

CHINA YILI PETROLEUM CO
Form 10-Q
August 20, 2012

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

For the quarterly period ended June 30, 2012

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

For the transition period from _____ to _____

Commission File No. 0-51554

China Yili Petroleum Company
(Name of Registrant in its Charter)

Nevada
(State of Other Jurisdiction of incorporation
or organization)

20-2934409
(I.R.S. Employer I.D. No.)

TONGLIAO ECONOMIC DEVELOPMENT DISTRICT, TONGLIAO F4 638229, P.R. CHINA
(Address of Principal Executive Offices)

Issuer's Telephone Number: (973) 506-9295

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

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

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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

As of August 20, 2012, 29,748,348 shares of common stock, par value \$.001 per share, were outstanding.

TABLE OF CONTENTS

| | | Page No |
|------------|---|------------|
| Part I | Financial Information | |
| Item 1. | Unaudited Financial Statements : | |
| | Consolidated Balance Sheets – June 30, 2012 and December 31, 2011 | 2 |
| | Consolidated Statements of Operations and Comprehensive Losses – for the Three and Six Months Ended June 30, 2012 and 2011 and the Period from Inception to June 30, 2012 | 3 |
| | Consolidated Statements of Cash Flows – for the Six Months Ended June 30, 2012 and 2011 and the Period from Inception to June 30, 2012 | 4 |
| | Notes to Condensed Consolidated Financial Statements | 5 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 10 |
| Item 3 | Quantitative and Qualitative Disclosures about Market Risk | 11 |
| Item 4 | Controls and Procedures | 11 |
| Part II | Other Information | |
| Item 1. | Legal Proceedings | 12 |
| Items 1A. | Risk Factors | 12 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 13 |
| Item 3. | Defaults upon Senior Securities | 13 |
| Item 4. | Mine Safety Disclosures | 13 |
| Item 5. | Other Information | 13 |
| Item 6. | Exhibits | 13 |
| Signatures | | |

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 386 | \$ 386 |
| Other current assets | 572 | 572 |
| TOTAL CURRENT ASSETS | 958 | 958 |
| Property and equipment, net of accumulated depreciation | 2,563,026 | 2,576,221 |
| TOTAL ASSETS | \$ 2,563,984 | \$ 2,577,179 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,240,133 | \$ 2,241,307 |
| Due to shareholder | 476,839 | 457,918 |
| Accrued expenses | 886,683 | 810,936 |
| TOTAL CURRENT LIABILITIES | 3,603,655 | 3,510,161 |
| STOCKHOLDERS' DEFICIENCY | | |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 29,748,348 shares issued and outstanding at June 30, 2012 and December 31, 2011 | 29,748 | 29,748 |
| Preferred stock, \$0.001 par value, 4,700,000 shares authorized 0 shares issued and outstanding at June 30, 2012 and December 31, 2011 | - | - |
| Preferred stock, Series A, \$0.001 par value, 300,000 shares authorized 0 shares issued and outstanding at June 30, 2012 and December 31, 2011 | - | - |
| Additional paid-in capital | 6,775,980 | 6,764,373 |
| Deficit accumulated during development stage | (9,061,436) | (8,942,637) |
| Accumulated other comprehensive income | 1,216,037 | 1,215,534 |

| | | |
|---|--------------|--------------|
| TOTAL STOCKHOLDERS' DEFICIENCY | (1,039,671) | (932,982) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 2,563,984 | \$ 2,577,179 |

