

China Jianye Fuel, Inc.
Form 10-Q
May 16, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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

For the transition period from _____ to _____.

Commission File Number: 000-52496

CHINA JIANYE FUEL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-8296010
(I.R.S. Employer Identification Number)

100 Wall Street, 15th Floor, New York, NY, 10005
(Address of principal executive office and zip code)

212-232-0120
(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

Edgar Filing: China Jianye Fuel, Inc. - Form 10-Q

or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

As of May 16, 2011, 29,976,923 shares of the Registrant’s common stock, \$0.001 par value, were outstanding.

CHINA JIANYE FUEL, INC.

FORM 10-Q

For the quarter ended March 31, 2011

TABLE OF CONTENTS

PART I— FINANCIAL INFORMATION

| | | |
|----------|---|---|
| Item 1. | Financial Statements | 1 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 2 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 8 |
| Item 4T. | Controls and Procedures | 8 |

PART II— OTHER INFORMATION

| | | |
|----------|---|----|
| Item 1. | Legal Proceedings | 10 |
| Item 1A. | Risk Factors | 10 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 10 |
| Item 3. | Defaults Upon Senior Securities | 10 |
| Item 4. | (Removed and Reserved) | 10 |
| Item 5. | Other Information | 10 |
| Item 6. | Exhibits | 10 |

| | | |
|------------|--|----|
| SIGNATURES | | 11 |
|------------|--|----|

ITEM 1. Financial Information

| FINANCIAL STATEMENTS | Page # |
|--|-----------|
| Condensed Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and June 30, 2010 | F-1 |
| Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (Unaudited) | F-2 |
| Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2011 and 2010 (Unaudited) | F-3 |
| Notes to the Financial Statements (Unaudited) | F-4 – F-6 |

CHINA JIANYE FUEL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2011 | June 30, 2010 |
|--|----------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,102 | \$ 6,312 |
| Accounts receivable, net of allowance for doubtful accounts of nil at March 31, 2011 and June 30, 2010 | 40,721 | 43,881 |
| Inventory, net | 1,824,492 | 1,599,140 |
| Advances to suppliers | 65,876 | 57,854 |
| Due from related parties | 68,718 | 57,307 |
| Prepaid expenses and other current assets | 301,969 | 299,434 |
| Total current assets | 2,308,878 | 2,063,928 |
| Property and equipment, net | 2,225,690 | 2,315,009 |
| Intangibles, net | 45,596 | 45,596 |
| Total assets | \$ 4,580,164 | \$ 4,424,533 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 136,330 | \$ 144,535 |
| VAT tax payable | 471,070 | 458,314 |
| Income tax payable | 550,806 | 530,304 |
| Due to related parties | 1,354,351 | 1,188,006 |
| Other current liabilities | 25,278 | 35,560 |
| Total current liabilities | 2,537,835 | 2,356,719 |
| Total liabilities | 2,537,835 | 2,356,719 |
| Stockholders' equity: | | |
| Common Stock, \$0.001 par value, 200,000,000 shares Authorized, 29,976,923 shares issued and outstanding at March 31, 2011 and June 30, 2010 | 29,977 | 29,977 |
| Additional paid-in capital | 5,695,058 | 5,695,058 |
| Accumulated deficits | (4,658,988) | (4,464,118) |
| Accumulated other comprehensive income | 976,282 | 806,897 |
| Total stockholders' equity | 2,042,329 | 2,067,814 |
| Total liabilities and stockholders' equity | \$ 4,580,164 | \$ 4,424,533 |

The Accompanying Notes Are an Integral Part of the Financial Statements.

