

China Jianye Fuel, Inc.
Form 10-Q
February 17, 2009

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2008

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

For the transition period from _____ to _____

Commission File No. 0-52496

CHINA JIANYE FUEL, INC.
(Name of Small Business Issuer in its Charter)

20-8296010

Deleware
(State or
Other
Jurisdiction
of
incorporation
or
organization)

(IRS Employer I.D. No.)

100 Wall Street, 15th Floor, New York, NY 10005
(Address of Principal Executive Offices)

Issuer's Telephone Number: (212) 232-0120

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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

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

Large accelerated filer Accelerated filer Non-accelerated filer Small 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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

February 12, 2009

Common Voting Stock: 29,976,923

TABLE OF CONTENTS	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Balance Sheets as of December 31, 2008 (Unaudited) and June 30, 2008 (Audited)	3
Consolidated Statements of Operations and comprehensive income for the three and six months ended December 31, 2008 and 2007 (Unaudited)	4
Consolidated Statements of Cash Flows for the six months ended December 31, 2008 and 2007 (Unaudited)	5
Notes to Condensed Consolidated Financial Statements	6-10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	11-17
Item 3. Quantitative and Qualitative Disclosures About Market Risks	17
Item 4. Evaluation of Controls and Procedures	17
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	18
Item 1A. Risk Factors	18
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3. Defaults Upon Senior Securities	18
Item 4. Submission of Matters to a Vote of Security Holders	18
Item 5. Other Information	18
Item 6. Exhibits	18

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA JIANYE FUEL, INC

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 2008	June 30, 2008
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 32,838	\$ 129,635
Accounts receivable, net of allowance for doubtful accounts of \$29,273 and \$29,113 at December 31, 2008 and June 30, 2008, respectively	5,416,765	5,793,568
Inventory	714,748	662,571
Advances to suppliers	1,012,227	1,031,406
Prepaid expenses	286	203,793
Other Current assets	305,220	147,481
Total Current Assets	7,482,084	7,968,454
PROPERTY AND EQUIPMENT, NET	2,735,282	2,833,086
OTHER ASSETS		
Intangibles, net	50,731	55,040
Total Assets	\$ 10,268,097	\$ 10,856,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 782,181	\$ 1,215,896
VAT taxes payable	457,891	434,580
Income taxes payable	529,679	526,791
Other current liabilities	953,637	873,471
Total Current Liabilities	2,723,388	3,050,738
Total Liabilities	2,723,388	3,050,738
STOCKHOLDERS' EQUITY		
Common Stock, \$0.001 par value, 200,000,000 shares Authorized, 29,976,923 shares issued and outstanding	29,977	29,977
Additional paid-in capital	5,695,058	5,695,058
Retained Earnings	1,034,391	1,343,116
Accumulated other comprehensive income	785,283	737,691

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Total Stockholders' Equity	7,544,709	7,805,842
Total Liabilities and Stockholders' Equity	\$ 10,268,097	\$ 10,856,580

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

CHINA JIANYE FUEL, INC
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
SALES	\$ 201,588	\$ 3,449,434	\$ 324,430	\$ 3,497,730
COST OF GOODS SOLD	183,961	1,316,038	294,770	1,373,581
GROSS PROFIT	17,627	2,133,396	29,660	2,124,149
OPERATING EXPENSES				
Selling, general and administrative	144,190	86,725	338,055	89,189
INCOME (LOSS) FROM OPERATIONS	(126,563)	2,046,671	(308,395)	2,034,960
OTHER INCOME (EXPENSES)				
Other expense	(96)	-	(330)	-
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX	(126,659)	2,046,671	(308,725)	2,034,960
PROVISION FOR INCOME TAX	-	-	-	-
NET INCOME (LOSS)	(126,659)	2,046,671	(308,725)	2,034,960
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	23,407	(161,873)	47,592	(68,177)
COMPREHENSIVE INCOME (LOSS)	\$ (103,252)	\$ 1,884,798	\$ (261,133)	\$ 1,966,783
BASIC EARNINGS PER SHARE	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ 0.04
DILUTED EARNINGS PER SHARE	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING				
BASIC	29,976,923	101,963,397	29,976,923	53,455,948
DILUTED	29,976,923	101,963,397	29,976,923	53,455,948