The accompanying notes are an integral part of these financial statements

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

| | For the three months ended June 30, | | For the six months ended June 30, | | From Inception May 27, 2005 to June 30, 2012 |
|--|--|------------|--------------------------------------|-------------|--|
| | 2012 | 2011 | 2012 | 2011 | |
| Sales | \$ - | \$ - | \$ - | \$ - | \$ - |
| COSTS AND EXPENSES: | | | | | |
| General and administrative expenses | 49,175 | 66,667 | 107,192 | 117,319 | 9,035,368 |
| Interest expense | 5,877 | 5,196 | 11,607 | 9,943 | 83,498 |
| Total Cost and expenses | 55,052 | 71,863 | 118,799 | 127,262 | 9,118,866 |
| NET LOSS FROM CONTINUING OPERATIONS | (55,052) | (71,863) | (118,799) | (127,262) | (9,118,866) |
| INCOME FROM DISCONTINUED OPERATIONS | | | - | - | 57,430 |
| NET LOSS | (55,052) | (71,863) | (118,799) | (127,262) | (9,061,436) |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | | | |
| Foreign currency translation adjustments | (434) | 99,342 | 503 | 120,475 | 1,110,456 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | \$ (55,486) | \$ 27,479 | \$ (118,296) | \$ (6,787) | \$ (7,950,980) |
| Basic and diluted loss per common share | | | | | |
| | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) | |
| | 29,748,348 | 29,748,348 | 29,748,348 | 29,748,348 | |

Weighted average number
of shares outstanding:

The accompanying notes are an integral part of these financial statements

3

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the six months ended June 30 | | From Inception May 27, 2005 to June 30, 2012 |
|---|-------------------------------------|------------------|---|
| | 2012 | 2011 | |
| OPERATING ACTIVITIES: | | | |
| Net loss from continuing operations | \$ (118,799) | \$ (127,262) | \$ (9,118,866) |
| Income from discontinued operations | - | - | 57,430 |
| Net loss | \$ (118,799) | \$ (127,262) | \$ (9,061,436) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Impairment of long-term assets | - | - | 6,965,963 |
| Depreciation | 11,859 | 21,762 | 265,007 |
| Imputed interest | 11,607 | 9,943 | 71,890 |
| Changes in operating assets and liabilities: | | | |
| Other current assets | - | (774) | (572) |
| Accounts payable | - | - | 2,240,133 |
| Accrued expenses | 76,227 | 80,856 | 886,683 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (19,105) | (15,475) | 1,367,668 |
| INVESTING ACTIVITIES: | | | |
| Acquisition of property and equipment | - | - | (9,793,995) |
| NET CASH USED IN INVESTING ACTIVITIES | - | - | (9,793,995) |
| FINANCING ACTIVITIES: | | | |
| Loan received from a stockholder | 19,105 | 16,348 | 476,839 |
| Capital contribution | - | - | 6,733,838 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 19,105 | 16,348 | 7,210,677 |
| EFFECT OF EXCHANGE RATE ON CASH | - | (847) | 1,216,037 |
| INCREASE IN CASH | - | 1 | 386 |
| CASH - BEGINNING OF PERIOD | 386 | 692 | - |
| CASH - END OF PERIOD | \$ 386 | \$ 693 | \$ 386 |

The accompanying notes are an integral part of these financial statements

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year or any other periods. The consolidated balance sheet as of December 31, 2011 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. These interim financial statements should be read in conjunction with that report.

The Company's functional currency is the Chinese Renminbi ("RMB"); however, the accompanying financial statements have been translated and presented in United States Dollars ("USD").

2 BUSINESS DESCRIPTION

China Yili Petroleum Company and subsidiaries ("the Company"), a development stage company, intends to refine heavy oil into asphalt, fuel oil and lubricants through its wholly-owned subsidiary.

Since inception, the Company has been developing its facilities and obtaining the requisite approvals from the Chinese government and has not earned any revenue from operations. Accordingly, the Company's activities have been accounted for as those of a Development Stage Enterprise. The Company's financial statements are identified as those of a development stage company, and the statements of operations, stockholders' equity and cash flows disclose activity since the date of the Company's inception.

3 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown on the accompanying financial statements, the Company's current liabilities exceeded its current assets by \$3,602,697 on June 30, 2012. The Company has sustained an accumulative loss of \$9,061,436 from its inception to June 30, 2012. In addition, the Company has not earned any revenues from continuing operations since inception. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Uses of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 net revenue and expenses during each reporting period. Actual results could differ from those estimates.

