3/31/2010*
Year/quarter end RMB : US$ exchange rate	6.463	6.5501	6.6118	6.8086	6.8361
Average yearly/quarterly RMB : US$ exchange rate	6.5316	6.5713	6.7788	6.8348	6.8360

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US Dollars at the rates used in translation.

(t) *Revenue recognition*

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

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

The Company gradually switched its sales model from direct sales to third party distributor model and issues 1% sales incentive to distributors. The Company modified it accounting policy for the recognition of revenue accordingly. Given the circumstances of how the Company conducts its incentive program, the Company books the payments settled in cash as a contra account to Gross Revenue, and includes the amount in its reported net revenue . The Company has considered the guidance in FASB **ASC** 605-50 (**EITF 01-9**) and will account for its sales incentive program accordingly.

(u) *Earnings per share*

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted average number of ordinary shares outstanding and potential dilutive securities during the year. During the period ended June 30, 2011, no warrants were issued and no stock options were granted. During the year ended December 31, 2010, 81,155 warrants were issued to certain service providers. During the year ended December 31, 2009, 1,334,573 stock options were granted to employees pursuant to the Company s equity incentive plan and; 2,255,024 warrants were issued to investors in connection with a PIPE financing. These warrants and options could be potentially dilutive if the market price of the Company s common stock exceeds the exercise price for these securities.

The Company computes earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128, Earnings per share (SFAS No. 128), and SEC Staff Accounting Bulletin No. 98 (SAB 98). SFAS No. 128 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as the income or loss available to common shareholders divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options, and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

(v) Financial Instruments

The Company s financial instruments are cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable, accrued liabilities, and long-term liabilities. The recorded values of cash and cash equivalents, accounts receivable, other receivable, advances to suppliers, advances to employees, bank loans and notes, accounts payable, other payable, dividend payable and accrued liabilities approximate their fair values based on their short-term nature. The recorded values of long-term liabilities approximate their fair values, as interest approximates market rates.

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(w) Commitments and contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(x) Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company s current component of other comprehensive income includes the foreign currency translation adjustment and unrealized gain or loss.

(y) Recent accounting pronouncements

In January 2011, the FASB issued an Accounting Standard Update (ASU) No. 2011-01, Receivables Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. Under the existing effective date in Update 2010-20, public- entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The amendments in this Update temporarily defer that effective date, enabling public-entity creditors to provide those disclosures after the Board clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the Board proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. This new accounting is not expected to have a material impact on the Company s consolidated financial position or results of the operations.

In June 2011, the FASB issued an Accounting Standard Update (ASU No. 2011-05, Comprehensive Income (Topic 220). Under the amendments to Topic 220, Comprehensive Income, entities have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This new accounting is not expected to have a material impact on the Company s consolidated financial position or results of the operations.

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3. RESTRICTED CASH

Restricted cash represents interest bearing deposits placed with banks to secure banking facilities in the form of loans and notes payable. The restriction of funds is based on time. The funds that collateralize loans are held for 60 days in savings account that pay interest at the prescribed national daily savings account rate. For funds that underline notes payable, the cash is deposited in six month time deposits that pay interest at the national time deposit rate.

4. TRADE ACCOUNTS RECEIVABLE

	6/30/2011	12/31/2010
Trade accounts receivable	$ 27,265,676	$ 33,562,514
Less: Allowance for doubtful accounts	(262,726)	(335,902)
	$ 27,002,950	$ 33,226,612

Allowance for bad debt:	6/30/2011	12/31/2010
Beginning balance	$ (335,902)	$ (267,590)
Additions to allowance	(7,734)	(68,312)
Reversal of allowance	80,910	-
Ending balance	$ (262,726)	$ (335,902)

The Company offers credit terms of between 30 to 60 days to most of their domestic customers, including supermarkets and wholesalers, around 90 days to most of their international customers, and between 0 to 15 days for most of the third-party distributors the Company works with.

5. OTHER RECEIVABLES

Other receivables consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Advances to employees for job/travel disbursements	$ 1,208,314	$ 764,725
Amount due by a non-related enterprise	165,644	215,685
Other non-related receivables	467,792	512,440
	$ 1,841,750	$ 1,492,850

Advances to employees for job/travel disbursements consisted of advances to employees for transportation, meals, client entertainment, commissions, and procurement of certain raw materials. The advances issued to employees may be carried for extended periods of time because employees may spend several months out in the field working to procure new sales contracts or fulfill existing contracts.

Specifically, the company uses every available employee to arrange purchases with desirable chestnut or other raw material growers. However, because many of these growers are in rural farming areas of China where traditional banking and credit arrangements are difficult to implement, the Company must utilize cash purchases and also must contract for its future needs by placing a good faith deposit in cash with the growers. However none of these advances to employees for delivery to the growers on behalf of the Company are personal loans to the employees. Advances to employees for purchase of materials in other receivables are adjusted to advances to suppliers as of June 30, 2011.

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Related party receivable consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Chen Si	$ 149,157	$ 123,467
Liu, Lihua	61,891	-
	$ 211,048	$ 123,467

Related party receivable represented advances issued by management for job or travel disbursement in the normal course of business. The receivable had no impact on earnings. As with other employees, officers sign notes when cash is issued to them as job or travel disbursement.

6. INVENTORIES

Inventories consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Raw materials	$ 14,023,111	$ 18,128,883
Finished goods	27,074,748	11,678,315
	$ 41,097,859	$ 29,807,198

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
At Cost:		
Buildings	$ 50,325,806	$ 48,612,643
Landscaping, plant and tree	2,918,683	2,852,998
Machinery and equipment	10,088,676	9,544,910
Office equipment	583,420	501,977
Motor vehicles	449,198	420,020
	$ 64,365,783	$ 61,932,548
Less: Accumulated depreciation		
Buildings	(3,348,558)	(2,729,161)
Landscaping, plant and tree	(97,289)	(23,775)
Machinery and equipment	(4,488,551)	(3,998,121)
Office equipment	(350,513)	(312,872)
Motor vehicles	(232,629)	(225,832)
	(8,517,540)	(7,289,761)
Construction in Progress	17,923,326	17,452,220
	$ 73,771,569	$ 72,095,007

Construction in progress is mainly comprised of capital expenditures for construction of the Company s new corporate campus, including offices, factories, and staff dormitories located at Junan Hongrun. Capital commitments for the construction are immaterial for the two years above.

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Landscaping, plants, and trees accounts for the orchards that the Company has developed for agricultural operations. These orchards as well as the young trees which were purchased as nursery stock are capitalized into fixed assets. The depreciation is then calculated on a 30-year straight-line method when production in commercial quantities begins. The orchards have begun production in small quantities and the Company has accounted for depreciation commencing July 1, 2010. Depreciation expense for the period ended June 30, 2011 and year ended December 31, 2010 were $1,141,935 and $1,360,134, respectively.