CHINA JIANYE FUEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
(Unaudited)

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|-------------------|---------------------------|-------------------|
| | March 31, 2011 | March 31, 2010 | March 31, 2011 | March 31, 2010 |
| Sales | \$ 3,244 | \$ - | \$ 7,118 | \$ 3,577,545 |
| Cost of sales | (35,547) | - | (107,148) | (3,260,149) |
| Gross (loss) profit | (32,303) | - | (100,030) | 317,396 |
| Operating expenses | | | | |
| Selling, general and administrative | (42,668) | (120,864) | (87,751) | (259,265) |
| (Loss) income from operations | (74,971) | (120,864) | (187,781) | 58,131 |
| Other (expenses) income | (45) | (61) | 44,781 | 81 |
| (Loss) income before provision for income tax | (75,016) | (120,925) | (143,000) | 58,212 |
| Provision for income tax | - | 30,231 | - | (14,553) |
| Net (loss) income | (75,016) | (90,694) | (143,000) | 43,659 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustment | 87,869 | (36) | 169,536 | 11,536 |
| Comprehensive income | \$ 12,853 | \$ (90,730) | \$ 26,536 | \$ 55,195 |
| Basic earnings (loss) per share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Diluted earnings (loss) per share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 29,976,923 | 29,976,923 | 29,976,923 | 29,976,923 |
| Diluted | 29,976,923 | 29,976,923 | 29,976,923 | 29,976,923 |

The Accompanying Notes Are an Integral Part of the Financial Statements.

CHINA JIANYE FUEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the Nine Months Ended | |
|--|---------------------------|-------------------|
| | March 31, 2011 | March 31, 2010 |
| Cash flows from operating activities: | | |
| Net (Loss) Income | \$ (143,000) | \$ 43,659 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 190,638 | 113,636 |
| Changes in current assets and current liabilities: | | |
| Accounts receivable | 4,811 | 864,387 |
| Inventory, net | (159,542) | (616,683) |
| Advances to suppliers | (5,644) | (4,156) |
| Prepaid expense and other current assets | 9,128 | (44,299) |
| Accounts payable and accrued expenses | (13,678) | (649,066) |
| VAT tax payable | (5,243) | 4,144 |
| Income tax payable | (420) | 14,553 |
| Other current liabilities | 1,209 | 185,202 |
| Total adjustments | 21,259 | (132,282) |
| Net cash used in operating activities | (121,741) | (88,623) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (11,194) | - |
| Acquisition of intangible assets | - | - |
| Net cash used in investing activities | (11,194) | - |
| Cash flows from financing activities: | | |
| Due to related parties | 108,474 | 67,139 |
| Net cash provided by financing activities | 108,474 | 67,139 |
| Effect of foreign currency translation on cash | 25,251 | 65 |
| Net increase (decrease) in cash and cash equivalents | 790 | (21,419) |
| Cash and cash equivalents at beginning of year | 6,312 | 55,202 |
| Cash and cash equivalents at end of year | \$ 7,102 | \$ 33,783 |

The accompanying notes are an integral part of the financial statements.

CHINA JIANYE FUEL, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011

Note 1 – Organization And Summary Of Significant Accounting Policies

Basis of Presentation— The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial reporting and in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements contained in this report reflect all adjustments that are normal and recurring in nature and considered necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the interim period are not necessarily indicative of the results expected for the full year. These unaudited, condensed consolidated financial statements, footnote disclosures and other information should be read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2010.

Organization — China Jianye Fuel Inc. was incorporated as Standard Commerce, Inc. (“Standard Commerce”) in December 1994 in Nevada. On November 13, 2007, Standard Commerce acquired the outstanding capital stock of American Jianye Ethanol Company, Inc., a Delaware corporation (“American Jianye”) and changed its name to China Jianye Fuel Inc. For accounting purposes, the acquisition was treated as a recapitalization of American Jianye. American Jianye is a holding company that owns 100% of Zhao Dong Jianye Fuel Co., Ltd. (“Zhao Dong”), a corporation organized under the laws of the People’s Republic of China. The accompanying consolidated financial statements include the financial statements of China Jianye Fuel Inc. and its subsidiaries (the “Company”). The Company’s primary business is to manufacture and distribute ethanol and methanol as alternative fuel for automobile use.

Basis of Consolidation — The consolidated financial statements include the accounts of China Jianye Fuel, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated.

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

Cash and Cash Equivalents— Cash and cash equivalents include cash and all highly liquid instruments with original maturities of three months or less.