Deferred income taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, recognition of future tax benefits, such as carryforwards, to the extent that realization of such benefits is more likely than not and that a valuation allowance be provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

Foreign currency translation

The assets and liabilities of the Company's subsidiary, using the local currency as its functional currency, are translated to U.S. Dollars based on the current exchange rate prevailing at each balance sheet date and any resulting translation adjustments are included in Accumulated Other Comprehensive Income (Loss). Equity accounts are translated at historical exchange rates. The Company's revenues and expenses are translated into U.S. Dollars using the average exchange rates prevailing for each period presented.

Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. 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. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Fair value of financial instruments

The Company adopted the provisions of ASC 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

- Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts payable and accrued expenses, approximate fair value due to the short-term nature of these items. The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with ASC 820.

5 DUE TO STOCKHOLDER

Amounts due to a stockholder of the Company, are non-interest bearing and are due on demand. Interest was imputed at 5% per annum for the years ended June 30, 2012 and December 31, 2011.

6 INCOME TAXES

The Company has net operating loss carry-forwards in China and United States of approximately \$2 million which will expire between 2012 and 2022.

The Company has a deferred tax asset resulting from the tax loss carry-forwards of approximately \$500,000 for which the Company has provided a 100% valuation allowance.

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

7

RISK FACTORS

Vulnerability due to Operations in PRC

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Risks of Losses

The Company is potentially exposed to risks of losses that may result from business interruptions, injury to others (including employees) and damage to property. These losses may be uninsured, especially due to the fact that the Company's operations are in China, where business insurance is not readily available. If: (i) information is available before the Company's financial statements are issued or are available to be issued indicates that such loss is probable and (ii) the amount of the loss can be reasonably estimated, an estimated loss will be accrued by a charge to income. If such loss is probable but the amount of loss cannot be reasonably estimated, the loss shall be charged to the income of the period in which the loss can be reasonably estimated and shall not be charged retroactively to an earlier period. As of June 30, 2012, the Company has not experienced any uninsured losses from injury to others or other losses.

Potential Limitations on the Payment of Dividends

The PRC government imposes control over the conversion of Renminbi, or RMB, into foreign currencies. Pursuant to the Foreign Exchange Control Regulations of the PRC issued by the State Council which came into effect on April 1, 1996, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of the PRC which came into effect on July 1, 1996, regarding foreign exchange control, conversion of RMB into foreign exchange by Foreign Investment Enterprises, or FIEs, for use on current account items, including the distribution of dividends and profits to foreign investors, is permissible. FIEs are permitted to convert their after-tax dividends and profits to foreign exchange and remit such foreign exchange to their foreign exchange bank accounts in China. On January 14, 1997, the State Council amended the Foreign Exchange Control Regulations and added, among other things, an important provision, which provides that the PRC government shall not impose restrictions on recurring international payments and transfers under current account items. Enterprises in China, including FIEs, which require foreign exchange for transactions relating to current account items, if within a certain limited amount may, without approval of the State Administration of Foreign Exchange, or SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks by providing valid receipts and proofs. Conversions in excess of prescribed limits, however, require the prior approval of SAFE.

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)

Potential Limitations on the Payment of Dividends (Continued)

Obtaining approval from SAFE for foreign currency conversions can be a time-consuming process. Moreover, the PRC government from time to time modifies its regulations regarding conversion of RMB into foreign currencies, and may in the future impose further restrictions on transactions relating to current accounts. For all these reasons, our ability to pay dividends in the future may be limited by our inability to readily transfer funds from our PRC subsidiary to our U.S. parent corporation.

Environmental concerns

The refining of petroleum involves the production of pollutants. In addition, the transportation of petroleum products entails a risk of spills that may result in long-term damage to the environment. There is increasing concern in China, however, over the degradation of the environment that has accompanied its recent industrial growth. It is likely that additional government regulation will be introduced in order to protect the environment. Compliance with such new regulations could impose substantial additional costs to the Company.