8. LAND USE RIGHTS

Land use rights consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Land use rights, *at cost*	$ 5,638,568	$ 5,509,925
Less: Accumulated amortization	(726,923)	(632,487)
	$ 4,911,645	$ 4,877,438

All lands are owned by the government in China. Land use rights represent the Company s purchase of usage rights for a parcel of land for a specified duration of time, typically 50 years. The land use rights are then amortized over the period of usage. Amortization expense for the years ended June 30, 2011 and December 31, 2010 were $94,435 and $144,611, respectively.

9. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following as of June 30, 2011 and December 31, 2010:

	Remark	6/30/2011	12/31/2010
Loans from Junan County Construction Bank,			
- Interest rate at 5.610% per annum due 1/6/2011		$ -	$ 128,558
- Interest rate at 5.841% per annum due 1/14/2011		-	483,983
- Interest rate at 5.610% per annum due 1/28/2011		-	3,223
- Interest rate at 5.841% per annum due 3/4/2011		-	393,236
- Interest rate at 5.841% per annum due 9/9/2011		-	1,209,958
Loan from Junan County Agriculture Bank,			
- Interest rate at 6.903% per annum due 3/30/2011		-	95,284
- Interest rate at 7.434% per annum due 8/23/2011	A	1,547,269	1,512,447
Loan from Junan County Industrial and Commercial Banks,			
- Interest rate at 5.100% per annum due 1/18/2011		-	756,224
- Interest rate at 5.100% per annum due 1/20/2011		-	756,224
- Interest rate at 5.100% per annum due 1/26/2011		-	1,134,336
- Interest rate at 5.100% per annum due 2/8/2011		-	635,228
- Interest rate at 5.100% per annum due 2/22/2011		-	1,240,207
- Interest rate at 4.860% per annum due 3/15/2011		-	1,134,336

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- Interest rate at 7.44% per annum due 10/17/2011	B	618,908	-
Loan from Linyi Commercial Bank,			
- Interest rate at 11.510% per annum due 1/21/2011		-	680,601
- Interest rate at 11.676% per annum due 12/15/2011	C	696,271	680,601
- Interest rate at 12.201% per annum due 1/10/2012	C	696,271	-
Loan from Minsheng Bank, Luotian Branch			
- Interest rate at 8.203% per annum due 4/15/2012		2,320,904	-
Loan from China Agricultural Bank, Luotian Branch			
- Interest rate at 6.372% per annum due 9/12/2011		928,361	1,134,336
Bank of Beijing,			
- Interest rate at 6.672% per annum due 10/28/2011		309,454	302,489
East West Bank (Formerly United Commercial Bank), China Branch,			
- Interest rate at 5.494% per annum due 11/14/2011	D	801,317	897,052
HSBC Miyun Branch,			
- Interest rate at 5.840% per annum due 6/09/2011		-	302,489
- Interest rate at 6.372% per annum due 6/29/2011		-	983,091
- Interest rate at 6.804% per annum due 4/8/2011		-	302,489
Shenzhen Development Bank, Zhenhua Branch			
- Interest rate at 5.310% per annum due 9/14/2011		773,635	756,224
China Development Bank,			
- Interest rate at 5.841% per annum due 6/27/2011		-	3,024,895
Luotian Agricultural Development Bank,			
- Interest rate at 0.670% per month due 12/11/2010		-	113,433
Luotian Sanliqiao Credit Union,			
- Interest rate at 6.300% per annum due 11/5/2011		773,635	756,224
Beijing Rural Commercial Bank, Shilibao Branch,			
- Interest rate at 7.434% per annum due 8/10/2011		2,630,357	2,571,161

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China Agricultural Bank, Shandong Branch		
- Interest rate at 7.2280% per annum due 12/27/2011	1,547,269	1,512
Shandong Junan Rural Credit Union		
- Interest rate at 9.1155% per annum due 2/07/2011	-	1,209
Beijing International Trust Co., Ltd., (BITIC)		
- Interest rate at 6.600% per annum due 12/14/2011	464,181	453
Shenzhen Development Bank,		
- Interest rate at 6.435% per annum due 12/7/2011	2,320,904	
	$ 16,428,735	$ 25,164

The short-term loans, which are denominated in the functional currency Renminbi (RMB), were primarily obtained for general working capital.

Remark:
A: A parcel of 12,726 square meters land use right and an 8,162 square meters building was used as collateral for this loan.
B: Accounts Receivable in the amount of $1,650,000 was used as collateral for this loan
C: Machinery of $857,737 was used as collateral for these two loans.
D: A parcel of 19,507 square meters land use right, owned by Sishui Xinlu, was used as collateral for this loan.

10. NOTES PAYABLE
Notes payable consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Junan County Construction Bank,		
- due at 1/26/2011	$ -	$ 378,112
- due at 1/30/2011	-	846,971
Qingdao Evergrowing Bank,		
- due at 6/13/2011	-	3,024,895
Shenzhen Development Bank		
- due at 10/8/2011	773,635	-
Shanghai Pudong Development Bank		
- due at 9/17/2011	3,094,538	-
	$ 3,868,173	$ 4,249,977

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11. TAXES PAYABLES

Taxes payable consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Value added tax payable	$ 68,905	$ 377,562
Corporate income tax payable	1,183,679	2,808,466
Employee payroll tax withholding	5,046	5,096
Property tax payable	51,671	38,819
Stamp duty tax payable	1,404	4,679
Sales tax payable	197	76
Land use tax payable	45,074	24,943
City maintenance and construction tax payable	1,119	-
Import tariffs	-	6,861
	$ 1,357,095	$ 3,266,502

12. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Accrued salaries and wages	$ 212,080	$ -
Accrued utility expenses	47,976	24,825
Accrued interest expenses	285,361	38,353
Accrued transportation expenses	389,700	472,836
Other accruals	17,000	110,683
Business and other taxes	58,287	479,850
Disbursement payable	426,754	177,543
Accrued staff welfare	26,552	31,857
	$ 1,463,710	$ 1,335,947

13. LONG-TERM DEBT

Current portions of long-term debt consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010
Loans from Luotian Agricultural Development Bank		
-Interest rate at 2.100% per annum due 12/11/2011	56,089	26,468
Loans from East West Bank (Formerly United Commercial Bank), China Branch		
- Interest rate at 5.494% per annum due 11/14/2011	-	192,467
	$ 56,089	$ 218,935

Non-current portions of long-term debt consisted of the following as of June 30, 2011 and December 31, 2010:

	6/30/2011	12/31/2010

Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH		
(DEG)		
- Interest rate at 5.510% per annum due 3/15/2016	15,330,667	5,030,930
	15,330,667	5,030,930

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The Company s loan with DEG will be repaid in semi-annual installments beginning September 15, 2012. The loan was collateralized with the following terms:

(a.) Create and register a first ranking mortgage in the amount of about USD 12,000,000 on its land and building in favor of DEG.
(b.) Undertake to provide a share pledge of Mr. Si Chen shares in the sponsor in the amount of about USD 12,000,000 and being the majority shareholder in the sponsor in form and substance satisfactory to DEG
(c.) The total amount of the first ranking mortgage as indicated in the Loan Agreement (Article 12(1)(a)) and the value of the pledged shares of Mr. Si Chen (Loan Agreement (Article 12(1)(a))) should be at least USD 24,000,000.
(d.) Undertake to provide a guarantee from the Shareholder in form and substance satisfactory to DEG.

14. CAPITALIZATION

Dating back to May 3, 2007, the Company underwent a reverse-merger and a concurrent financing transaction that resulted in 24,923,178 shares of outstanding common stock that remained unchanged until through December 31, 2007. In connection with the financing, the Company also issued 1,037,858 and 489,330 warrants to the PIPE investors and placement agent, respectively. During 2008, several holders of warrants issued in connection with the financing transaction exercised their rights to purchase shares at the prescribed exercise price. The holders of the warrants exercised the right to purchase a total of 360,207 shares; however, because the holders did not pay in cash for the warrants, 110,752 of those shares were cancelled as consideration in lieu of the warrant holders paying in cash. Ultimately, 249,455 of new shares were issued to those who exercised their warrant. The Company also made an adjustment to its outstanding share count for rounding errors as result of the split and reverse splits made at the time of the reverse merger. The number of shares in the adjustment was an addition of seven shares. The Company believes the adjustment of seven shares is immaterial to both prior and current earnings per share calculation. As detailed in the table below, the total number of outstanding shares at June 30, 2011 was 34,444,709.

During the year 2009, the Company issued 56,393 shares of stock to its employees and vendors and 5,011,169 shares to investors. The Company issued 1,334,573 stock options to employees on July 28, 2009. 1,753,909 shares of Series A warrants and 501,115 shares of Series B warrants were issued to investors on October 28, 2009.

During the year 2010, the Company issued 2,000 shares to a service provider on February 10, 2010 and 81,155 warrants to various service providers on January 5, 2010. The Company issued to investors 3,440,800 shares at an agreed price of $2.80 per share for a PIPE financing on September 10, 2010. This financing brought $8,955,730 net proceeds to the Company. The Company issued 5,000 shares to its employee on September 23, 2010. 731,707 shares of restricted stock were issued to the owner of Shandong Greenpia, Mr. Ji Zhenwei on September 24, 2010 as part of acquisition cost. The total number of shares issued and outstanding is 34,444,709 as of June 30, 2011.

During the year 2010, the Company transferred 5,161,176 from retained earnings to additional paid up capital and 2,445,262 from retained earnings to statutory reserve. These transfers are to be used for future company development, recovery of losses and increase of capital, as approved, to expand production or operations.

For the period ended June 30, 2011, the Company transferred 729,186 from retained earnings to statutory reserve. These transfers are to be used for future company development, recovery of losses and increase of capital, as approved, to expand production or operations.

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Capitalization Reconciliation Table

	Par value authorized	Issuance date	Shares outstanding
Common stock at 1/1/2009	200,000,000		25,172,640
New shares issued to employees and vendors during 2009		Various dates	56,393
New shares issued to PIPE investors		10/28/2009	5,011,169
New shares issued to service provider during 2010		2/10/2010	2,000
New shares issued to PIPE investors		9/10/2010	3,440,800
New shares issued to employee		9/23/2010	5,000
New shares issued as acquisition consideration		9/24/2010	731,707
New shares issued to service provider during 2011		5/5/2011	25,000
Common stock at 6/30/2011			34,444,709

Warrants and options	Number of warrants or options	Issuance date	Expiration date
Warrants issued to investors in 2007 PIPE	1,037,858	5/3/2007	5/2/2010
Warrants issued to placement agent in 2007 PIPE	489,330	5/3/2007	5/2/2010
Employee stock options	1,334,573	7/28/2009	7/27/2014
Warrants issued to investors in 2009 PIPE - Series A	1,753,909	10/28/2009	4/28/2015

Warrants issued to investors in 2009 PIPE - Series B	501,115	10/28/2009	10/28/2012
Issued to service provider A during 2010	50,722	1/5/2010	1/2/2014
Issued to service provider B during 2010	20,289	1/5/2010	1/2/2014
Issued to service provider C during 2010	10,144	1/5/2010	1/2/2014
Total warrants and options	5,197,940		

15. NON-CONTROLLING INTERESTS

The non-controlling interest represents the 19.8% equity of Shandong Lorain held by the Shandong Economic Development Investment Corporation, which is a state-owned interest.

16. SALES BY PRODUCT TYPE

Sales by categories of product consisted of the following during the six months ended June 30, 2011 and 2010:

Category	6/30/2011	6/30/2010
Chestnut	$ 32,770,230	$ 27,828,801
Convenience food	22,811,418	17,359,167
Frozen food	10,594,807	8,590,562
Total	**$ 66,176,455**	**$ 53,778,530**

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Revenue by geography consisted of the following during the six months ended June 30, 2011 and 2010:

Country	*6/30/2011*	*6/30/2010*
Australia	$ 48,689	$ -
Belgium	767,229	445,969
Canada	50,148	71,599
China	51,328,475	43,646,930
Denmark	20,566	-
France	458,427	135,987
Germany	818,205	158,599
Hong Kong	23,446	65,838
Indonesia	20,812	-
Israel	213,869	-
Japan	6,802,126	4,227,008
Malaysia	771,216	740,106
Netherlands	294,904	89,710
Philippines	135,783	-
Poland	108,237	-
Singapore	318,812	256,664
South Korea	1,777,782	2,435,059
Spain	273,656	101,233
Taiwan	940,374	264,210
United Kingdom	896,995	773,566
United States	73,272	152,059
Others	33,432	213,993
Total	**$ 66,176,455**	**$ 53,778,530**

17. INCOME TAXES

All of the Company s operations are in the PRC, and in accordance with the relevant tax laws and regulations of PRC, the corporate income tax rate is 25%.

The following tables provide the reconciliation of the differences between the statutory and effective tax expenses as of June 30, 2011 and 2010.

