CHINA YILI PETROLEUM CO
Form 10-K
May 18, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2008.

OR

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

Commission File No. 0-51554

CHINA YILI PETROLEUM COMPANY
(Name of Small Business Issuer in its Charter)

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

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

Issuer's Telephone Number, including Area Code: 212-232-0120

Securities Registered Pursuant to Section 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ____ No __X__

Indicate by check mark if the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ____ No __X__

Indicate by check mark if the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained herein, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark if 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company þ

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

The aggregate market value of the Registrant's voting and non-voting common stock held by non-affiliates as of April 9, 2009 was $15,708,800

As of May 18, 2009 the number of shares outstanding of the Registrant's common stock was 29,748,348 shares, $.001 par value.

CHINA YILI PETROLEUM COMPANY

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For the Fiscal Year Ended December 31, 2008

FORWARD-LOOKING STATEMENTS: NO ASSURANCES INTENDED

This Report contains certain forward-looking statements regarding China Yili Petroleum Company, its business and financial prospects. These statements represent Management's best estimate of what will happen. Nevertheless, there are numerous risks and uncertainties that could cause our actual results to differ dramatically from the results suggested in this Report. Among the more significant risks are:

- We have not yet commenced our petroleum production operations. So problems may occur with production or marketing that we have not anticipated.
- We will not be able to fully implement our business plan unless we obtain several million dollars in additional capital.

- Our business will not be profitable unless we are able to obtain a sufficient supply of heavy oil at prices low enough to permit us to sell our petroleum products at competitive prices.
- Changes in Chinese government regulation, particularly regulation aimed at reducing the environmental hazards attendant to the petroleum refining industry, could significantly increase our operating costs.

Because these and other risks may cause the Company's actual results to differ from those anticipated by Management, the reader should not place undue reliance on any forward-looking statements that appear in this Report.

PART 1

Item 1. Business

China Yili Petroleum Company (the "Company") was incorporated in December 2004 under the laws of the State of Nevada. Until August 13, 2007 the Company was engaged exclusively in operating the business of organizing trade-shows and innovative means of financing international trade through its subsidiary, ASAP Expo, Inc.. On August 13, 2007 the Company acquired all of the registered capital of Tongliao Yili Asphalt Co. ("Yili Asphalt"), a corporation organized under the laws of People's Republic of China. Yili Asphalt is engaged in the business of refining heavy oil into asphalt, fuel oil and lubricants.

On December 19, 2008, China Yili declared a dividend consisting of 100% of the outstanding shares of its subsidiary, ASAP Expo, Inc. The distribution day was on January 14, 2009. The total numbers of share to be distributed is 8,701,480.

Currently, therefore, the Company is engaged exclusively in the refinery business, and has one continued operating subsidiary: Yili Asphalt Co., which carries on the oil refinery business.

Tongliao Yili Asphalt Co.

Yili Asphalt was organized in 2005 as a limited company under the laws of People's Republic of China. Its offices and manufacturing facilities which are located 10km away from the City of Tongliao, which is a prefecture level city in the Inner Mongolia Autonomous Region in northern China. This location provides the company with ready access to customers in the industrial sector of northeast China.

Since 2005 we have been engaged in developing a state-of-the-art facility for refining petroleum to produce three categories of end products: asphalt, diesel fuel and lubricants. The facility that we have developed has the capacity to produce, each day, 1300 tons of diesel fuel (current market value - $3680 per ton), 780 tons of asphalt (current market value - $300 per ton), and 520 tons of lubricants (current market value - $600 per ton). When we launch our operations, we will immediately be the largest asphalt producer in Inner Mongolia.

Our facility is now completed. And we have finally secured all of the government licenses that we require in order to operate a refinery. Our plan is to initiate production as soon as we are successful in landing and securing working capital.

Suppliers

The success of our operations will depend in large part on our success in obtaining a steady flow of raw petroleum at favorable price. At the present time, we anticipate sourcing petroleum from several channels:

- Liaohe Oil Field. Our facility is located near the Liaohe Oil Field, the third largest oil field in China. Government seismic studies have indicated that the Liaohe Oil Field has reserves of ultra heavy oil in excess of 100 million tons. Because of the close relationship with the government of our management, in particular our Chairman, who served in the government of Jilin Province for ten years, we expect to obtain a high degree of cooperation from the producers in the Liaohe Oil Field.

- China National Offshore Oil Corporation. We have a written commitment from CNOOC to supply us with 200,000 tons of petroleum at market price.