Inventory — Inventory is stated at the lower of cost or market. Cost is determined by using the weighted-average method. The Company periodically reviews the age and turnover of its inventory to determine whether any inventory has become obsolete or has declined in value, and charges to operations for known and anticipated inventory obsolescence. The Company did not record any provision for slow-moving and obsolete inventory as of March 31, 2011 and June 30, 2010.

Intangible Assets — Intangible assets consist of “Rights to use land” for 32 years in China and therefore amortized over 32 years based on straight-line method.

F-4

Recently Issued Accounting Guidance —These Accounting Standards Updates should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. Alternatively, an entity can elect to adopt these standards on a retrospective basis, but both these standards must be adopted in the same period using the same transition method. The Company expects to apply this standard on a prospective basis for revenue arrangements entered into or materially modified beginning January 1, 2011. It is expected the adoption of this Statement will have no material effect on the Company's Financial Statements.

ASC Update ("ASU") No. 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash. This update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This ASU codified the consensus reached in EITF Issue No. 09-E "Accounting for Stock Dividends, Including Distributions to Shareholders with Components of Stock and Cash". ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this update did not have any material impact on the Company's financial statements.

ASC Updated ("ASU") No. 2010-02, Consolidation (Topics 810) – Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification. This update provides guidance for non-controlling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. The adoption of this update did not have any material impact on the Company's financial statements.

ASC Update ("ASU") No. 2010-13, Compensation – Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. This update is to codify the consensus reached in EITF Issue No. 09-J, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades." The amendments to the Codification clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or services condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The adoption of this update did not have any material impact on the Company's financial statements.

ASC Update ("ASU") No. 2010-21, Accounting for Technical Amendments to Various SEC Rules and Schedules. This update amends various SEC paragraphs in the FASB Accounting Standards Codification pursuant to SEC Final Rule, "Technical Amendments to Rules Forms, Schedules and Codification of Financial Reporting Policies". The adoption of this update did not have any material impact on the Company's financial statements.

ASC Update ("ASU") No. 2010-22, Accounting for Various Topics. This update amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (SAB) No. 112 which amends or rescinds portion of certain SAB topics. SAB 112 was issued to bring existing SEC guidance into conformity with ASC 805 "Business Combination" and ASC 810 "Consolidation". The adoption of this update did not have any material impact on the Company's financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

F-5

Note 2 – Inventory

Inventory at March 31, 2011 and June 30, 2010 consists of the following:

| | March 31, 2011 | June 30, 2010 |
|--------------------|---------------------|---------------------|
| Raw materials | \$ 681,926 | \$ 475,880 |
| Packaging supplies | - | 29,211 |
| Finished goods | 1,142,566 | 1,094,049 |
| Total | \$ 1,824,492 | \$ 1,599,140 |

Note 3 – Due From/To Related Parties

The Company and its affiliated entities regularly borrow money from each other, which is unsecured and non-interest bearing. The balance due to these entities at March 31, 2011 and June 30, 2010 was \$1,354,351 and \$1,188,006, respectively. The balance due from these entities at March 31, 2011 and June 30, 2010 was \$68,718 and \$57,307, respectively.

Note 4 - Subsequent Events

The Company has evaluated all other subsequent events through May 16, 2011, the date these consolidated financial statements were issued, and determined that there were no other subsequent events or transactions that require recognition or disclosures in the financial statement

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This Quarterly Report on Form 10-Q contains "forward-looking" statements, as such term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements consist of information relating to the Company that is based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitation, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

China Jianye Fuel, Inc. ("China Jianye") was originally incorporated as Standard Commerce, Inc. ("Standard Commerce") in December 1994 in Nevada. On November 13, 2007, Standard Commerce acquired the outstanding capital stock of American Jianye Ehtanol Company, Inc. ("American Jianye"), a Delaware Corporation, and changed its name to China Jianye Fuel, Inc. ("China Jianye"). China Jianye, through its wholly-owned subsidiary, American Jianye, owns 100% of the registered capital of Zhao Dong Jianye Fuel Co., Ltd. ("Zhao Dong Jianye Fuel"), a corporation organized in 2004 under the laws of The People's Republic of China. Zhao Dong Jianye Fuel is engaged in the business of developing, manufacturing and distributing alcohol-based automobile fuel products in the People's Republic of China.