8 SUBSEQUENT EVENTS

We have evaluated events after the date of these financial statements through the date that these financial statements were issued. There were no material subsequent events as of that date.

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

Economic and Industry Trends

In past years, China has experienced a real estate boom, which also triggered the rapid development of the construction industry, which uses asphalt as a major material. However, in 2010, the Chinese government implemented a series of policies and regulations to curb inflation in the property market. These policies, together with the worldwide financial crisis started in late 2008, have resulted in a slowdown of the real estate market in China and our business, in turn, has been affected. Recently, the Chinese government has changed its policy and prioritized boosting of the economy. The Chinese government has adopted new policies to address the slowdown of the real estate market, such as reducing stamp duties and transactions fees, lowering interest rates. The Chinese government has also decided to inject a stimulus package to boost the overall economy. From all of these, we have seen signs of recovery of the market in China.

Results of Operations

The Company has not yet initiated sales and production activities. As a result, during the six month periods ended June 30, 2012 and 2011, the Company did not generate any revenue. Nor did it incur any cost of goods sold. At this time it is not possible to predict when the Company will initiate operations, as that will depend on the availability of financing and demand for the Company's products.

Since we were not engaged in production at any time during the six month periods ended June 30, 2012 or 2011, the Company's operating expenses primarily involved:

- expenses related to the maintenance and security of its factory; and
- expenses resulting from its status as a U.S. public company and its efforts to enter into the U.S. capital market.

The Company is currently merely sustaining its facility and its organization until it obtains the financing necessary to initiate operations. Operating expenses of \$55,052 incurred during the three months ended June 30, 2012 resulted in a net loss for the quarter in that amount. By comparison, our operating expenses and net loss for the quarter ended June 30, 2011 were \$71,863. Operating expenses of \$118,799 incurred during the six months ended June 30, 2012 resulted in a net loss for the first half of 2012 in that amount. By comparison, our operating expenses and net loss for the first half of 2011 were \$127,262. The reduction in operating expenses was primarily the result of changes in the exchange rate between U.S. Dollars and Chinese Renminbi.

Liquidity and Capital Resources

Management anticipates that Yili Asphalt will commence revenue-producing operations at some time in the future. In order to do so, however, Yili Asphalt will have to obtain approximately \$500,000 in working capital to fund the initiation of operations. Management is uncertain as to how to obtain these funds, as its efforts to approach a Chinese bank in order to borrow those funds on a secured basis have proven unavailing. If the delay in securing the necessary funds continues for a significant time, the date for initiation of revenue-producing operations will be likewise delayed.

Because the Company's refining process yields three different end products (asphalt, diesel fuel, lubricants), the Company's initial operations will entail a sudden increase in working capital demands. Among the more significant funding demands will be:

Marketing. Yili Asphalt intends to engage in direct marketing of all products lines. Management expects that its direct marketing program will prove to be more efficient over the long term than a distribution network. However, the initial burden on its working capital will be considerable, as Yili Asphalt will have to carry the full cost of a sales staff, the expenses of their marketing activities, such as travel, entertainment, and promotion, and the expenses attendant to sales accounting.

- Potentially Inefficient Use of Facilities. To optimize the utilization of our refinery, we will have to generate sales of our products in the proportions in which the refinery is designed to produce them: roughly 6:3:2 for fuel, asphalt and lubricants respectively. It is unlikely that sales will occur naturally in those proportions. If sales in one or two of the categories lag the other(s), management will face the Hobson's choice of delaying production in the faster selling category, thus losing the benefit of the demand for that category, or tolerating excess inventories of the slower selling categories. This situation would result in additional demands on our working capital.