	June 30,	
	2011	*2010*
Income attributed to PRC	$ 8,713,111	$ 6,929,124
Loss attributed to US*	(501,865)	(509,170)
Income before tax	8,211,247	6,419,954
PRC Statutory Tax at 25% Rate	2,173,421	1,529,596
Effect of tax exemption granted	-	-
Income tax	$ 2,173,421	$ 1,529,596

Per Share Effect of Tax Exemption *June 30,*

	2011	2010
	$	$
Effect of tax exemption granted	-	-
Weighted-Average Shares Outstanding Basic	34,427,582	26,075,413
Per share effect	$ 34,427,582	$ 26,075,413

The difference between the U.S. federal statutory income tax rate and the Company s effective tax rate was as follows as of June 30, 2011 and 2010:

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	June			
		2011		2010
U.S. federal statutory income tax rate	$	35%	$	35%
Lower rates in PRC, net		-10%		-10%
Tax holiday for foreign investments		1.47%		-0.03%
The Company s effective tax rate	$	26.47%	$	24.97%

Effective January 1, 2008, the PRC government implemented a new 25% tax rate across the board for all enterprises regardless of whether domestic or foreign enterprise without any tax holiday which is defined as two-year exemption followed by three-year half exemption hitherto enjoyed by tax payers. As a result of the new tax law of a standard 25% tax rate, tax holidays were terminated as of December 31, 2007. However, PRC government has established a set of transition rules to allow enterprises already started tax holidays before January 1, 2008, to continue enjoying the tax holidays until being fully utilized.

The Company has accrued a deferred tax asset as a result of its net operating loss in 2009 because the Company planned to setup operations in the United States. The company anticipates that the operations within the United States will generate income in the future so that it will be able to take full advantage of the accrued asset. Accordingly the Company has not provided a valuation allowances for the accrued tax asset.

The Company s has detailed the tax rates for its subsidiaries for 2011 and 2010 in the following table.

Income Tax Rate	2011	2010
International Lorain	0%	0%
Junan Hongran	25%	25%
Luotian Lorain	25%	15%
Beijing Lorain	15%	15%
Shandong Lorain	25%	25%
Shandong Greenpia	25%	25%
Dongguan Lorain	25%	25%

18. EARNINGS PER SHARE

Components of basic and diluted earnings per share were as follows for the three and six months periods ended June 30, 2011 and 2010:

	Three months ended June 30,				Six months ended June 30,			
		2011		**2010**		**2011**		**2010**
Basic Earnings Per Share Numerator								
Net Income	$	3,262,451	$	2,679,613	$	5,688,739	$	4,540,144
Income Available to Common Stockholders		3,262,451		2,679,613		5,688,739		4,540,144
Diluted Earnings Per Share Numerator								
		3,262,451		2,679,613		5,688,739		4,540,144

Income Available to Common Stockholders				
Income Available to Common Stockholders on Converted Basis	3,262,451	2,679,613	5,688,739	4,540,144
Original Shares:				
Additions from Actual Events				
-Issuance of Common Stock	34,427,582	26,075,413	34,427,582	26,075,413
Basic Weighted Average Shares Outstanding	34,427,582	26,075,413	34,427,582	26,075,413

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Dilutive Shares:				
Additions from Potential Events				
Exercise of Employee & Director Stock Options	602,761	675,179	602,761	675,179
Diluted Weighted Average Shares Outstanding:	35,030,343	26,750,592	35,030,343	26,750,592
Earnings Per Share				
- Basic	0.09	0.10	0.17	0.17
- Diluted	0.09	0.10	0.16	0.17
	$	$	$	$
Weighted Average Shares Outstanding				
- Basic	34,427,582	26,075,413	34,427,582	26,075,413
- Diluted	35,030,343	26,750,592	35,030,343	26,750,592

19. SHARE BASED COMPENSATION

On July 27, 2009, the Company s Board of Directors adopted the American Lorain Corporation 2009 Incentive Stock Plan (the Plan). The Plan provides that the maximum number of shares of the Company s common stock that may be issued under the Plan is 2,500,000 shares. The Company s employees, directors, and service providers are eligible to participate in the Plan.

For the year ended December 31, 2009, the Company recorded a total of $166,346 of shared based compensation expense. The Company issued warrants that upon exercise would result in the issuance of 1,334,573 common shares. These stock options vest over three years, where 33.33% vest annually. The expense related to the stock options was $107,375. The Company also recorded expense of $58,971 for the issuance of 56,393 common shares to participants, respectively. The common shares vested immediately. Given the materiality and nature of share based compensation, the entire expense has been recorded as general and administrative expenses.

During the period ended June 30, 2011 and December 31, 2010, the Company recorded a total of $305,373 and $890,209 stock option and its related general and administrative expenses.

The range of the exercise prices of the stock options granted since inception of the plan are shown in the following table:

Price Range	Number of Shares
$0 - $4.99	1,334,573 shares
$5.00 - $9.99	0 shares
$10.00 - $14.99	0 shares

No tax benefit has yet to be accrued or realized. For the period ended June 30, 2011, the Company has yet to repatriate its earnings, accordingly it has not recognized any deferred tax assets or liability in regards to benefits derived from the issuance of stock options.

The Company used the Black-Scholes Model to value the warrants granted. The following shows the weighted average fair value of the grants and the assumptions that were employed in the model:

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Weighted-average fair value of grants:	$	1.5955
Risk-free interest rate:		1.76%
Expected volatility:		5.11%
Expected life in months:		36.00

20. LEASE COMMITMENTS

The Company has entered into an operating lease agreement leasing a factory building located in Dongguan, China. The lease was signed by Shandong Lorain on behalf of Dongguan Lorain and expires on August 9, 2018.

The minimum future lease payments for this property at June 30, 2011 are shown in the following table:

From	To		Lease payment
4/1/2011	12/31/2011		44,561
1/1/2012	12/31/2012		89,123
1/1/2013	12/31/2013		92,613
1/1/2014	12/31/2014		98,035
1/1/2015	12/31/2015		98,035
1/1/2016	12/31/2016		98,035
1/1/2017	12/31/2017		98,035
1/1/2018	8/9/2018		59,883
		$	678,320

The outstanding lease commitment as of June 30, 2011 was $678,320.

The minimum future lease payments for this property at December 31, 2010 are shown in the following table:

From	To		Lease payment
1/1/2011	12/31/2011		84,245
1/1/2012	12/31/2012		84,245
1/1/2013	12/31/2013		87,521
1/1/2014	12/31/2014		92,670
1/1/2015	12/31/2015		92,670
1/1/2016	12/31/2016		92,670
1/1/2017	12/31/2017		92,670
1/1/2018	8/9/2018		56,631
		$	683,332

The outstanding lease commitment as of December 31, 2010 was $683,332.