American Jianye was organized under the laws of the State of Delaware in March 2007. It never initiated any business activity. In November 2007, American Jianye acquired 100% of the net assets of Zhao Dong Jianye Fuel in exchange for debt and equity in American Jianye. Those shares represent the only asset of American Jianye.

Zhao Dong Jianye Fuel Co., Ltd. was founded in April 2004 under the laws of the People's Republic of China with registered capital of RMB 9 million Yuan (US\$1.3 million). The offices and manufacturing facility operated by Zhao Dong Jianye Fuel are located at 47 Huagong Road, Zhaodong City, Heilongjiang Province, in northeastern China. Zhao Dong Jianye Fuel engages in the development, manufacture, and distribution of alcohol based automobile fuel. The Company's products are designed to function as a lower-cost, more environmentally friendly alternative to conventional gasoline-based auto fuel.

Zhao Dong Jianye Fuel was among the first China-based fuel manufacturers to bring to market alcohol-based automobile fuel. Alcohol-based fuel is an attractive alternative to gasoline for several reasons, including its environmental benefits. Alcohol-based fuel burns with higher efficiency and significantly lower toxic waste emissions than any lead-free gasoline that meets China's national GB17930-1999 fuel quality standards. With its average total toxic waste emission level being only 1% of the maximum toxic emission level mandated by Chinese industry regulators, the quality of alcohol-based fuel is on par with or exceeds the international fuel quality standards for Type IV lead-free gasoline. In addition, due to the lower costs of the raw materials used in the manufacturing process, the average integrated cost of such fuels is only about 4,000-4,150 Renminbi ("RMB") (\$590-610) per ton, lower than the prevailing wholesale price of #93 lead-free gasoline in China by as much as 1,000 RMB (\$147) per ton.

Zhao Dong Jianye Fuel has, since its formation, been engaged in developing its products and its refinery. The Company now has a facility capable of producing 300,000 tons of fuel annually, and has developed the core staff needed for full production operations. In the Spring of 2008, the Company began to ship commercial quantities of fuel to customers, although it continues to operate at only a small fraction of its capacity due to a need for working capital to fund the launch of full-scale operations.

The Company is currently capable of producing alcohol-based fuels comparable to lead-free gasoline with octane ratings ranging from #90 to #98. The Company's products include both ethanol-based fuels (E10, E30, E50, E60, E70, E80 and E85), and methanol-based fuels (M10, M30, M50, M60, M70, M80 and M85), although the primary focus of its business plan is on methanol-based fuels due to their environmental and economic advantages. Recently, the Company has also been engaged in research and development of methanol/ethanol blended fuels, including ME80 and ME85.

Zhao Dong Jianye Fuel commenced operations in 2004. Until the Spring of 2008, however, its activities were essentially developmental. Its research and development efforts have led to the development of a series of fuel products and the award of several patents. With funds provided by its Chairman, Jianye Wang, it has developed a state-of-the-art refinery for the production of methanol-based and ethanol-based fuels. In addition, it has organized a staff of engineers, managers and sales professionals that will be able to support its full-scale entry into the fuel market.

Until the year ended June 30, 2008, the Company's revenue-producing activities had been incidental to the company's research and development activities. Prior to September 30, 2007, Zhao Dong Jianye Fuel sold modest amounts of fuel to a variety of customers, primarily to (a) develop the channels through which it will market when it commences full scale production and (b) introduce new products to those markets for testing and publicity. In the fiscal year ended June 30, 2006 this incidental marketing effort generated \$541,103 in revenue. In the year ended on June 30, 2007, however, Zhao Dong Jianye Fuel suspended most of its revenue-producing activities in order to focus on internal organization activities. As a result, only \$61,555 in revenue was generated during the 2007 fiscal year.

