

China Jianye Fuel, Inc.
Form 10-Q
November 14, 2008

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 September 30, 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 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:

November 14, 2008

Common Voting Stock: 29,976,923

Transitional Small Business Disclosure Format (check one): Yes No

CHINA JIANYE FUEL, INC
CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
China Jianye Fuel Inc.:

We have audited the accompanying consolidated balance sheets of China Jianye Fuel Inc. and subsidiaries (the “Company”) as of September 30, 2008, and the related statements of operations and comprehensive income, stockholders’ equity, and cash flows for three months ended September 30, 2008. These consolidated financial statements are the responsibility of the Company's management.

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

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

/s/ Patrizio & Zhao, LLC

Parsippany, New Jersey
November 14, 2008

CHINA JIANYE FUEL, INC
CONSOLIDATED BALANCE SHEET

ASSETS
(UNAUDITED)

	September 30, 2008	June 30, 2008
(Unaudited)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 84,801	\$ 129,635
Accounts receivable, net of allowance for doubtful accounts of \$29,193 and \$29,113 at September 30, 2008 and June 30, 2008, respectively	5,402,038	5,793,568
Inventory	659,984	662,571
Advances to suppliers	1,027,111	1,031,406
Prepaid expenses	165,407	203,793
Other Current assets	158,420	147,481
Total Current Assets	7,497,761	7,968,454
PROPERTY AND EQUIPMENT, NET	2,763,787	2,833,086
OTHER ASSETS		
Intangibles, net	52,892	55,040
Total Assets	\$ 10,314,440	\$ 10,856,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 764,661	\$ 1,215,896
VAT tax payable	443,384	434,580
Income tax payable	528,235	526,791
Other current liabilities	930,199	873,471
Total Current Liabilities	2,666,479	3,050,738
Total Liabilities	2,666,479	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	1,161,050	1,343,116
Accumulated other comprehensive income	761,876	737,691
Total Stockholders' Equity	7,647,961	7,805,842
Total Liabilities and Stockholders' Equity	\$ 10,314,440	\$ 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
(UNAUDITED)

	For the Three Months Ended	
	September 30,	
	2008	2007
SALES	\$ 122,841	\$ 47,888
COST OF GOODS SOLD	110,808	47,256
GROSS PROFIT	12,033	632
OPERATING EXPENSES		
Selling, general and administrative	193,865	12,244
LOSS FROM OPERATIONS	(181,832)	(11,612)
OTHER INCOME (EXPENSES)		
Other expense	(234)	-
INCOME BEFORE PROVISION FOR INCOME TAX	(182,066)	(11,612)
PROVISION FOR INCOME TAX	-	-
NET LOSS	(182,066)	(11,612)
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	24,185	93,696
COMPREHENSIVE INCOME (LOSS)	\$ (157,881)	\$ 82,084
BASIC EARNINGS PER SHARE	\$ (0.01)	\$ (0.00)
DILUTED EARNINGS PER SHARE	\$ (0.01)	\$ (0.00)
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	29,976,923	4,948,500
DILUTED	29,976,923	4,948,500

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

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

	For the Three Months Ended	
	September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (182,066)	\$ (11,612)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	-	-
Depreciation and amortization	86,430	25,380
Changes in current assets and current liabilities:		
Accounts receivable	407,664	
Inventory	4,407	(27,241)
Advances to suppliers	7,127	
Prepaid expense	38,969	
Other current assets	(10,541)	(25,969)
Accounts payable and accrued expenses	(454,848)	464
VAT tax payable	7,617	(4,739)
Income tax payable		
Due to related parties		106,305
Other current liabilities	54,372	(59,592)
Total Adjustments	141,197	14,608
Net Cash Provided By (Used In) Operating Activities	(40,869)	2,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(4,347)	-
Net Cash Used In Investing Activities	(4,347)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment to shareholder loans	-	(2,653)
Net Cash Used In Financing Activities	-	(2,653)
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH	382	10
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(44,834)	353
CASH AND CASH EQUIVALENTS – BEGINNING	129,635	561
CASH AND CASH EQUIVALENTS – ENDING	\$ 84,801	\$ 914

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

CHINA JIANYE FUEL, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND DESCRIPTION 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.

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.

NOTE 2 - 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.

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

	Three Months Ended Sept. 30,	
	2008	2007
Net loss	\$ (182,066)	\$ (11,612)
Weighted average common shares	29,976,923	4,948,500
Effect of diluted securities:	-	-
Weighted average common shares	29,976,923	4,948,500
Basic net income per share	\$ (0.01)	\$ (0.00)
Diluted net income per share	\$ (0.01)	\$ (0.00)

NOTE 4 – INVENTORY

Inventory at September 30, 2008 and June 30, 2008 consisted of the following:

	September 30,2008	June 30,2008
Raw materials	\$ 566,795	\$ 594,495
Packaging supplies	28,935	32,058
Finished goods	64,254	36,018
Total	\$ 659,984	\$ 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)

SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

NOTE 6– PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2008 and June 30, 2008 consisted of the following:

	September 30,2008	June 30,2008
Property and equipment	\$ 3,402,714	\$ 3,386,419
Less: accumulated depreciation	638,927	553,333
Total	\$ 2,763,787	\$ 2,833,086

Depreciation expense for the three months ended September 30, 2008 and 2007 was \$84,129 and \$24,859, respectively.