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

CHINA JIANYE FUEL, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Six Months Ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (308,725)	\$ 2,034,960
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	-	20,096
Depreciation and amortization	154,867	64,382
Deferred production cost	-	(12,544)
Changes in current assets and current liabilities:		
Accounts receivable	407,818	(4,019,202)
Inventory	(48,454)	(321,494)
Inter company and related party	-	107,212
Advances to suppliers	24,788	1,840,340
Prepaid expense	204,248	-
Other current assets	(156,641)	(8,200)
Accounts payable and accrued expenses	(439,560)	(66,193)
VAT taxes payable	20,890	330,821
Due to shareholders	-	37,578
Other current liabilities	75,253	-
Total Adjustments	243,209	(2,027,204)
Net Cash Provided By (Used In) Operating Activities	(65,516)	7,756
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(31,811)	(2,467)
Net Cash Used In Investing Activities	(31,811)	(2,467)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH	530	162
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(96,797)	5,451
CASH AND CASH EQUIVALENTS – BEGINNING	129,635	561
CASH AND CASH EQUIVALENTS – ENDING	\$ 32,838	\$ 6,012

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

CHINA JIANYE FUEL, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(UNAUDITED)

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company’s Consolidated Financial Statements include the accounts of its direct wholly-owned subsidiaries and its indirect proportionate share of subsidiaries owned by the wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Regulation S-X applicable to small business issuers. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.

INTERIM FINANCIAL STATEMENTS

These interim financial statements should be read in conjunction with the audited financial statements for the year ended June 30, 2008, as not all disclosures required by generally accepted accounting principles for annual financial statements are presented. The interim financial statements follow the same accounting policies and methods of computations as the audited financial statements for the year ended June 30, 2008.

NOTE 3 – EARNINGS (LOSS) PER SHARE

The Company presents earnings per share on a basic and diluted basis. Basic earnings per share have been computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted earnings per share has been computed by dividing net earnings plus convertible preferred dividends and interest expense (after-tax) on convertible debt by the weighted average number of common shares outstanding including the dilutive effect of equity securities. The weighted average number of common shares calculated for Diluted EPS excludes the potential common stock that would be exercised under the options and warrants granted to officers because the inclusion of the potential shares from these options and warrants would cause an anti-dilutive effect by increasing the net earnings per share.

CHINA JIANYE FUEL, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007
(UNAUDITED)

NOTE 3 – EARNINGS (LOSS) PER SHARE (CONTINUED)

	Three Months Ended December 31,	
	2008	2007
Net income (loss)	\$ (126,659)	\$ 2,046,671
Weighted average common shares	29,976,923	101,963,397
Effect of diluted securities:	-	-
Weighted average common shares	29,976,923	101,963,397
Basic net income per share	\$ (0.00)	\$ 0.02
Diluted net income per share	\$ (0.00)	\$ 0.02
	Six Months Ended December 31,	
	2008	2007
Net income (loss)	\$ (308,725)	\$ 2,034,960
Weighted average common shares	29,976,923	53,455,948
Effect of diluted securities:	-	-
Weighted average common shares	29,976,923	53,455,948
Basic net income per share	\$ (0.01)	\$ 0.04
Diluted net income per share	\$ (0.01)	\$ 0.04

CHINA JIANYE FUEL, INC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2008 AND 2007
 (UNAUDITED)

NOTE 4 – INVENTORY

Inventory at December 31, 2008 and June 30, 2008 consists of the following:

	December 31,	
	2008	June 30, 2008
Raw materials	\$ 571,932	\$ 594,495
Packaging supplies	34,395	32,058
Finished goods	108,421	36,018
Total	\$ 714,748	\$ 662,571

NOTE 5 – ADVANCES TO SUPPLIERS

As a common business practice in China, the Company is required to make advance payments to certain suppliers for raw material procurement and construction. Such advances are interest-free and unsecured.