- Ministry of Transportation. China is experiencing a shortage of asphalt, which is severely hampering its efforts to develop its roadway system. For this reason, the Ministry of Transportation has indicated a willingness to assist us in obtaining petroleum supplies as needed. This relationship may prove particularly useful to us, if demand for oil in China continues to push local prices upwards. The Ministry of Transportation is capable of sourcing mineral waste oil from Russia, which tends to be priced substantially below the Chinese market price for heavy petroleum.

Facilities

Our offices and refinery are located on a parcel of industrial land measuring 126,540 m2, which was leased from the local government for fifty years. The central portion of our refinery is a 300,000 ton atmospheric and vacuum distillation unit that was designed for us by China Petroleum Engineering Design Co., Ltd. Our storage facilities consist of:

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Six tanks for storage of raw petroleum. These tanks have a capacity of 30,000 m3, which is sufficient petroleum to assure full capacity operations for 30 days.

- Six asphalt storage tanks. These tanks have a capacity of 12,000 m3, which is adequate to permit us to store twenty days worth of production at 600 tons per day, with the asphalt segregated into four grades.

- Ten tanks for storage of petroleum distillate. These tanks have an aggregate capacity of 14,000 m3, which is adequate to permit us to store 35 days of production.

At present we receive our raw materials by truck, from which it is piped into our storage tanks to be dehydrated. After refining, the end products are removed from our facilities by truck. In 2008, however, we expect a rail line to be built directly to our plant, funded primarily by the government of the Autonomous Region. The construction has been rescheduled to 2009. That improvement should substantially reduce our transportation costs and reduce delays in both inbound and outbound shipments.

Products

The refining of petroleum to produce asphalt produces two other categories of products as residue: diesel fuel and lubricating oil. So our business plan contemplates that we will launch in all three markets at once. Within those markets, the varieties of end user are numerous.

Asphalt. Petroleum asphalt is, in the first instance, moved in one of three directions. It can be burnt to produce coke, which is the main fuel source for steelmaking. In the alternative, it can be blended with anthracite and liquid asphalt, then used as blast furnace refractory material or as the primary component of electrolyte aluminium anodes, electric steelmaking electrodes, heat exchangers, and for other high temperature resistant uses. Finally, asphalt can be used undiluted for paving roads and roofs.

In China, the recent rapid industrial expansion has produced an urgent need for improved roadways, which in turn has driven the demand for asphalt beyond the nation's production capacity. China now imports a substantial portion of its asphalt requirements, which significantly increases the cost of construction.

Diesel Fuel. Diesel fuel, generally, falls into two categories: light diesel fuel and heavy diesel fuel. Light diesel fuel is the diesel oil used by trucks, tractors and diesel automobiles. Heavy diesel fuel is used in low speed (up to 1,000 RPM) engines.

The growth in demand for diesel fuel in China has been a function of increased industrial production, with concomitant transportation activity. Our management believes that demand will continue to grow, fuelled by China's growing interest in reducing petroleum dependence. We anticipate a growing trend toward more fuel efficient diesel automobiles, which can help the nation to reach its goals of energy independence and an improved environmental.

Lubricating Oil. Although a can of common lubricating oil is present in every home where there is a motor, the lubricating oil that Yili Asphalt will produce will be specially refined to meet specific machine requirements. For example, the bearing case in a grinding machine requires a lubricant of a specific viscosity. Similarly, metal cutting machinery and the hydraulic systems in industrial equipment each require a lubricant with specific characteristics. Our plan is to produce the base material for sale to other refiners, who will then perform the finishing processes to produce lubricants to suit those specific industrial needs.

Employees

As of April 9, 2009, we have 150 full-time staff and employees.

Discontinued Operations: ASAP Expo, Inc

On December 19, 2008, the Company declared a dividend of 100% of the outstanding shares of its subsidiary, ASAP Expo, Inc. Therefore, discontinued operations accounting was applied to ASAP Expo, Inc. On January 14, 2009 certificates for the shares were distributed to stockholders of record on December 31, 2008.

The amounts in the table below reflect the operation results of the business of ASAP Expo, Inc. reported as discontinued operations:

	2008	2007
Net sales	$ 1,043,883	$ 561,032
Gross profit	$ 601,489	$ 243,403
Income	$ 57,711	$ (281)

Item 1A. Risk Factors

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 production operations, unexpected factors may hamper our efforts to implement our business plan.

We will not record our first sale until we secure working capital. Our business plan contemplates that we will engage in a three-pronged marketing operation, involving production and sales of diesel fuel, asphalt as well as lubricants. Implementation of that business plan will also entail complex production operations and an active sales force. Because these are areas in which we have limited experience, problems may occur with production or marketing that we have not anticipated, which would interfere with our business, and prevent us from achieving profitability.

Our profits will be limited unless we are able to secure a sufficient supply of heavy oil.

