CHINA YILI PETROLEUM CO
Form 10-Q
August 19, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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

For the transition period from _____ to _____

Commission File No. 1-51554

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

Nevada	20-2934409
(State of Other Jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

c/o American Union Securities, Inc., 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 __

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)

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 17, 2009, 29,748,348 shares of common stock, par value $.001 per share, were outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	2,685	$ 6,057
Other sundry current assets	4,291	246
TOTAL CURRENT ASSETS	6,976	6,303
Property and equipment, net of accumulated depreciation	8,920,368	8,948,336
TOTAL ASSETS	8,927,344	8,954,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	2,069,451	1,683,564
Due to shareholder	168,631	365,912
Accrued expenses	76,357	87,280
TOTAL CURRENT LIABILITIES	2,314,439	2,136,756
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 29,748,348 shares issued and outstanding at June 30, 2009 and December 31, 2008	29,748	29,748
Preferred stock, $0.001 par value, 4,700,000 shares authorized, 0 shares issued and outstanding		
Preferred stock, Series A, $0.001 par value, 300,000 shares authorized, 0 shares issued and outstanding at June 30, 2009 and December 31, 2008	-	-
Additional paid-in capital	6,773,888	6,764,198

Accumulated deficit	(896,801)	(896,801)
Deficit accumulated during development stage	(197,541)	-
Accumulated other comprehensive income	903,611	920,738
TOTAL STOCKHOLDERS' EQUITY	6,612,904	6,817,883
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	8,927,343	8,954,639

The accompanying notes are integral part of this financial statements

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

	For the six months ended June 30, 2009	2008	For the three months ended June 30, 2009	2008	From Inception May 27, 2005 To June 30, 2009
SALES	$ -	$ -		$ -	$ -
COSTS AND EXPENSES					
Cost of sales	-	-			
General and administrative expenses	190,850	120,173	132,863	47,085	1,070,367
Interest expense	6,691		1,785	-	23,976
TOTAL COSTS AND EXPENSES	197,541	120,173	134,648	47,085	1,094,343
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(197,541)	(120,173)	(134,648)	(47,085)	(1,094,343)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(255,091)	-	(83,468)	57,430
NET LOSS	$ (197,541)	$ (375,264)	$ (134,648)	$ (130,553)	$ (1,036,913)
OTHER COMPREHENSIVE INCOME :					
Foreign currency translation adjustments	(17,127)	427,184	2,896	148,569	903,611
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (214,668)	$ 51,920	$ (131,752)	$ 18,016	$ (133,302)
Basic and diluted loss per common share:					
Continuing operations	$ (0.01)	(0.01)	$ (0.00)	(0.00)	
Discontinued operations	-	(0.01)	-	(0.00)	
	29,748,348	21,299,996	29,748,348	23,139,994	

Weighted average number of
shares outstanding

The accompanying notes are integral part of this financial statements

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

	For six months ended June 30, 2009	For six months ended June 30, 2008	From Inception May 27, 2005 To June 30, 2009
OPERATING ACTIVITIES:			
Net loss:	$ (197,541)	$ (375,264)	(1,036,912)
(Income) Loss from discontinued operations	-	255,091	(57,430)
Net income (loss) from continuing operations	(197,541)	(120,173)	(1,094,342)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	20,802	20,145	125,473
Imputed interest	6,691	-	23,975
Changes in operating assets and liabilities:			
Other sundry current assets	(4,044)	3,205	(4,291)
Accounts payable	(5,278)	(21,059)	2,069,451
Accrued expenses	(10,746)	25,778	76,357
Deferred revenue	-	(26,384)	-
Net effect of discontinued operations	-	44,190	-
NET CASH PROVIDED BY (USED IN)OPERATING ACTIVITIES	(190,116)	(74,298)	1,196,623
INVESTING ACTIVITIES:			
Acquisition of property and equipment	(11,255)	(22,068)	(9,045,841)
NET CASH USED IN INVESTING ACTIVITIES	(11,255)	(22,068)	(9,045,841)
FINANCING ACTIVITIES:			
Proceeds from notes payable-stockholders	-	299,281	-
Loan received from stockholder	198,061	79,661	168,631
Capital contributions	-	-	6,779,661
Net effect of discontinued operations	-	(299,281)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	198,061	79,661	6,948,292
EFFECT OF EXCHANGE RATE ON CASH	(62)	1,043	903,611
INCREASE (DECREASE) IN CASH	(3,372)	(15,662)	2,685
CASH - BEGINNING OF PERIOD	$ 6,056	47,091	-
CASH - END OF PERIOD	$ 2,685	$ 31,429	$ 2,685
		-	