21. RISKS

A. Credit risk

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

B. Interest risk

The company subject to the interest rate risk when their short term loans become due and require refinancing.

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C. Economic and political risks

The Company s operations are conducted in the PRC. Accordingly, the Company s business, financial condition, and results of operations may be influenced by changes in the political, economic, and legal environments in the PRC.

The Company s operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company s results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

D. Environmental risks

The Company has procured environmental licenses required by the PRC government. The Company has both a water treatment facility for water used in its production process and secure transportation to remove waste off site. In the event of an accident, the Company has purchased insurance to cover potential damage to employees, equipment, and local environment.

E. Inflation Risk

Management monitors changes in prices levels. Historically inflation has not materially impacted the company s financial statements; however, significant increases in the price of raw materials and labor that cannot be passed on the Company s customers could adversely impact the Company s results of operations.

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

Caution Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to the factors described in the section captioned "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" and similar expressions intendec forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect.

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

Overview

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

- chestnut products,
- convenience foods (including ready-to-cook foods, ready-to-eat foods, and meals ready-to-eat); and
- frozen foods.

We conduct our production activities in China. Our products are sold in 26 provinces and administrative regions in China and 42 foreign countries. We believe that we are the largest processed chestnut foods manufacturer in China. We have developed brand recognition for our chestnut products in China, Japan and South Korea over the past 10 to 15 years. We produced over 50 high value-added processed chestnut products in the second quarter of 2011. We derive most of our revenues from sales in China, Japan and South Korea. Our primary strategy for 2011 is to expand our brand equity in the Chinese market for our convenience foods products while maintaining the steady growth and brand recognition for our chestnut products and frozen products. In addition, we are working to expand our marketing efforts in Asia, North America, Europe and the Middle East. We currently have limited sales and marketing activity in the United States, although our long-term plan is to significantly expand our activities there.

Sales in the first two quarters of 2011 continue to exhibit steady growth. Sales continue to be heavily concentrated in the Asian regions, with mainland China, Japan and South Korea accounting for 90.5% of total sales during the first half of 2011, as compared to 93.5% over the same period of last year. In the coming quarters, American Lorain expects to continue seeing higher demand for its traditional chestnut products as well as its fast growing convenience food products such as rice boxes, driven by continued channel building efforts such as more branded counters in supermarkets and sales to the railway system.

Frozen foods sold primarily to select export markets in Europe and wholesale customers like Yums! Foods in China contributed approximately 16.0% in revenues for the first six months of both 2011 and 2010. Currently, American Lorain uses mostly outsourced, third party manufacturing facilities for its frozen foods and maintains limited production exposure and contractual obligations in this segment as part of a broader marketing strategy and in response to a highly competitive environment.

Production Factors that Affect our Financial and Operational Condition

Our business depends on obtaining a reliable supply of various agricultural products, including chestnuts, vegetables, fruits, red meat, fish, eggs, rice, flour and packaging products. During the first two quarters of 2011, the cost of our raw materials increased from $38.0 million to $46.7 million, as compared to the first two quarters of 2010, for an increase of approximately 22.9%. During the second quarter of 2011, the cost of our raw materials increased from $20.8 million to $25.4 million, as compared to the second quarter of 2010, for an increase of approximately 22.6% due to a combined effect of increased sales and general inflation. China currently faces high domestic inflation pressures, especially in agricultural products and consumer foods. The prolonged continuation or worsening of such pressure may negatively our sales or profitability, In addition, we may have to increase the number of our suppliers of raw materials and expand our own agricultural operations in the future to meet growing production demands. Despite our efforts to control our supply of raw materials and maintain good relationships with our suppliers, we could lose one or more of our suppliers at any time. The loss of several suppliers may be difficult to replace and could increase our reliance on higher cost or lower quality suppliers, which could negatively affect our profitability. In addition, if we have to increase the number of our suppliers of raw materials in the future to meet growing production demands, we may not be able to locate new suppliers who could provide us with sufficient materials to meet our needs. Any interruptions to, or decline in, the amount or quality of our raw materials supply could materially disrupt our production and adversely affect our business and financial condition and financial prospects.

Seasonality

Chestnut season in China lasts from September to January. We purchase and produce raw chestnuts during these months and store them in our refrigerated storage facilities throughout the year. Once we obtain a purchase order during the rest of the year, we remove the chestnuts from storage, process them and ship them within one day of production. Since most chestnuts are produced and sold in the fourth quarter, the Company generally performs best in the fourth quarter.

We have also been working to reduce the seasonality in our business primarily by expanding sales of our convenience food business line. The percentage revenue contribution from convenience food increased from 32.3% in the first six months of 2010 to 34.5% in the first six months of 2011, while revenue contribution from chestnuts declined from 51.7% to 49.5% over the same period of time.

Uncertainties that Affect our Financial Condition

We spend a significant amount of cash on our operations, principally to procure raw materials for our products. Many of our suppliers, including chestnut, vegetable and fruit farmers, and suppliers of packaging materials, require us to prepay for their supplies in cash or pay on the same day that such supplies are delivered to us. However, some of the suppliers with whom we have a long-standing business relationship allow us to pay on credit. In the first two quarters of 2011, we paid for approximately 6.1% of our raw materials on credit. In the second quarter of 2011, we paid for approximately 13.2% of our raw materials on credit. We fund the majority of our working capital requirements out of cash flow generated from operations. If we fail to generate sufficient sales, or if our suppliers stop offering us credit terms, we may not have sufficient liquidity to fund our operating costs and our business could be adversely affected.

We also fund approximately 22.0% of our working capital requirements from the proceeds of short-term loans from Chinese banks, as compared to 82.9% over the same period last year, as we obtained, and have fully drawn from, a $15 million long term loan from Deutsche Investitions- und Entwicklungsgesellshaft (“DEG”) and thus reduced our reliance on short term bank loans. However, we expect to continue to fund our working capital requirements with such loans in the future. Such loans are generally secured by our fixed assets, receivables and/or guarantees by third parties. Our balance from short-term bank loans as of June 30, 2011 was approximately $16.4 million. The term of almost all such loans is one year or less. Historically, our lenders have permitted us to roll over such loans on an annual basis. However, we may not have sufficient funds available to pay all of our borrowings upon maturity, and our lenders may not permit us to roll over the loans in the future. Failure to roll over our short-term borrowings at maturity or to service our debt could result in the imposition of penalties, including increases in rates of interest, legal actions against us by our creditors, or even insolvency. In addition, we completed two private placement financings in September 2010 and October 2009 with net proceeds of $9.0 million and $10.9 million, respectively, the proceeds of which were primarily used for working capital. We can provide no assurances that we will be able to enter into any future financing or refinancing agreements on terms favorable to us, especially considering the current instability of the capital markets.