We manufacture our products by refining petroleum. The price of petroleum on both the Chinese market and the international market is much higher today than it was five years ago, and our expectation is that the price will remain high for the foreseeable future. Particularly in China, which has experienced unprecedented industrial growth in the past twenty years, the demand for petroleum exceeds the supply. Therefore, in order to achieve efficient operations, it will be necessary for us to develop redundant sources of heavy oil, as we cannot rely on one or two relationships to provide the steady flow of oil that we will need. If we are unable to achieve that redundancy and have interruptions in our petroleum supplies, our profitability will be limited.

Fluctuations in oil prices could impede our efforts to achieve profitability.

The market price of crude oil fluctuates dramatically, driven by economic, political and geological factors that are completely outside our control. We do not intend to engage in hedging against changes in crude oil prices. As a result, a sudden increase in the cost of our raw material – i.e. oil – could reduce or eliminate our profit margin. Although we could respond to the increase by a proportionate increase in our price list, competitive forces might prevent us from doing so – in particular competition from asphalt and diesel fuel producers that are themselves oil producers and are thus shielded from the full effect of increased oil prices.

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

Our business plan contemplates that we will invest at least 30 million RMB ($3.8 million) in working capital and acquisitions during the next twelve months, and an undetermined amount in the development of a rail line to our refinery. We intend to raise a 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.

A recession in China could significantly hinder our growth.

The growing demand for petroleum products in China has been swelled, in large part, by the recent dramatic increases in industrial production in China. The continued growth of our market will depend on continuation of recent improvements in the Chinese economy. If the Chinese economy were to contract and investment capital became limited, construction projects would be delayed or abandoned, and the demand for our asphalt would be reduced. Many financial commentators expect a recession to occur in China in the near future. The occurrence of a recession could significantly hinder our efforts to implement our business plan.

Increased environmental regulation could diminish our profits.

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. At the present time we estimate that our compliance with applicable government regulations designed to protect the environment will cost us 1 million RMB (approximately $125,000) per year. 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 on us substantial costs, which would reduce our profits.

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 petroleum engineers, production supervisors, transportation specialists 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.

Government regulation may hinder our ability to function efficiently.

The national, provincial and local governments in the People's Republic of China are highly bureaucratized. The day-to-day operations of our business require frequent interaction with representatives of the Chinese government institutions. 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 petroleum refining may increase the cost of our operations, which would adversely affect our profitability.

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.

Yili Asphalt generates revenues and incurs expenses and liabilities in Renminbi, the currency of the People's Republic of China. However, as a subsidiary of the Company, 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 Renminbi. In addition, international currency markets may cause significant adjustments to occur in the value of the Renminbi. Any such events that result in a devaluation of the Renminbi 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.

The Company 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 Company's shareholders will have no effective means of exercising control over the Company's operations.

Item 1B Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The executive offices and refinery used by Yili Asphalt are located on a parcel of industrial land measuring 126,540 m2, which was leased from the local government for fifty years.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matter and Issuer Purchases of Equity Securities

(a) Market Information

The Company's common stock has been quoted on the OTC Bulletin Board since November 7, 2006. It is currently listed there under the symbol "CYIP." The following table sets forth the range of high and low bid quotations for each quarter within the last two fiscal years, and the subsequent interim period. The reported bid quotations reflect inter-dealer prices without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

All of the quotes listed below have been adjusted to reflect the 1-for-29 reverse stock split implemented on October 29, 2007.

	Bid	
Quarter Ending	High	Low
March 31, 2007	$ 5.22	$ 2.32
June 30, 2007	$ 5.80	$ 1.74
September 30, 2007	$ 5.80	$ 1.74
December 31, 2007	$ 5.99	$ 1.60
March 31, 2008	$ 5.85	$ 1.95
June 30, 2008	$ 3.43	$ 2.02
September 30, 2008	$ 2.50	$ 1.50
December 31, 2008	$ 2.09	$ 0.50

(b) Shareholders

Our shareholders list contains the names of 190 registered stockholders of record of the Company's Common Stock.

(c) Dividends

On December 19, 2008, the Board of Directors of China Yili declared a dividend of the outstanding shares of its discontinued operating subsidiary, ASAP Expo, Inc. The total number of distributed shares is 8,701,480. In the future, the Company largely intends to retain any future earnings for the operation and expansion of the business. Any decision as to future payment of dividends will depend on the available earnings, the capital requirements of the Company, its general financial condition and other factors deemed pertinent by the Board of Directors.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The information set forth in the table below regarding equity compensation plans (which include individual compensation arrangements) was determined as of December 31, 2008.