CHINA JIANYE FUEL, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007
(UNAUDITED)

NOTE 6– PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and June 30, 2008 consists of the following:

	December 31, 2008		June 30, 2008	
Property and equipment	\$	3,442,190	\$	3,386,419
Less: accumulated depreciation		706,908		553,333
Total	\$	2,735,282	\$	2,833,086

Depreciation expense for the three months ended December 31, 2008 and 2007 was \$66,412 and \$38,473, and for the six months ended December 31, 2008 and 2007 was \$150,541 and \$63,332, respectively.

NOTE 7– INTANGIBLE ASSETS

Intangible assets at December 31, 2008 and June 30, 2008 consisted of the following:

	December 31, 2008		June 30, 2008	
Rights to use land	\$	73,790	\$	73,387
Less: accumulated amortization		23,059		18,347
Total	\$	50,731	\$	55,040

Amortization expense for the three months ended December 31, 2008 and 2007 amounted to \$2,025 and \$529, and for the six months ended December 31, 2008 and 2007 amounted to \$4,326 and \$1,050, respectively.

CHINA JIANYE FUEL, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007
(UNAUDITED)

NOTE 8 – OTHER PAYABLE

Other payable represents a short-term loan from a third party individual for purchasing raw materials. It is unsecured and non-interest bearing.

NOTE 9 – EMPLOYEE WELFARE PLAN

The Company has established an employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to the employee welfare plan.

NOTE 10 – RISK FACTORS

For the six months ended December 31, 2008, the Company had four vendors that provided approximately 76% of the Company's raw materials. Total purchases from these vendors amounted to \$217,469. For the six months ended December 31, 2007, the Company had one major vendor that provided approximately 95% of the Company's raw materials. Total purchases from this vendor were \$1,806,627.

For the six months ended December 31, 2008, one major customer accounted for approximately 57% of the Company's net sales. Total sales made to this customer amounted to \$185,583. For the six months ended December 31, 2007, one major customer accounted for approximately 99% of the net sales. Total sales made to this customer were \$3,425,385.

NOTE 10 – RISK FACTORS (continued)

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC as well as by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to credit risk consist principally of cash on deposit with financial institutions. Management believes that the financial institutions that hold the Company's cash and cash equivalents are financially sound and minimal credit risk exists with respect to these investments.

NOTE 12 - SUBSEQUENT EVENTS

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULT OF OPERATIONS

Forward Looking Statements

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 limitations, 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.

Results of Operations

Zhao Dong Jianye Fuel commenced operations in 2004. Its activities, however, have been 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 fuels. And 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. However, in the most recent fiscal year, which ended on June 30, 2008, Zhao Dong Jianye Fuel generated \$6,917,508 in revenue, primarily during the first half of fiscal year 2008. During the quarter ended December 31, 2007, Zhao Dong Jianye Fuel recorded revenue of \$3,449,434, primarily from a sale and delivery of fuel additives to Zhanjiang Runtong Trading Corp. In the quarter ended March 31, 2008, the Company realized the first significant revenue from the sale of fuel, as 4,200 tons of methanol-based fuel was sold 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. Since then, however, our revenues have returned to prior levels. In the quarter ended June 30, 2008, for example, our sales totaled only \$212,335, primarily consisting of incidental sales of sample batches.

During the three and six month periods ended December 31, 2008, our sales continue to be incidental to research and development. These sales again represent our distribution of sample batches to potential customers, and reflect the current volatile market, and do not represent the type of marketing that will accompany full production. This situation has occurred despite the fact that during the summer of 2008 we entered into supply contracts with two contractors, Zhuhai Zhonghuan Oil Ltd and Hanzhong Xilan Liquefied Petroleum, which we expected to be the basis for significant revenue growth. The primary reason for our lack of sales has been the dramatic decrease in world oil prices. The low cost of oil has limited the demand for alcohol based fuel. Prices for crude oil have fallen recently due to the global recession, which reduces demand for oil. We are unable to predict when this trend will reverse itself. Until oil prices increase, demand for our alcohol-based products is likely to be limited.