We anticipate that our existing capital resources and cash flows from operations and current and expected short-term bank loans will be adequate to satisfy our liquidity requirements for the next 12 months. However, if available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include obtaining alternative financing arrangements or further reducing expenditures as necessary to meet our cash requirements. However, there is no assurance that, if required, we will be able to raise additional capital or reduce discretionary spending to provide the required liquidity. Currently, the capital markets for small capitalization companies are extremely difficult and banking institutions have become stringent in their lending requirements. Accordingly, we cannot be sure of the availability or terms of any third party financing.

The Company’s operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things, as more fully described in the Company's Annual Report on Form 10-K.

The crisis of the financial and credit markets worldwide in the second half of 2008 has led to a severe economic recession worldwide. Furthermore, the on-going European debt crisis and US national debt ceiling debate and subsequent sovereign rating downgrade are currently weighing on the global economic conditions as well as the financial market. The outlook for 2011 remains uncertain, but continuation or worsening of unfavorable economic conditions, including the on-going global economy and capital markets disruptions, could have adverse impacts on our business, operating results or financial conditions in a number of ways. For example, we may experience declines in revenues, profitability and cash flows as a result of reduced orders, delays in receiving orders, delays or defaults in payment or other factors caused by the economic problems of our customers and prospective customers. We may experience supply chain delays, disruptions or other problems associated with financial constraints faced by our suppliers and subcontractors. In addition, changes and volatility in the equity, credit and foreign exchange markets and in the competitive landscape make it increasingly difficult for us to predict our revenues and earnings into the future.

In 2010, we shortened credit terms for many of our international and domestic distributors from between 30 and 180 days to between 30 and 60 days for domestic distributors, and approximately 90 days for international distributors. Our large customers may fail to meet these shortened credit terms, in which case we may not have sufficient cash flow to fund our operating costs and our business could be adversely affected.

Results of Operations

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

The following table summarizes the results of our operations during the three-month periods ended June 30, 2011 and June 30, 2010, respectively and provides information regarding the dollar and percentage increase or (decrease) from the three-month period ended June 30, 2010 compared to the three-month period ended June 30, 2011.

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

	Three months ended June 30,		Dollar ($)	Percentage (%)
	2011 (In US Dollar)	2010 (In US Dollar)	Increase (Decrease)	Increase (Decrease)
Net revenues	35,726,650	29,218,314	6,508,336	22.3%
Cost of revenues	(28,070,066)	(22,499,645)	(5,570,421)	24.8%
Gross profit	7,656,584	6,718,669	937,915	14.0%
Operating expenses				
Selling and marketing expenses	(1,088,768)	(1,194,996)	106,228	-8.9%
General and administrative expenses	(1,593,366)	(932,210)	(661,156)	70.9%
Operating Income	4,974,450	4,591,463	382,987	8.3%
Investment income	-	589		
Government subsidy income	302,260	196,003	106,257	54.2%
Interest and other income	102,372	8,901	93,471	1050.1%
Other expenses	(21,483)	(44,714)	23,231	-52.0%
Interest expense	(610,111)	(1,023,129)	413,018	-40.4%
Earnings before tax	4,747,488	3,729,113	1,018,375	27.3%
Income tax	(1,277,553)	(857,604)	(419,949)	49.0%
Income before minority interests	3,469,935	2,871,509	598,426	20.8%
Minority interests	207,484	191,896	15,588	8.1%
Net income	3,262,451	2,679,613	582,838	21.8%

<u>Revenue</u>

Net Revenues. Our net revenue for the three months ended June 30, 2011 amounted to $35.7 million, which represents an increase of approximately $6.5 million, or 22.3%, from the three-month period ended on June 30, 2010, in which our net revenue was $29.2 million. This increase was attributable to the increased revenues generated from sales of each of our product segments, as reflected in the following table:

	Three months ended			
(in thousands of U.S. dollars)	*6/30/2011*	*6/30/2010*	Increase	Increase
<u>Category</u>				
Chestnut	17,719,636	14,868,240	2,851,396	19.2%
Convenience food	12,807,758	10,269,991	2,537,767	24.7%
Frozen food	5,199,255	4,080,083	1,119,172	27.4%
Total	35,726,650	29,218,314	6,508,336	22.3%

Cost of Revenues. During the three months ended June 30, 2011, we experienced an increase in cost of revenue, which consists of raw materials, direct labor and manufacturing overhead expenses, of $5.6 million, in comparison to the three months ended June 30, 2010, from approximately $22.5 million to $28.1 million, reflecting an increase of approximately 24.8% . Approximately 86.1%, or $4.6 million, of this increase was attributable to an increase in raw material costs, which increased from $20.8 million during the three months ended June 30, 2010 to $25.4 million, or approximately 22.6%, during the three months ended June 30, 2011.

The factors that contributed to the remaining 13.9% increase in cost of revenues were: an increase in wage expense for factory workers, an increase in depreciation expenses for capital equipment and an increase in the cost of consumables used in conjunction with capital equipment.

Gross Profit. Our gross profit increased approximately $1.0 million, or 14.0%, to $7.7 million for the three months ended June 30, 2011 from $6.7 million for the same period in 2010 as a result of higher revenues, offset by higher costs of revenues, for the reasons indicated immediately above. Our gross margins decreased from 23.0% to 21.4% due to inflation pressure in the Chinese domestic market. Gross profit margins by product segment for the three months ended June 30, 2011 were: 23-26% for chestnuts, 20-23% for convenience foods and 16-18% for frozen foods.

<u>Operating Expenses</u>

Selling and Marketing Expenses. Our selling and marketing expenses decreased $106,228, or 8.9%, to $1.1 million in the second quarter of 2011 from $1.2 million in the second quarter of 2010. The following table reflects the main factors that contributed to this decrease as well as the dollar amount that each factor contributed to this decrease.

	Dollar Decrease (in U.S. dollars)
Sea Transportation	(86,532)
Advertisation	(42,438)
Port Fees	(15,839)

Selling and marketing expenses decreased as we controlled our cost very carefully while expanding our distribution channels in China. We might, however, increase our selling and marketing expenses in the second half of 2011 as we continue to build up our brand recognition in the China market for our chestnut and convenience food products.

General and Administrative Expenses. We experienced an increase in general and administrative expense of $661,156 from $0.9 million to approximately $1.6 million for the three months ended June 30, 2011, compared to the same period in 2010. The following table reflects the main factors that contributed to this increase as well as the dollar amount that each factor contributed to this increase:

Factor	Dollar Increase (in U.S. dollars)
Salary and Social Welfare	261,534
Land Usage Tax	123,630
Office Expenses	31,264

The increases listed in the table above were partially offset by decreases in dollar amount of other factors, including appraisal expense, consulting fees and fuel expenses, etc.