	Number of secu–rities to be issued upon exercise of outstanding op–tions, warrants and rights	Weighted aver–age exercise price of outstanding options, warrants and rights	Number of secu–rities remaining available for fu–ture issuance un–der equity com–pensation plans
Equity compensation plans ap–proved by security holders..........	0	--	0
Equity compensation plans not approved by security holders.....	0	--	0
Total.............	0	--	0

(e) Sale of Unregistered Securities

The Company did not issue any unregistered equity securities during the 4th quarter of 2008.

(f) Repurchase of Equity Securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Act during the 4th quarter of 2008

Item 6 Selected Financial Data

Not Applicable.

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

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 2008, has resulted a slowdown of the real estate market in China and our business, in turn, has been affected in 2008. 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.

All of our revenue for the year ended December 31, 2008 were generated by ASAP Expo. Tthe Company did not start generating revenue or profitable operation.

Of the $299,308 in expenses reported by the Company for the year ended December 31, 2008, it was mainly attributable to the general and administrative expenses which generally consisted of the facilities maintenance and depreciation cost. Compared to the expenses of $464,271 incurred in 2007, our expenses have decreased by $164,963 or 36%. For the year ended December 2008, our expenses are primarily related to the Company's 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. And the Company also incurred expenses in connection with its reverse merger into a U.S. shell company and its entry into the U.S. capital market.

Net income from discontinued operations of ASAP Expo was $57,711 for the year ended December 31, 2008. For the year ended December 31, 2008, Yili Asphalt realized a net loss of $316,593.

Liquidity and Capital Resources

Management anticipates that Yili Asphalt will commence revenue-producing operations in the coming months. 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 from a Chinese bank 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:

- Inventory. Yili Asphalt will have to fund the carrying cost of a large inventory of products, including the investment in raw petroleum, the cost of storage, and the cost of transportation.

- 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 $2.5 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. However, our plan, if accomplished, will significantly increase the risks to our liquidity.

Application of Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 4 of our financial statements. While all these significant accounting policies impact its financial condition and results of operations, the Company views certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on the Company's financial statements and require management to use a greater degree of judgment and estimates. In connection with the preparation of our financial statements for 2008, we made one policy determination that was both significant in impact and subject to significant potential for error. That was our determination, explained in Note 4 to our financial statements, that the value of our capital assets has not been impaired. The basis for that determination was our expectation that the cash flows from our petroleum products business will exceed the carrying value of the capital assets.

Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would have a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

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.,

Impact of Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements". The adoption of this statement did not have a material effect on the Company's financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, “Noncontrolling 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 noncontrolling 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 noncontrolling 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 noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Date

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

Board of Directors
China Yili Petroleum Company and Subsidiaries
(A Development Stage Company)

We have audited the accompanying consolidated balance sheets of China Yili Petroleum Company and Subsidiaries (A Development Stage Company) as of December 31, 2008 and 2007 and the related consolidated statements of operations and comprehensive income (loss) and changes in stockholders' equity and cash flows for the years ended December 31, 2008 and 2007 and for the period from inception (May 27, 2005) to December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 $2,130,453 at December 31, 2008. The Company sustained a loss from continuing operations of $316,593 for the year ended December 31, 2008. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Yili Petroleum Company and Subsidiaries (A Development Stage Company) as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007 and for the period from inception (May 27, 2005) to December 31, 2008 in conformity with accounting principles generally accepted in the United States.

/s/ Paritz & Company, P.A.

Hackensack, New Jersey
March 24, 2009

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2008	2007
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,057	$ 20,256
Other sundry current assets	246	31,008
TOTAL CURRENT ASSETS	6,303	51,264
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	8,948,336	8,383,267
ASSETS OF DISCONTINUED OPERATIONS	-	295,135
TOTAL ASSETS	$ 8,957,639	$ 8,729,666
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,683,564	$ 1,443,048
Due to stockholder	365,912	261,520
Accrued expenses	87,280	73,951
TOTAL CURRENT LIABILITIES	2,136,756	1,778,519
LIABILITIES OF DISCONTINUED OPERATIONS	-	1,491,209
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value		
100,000,000 shares authorized		
29,748,348 and 300,051 shares issued and outstanding at		
December 31, 2008 and 2007, respectively	29,748	300
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 and 300,000 shares issued and outstanding at		
December 31, 2008 and 2007, respectively	-	300
Additional paid-in capital	6,767,198	5,583,269
Accumulated deficit	(896,801)	(580,489)
Accumulated other comprehensive income	920,738	456,558
TOTAL STOCKHOLDERS' EQUITY	6,820,883	5,459,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,957,639	$ 8,729,666