A second reason for our poor operating results for the quarter and six months ended December 31, 2008 was the fact that the Chinese Administrative Government is planning to initiate a fuel tax reform in the near future. Advance information indicates that the tax on oil and gas may be reduced by up to 80%. At the same time, the Government's tax policy for alcohol based fuel, including our ethanol-based fuel and other ancillary fuel additives, has not been announced. This uncertainty regarding the comparative pricing of petroleum-based fuel and alcohol-based fuel has increased our difficulty in developing a market for our alcohol-based products.

Our gross profit margin during both the quarter and the six months ended December 31, 2008 was approximately 9%. This figure is not meaningful, however, since we have not commenced full scale production. When the market price of the raw materials for methanol-based fuels (i.e. methanol and petroleum distillate) is substantially lower than the market price for gasoline, and we start our full production and sales of our major fuel products, we expect our gross profit margin to be significantly higher than that which is customary for refiners of petroleum-based fuels. At current market prices, we believe that we will be able to produce methanol-based fuel for \$27 to \$40 per ton less than the prevailing cost of refining gasoline with comparable octane levels. The price advantage can only be achieved, however, when we produce our fuels in quantities that make efficient use of our refinery and ship it in quantities that enable us to obtain wholesale shipping charges. Those conditions will be achieved only after we obtain large volume customers and we obtain the funds necessary to bring our operations up to the full production level.

Our selling, general and administrative expenses increased significantly from the first six months of fiscal year 2008 (\$89,189) to the first six months of fiscal year 2009 (\$338,055). The main reasons for the increase were (a) increased expenses of operating our facility, as we prepare for full production, and (b) the professional and other costs attendant to functioning as a U.S. public company, a situation initiated in November 2007. As we commence full-scale production, our operating expenses will continue to increase, primarily due to (a) increased staff required for production and marketing, (b) increased selling expense required to develop and expanded market for our products, and (c) increased depreciation expense. Currently, we only depreciate the portion of our facility that has been put into active use. The denominator for our depreciation calculation will increase when our entire facility is engaged in production.

Due to our lack of significant revenues, the Company's revenue less expenses produced a net loss of \$126,659 in the quarter ended December 31, 2008, compared to our net income of \$2,046,671 in the three months ended on December 31, 2007. Likewise our net loss of \$308,725 during the six months ended December 31, 2008 contrasted poorly with the \$2,034,960 in net income that we realized during the six months ended December 31, 2007.

Our business operates primarily in Chinese RMB (“RMB”), but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to 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 six months ended on December 31, 2008, the effect of converting our financial results to Dollars was to add \$47,592 to our accumulated other comprehensive income.

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.

Our working capital at December 31, 2008 totaled \$4,758,696. Included in our working capital, however, was \$5,416,765 in accounts receivable, almost all of which are owed by the two customers who were the source of 97% of our 2008 revenue. We are not certain when those receivables will be paid. Also included in working capital was an advance payment to the raw material suppliers in the amount of \$1,012,227. The recipient of this advance payment will be our primary source of petroleum distillate, and we made this payment in accord with Chinese custom, to enable the refinery to expand its production capacity in anticipation of doing a large amount of business with us. We have, therefore, only a small amount of liquid assets.

Despite the net loss of \$308,725 that we incurred during the six months ended December 31, 2008, our operations in that period reduced our cash position by only \$65,516. This disparity occurred primarily because the amount that we applied to reduce our accounts payable and accrued expenses, \$439,560, was approximately equal to the amount that we collected on our accounts receivable, \$407,818. This offset enabled us to preserve the goodwill of our vendors. During the same period we realized \$204,248 in value from prepaid expenses, which partially offset our net loss, allowing us to preserve our cash.

In order to commence full scale operations, we will need approximately \$4,000,000 to purchase raw materials and fund our initial receivables. On our December 31, 2008 balance sheet, we have property and equipment with a book value of \$2,735,282 on which there is no lien. We expect that some amount of the funds that we require can be obtained by pledging those assets to secure a loan. The remainder, however, will be obtained from the sale of equity. To date we have no commitment from any source for either debt or equity financing.