NOTE 7– INTANGIBLE ASSETS

Net intangible assets at September 30, 2008 and June 30, 2008 were as follows:

	September 30,2008	June 30,2008
Rights to use land	\$ 73,589	\$ 73,387
L e s s : accumulated amortization	20,697	18,347
Total	\$ 52,892	\$ 55,040

Amortization expense for the three months ended September 30, 2008 and 2007 amounted to \$2,301 and \$521, respectively.

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 three months ended September 30, 2008 and 2007, the Company had two vendors that provided approximately 99% and 50% of the Company's raw materials. Total purchases from these vendors amounted to \$77,625 and 34,380 for the three months ended September 30, 2008 and 2007, respectively.

For the three months ended September 30, 2008, four customers accounted for approximately 72% of the Company's net sales. Total sales made to these two customers amounted to \$88,370. For the three months ended September 30, 2007, one major customer accounted for approximately 48% of the net sales. Total sales made to this customer were \$23,096.

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.

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

Forward-Looking Statements: No Assurances Intended

In addition to historical information, this Quarterly Report contains forward-looking statements, which are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans to,” “estimates,” “projects,” similar expressions. These forward-looking statements represent Management’s belief as to the future of Eastern Environment Solutions, Corp. Whether those beliefs become reality will depend on many factors that are not under Management’s control. Many risks and uncertainties exist that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled “Management’s Discussion and Analysis—Risk Factors That May Affect Future Results.” Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.

Results of Operations

Zhao Dong Jianye Fuel commenced operations in 2004. Until the spring of 2008, however, its activities were essentially developmental. Its research and development efforts have led to the development of a series of fuel products and the award of several patents. With funds provided by its Chairman, Jianye Wang, it has developed a state-of-the-art refinery for the production of methanol-based and ethanol-based fuels. 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.

During the quarter ended December 31, 2007, however, Zhao Dong Jianye Fuel recorded its first significant revenue - \$3,449,434, with a sale and delivery of fuel additives to Zhanjiang Runtong Trading Corp. In the quarter ended March 31, 2008, we realized our first significant revenue from the sale of fuel, as we sold 4,200 tons of methanol-based fuel to CIPC Heilongjiang HuBei, a fuel distributor, for \$3,249,795. These two sales represented approximately 97% of our revenues for the year ended June 30, 2008. Zhanjiang Runtong Trading Corp. and CIPC Heilongjiang HuBei are unrelated third parties, and the transactions were the result of arms length negotiation. In the 4th quarter of the year ended June 30, 2008, however, our sales totaled only \$212,335, primarily consisting of incidental sales of sample batches.

Entering the first quarter of the fiscal year of 2009, the company continued its efforts to test and publicize various types of fuel products in the markets. As a result of these efforts, our sales revenue for the three months ended September 30, 2008 was \$122,841, compared to \$47,888 for the quarter ended on September 30, 2007. These sales again represent our distribution of sample batches to potential customers, and do not represent the type of marketing that will accompany full production.

During the three months ended September 30, 2008, we have achieved initial success in developing new businesses relationships. Specifically, we have executed long-term supply contracts with two customers for our fuel products. In July, 2008, Zhao Dong Jianye Fuel entered into a contract with Zhuhai Zhonghuan Oil Ltd., which contemplates that the customer will purchase 15,000 tons of ethanol-based automobile fuel per month. In September, 2008, Zhao Dong Jianye Fuel entered into contract with Shanxi Province Hanzhong Xilan Liquefied Petroleum Limited to provide the company 200 to 300 tons of M30 fuel each month. However, neither of these contracts represents a binding purchase

commitment – the customers commit to one month of purchases at a time – and neither contract produced significant sales during the quarter ended September 30, 2008. But the contracts do suggest the manner in which we are expecting to achieve the goal of a consistent stream of revenue from the sale of our main products of fuels.

Our gross profit margin during the quarter ended September 30, 2008 was 10%. This figure is not meaningful, however, since we have not commenced full scale production. When 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. This should occur because the market price of the raw materials for methanol-based fuels (i.e. methanol and petroleum distillate) are substantially lower than the market price for gasoline. 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 the funds necessary to bring our operations up to the full production level.

Our selling, general and administrative expenses increased significantly from the first quarter of 2007 (\$12,244) to the first quarter of 2008 (\$193,865). 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.