See notes to financial statements

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CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year ended December 31, 2008	2007	From Inception (May 27, 2005) to December 31, 2008
SALES	$ -	$ -	$ -
COSTS AND EXPENSES:			
General and administrative expenses	299,308	464,271	879,516
Imputed interest expense - stockholder	17,285	-	17,285
TOTAL COSTS AND EXPENSES	316,593	464,271	896,801
LOSS FROM CONTINUING OPERATIONS	(316,593)	(464,271)	(896,801)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	57,711	(281)	57,430
NET LOSS	(258,882)	(464,552)	(839,371)
OTHER COMPREHENSIVE INCOME:			
Foreign currency translation adjustments	464,180	458,996	920,738
COMPREHENSIVE INCOME (LOSS)	$ 205,298	$ (5,556)	$ 81,367
Basic and diluted loss per common share – continuing operations	$ (0.01)	$ (1.55)	
Basic and diluted loss per common share – discontinued operations	$ 0.00	$ 0.00	
Weighted average number of shares outstanding	21,743,078	300,051	

See notes to financial statements

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CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	PREFERRED STOCK SERIES A		COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	COMPRE
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	DEFICIT	
BALANCE – MAY 27, 2005	-	$ -	-	$ -	$ -	$ -	$
Capital contributions	-	-	-	-	185,795	-	
BALANCE – DECEMBER 31, 2005	-	-	-	-	185,795	-	
Additional capital contribution	-	-	-	-	6,593,866	-	
Foreign currency translation adjustment	-	-	-	-	-	-	
Net loss	-	-	-	-	-	(115,937)	
BALANCE – DECEMBER 31, 2006	-	-	-	-	6,779,661	(115,937)	
Effect of merger and reverse split	300,000	300	300,051	300	(1,196,392)	-	
Foreign currency translation adjustment	-	-	-	-	-	-	
Net loss	-	-	-	-	-	(464,552)	
BALANCE – DECEMBER 31, 2007	300,000	300	300,051	300	5,583,269	(580,489)	
Foreign currency translation adjustment	-	-	-	-	-	-	
Preferred stock converted to common	(300,000)	(300)	29,448,297	29,448	(29,148)	-	

stock									
Dividend declared for spinning off	-	-	-		-	1,195,792		(57,430)	
Imputed interest on stockholer loan	-	-	-		-	17,285		-	
Net loss	-	-	-		-	-		(258,882)	
BALANCE – DECEMBER 31, 2008	-	-	29,748,348	$	29,748	$ 6,767,198	$	(896,801)	$

See notes to financial statements

F-3

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2008	Year Ended December 31, 2007	From Inception (May 27, 2005) to December 31, 2008
OPERATING ACTIVITIES:			
Net loss	$ (258,882)	$ (464,552)	$ (839,371)
(Gain) Loss from discontinued operations	(57,711)	281	(57,430)
Net loss from continuing operations	(316,593)	(464,271)	(896,801)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	40,969	37,850	78,819
Imputed interest	17,285	-	17,285
Changes in operating assets and liabilities:			
Sundry current assets	(32,931)	(25,332)	(246)
Accounts payable	139,471	(719,736)	1,683,564
Accrued expenses	8,365	132,830	87,280
Deferred revenue	-	(235,837)	-
Net effect of discontinued operations	-	172,962	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(143,434)	(1,101,534)	969,901
INVESTING ACTIVITIES:			
Acquisition of property and equipment	-	(27,042)	(9,027,155)
Net effect of discontinued operations	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	-	(27,042)	(9,027,155)
FINANCING ACTIVITIES:			
Capital contributions	-	-	6,776,661
Loan to related party	-	(180,492)	-
Loan received from (payment to) stockholder	86,080	40,306	365,912
Net effect of discontinued operations	-	(173,243)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	86,080	(313,429)	7,142,573
EFFECT OF EXCHANGE RATE ON CASH	16,320	133,063	920,738
INCREASE (DECREASE) IN CASH	(41,034)	(1,308,942)	6,057
CASH – BEGINNING OF YEAR	47,091	1,356,033	-
CASH – END OF YEAR	$ 6,057	$ 47,091	$ 6,057
Supplemental disclosures of cash flow information:			
Non-cash financing activities (discontinued operations):			
Loan receivable from affiliated company repaid by stockholder	$ 289,693	$ -	$ -

See notes to financial statements

CHINA YILI PETROLUEM COMPANY AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

1 BUSINESS DESCRIPTION AND HISTORY

China Yili Petroleum Company ("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.

During the year ended December 31, 2007, ASAP Expo, Inc. ("ASAP"), formerly a wholly-owned subsidiary of Yili, organized trade shows and innovative means of financing international trade.