Income Before Taxation and Minority Interest

Income before taxation and minority interest increased $1.0 million, or 27.3%, to $4.7 million for the three months ended June 30, 2011 from $3.7 million for the same period of 2010. The increase was mainly attributable to the increase of our sales revenue and lower interest expense due to lower bank loans in the three months ended June 30, 2011 as compared to the three months ended June 30, 2010.

Income Taxes

Income taxes increased $419,949, or 49.0%, to $1.3 million in the second quarter of 2011, as compared to $0.9 million in the second quarter of 2010. This increase was attributable to the higher earnings before tax and a higher income tax rate in 2011 as compared to 2010.

Effective January 1, 2008, the PRC government implemented a new 25% tax rate across the board for all enterprises, without any tax holiday. However, the PRC government has established a set of transition rules to allow enterprises that already started tax holidays before January 1, 2008 to continue utilizing such tax holidays until they are fully utilized.

The income tax rates applicable to our Chinese operating subsidiaries in 2011 and 2010 are depicted in the following table:

	2011	**2010**
Junan Hongrun	25%	25%
Luotian Lorain	25%	15%
Beijing Lorain	15%	15%
Shandong Lorain	25%	25%
Dongguan Lorain	25%	25%
Shandong Greenpia	25%	25%

Net Income

Net income increased $582,838, or 21.8%, to $3.3 million for the three months ended June 30, 2011 from $2.7 million for the same period of 2010. The increase was attributable to increased sales revenue and lower interest expense, and was partially offset by increased cost of goods sold, general and administrative expenses, and higher income tax in the three months ended June 30, 2011 as compared to the three months ended June 30, 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

The following table summarizes the results of our operations during the six-month periods ended June 30, 2011 and June 30, 2010, respectively and provides information regarding the dollar and percentage increase or (decrease) from the six-month period ended June 30, 2011 compared to the six-month period ended June 30, 2010.

	Six months ended June 30,		Dollar ($)	Percentage (%)
	2011	2010	Increase	Increase
	(In US Dollar)	(In US Dollar)	(Decrease)	(Decrease)
Net revenues	66,176,455	53,778,530	12,397,925	23.1%
Cost of revenues	(51,744,961)	(41,335,771)	(10,409,190)	25.2%
Gross profit	14,431,493	12,442,759	1,988,734	16.0%
Operating expenses				
Selling and marketing expenses	(2,451,454)	(2,567,348)	115,894	-4.5%
General and administrative expenses	(3,069,313)	(1,948,662)	(1,120,651)	57.5%
Operating Income	8,910,727	7,926,749	983,978	12.4%
Investment income	-	589		
Government subsidy income	595,352	377,424	217,928	57.7%
Interest and other income	149,457	130,982	18,475	14.1%
Other expenses	(181,055)	(72,237)	(108,818)	150.6%

Interest expense	(1,263,235)	(1,943,553)	680,318	-35.0%
Earnings before tax	8,211,246	6,419,954	1,791,292	27.9%
Income tax	(2,173,421)	(1,529,596)	(643,825)	42.1%
Income before minority interests	6,037,825	4,890,358	1,147,467	23.5%
Minority interests	349,087	350,214	(1,127)	-0.3%
Net income	5,688,738	4,540,144	1,148,594	25.3%

Revenue

Net Revenues. Our net revenue for the six months ended June 30, 2011 amounted to $66.2 million, which is approximately $12.4 million or 23.1% more than that of the same period ended on June 30, 2010 where we had revenue of $53.8 million. This increase was attributable to the increased revenues generated from sales of each of our product segments, as reflected in the following table:

	Six months ended			
(in thousands of U.S. dollars)	*6/30/2011*	*6/30/2010*	Increase	Increase
Category	($)	($)	($)	(%)
Chestnut	32,770,230	27,828,801	4,941,429	17.8%
Convenience food	22,811,418	17,359,167	5,452,251	31.4%
Frozen food	10,594,807	8,590,562	2,004,245	23.3%
Total	66,176,455	53,778,530	12,397,925	23.1%

Cost of Revenues. Our cost of revenues, which consists of raw materials, direct labor and manufacturing overhead expenses, was $51.7 million for the six month period ended June 30, 2011, an increase of $10.4 million or 25.2%, as compared to $41.3 million for the six month period ended June 30, 2010. Approximately 84.9%, or $8.8 million, of this increase was attributable to an increase in raw material costs, which increased from $38.0 million during the six months ended June 30, 2010 to $46.7 million, or approximately 22.9%, during the six months ended June 30, 2011.

The factors that contributed to the remaining 15.1% increase in cost of revenues were: an increase in wage expense for factory workers, an increase in depreciation expenses for capital equipment and an increase in the cost of consumables used in conjunction with capital equipment.

Gross Profit. Our gross profit increased $2.0 million, or 16.0% to $14.4 million for the six months ended June 30, 2011 from $12.4 million for the same period in 2010. This increase was attributable to increased sales revenue, offset by higher cost as described above. Our gross margins decreased from 23.1% to 21.8% due to inflation pressure in the Chinese domestic market. Gross profit margins by product segment for the six months ended June 30, 2010 were: 23-26% for chestnuts, 20-23% for convenience foods and 16-18% for frozen foods.

Operating Expenses

Selling and Marketing Expenses. Selling and marketing expenses decreased $115,894, or 4.5% to $2.5 million for the six months ended June 30, 2011 from $2.6 million for the same period in 2010.. Selling and marketing expenses decreased as we controlled our cost very carefully while expanding our distribution channels in China. We might, however, increase our selling and marketing expenses in the second half of 2011 as we continue to build up our brand recognition in the China market for our chestnut and convenience food products.

General and Administrative Expenses. General and administrative expenses increased $1.1 million, or 57.5% to $3.1 million for the six months ended June 30, 2011 from $1.9 million for the same period of 2010. The increase of general and administrative expenses was primarily attributable to increased compensation and benefit for managerial personnel and expansion of our distribution channels.

Income Before Taxation and Minority Interest

Income before taxation and minority interest increased $1.8 million or 27.9% to $8.2 million for the six months ended June 30, 2011 from $6.4 million for the same period of 2010. The increase was primarily a result of the higher revenue and lower interest expense due to lower bank loans during the six month period ended on June 30, 2011 as compared to 2010.