During the quarter ended December 31, 2007, Zhao Dong Jianye Fuel recorded its first significant revenue - \$3,449,434. This occurred because Zhao Dong Jianye Fuel completed a sale and delivery of fuel additives to Zhanjiang Runtong Trading Corp. In the quarter ended March 31, 2008, we realized additional significant revenue from the sale of fuel, as we sold 4,200 tons of methanol-based fuel to CIPC Heilongjiang HuBei, a fuel distributor, for \$3,249,795. These two sales represented approximately 97% of our revenues for the year ended June 30, 2008. Zhanjiang Runtong Trading Corp. and CIPC Heilongjiang HuBei are unrelated third parties, and the transactions were the result of arms length negotiation. After year ended June 30, 2008, however, our sales to Zhanjiang Runtong Trading Corp. and CIPC Heilongjiang HuBei consisted only incidental sales of sales batches.

We expect to develop more consistent revenue streams in the current fiscal year. In July 2008, Zhao Dong Jianye Fuel entered into a contract with Zhuhai Zhonghuan Oil Ltd., which contemplates that the customer will purchase 15,000 tons of ethanol-based automobile fuel per month. Then, in September 2008, Zhao Dong Jianye Fuel entered into contract with Shanxi Province Hanzhong Xilan Liquefied Petroleum Limited to provide the company 200 to 300 tons of M30 fuel each month. Neither of these contracts represents a binding purchase commitment as the customers commit to purchase fuel for only one month at a time. However, these contracts suggest that we are beginning to achieve a consistent stream of revenue.

Our business operates primarily in Chinese Renminbi (“RMB”), but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to U.S. dollars results in translation adjustments. While our net income is added to the retained earnings on our balance sheet, the translation adjustments are added to a line item on our balance sheet labeled “accumulated other comprehensive income,” since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the nine months ended March 31, 2011, the effect of converting our financial results to U.S. Dollars added \$169,536 to our accumulated other comprehensive income.

RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended March 31, 2011 and December 31, 2010:

| | For the Three Months Ended September , | | Increase / (Decrease) |
|---|--|-----------|--------------------------|
| | 2011 | 2010 | |
| Revenues | \$ 3,244 | \$ — | 3,244 |
| Cost of Sales | 35,547 | — | 35,547 |
| Gross Profit | (32,303) | — | 32,303 |
| Selling, General and Administrative Expenses | 42,668 | 120,864 | (78,196) |
| Profit (loss) from operations | (74,971) | (120,864) | 45,893 |
| Other Income (expenses) | (45) | (61) | (16) |
| Profit (loss) before provision for income taxes | (75,016) | (120,925) | 45,909 |
| Income taxes | - | 30,231 | (30,231) |
| Net Income (loss) | (75,016) | (90,694) | 15,678 |
| Total other income (expense) | 87,869 | (36) | 87,905 |
| Comprehensive Income (Loss) | \$ 12,853 | (90,730) | 103,583 |

Revenues. Revenues increased approximately \$3,244 to \$3,244 for the three months ended March 31, 2011 from nil for the same period in 2010.

Cost of Sales. Our cost of sales increased approximately \$35,547, to \$35,547 for the three months ended March 31, 2011 from nil for the same period in 2010. This increase was mainly due to sales increase.

Gross Profit (Loss). Our gross profit (loss) decreased approximately \$32,303 to \$32,303 for the three months ended March 31, 2011 from a gross profit of nil for the same period in 2010. This decrease was mainly due to an increase in cost of sales.

Other Selling, General and Administrative Expenses. Other selling, general and administrative expenses decreased approximately \$78,196, or 65%, to \$42,668 for the three months ended March 31, 2011 from \$120,864 for the same period in 2010. Such decrease was due to an increase in sales revenue.

Income (Loss) from Operations. Income (loss) from operations increased approximately \$45,893 or 38 %, to \$(74,971) for the three months ended March 31, 2011 from \$(120,864) for the same period in 2010. This increase was mainly due to an increase in sales revenue and decrease in selling, general and administrative expenses.

Other Income (expenses). Other expenses decreased approximately \$16, to \$(45) for the three months ended March 31, 2011 from approximately \$(61) for the same period in 2010. The decrease was mainly due to a decrease of interest expense.

Income (Loss) Before Provision of Income Taxes. Income before income taxes increased approximately \$45,909, or 38 %, to \$(75,016) for the three months ended March 31, 2011 from \$(120,925) for the same period in 2010. This increase was mainly due to an increase in revenues and a decrease in operating expenses.