On December 31, 2008, Yili declared a dividend of 100% of the outstanding shares of ASAP. The results of operations of ASAP are included in the accompanying consolidated statements of operations and other comprehensive income (loss) as income (loss) from discontinued operations. The assets and liabilities of ASAP are aggregated and reported as separate lines on the consolidated balance sheet prior to the declaration of the dividend.

The table below reflects the operating results of ASAP:

	Year Ended December 31,	
	2008	2007
Net sales	$ 1,043,883	$ 561,032
Gross profit	$ 601,489	$ 243,403
Income (loss)	$ 57,711	$ (281)

2 MERGER TRANSACTION AND REVERSE SPLIT

On August 13, 2007 ASAP Show, Inc. ("ASAP Show") acquired the outstanding capital stock of Sino-American Petroleum Group, Inc., a Delaware Corporation ("Sino-American Petroleum"). Sino-American Petroleum is a holding company that owns all of the registered capital of Tongliao Yili Asphalt Co. ("Yili Asphalt"), a corporation organized under the laws of the People's Republic of China ("PRC"). Yili Asphalt is engaged in the business of refining heavy oil into asphalt, fuel oil and lubricants. All of Yili Asphalt's business is currently in China.

In connection with the closing of the acquisition (the "Merger") on August 13, 2007, the following took place:

- ASAP Show issued to the stockholders of Sino-American Petroleum 200,000 shares of Series A Preferred Stock, which will be convertible into 569,348,000 shares of common stock after the distribution of the ASAP Expo shares discussed below.

- ASAP Show issued 100,000 shares of Series A Preferred Stock for $600,000. The 100,000 shares will be convertible into 284,674,000 shares of common stock after the distribution of the ASAP Expo shares discussed below. The three purchasersassigned their interest in most of the Series A Preferred shares to other individuals, none of whom, acquired sufficient shares to be a controlling stockholder of ASAP Show.

  Prior to the Merger, ASAP Show assigned all of its pre-Merger business and assets to ASAP Expo, Inc., its wholly-owned subsidiary, and ASAP Expo, Inc. assumed responsibility for all of the liabilities of ASAP Show that existed prior to the merger. At the same time, ASAP Show entered into a management agreement with Frank Yuan, its previous CEO, and ASAP Expo, Inc. The management agreement provides that Mr. Yuan will manage ASAP Expo, Inc. within his discretion, provided that his actions or inactions do not threaten material injury to ASAP Show. The management agreement further provides that Mr. Yuan will cause ASAP Expo, Inc. to file a registration statement with the Securities and Exchange Commission, that will, when declared effective, permit ASAP Show to distribute all of the outstanding shares of ASAP Expo, Inc. to the holders of its common stock. After the registration statement is declared effective, the Board of Directors of ASAP Show will fix a record date, and stockholders of record on that date will receive the shares of ASAP Expo, Inc. in proportion to their ownership of ASAP Show common stock. On October 22, 2007 ASAP Show, Inc. changed its corporate name to China Yili Petroleum Company (the "Company") and announced a 1229 reverse split.

  The above merger was accounted for as a reverse merger, since the former shareholders of Sino-American Petroleum and its wholly-owned subsidiary, Yili Asphalt, effectively control the Company and, accordingly, Sino-American Petroleum is considered to be the surviving entity.

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 $2,130,453 at December 31, 2008. The Company sustained a loss from continuing operations of $316,593 for the year ended December 31, 2008. 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.

Cash

The Company includes in cash and cash equivalents all short-term, highly liquid investments that mature within three months of their acquisition date. Cash equivalents consist principally of investments in interest-bearing demand deposit accounts and liquidity funds with financial institutions and are stated at cost, which approximates fair value.

The Company also maintains cash with financial institutions in the PRC which are not insured or otherwise protected.

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.

Revenue recognition

Sales of products are recognized upon shipment to the customer and title has passed. Sales are presented net of sales and other taxes the Company collects on behalf of government authorities.

One of the Company's operations is organizing trade shows. Revenue generated from organizing trade shows is typically collected in advance, deferred and then recognized at the time of the related trade show. Deferred revenue is recorded as a liability and recorded as revenue at the time of the related trade show.

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 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 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.

Income (loss) per common share

Basic income (loss) per common share amounts are computed by dividing net income by weighted-average common stock outstanding during the period. Diluted income (loss) per common share are calculated using weighted-average shares outstanding, adjusted for the dilutive effect of shares issuable upon the assumed exercise of common stock equivalents. As of March 31, 2008 and 2007 there were no common stock equivalents outstanding.

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.

Statement of cash flows

In accordance with Statement of Financial Accounting Standards No. 95, “Statement of cash Flows,” cash flows from the Company’s operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Fair value of financial instruments

Statement of Financial Accounting Standards No. 107, “Disclosures about Fair Value of Financial Instruments”, requires that the Company disclose estimated fair values of financial instruments.