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.

Risk Factors That May Affect Future Results

You should carefully consider the risks described below before buying our common stock. If any of the risks described below actually occurs, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

Because we have not yet commenced our full scale production operations, unexpected factors may hamper our efforts to implement our business plan.

Our business plan contemplates that we will become a fully-integrated refiner and marketer of methanol-based fuel oil. To date, however, we have produced and marketed our fuels only in limited quantities. If the necessary funding can be obtained, we will commence operations on a much larger scale. The complexity of this undertaking means that we are likely to face many challenges, some of which are not yet foreseeable. Problems may occur with our raw material acquisition, with the roll-out of efficient manufacturing processes, and with our ability to deliver fuel efficiently. If we are not able to minimize the costs and delays that result, our business plan may fall short of its goals, and we will be unable to achieve profitability.

The capital investments that we plan may result in dilution of the equity of our present shareholders.

Our business plan contemplates that we will invest approximately \$4 million in the start-up of our full-scale operations. We intend to raise a large portion of the necessary funds by selling equity in our company. At present we have no commitment from any source for those funds. We cannot determine, therefore, the terms on which we will be able to raise the necessary funds. It is possible that we will be required to dilute the value of our current shareholders' equity in order to obtain the funds. If, however, we are unable to raise the necessary funds, our growth will be limited, as will our ability to compete effectively.

The market for methanol-based fuel is not developed in China.

One of the greater challenges that we will face in the implementation of our business plan will be the development of widespread acceptance of methanol as automobile fuel. Because our products perform as an alternative to conventional gasoline-based fuel, we will be challenged by the inertial effect of the association of gasoline with automobiles. Until we commence widespread marketing activities, we will not know the extent to which we will be able to persuade distributors and, ultimately, consumers, to trust our fuels in their automobiles. If we are unable to effect a change in the public concept of automobile fuel, our business plan may fail.

Zhao Dong Jianye Fuel's profitability will be dependent on market prices for methanol, ethanol and gasoline.

Zhao Dong Jianye Fuel's profitability and financial condition will be significantly affected by the selling price for methanol-based fuel. That price, in turn, will depend on the market prices for competitive products, specifically gasoline and ethanol. Uncontrolled market forces ultimately drive the price and supply of each of these fuels. Factors that affect these market prices include the level of consumer product demand, governmental regulations and taxes, the level of foreign imports of oil and natural gas, and the overall economic environment. Significant declines in world wide prices for oil could have a material adverse effect on our success in introducing methanol-based fuels.

Zhao Dong Jianye Fuel creates products that may have harmful effects on the environment if not stored and handled properly prior to use, which could result in significant liability and compliance expense.

The distribution of methanol-based fuel involves the controlled use of materials that are hazardous to the environment. Zhao Dong Jianye Fuel cannot eliminate the risk of accidental contamination or discharge and any resulting problems that occur. Government regulations govern the use, manufacture, storage, handling and disposal of these materials. Zhao Dong Jianye Fuel may be named a defendant in any suit that arises from the improper handling, storage or disposal of these products. Zhao Dong Jianye Fuel could also be subject to civil damages in the event of an improper or unauthorized release of, or exposure of individuals to, hazardous materials. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair Zhao Dong Jianye Fuel's research, development and production efforts.

An increase in raw material prices could increase Zhao Dong Jianye Fuel's costs and decrease its profits.

Changes in the cost of raw materials could significantly affect Zhao Dong Jianye Fuel's business. Although the cost of methanol has traditionally been relatively stable, increased use of methanol for fuel would create increased demand and could introduce volatility into the market for methanol. Our other two primary raw materials, gasoline distillate and ethanol, already trade in volatile markets. The market price for gasoline distillate is a function of the market price of oil, which has been highly volatile in recent years. The market price of ethanol depends primarily on the availability of feedstocks, which again has become volatile in recent years due to the heightened demand caused by the widespread acceptance of ethanol as a fuel supplement. Increased prices in any of these markets could decrease Zhao Dong Jianye Fuel's profitability. Zhao Dong Jianye Fuel does not expect to enter into hedging contracts with respect to raw material prices, but will rely on its Chairman's network of industry relationships to obtain the best available prices.