Supplemental disclosures of cash flow information:		
Non-cash financing activities:		
Transfer accounts payable to shareholder loan	$ 394,630	$ -

The accompanying notes are integral part of this financial statements

CHINA YILI PETROLUEM COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of China Yili Petroleum Company (the "Company") reflect all material adjustments consisting of only normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission.

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 those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the entire year or for any other period.

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

2 BUSINESS DESCRIPTION AND HISTORY

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

Since inception, Yili 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, as set forth in Financial Accounting Standards Board Statement No. 7 ("SFAS 7"). Among the disclosures required by SFAS 7 are that the Company's financial statements be identified as those of a development stage company, and that 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 $2,307,463 on June 30, 2009. The Company sustained an accumulative loss of $ 1,094,343 from its inception to date. 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.

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.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their useful lives using the straight line method for financial reporting purposes.

The Company's subsidiary leases a parcel of land, on which the office and production facilities of the Company are situated, pursuant to a real estate contract from the local government of the PRC government expiring in 2056.

Maintenance, repairs and minor renewals are charged to expense when incurred. Replacements and major renewals are capitalized.

. Impairment of long-lived assets

The Company accounts for the impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

Deferred income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (ASFAS 109") which requires that deferred tax assets and liabilities be 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, SFAS 109 requires recognition of future tax benefits, such as carry forwards, 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 asset 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). The Company's revenues and expenses are translated into U.S. Dollars using the average exchange rates prevailing for each period presented.

New accounting pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". This statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently, when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value, entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 affects those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 became effective for the company on January 1, 2009. Early adoption is prohibited. The adoption of this statement did not have a material effect on the Company's financial statements.

In December 2007, FASB issued SFAS 141R "Business Combinations". These new standards significantly change the accounting for reporting of business combination transactions in consolidated financial statements. The key aspects of SFAS 141R include requiring the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction; establishing the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requiring the expensing of most transaction and restructuring costs. Those standards are effective for the Company as of January 1, 2009.

In March 2008 the FASB issued FAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". FAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide disclosures about (a) how and why derivative instruments are used, (b) how derivative
instruments and related hedged items are accounted for under FSS No. 133, "Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect the entity's financial position, financial performance and cash flows. FAS No. 161 is effective January 1, 2009. The Company is currently evaluating the impact of adopting this statement.

5 PROPERTY AND EQUIPMENT

Yili Asphalt acquired a 50 year land lease from the PRC. The amount is being amortized over the life of the lease.

A summary of property and equipment and the estimated lives used in the computation of depreciation and amortization are as follows:

	June 30, 2009	December 31, 2008	Life
Right to use land	246,697	$ 247,205	50 years
Building and building improvements	1,768,180	1,771,826	39 years
Machinery and equipment	4,732,763	4,736,644	7 years
Office equipment and furniture	57,745	61,398	7 years
Automobiles	162,693	154,092	7 years
	6,968,078	6,971,165	
Accumulated depreciation and amortization	(125,473)	(104,878)	
	6,842,605	6,866,287	
Construction in progress	2,077,763	2,082,048	
	$ 8,920,368	$ 8,948,335	

6 DUE TO STOCKHOLDERS

Amounts due certain stockholders of China Yili Petroleum Company, are non-interest bearing and are due on demand. Interest was imputed at 5% per annum for the three months ended June 30, 2009.

7 INCOME TAXES

The Company has a net operating loss carry-forwards in China of approximately $1,094,00 which expires between 2012 and 2013.

The Company has a deferred tax asset resulting from the tax loss carry-forwards of approximately $273,000 for which the Company has provided a 100% valuation allowance.

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8 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.