In addition to our need for working capital to initiate production, our business plan calls for substantial capital investment over the next twelve months. The primary purposes for which we anticipate a need for capital are:

- Additional Working Capital for Growth. We believe there is a high demand for our products in Inner Mongolia and the neighboring provinces. If we are correct, then demand could enable us to quickly expand our operations to full capacity. Growth at that rapid rate would require a commitment of many millions of Dollars for working capital. Our management will have to assess the value of the market opportunities that present themselves, and weight them against the cost of such capital as may be made available to us.
- Construction of Dedicated Rail Line. The government of Inner Mongolia has committed to construct a rail line that will have a siding at our refinery. The benefit to us in terms of reduced transportation costs would be substantial. The government's proposal, however, contemplates that Yili Asphalt will make a substantial capital contribution toward the construction project. The amount of the contribution has not been determined.
- Acquisition of Refinery. Chunshi Li, our Chairman, has committed to purchase Mongolia Kailu Yili Asphalt Co., Ltd., an asphalt company with a production capacity of 100,000 tons. He intends to assign his rights in Mongolia Kailu to Yili Asphalt if we are able to fund the cost. The purchase price will be 20 million RMB (approximately \$3.1 million). In addition, Mongolia Kailu is currently unproductive due to deterioration of its facilities. In order to bring it back online, we will have to fund the construction of a waterproof coiled material production line at its plant, which will entail an investment of several million more Renminbi.

At the present time, we have received no commitments for the funds required for our planned capital investments. Obtaining those funds, if we can do so, will require that we issue substantial amounts of equity securities or incur significant debts. We believe that the expected return on those investments will justify the cost. Without additional funding, the Company will not be able to pursue its business model. If adequate funds are not available or are not available on acceptable terms when required, we would be required to significantly curtail our operations and would not be able to fund the development of the business envisioned by our business model. These circumstances could have a material adverse effect on our business and result in our inability to continue to operate as a going concern.

Off-Balance Sheet Arrangements

The Company does 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.

10

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

The Company's management under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design, maintenance and operation of the Company's disclosure controls and procedures as of June 30, 2012. Pursuant to Rule 13a-15(e) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of

1934, "disclosure controls and procedures" means controls and other procedures that are designed to insure that information required to be disclosed by China Yili in the reports that it files with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time limits specified in the Commission's rules. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to insure that information China Yili is required to disclose in the reports it files with the Commission is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. In carrying out the evaluation, our Chief Executive and Chief Financial Officer observed the three material weaknesses:

- Inadequate staffing and supervision within the accounting operations of our company. The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews.
- 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 the City of Tongliao. None of our employees has substantial experience or familiarity with U.S accounting principles. The lack of personnel in our Tongliao 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.
- Lack of independent control over related party transactions. Chunshi Li is the sole director and sole officer of China Yili Petroleum Company. From time to time Mr. Li has made loans to finance the operations of Yili Asphalt, has contributed assets to Yili Asphalt, and has arranged transactions between Yili Asphalt and other entities under his control. The absence of other directors or officers to review these transactions is a weakness because it could lead to improper classification of such related party transactions.

Based on his evaluation, our Chief Executive Officer and Chief Financial Officer concluded that China Yili's system of disclosure controls and procedures was not effective as of June 30, 2012 for the purposes described in this paragraph.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2012, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act)) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The company is not party to any material legal proceeding.

ITEM 1A. RISK FACTORS

There has been no material change to the risk factors set forth in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

(c) Unregistered sales of equity securities

None.

(e) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the 2nd quarter of fiscal 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31 Rule 13a-14(a) Certification

32 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 Yili Petroleum Company

Date : August 20, 2012 /s/Chunshi Li
Chunshi Li, Chief Executive Officer

EXHIBIT 31.1

CERTIFICATION OF QUARTERLY REPORT

I, Chunshi Li, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of China Yili Petroleum Company.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Company's Board of Directors of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and,
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/Chunshi Li
Chunshi Li
Chief Executive Officer and
Chief Financial Officer

Date: August 20, 2012

EXHIBIT 32.1

CERTIFICATION OF PERIODIC REPORT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officer of China Yili Petroleum Company (the "Company"), certifies that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/Chunshi Li
Chunshi Li
Chief Executive Officer and
Chief Financial Officer

Date: August 20, 2012

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