The Company’s financial instruments primarily consist of cash and cash equivalents, accounts receivable, other receivables, advances to suppliers, accounts payable, accrued expenses and other sundry current liabilities and related party advances and borrowings.

As of the balance sheet dates, the estimated fair values of financial instruments were not materially different from their carrying values as presented on the balance sheet. This is attributed to the short maturities of the instruments and that interest rates on the borrowings approximate those that would have been available for loans of similar remaining maturity and risk profile at the respective balance sheet dates.

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 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to 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:

	2008	2007	
		Amount	Life
Right to use land	$ 247,205	$ 231,028	50 years
Building and building improvements	1,771,826	1,673,016	39 years
Machinery and equipment	4,736,644	4,429,982	7 years
Office equipment and furniture	61,398	54,143	7 years
Automobiles	154,092	144,008	7 years
	6,971,165	6,532,177	
Accumulated depreciation and amortization	104,878	59,064	
	6,866,287	6,473,113	
Construction in progress	2,082,049	1,910,153	
	$ 8,948,336	$ 8,383,266	

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 year ended December 31, 2008.

7 STOCKHOLDERS' EQUITY

The Company is authorized to issue 300,000 shares of Series A Preferred Stock, par value $0.001. Each share is convertible into 98.16 shares of common stock. The holders of the Series A Preferred Stock have voting power equivalent to the common shares into which the Series A shares are convertible. During 2008, 300,000 shares of Series A Preferred Stock were converted to 29,448,297 shares of common stock.

8 INCOME TAXES

The Company has a net operating loss carry-forwards in China of approximately $800,000 which expire between 2012 and 2013.

The Company has a deferred tax asset resulting from the tax loss carry-forwards of approximately $200,000 for which the Company has provided a 100% valuation allowance.

9 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.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2008. 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 Petroleum Company 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 Petroleum Company 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 Petroleum Company's system of disclosure controls and procedures was effective as of December 31, 2008 for the purposes described in this paragraph.

Changes in Internal Controls. There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act or 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during China Yili Petroleum Company's fourth fiscal quarter that has materially affected or is reasonably likely to materially affect China Yili Petroleum Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2008, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control – Intergrated Framework as a basis for our assessment.

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

A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified three material weaknesses in our internal control over financial reporting. These material weaknesses consisted of:

a. 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.

b. 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.

c. 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.

Management is currently reviewing its staffing and their training in order to remedy the weaknesses identified in this assessment. To date, we are not aware of significant accounting problems resulting from these weaknesses; so we have to weigh the cost of improvement against the benefit of strengthened controls. However, because of the above conditions, management's assessment is that the Company's internal controls over financial reporting were not effective as of December 31, 2008.

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

Item 9B Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The officers and directors of the Company are:

Name	Age	Position with the Company	Director Since
Chunshi Li	53	Chairman, Chief Executive Officer, Chief Financial Officer	2007

Directors hold office until the annual meeting of the Company's stockholders and the election and qualification of their successors. Officers hold office, subject to removal at any time by the Board, until the meeting of directors immediately following the annual meeting of stockholders and until their successors are appointed and qualified.

Chunshi Li has over thirteen years experience in the petroleum products industry. Since 2005 he has served as Chairman of the Board of Yili Asphalt, a company that he founded. From 1994 to 2005 Mr. Li was employed be other petroleum refiners and distributors. From 1984 to 1994 Mr. Li was employed in the Provincial Government of Jilin Province as a member of the Political Consultative Conference.

Audit, Compensation and Nominating Committee

The Board of Directors has not appointed an Audit Committee, a Compensation Committee or a Nominating Committee, due to the small size of the Board. The functions that would be performed by these committees are performed by the Board of Directors. The Board of Directors does not have an "audit committee financial expert," because there is only one Board member.

Code of Ethics

The Company has not adopted a formal code of ethics applicable to its executive officers. The Board of Directors has determined that there are not a sufficient number of members of management to warrant adoption of a formal code of ethics.

Section 16(a) Beneficial Ownership Reporting Compliance

None of the officers, directors or beneficial owners of more than 10% of the Company’s common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2008, except that Chunshi Li failed to file a Form 3.

Item 11. Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid by the Company to Chunshi Li, its Chief Executive Officer, for services rendered in all capacities to the Company and its subsidiaries during the years ended December 31, 2008, 2007 and 2006. There were no other executive officers whose total salary and bonus for the fiscal year ended December 31, 2008 exceeded $100,000.