Reliance on third party suppliers for raw materials may affect Zhao Dong Jianye Fuel's production and profitability.

To date, Zhao Dong Jianye Fuel has no binding commitments for the supply of raw materials, although it has established a favourable relationship with its primary distillate supplier by making a large advance payment. Even as it develops supply arrangements, Zhao Dong Jianye Fuel's suppliers could terminate the contracts and sell to other buyers, or enter into the methanol-based fuel production business in direct competition with Zhao Dong Jianye Fuel. If Zhao Dong Jianye Fuel's suppliers do not perform their obligations as agreed, Zhao Dong Jianye Fuel will not be able to maintain its refinery operations at an efficient level, and may itself default in satisfying deliver orders, all of which would adversely affect Zhao Dong Jianye Fuel's profitability.

Increased government regulation of our production and/or marketing operations could diminish our profits.

The fuel production and supply business is highly regulated. Government authorities are concerned with effect of fuel distribution on the national and local economy. To achieve optimal availability of fuel, governments regulate many key elements of both production and distribution of fuel. Increased government regulation may affect our business in ways that cannot be predicted at this time, potentially involving price regulation, distribution regulation, and regulation of manufacturing processes. Any such regulation or a combination could have an adverse effect on our profitability.

In addition, the day-to-day operations of our business will require frequent interaction with representatives of the Chinese government institutions. The national, provincial and local governments in the People's Republic of China are highly bureaucratized. The effort to obtain the registrations, licenses and permits necessary to carry out our business activities can be daunting. Significant delays can result from the need to obtain governmental approval of our activities. These delays can have an adverse effect on the profitability of our operations. In addition, compliance with regulatory requirements applicable to fuel manufacturing and distribution may increase the cost of our operations, which would adversely affect our profitability.

Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.

Our future success depends on our ability to attract and retain highly skilled engineers, chemists, industrial technicians, production supervisors, and marketing personnel. In general, qualified individuals are in high demand in China, and there are insufficient experienced personnel to fill the demand. In a specialized scientific field, such as ours, the demand for qualified individuals is even greater. If we are unable to successfully attract or retain the personnel we need to succeed, we will be unable to implement our business plan.

We may have difficulty establishing adequate management and financial controls in China.

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.

The People's Republic of China has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to pay dividends to our shareholders.

Currency fluctuations may adversely affect our operating results.

Zhao Dong Jianye Fuel generates revenues and incurs expenses and liabilities in RMB, the currency of the People's Republic of China. However, as a subsidiary of China Jianye Fuel, it will report its financial results in the United States in U.S. Dollars. As a result, our financial results will be subject to the effects of exchange rate fluctuations between these currencies. From time to time, the government of China may take action to stimulate the Chinese economy that will have the effect of reducing the value of RMB. In addition, international currency markets may cause significant adjustments to occur in the value of the RMB. Any such events that result in a devaluation of the RMB versus the U.S. Dollar will have an adverse effect on our reported results. We have not entered into agreements or purchased instruments to hedge our exchange rate risks.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

China Jianye Fuel is not likely to hold annual shareholder meetings in the next few years.

Management does not expect to hold annual meetings of shareholders in the next few years, due to the expense involved. The current members of the Board of Directors were appointed to that position by the previous directors. If other directors are added to the Board in the future, it is likely that the current directors will appoint them. As a result, the shareholders of China Jianye Fuel will have no effective means of exercising control over the operations of China Jianye Fuel.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The term "disclosure controls and procedures" (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within required time periods. The Company's management, with the participation of the Chief Executive Officer and the 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 report (the "Evaluation Date"). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective.

(b) 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 fiscal quarter 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The company is not party to any material legal proceeding.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31 Rule 13a-14(a) Certification

31 Rule 13a-14(b) Certification

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.

Date: February 17, 2009

By: /s/ Jianye Wang
Jianye Wang, Director
Chief Executive Officer and Chief Financial Officer