Income Taxes. Income taxes decreased approximately \$30,231, or 100 %, to nil for the three months ended March 31, 2011. No tax expense for the three months ended March 31, 2011 due to net loss.

Net Income (loss). Net income increased approximately \$15,678, or 17 %, to \$(75,016) for the three months ended March 31, 2010 from \$(90,694) for the same period in 2010. This decrease in profitability for the period ended March 31, 2011 was due to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

Our operations to date have been funded primarily by capital contributions and short-term loans from our Chairman, Jianye Wang, which have been adequate to bring us to the point where we are prepared to commence full scale production.

RESULTS OF OPERATIONS

Results of Operations for the Nine Months Ended March 31, 2011 and March 31, 2010:

| | For the Six Months Ended March | | Increase / (Decrease) |
|---|-----------------------------------|--------------|--------------------------|
| | 2011 | 2010 | |
| Revenues | \$ 7,118 | \$ 3,577,545 | (3,570,427) |
| Cost of Sales | 107,148 | 3,260,149 | (3,153,001) |
| Gross Profit | (100,030) | 317,396 | (417,426) |
| Selling, General and Administrative Expenses | 87,751 | 259,265 | (171,514) |
| Income (loss) from operations | (187,781) | 58,131 | (245,912) |
| Other Income (expenses) | 44,781 | 81 | 44,700 |
| Income (loss) before provision for income taxes | (143,000) | 58,212 | (201,212) |
| Income taxes | - | 14,553 | (14,553) |
| Net Income (loss) | (143,000) | 43,659 | (186,659) |
| Total other income (expense) | 169,536 | 11,536 | 158,000 |
| Comprehensive Income (Loss) | \$ 26,536 | 55,195 | (28,659) |

Edgar Filing: China Jianye Fuel, Inc. - Form 10-Q

Revenues. Revenues decreased approximately \$3,570,427, or 100%, to \$7,118 for the nine months ended March 31, 2011 from \$3,577,545 for the same period in 2010.

Cost of Sales. Our cost of sales decreased approximately \$3,153,001, or 97%, to \$107,148 for the nine months ended March 31, 2011 from \$3,260,149 for the same period in 2010. This decrease was mainly due to sales decrease.

6

Gross Profit (Loss). Our gross profit decreased approximately \$417,426, or 132%, to a gross loss of \$100,030 for the nine months ended March 31, 2011 from a gross profit of \$317,396 for the same period in 2010. This decrease was mainly due to a decrease in sale revenue and a percentage increase in cost of sales.

Other Selling, General and Administrative Expenses. Other selling, general and administrative expenses decreased approximately \$171,514, or 66%, to \$87,751 for the nine months ended March 31, 2011 from \$259,265 for the same period in 2010. Such decrease was due to an increase in sales revenue.

Income (Loss) from Operations. Income from operations decreased approximately \$245,912 or 423 %, to \$(187,781) for the nine months ended March 31, 2011 from \$58,131 for the same period in 2010. This decrease was mainly due to a decrease in sale revenue.

Other Income (Expenses). Other income increased approximately \$44,700, to \$44,781 for the nine months ended March 31, 2011 from approximately \$81 for the same period in 2010. The increase was mainly due to an income of government grant.

Income (Loss) Before Provision of Income Taxes. Income before income taxes decreased approximately \$201,212, or 346 %, to \$(143,000) for the nine months ended March 31, 2011 from \$58,212 for the same period in 2010. This decrease was mainly due to an increase in revenues, an decrease in operating profits, and a decrease in operating expenses.

Income Taxes. Income taxes decreased approximately \$14,553, or 100 %, to nil for the nine months ended March 31, 2011. No tax expense for the nine months ended March 31, 2011 due to net loss.

Net Income (Loss). Net income decreased approximately \$186,659, or 428 %, to \$(143,000) for the nine months ended March 31, 2011 from \$43,659 for the same period in 2010. This decrease in profitability for the period ended March 31, 2011 was due to the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

Our operations to date have been funded primarily by capital contributions and short-term loans from our Chairman, Jianye Wang, which have been adequate to bring us to the point where we are prepared to commence full scale production.