	Compensation Year	Salary
	2008	$0
Chunshi Li	2007	$0
	2006	$0

Employment Agreements

All of our employment arrangements with our executives are on an at will basis.

Equity Grants

The following tables set forth certain information regarding the stock options acquired by the Company’s Chief Executive Officer during the year ended December 31, 2008 and those options held by him on December 31, 2008.

Option Grants in the Last Fiscal Year

Name	Number of securities underlying option granted	Percent of total options granted to employees in fiscal year	Exercise Price ($/share)	Expiration Date	Potential realizable value at assumed annual rates of appreciation of for option term 5%	10%
Chunshi Li	0	N.A.	N.A.	N.A.	0	0

Aggregated Fiscal Year-End Option Values

Name	Number of securities underlying unexercised options at fiscal year-end (#) (All exercisable)	Value of unexercised in-the-money options at fiscal year-end ($) (All exercisable)
Chunshi Li	0	0

Compensation of Directors

The members of our Board of Directors receive no compensation for their services on the Board.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of the date of this prospectus by the following:

- each shareholder known by us to own beneficially more than 5% of any class of our voting stock;
- Chunshi Li;
- each of our directors; and
- all directors and executive officers as a group.

There are 22,139,994 shares of our common stock outstanding on the date of this report. In addition, there were 77,514½ shares of Series A Preferred Stock outstanding, each of which can be converted into 98.1634 shares of common stock, and each of which entitles the holder to 98.1634 votes at any meeting of shareholders. Except as otherwise indicated, we believe that the beneficial owners of the shares listed below have sole voting power and investment power with respect to their shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

In computing the number of shares beneficially owned by a person and the percent ownership of that person, we include shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days. We do not, however, include these "issuable" shares in the outstanding shares when we compute the percent ownership of any other person.

Name of Beneficial Owner	Class	Amount and Nature of Beneficial Ownership	Percentage of Class	Percentage of Voting Power
Chunshi Li	Common	6,431,194	29.0%	21.6%
All officers and directors as a group (1 person)	Common	6,431,194	29.0%	21.6%

Item 13. Certain Relationships and Related Transactions and Director Independence

Certain Relationships and Related Transactions

Yili Asphalt

During 2006 Chunshi Li invested in Yili Asphalt most of the funds that we used to develop our refinery facility. Yili Asphalt recorded the investment as $6,796,946 on its balance sheet, and issued to Mr. Li a substantial portion of its registered equity. Mr. Li subsequently transferred that equity to Sino-American Petroleum Group, Inc. in exchange for his interest in that company. In August 2007 the Company acquired Sino-American Petroleum Group, Inc. and issued to Mr. Li the shares of the Company's equity that he now owns.

Between 2005 and 2008 Chunshi Li from time to time made loans to Yili Asphalt to enable it to develop its refinery. The loans were not interest-bearing, and were due on demand. At December 31, 2008 the balance due from Yili Asphalt to Chunshi Li was $365,912.

Item 14. Principal Accountant Fees and Services

Paritz & Company, P.A. (“Paritz”) was appointed to serve as the Company’s principal accountant on August 13, 2007.

Audit Fees

Paritz billed $26,000 in connection with the audit of China Yili’s financial statements for the year ended December 31, 2008. Also included are services performed in connection with reviews of the financial statements of China Yili and its subsidiaries for the first three quarters of fiscal 2008 as well as those services normally provided by the accountant in connection with the Company’s statutory and regulatory filings for fiscal year 2008. Paritz billed $27,500 in connection with the audit of China Yili’s financial statements for the year ended December 31, 2007.

Audit-Related Fees

Paritz billed China Yili $0 for any Audit-Related fees in 2008 and 2007.

Tax Fees

Paritz billed $0 to China Yili in 2008 and 2007 for professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

Paritz billed China Yili $0 for other services in 2008 and 2007.

It is the policy of the Company that all services, other than audit, review or attest services must be pre-approved by the Board of Directors.

Item 15. Exhibit List

(a) Exhibit List

3-a Articles of Incorporation – filed as an exhibit to the Company’s Registration Statement on Form 10-SB (File No. 000-51554) and incorporated herein by reference.

3-a(1) Certificate of Designation of Series A Preferred Stock – filed as an exhibit to the Company’s Current Report on Form 8-K filed on August 13, 2007 and incorporated herein by reference.

3-b Bylaws - filed as an exhibit to the Company’s Registration Statement on Form 10-SB (File No. 000-51554) and incorporated herein by reference.

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Yili Petroleum Company

By: /s/ Chunshi Li
Chunshi Li, Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below on May 18, 2009 by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Chunshi Li
Chunshi Li, Director
Chief Executive Officer, Chief
Financial and Accounting Officer