Substantially all of the Company’s businesses are transacted in RMB, which is not freely convertible. The People’s Bank of China or other banks are authorized to buy and sell foreign currencies at the exchange rates quoted by the People’s Bank of China. Approval of foreign currency payments by the People’s Bank of China or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

Since the Company has its primary operations in the PRC, the majority of its revenues will be settled in RMB, not U.S. Dollars. Due to certain restrictions on currency exchanges that exist in the PRC, the Company’s ability to use revenue generated in RMB to pay any dividend payments to its shareholders may be limited.

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.

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

Economic and Industry Trend

In the past years, China has experienced high growth of real estate boom which also triggered the rapid development of construction industry that using asphalt as a major material. However, in 2007, the Chinese government implemented a series of policies and regulations to curb inflation and the property market. These policies, together with the worldwide financial crisis in late 2008, has resulted a slowdown of the real estate market in China and our business, in turn, has been affected in 2008 and 2009. 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.

Result of Operations

- For the Three months ended June 30, 2009 and 2008

During the three months ended June 30, 2009 and 2008, the Company did not generate any revenue or start profitable operation. As a result, there is no cost of good sold incurred during both three months ended June 30, 2009 and 2008.

Total operating expenses reported by the Company for periods of the three-month-ended June 30, 2009 were mainly attributable to the general and administrative expenses which generally consisted of the facilities maintenance and depreciation cost. Compared to the operating expenses of $47,085 incurred during the three months ended June 30, 2008, our total operating expenses have increased by $87,563 or 186% to $134,648 for the quarter ended June 30, 2009. The Company's operating expenses primarily involved expenses related to its activities in completing its factory, finalizing the development of its products, and securing the government licenses necessary for it to carry out its business plan. In addition, the Company also incured expenses resulting from its status as a U.S. public company and its efforts to enter into the U.S. capital market.

Net loss was $134,648 for the quarter ended June 30, 2009. For the quarter ended June 30, 2008, the Company incurred a net loss of $47,085 from its continuing operations. And for the quarter ended June 30, 2008, net loss attributed to the Company's discontinued business of ASAP Expo was $83,468.

- For the Six months ended June 30, 2009 and 2008

During the six months ended June 30, 2009 and 2008, the Company did not generate any revenue or start profitable operation. As a result, there is no cost of good sold incurred during both six months ended June 30, 2009 and 2008.

Total operating expenses reported by the Company for periods of the six-month-ended June 30, 2009 were mainly attributable to the general and administrative expenses which generally consisted of the facilities maintenance and depreciation cost. Compared to the operating expenses of $120,173 incurred during the six months ended June 30, 2008, our total operating expenses have increased by $77,368 or 64% to $197,541. The Company's operating expenses primarily involved expenses related to its activities in completing its factory, finalizing the development of its products, and securing the government licenses necessary for it to carry out its business plan. In addition, the Company also incured expenses resulting from its status as a U.S. public company and its efforts to enter into the U.S. capital market.

Net loss was $197,541 for the six months ended June 30, 2009. For the same period of 2008, the Company incurred a net loss of $120,173 from its continuing operations. And for the six months ended June 30, 2008, net loss attributed to the Company's discontinued business of ASAP Expo was $255,091.

Liquidity and Capital Resources

Management anticipates that Yili Asphalt will commence revenue-producing operations in the coming 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 plans to approach a Chinese bank in order to borrow those funds on a secured basis, since Yili Asphalt has $8.9 million in capital assets on its books that are currently free of liens. To date, however, it has not obtained a commitment for the funds. If there is a delay in securing the necessary funds, 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. Construction is rescheduled in 2009. 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 $2.7 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 has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition or results of operations.

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 (the "CEO") and Chief Financial Officer (the "CFO"), performed an evaluation of the effectiveness of the design, maintenance and operation of the Company's disclosure controls and procedures as of June 30, 2009. Pursuant to Rule13a-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. Based on his evaluation, our Chief Executive Officer and Chief Financial Officer concluded that China Yili's system of disclosure controls and procedures was effective as of June 30, 2009 for the purposes described in this paragraph.

Changes in Internal Controlover Financial Reporting

During the three months ended June 30, 2009, 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 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 2009.

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
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 19, 2009 /s/Chunshi Li

Chunshi Li, Chief Executive Officer
and Chief Financial Officer

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