Income Taxes

Income taxes increased $643,825 or 42.1% to $2.2 million for the six months ended June 30, 2011 from $1.5 million for the same period of 2010. The increase of tax paid was primarily a result of the increase of income as well as higher tax rate in the first six months ended June 30, 2011, as compared to the same period in 2010.

Net Income

Net income increased $1.1 million, or 25.3% to $5.7 million for the six months ended June 30, 2011 from $4.5 million for the same period of 2010. The increase was primarily a result of increased revenue and lower interest expense, offset by higher cost of revenues and general administrative expenses.

Liquidity and Capital Resources

As of June 30, 2011, we had cash and cash equivalents (excluding restricted cash) of $9.6 million. Our cash and cash equivalents decreased by approximately $3.1 million from December 31, 2010, primarily due to increase in inventories and restricted cash. The following table provides detailed information about our net cash flow for all financial statements periods presented in this report.

	Six Months Ended June 30,	
	2011	**2010**
Net cash provided by (used in) operating activities	(1,679)	5,506
Net cash provided by (used in) investing activities	(5,621)	(9,498)
Net cash provided by (used in) financing activities	1,019	2,290
Net cash flow (outflow)	(6,281)	(1,703)

<u>Operating Activities</u>

Net cash used in operating activities was $1.7 million for the six months period ended June 30, 2011 and net cash provided by operating activities in the first two quarters of 2010 was approximately $5.5 million. The decrease of approximately $7.2 million in net cash flows provided by operating activities in the first half of fiscal 2011 was primarily a result of additional increase in inventories of approximately $3.6 million, additional decrease in payables of approximately $2.0 million and a lower decrease in receivables of $1.9 million, which was partially offset by higher net income as compared to the same period in 2010.

<u>Investing Activities</u>

Our main uses of cash for investment activities are payments for the acquisition of property, plants and equipment.

Net cash used in investing activities for the six months period ended June 30, 2011 was $5.6 million, which is an decrease of $3.9 million from net cash used in investing activities of $9.5 million for the same period of 2010. The decrease was primarily due to fewer purchases of equipment and plant in 2011, offset by increased restricted cash.

<u>Financing Activities</u>

Net cash provided by financing activities for the six months period ended June 30, 2011 was $1.0 million, which is a decrease of $1.3 million from $2.3 million net cash provided by financing activities during the same period in 2010. The decrease of the net cash provided by financing activities was primarily a result of decreased short term bank borrowing in 2011.

<u>Loan Facilities</u>

As of June 30, 2011, the amounts and maturity dates for our short-term bank loans are as set forth in the Notes to the Financial Statements. The total amounts outstanding were $16.4 million as of June 30, 2011, compared with $25.2 million as of December 31, 2010. We are also carrying a long term loan of $15 million from DEG due in March 2016, with eight equal semi-annual principal payments commencing September 2012. In addition, on February 8, 2011, Industrial and Commercial Bank of China granted us a line of credit of approximately $16.2 million. The line of credit was granted to us with specific allocation of 38% to Junan Hongrun, 38% to Shandong Lorain, and 24% to Beijing Lorain, our three major operating subsidiaries. The line of credit is effective for one year. As of June 30, 2011, we drew down $618,908 from this line of credit.

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

Critical Accounting Policies

The preparation of financial statements in conformity with United States generally accepted accounting principles requires our management to make assumptions, estimates and judgments that affect the amounts reported in our financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require significant judgments and estimates in the preparation of financial statements, including the following:

Method of Accounting -- We maintain our general ledger and journals with the accrual method accounting for financial reporting purposes. Accounting policies adopted by us conform to generally accepted accounting principles in the United States and have been consistently applied in the presentation of our financial statements, which are compiled on the accrual basis of accounting.

Use of estimates -- The preparation of the financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however, actual results could differ materially from those estimates.

Principles of consolidation -- Our consolidated financial statements, which include information about our company and our subsidiaries, are compiled in accordance with generally accepted accounting principles in the United States. All significant inter-company accounts and transactions have been eliminated. Our consolidated financial statements include 100% of assets, liabilities, and net income or loss of our wholly-owned subsidiaries. Ownership interests of minority investors are recorded as minority interests.

As of June 30, 2011, the details pertaining to our subsidiaries were as follows:

Name of Company	*Place of incorporation*	*Attributable equity interest %*	*Registered capital*
Shandong Lorain Co., Ltd	PRC	80.20	$ 15,605,756
Luotian Lorain Co., Ltd	PRC	100	3,919,047
Junan Hongrun Foodstuff Co., Ltd	PRC	100	46,294,291
Beijing Lorain Co., Ltd	PRC	100	1,547,269
Shandong Greenpia Foodstuff Co.,Ltd	PRC	100	2,376,605
Dongguan Lorain Co,,Ltd	PRC	100	154,727
International Lorain Holding Inc.	Cayman Islands	100	48,149,080

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

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

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

Our revenue consists of invoiced value of goods, net of a value-added tax. No product return or sales discount allowance is made as products delivered and accepted by customers are normally not returnable and sales discount is normally not granted after products are delivered.

Recent Accounting Pronouncements

In January 2011, the FASB issued an Accounting Standard Update (ASU) No. 2011-01, Receivables Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. The amendments in this Update apply to all public-entity creditors that modify financing receivables within the scope of the disclosure requirements about troubled debt restructurings in Update 2010-20. Under the existing effective date in Update 2010-20, public-entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. The amendments in this Update temporarily defer that effective date, enabling public-entity creditors to provide those disclosures after the Board clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this Update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. In the proposed Update for determining what constitutes a troubled debt restructuring, the Board proposed that the clarifications would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in Update 2010-20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. This new accounting is not expected to have a material impact on the Company s consolidated financial position or results of the operations.

In June 2011, the FASB issued an Accounting Standard Update (ASU No. 2011-05, Comprehensive Income (Topic 220). Under the amendments to Topic 220, Comprehensive Income, entities have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. This new accounting is not expected to have a material impact on the Company s consolidated financial position or results of the operations.

Off-Balance Sheet Arrangements

We do not have any off-balance arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2011, our disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting.

During the fiscal quarter ended June 30, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we have disputes that arise in the ordinary course of business. Currently, there are no material legal proceedings to which we are a party, or to which any of our property is subject.

ITEM 1A. RISK FACTORS

Not applicable.

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

On May 5, 2011, the company issued 25,000 restricted shares to a consultant as consulting compensation. This transaction was exempt under Section 4(2) of the Securities Act based on representation made by the transferee.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. REMOVED AND RESERVED

Not applicable

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	**Description**
31.1	Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: August 15, 2011

AMERICAN LORAIN CORPORATION

/s/ Si Chen
Si Chen
Chief Executive Officer

/s/ David She
David She
Chief Financial Officer