For the nine months ended March 31, 2011, our operations in that period decreased our cash position by \$121,741.

CRITICAL ACCOUNTING POLICIES

In preparing our financial statements we are required to formulate working policies regarding valuation of our assets and liabilities and to develop estimates of those values. In our preparation of the financial statements there were two estimates made which were (a) subject to a high degree of uncertainty and (b) material to our results. These estimates were:

- Our decision, indicated in the Consolidated Financial Statements, to record a provision of \$0 for uncollectible accounts, against total related accounts receivable of \$40,721. This decision was based on our relationship with the debtors and our knowledge of their capacity to repay the debts.

- Our decision, described in Note 1 to the Consolidated Financial Statements, to record no provision for obsolete inventories. This decision was based on fact that our inventory at March 31, 2011 amounted to less than two months' sales and was primarily usable raw materials.

We have made no material changes to our critical accounting policies in connection with the preparation of financial statements included in this Quarterly Report on Form 10-Q.

Impact of Accounting Pronouncements

There were no recent accounting pronouncements that have had a material effect on the Company's financial position or results of operations.

Recently Issued Accounting Policies

In June 2009, the Financial Accounting Standards Board issued guidance, which contains amendments to Accounting Standards Codification 810, "Consolidation," relating to how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. These provisions became effective for us on January 1, 2010, but did not have a material impact on our financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Updated ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements," which amends existing revenue recognition accounting pronouncements that are currently within the scope of ASC 605. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. ASU 2009-13 is effective for the Company prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. The Company is currently evaluating the impact, if any, that the adoption of this amendment will have on its consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, which, among other things, amends Accounting Standards Topic 820 Fair Value Measurements and Disclosures (ASC 820) to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e., to present such items on a gross basis rather than on a net basis), and which clarifies existing disclosure requirements provided by ASC 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. ASU No. 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company's adoption of this standard had no impact on its consolidated financial position, results of operations or cash flows.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Not applicable due to smaller reporting company status.

Item 4T. Controls and Procedures

Evaluation of disclosure controls and procedures.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, such controls and procedures were effective.

Changes in internal controls.

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in the Company’s internal control over financial reporting that occurred during the fourth quarter of the year covered by this quarterly report, and they have concluded that there was no change to the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of June 30, 2009, using the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) Internal Control – Integrated Framework as a basis for our assessment.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified two material weaknesses in our internal control over financial reporting. These material weaknesses consisted of:

- a. Lack of expertise in U.S accounting principles among the personnel in our Chinese headquarters. Our books are maintained and our financial statements are prepared by the personnel employed at our executive offices in Heilongjiang Province in the People’s Republic of China. Few of our employees have experience or familiarity with U.S accounting principles. The lack of personnel in our Heilongjiang office who are trained in U.S. accounting principles is a weakness because it could lead to improper classification of items and other failures to make the entries and adjustments necessary to comply with U.S. GAAP.
- b. Lack of independent control over related party transactions. Jianye Wang is the sole director of China Jianye Fuel and of its subsidiary, Zhao Dong Jianye Fuel. From time to time Mr. Wang has made loans and capital contributions to finance the operations of Zhao Dong Jianye Fuel. The absence of other directors to review these transactions is a weakness because it could lead to improper classification of such related party transactions.

Management is currently reviewing its staffing and their training in order to remedy the weaknesses identified in this assessment. To date, we are not aware of significant accounting problems resulting from these weaknesses; so we have to weigh the cost of improvement against the benefit of strengthened controls. However, because of the above conditions, management’s assessment is that the Company’s internal controls over financial reporting were not effective as of June 30, 2010.

Edgar Filing: China Jianye Fuel, Inc. - Form 10-Q

This quarterly report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved)

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No. Description

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.

32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2

Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 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.

CHINA JIANYE FUEL INC.

By: /s/ Shobu Yu
Name: Shobu Yu
Title: Chief Executive Officer
and Director
(principal executive officer)
Date: May 16, 2011

By: /s/ Haishen Fei
Name: Haishen Fei
Title: Chief Financial Officer
and Director
(principal accounting officer)
Date: May 16, 2011