

China Botanic Pharmaceutical
Form 10-Q
March 16, 2012

UNITED STATES 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 January 31, 2012

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

For the transition period from _____ to _____

Commission File Number: 001-34808

CHINA BOTANIC PHARMACEUTICAL INC.

(Exact name of registrant as specified in its charter)

Nevada 88-1273503
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Level 11, Changjiang International Building

**No. 28, Changjiang Road, Nangang District,
Harbin**

Heilongjiang Province, China 150090

(Address of principal executive offices)

86-451-5762-03787

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(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller 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

As of February 22, 2012, there were 37,239,536 shares of the registrant's \$0.001 par value common stock issued and outstanding.

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In this Quarterly Report on Form 10-Q, references to “dollars” and “\$” are to United States dollars and, unless the context otherwise requires, references to “we,” “us” and “our” refer to China Botanic Pharmaceutical Inc. and its consolidated subsidiaries.

This Quarterly Report contains certain forward-looking statements. When used in this Quarterly Report, statements which are not historical in nature, including the words “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” “m,” “project,” “plan” or “continue,” and similar expressions are intended to identify forward-looking statements. They also include statements containing anticipated business developments, a projection of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this Quarterly Report are based upon management’s beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. These forward-looking statements are based on our current plans and expectations and are subject to a number of uncertainties and risks that could significantly affect current plans and expectations and our future financial condition and results.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this filing might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors. As a consequence, current plans, anticipated actions and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on our behalf. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented herein.

PART I**Item 1. Financial Statements.**CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	Note	January 31,2012 (Unaudited)	October 31,2011 (Audited)
ASSETS			
Current assets			
Cash		\$21,424,980	\$ 15,283,583
Trade receivables, net	5	32,590,787	21,548,325
Inventory, net	7	16,417,407	7,416,720
Other receivables, net	6	154,296	6,823,410
Total current assets		70,587,470	51,072,038
Property and equipment, net	8	1,704,332	1,778,984
Intangible assets, net	9	17,205,410	17,146,700
Construction-in-progress	10	1,964,277	1,937,103
Deposits for properties	12	35,541,536	37,822,113
Deferred tax assets	13	141,179	139,226
Total assets		\$127,144,204	\$ 109,896,164
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		\$2,360,318	\$ 2,098,256
Tax payable		9,010,596	5,976,417
Accrued employee benefits	16	2,269,391	2,131,565
Warrant Liabilities	17	18,445	23,443
Total liabilities		13,658,750	10,229,681
Shareholders' equity			
Preferred stock (no par value, 1,000,000 shares authorized; none issued and outstanding as of January 31,2012 and October 31, 2011,respectively)	18	-	-
Common stock (\$0.001 par value, 100,000,000 shares authorized; 37,239,536 issued and outstanding as of January 31,2012 and October 31, 2011, respectively)	18	37,240	37,240
Additional paid-in capital		7,789,726	7,763,987
Common stock warrants	19	496,732	496,732
Reserves	20	3,372,697	3,372,697
Accumulated other comprehensive income		10,106,694	8,620,695
Retained earnings		91,682,365	79,375,132

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Total shareholders' equity	113,485,454	99,666,483
Total liabilities and shareholders' equity	\$127,144,204	\$ 109,896,164

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

		For the three months ended January 31,	
	Note	2012 (Unaudited)	2011 (Unaudited)
Sales, net		\$28,140,091	\$22,625,060
Cost of goods sold		10,815,503	8,807,787
Gross profit		17,324,588	13,817,273
Operating and administrative expenses:			
Sales and marketing		1,590,890	1,329,179
General and administrative		1,046,633	659,882
Research and development		236,415	180,674
Total operating expenses		2,873,938	2,169,735
Income from operations		14,450,650	11,647,538
Other income:			
Interest income		32,107	24,189
Income before income tax expenses		14,482,757	11,671,727
Income tax expenses	14	2,175,525	723,432
Net income		\$12,307,232	\$10,948,295
Other comprehensive income:			
Cumulative currency translation adjustments		1,485,999	664,421
Total comprehensive income		13,793,231	11,612,716
Earnings per common stock- Basic	15	\$0.33	\$0.29
Earnings per common stock - Diluted		\$0.33	\$0.29
Weighted average number of common stock outstanding	15		
Basic		37,239,536	37,239,536
Diluted		37,243,559	37,895,878

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the three months ended January 31,	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income	\$ 12,307,232	\$ 10,948,295
Adjustments to reconcile net income to operating activities:		
Depreciation	98,910	94,091
Amortization	180,554	35,253
Share compensation	25,739	25,796
Noncash rental expenses	264,935	188,202
Warrants liability reevaluation	(4,998)	(187,342)
Changes in assets and liabilities:		
(Increase) in trade receivables	(10,664,863)	(6,077,469)
(Increase) in due from related parties	-	(27,177)
(Increase) in inventory, net	(8,834,257)	(4,736,029)
Decrease (Increase) in other receivables, net	6,717,399	(256,099)
Increase in accounts payable	230,997	149,153
Increase in tax payable	2,929,651	996,035
Increase in accrued employee benefits	107,166	148,081
Net cash provided by operating activities	3,358,465	1,300,790
Cash flows from investing activities:		
Deposits for land use right, property and patents	-	(15,056,160)
Refunds from patents deposit	2,526,967	-
Increase in construction-in-progress	-	(1,859,436)
Purchase of property and equipment	-	(5,171)
Net cash provided by (used in) investing activities	2,526,967	(16,920,767)
Effect of exchange rate changes on cash	255,965	178,456
Net increase (decrease) in cash	6,141,397	(15,441,521)
Cash, beginning of year	15,283,583	27,826,142
Cash, end of year	\$ 21,424,980	\$ 12,384,621
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	-	-
Interest paid during the year	-	-

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

CHINA BOTANIC PHARMACEUTICAL INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2012

1. ORGANIZATION AND NATURE OF OPERATION

The accompanying condensed consolidated financial statements include the financial statements of China Botanic Pharmaceutical Inc. (“CBP”) and its subsidiaries. CBP and its subsidiaries are collectively referred to as the “Company.”

CBP was incorporated in the State of Nevada on August 18, 1988, originally under the corporate name of Solutions, Incorporated. It was inactive until August 16, 1996, when it changed its corporate name to Suarro Communications, Inc, and engaged in the business of providing internet based business services. This line of business was discontinued in 2006, and CBP became a non-operating public company. CBP underwent a number of corporate name changes as follows:

June 1997	ComTech Consolidation Group, Inc
February 1999	E-Net Corporation
May 1999	E-Net Financial Corporation
January 2000	E-Net.Com Corporation
February 2000	E-Net Financial.Com Corporation
January 2002	Anza Capital, Inc (“Anza”)
June 2006	Renhuang Pharmaceuticals, Inc.
October 2010	China Botanic Pharmaceutical Inc.

Effective August 28, 2006, CBP completed the acquisition of 100% ownership of Harbin Renhuang Pharmaceutical Company Limited, a company incorporated in the British Virgin Islands. As a result, Harbin Renhuang Pharmaceutical Company Limited became a wholly owned subsidiary of CBP.

Harbin Renhuang Pharmaceutical Company Limited owns 100% of the registered capital of Harbin Renhuang Pharmaceutical Co. Ltd (“CBP China”).

The core activities of subsidiaries included in the condensed consolidated financial statements are as follow:

Harbin Renhuang Pharmaceutical Company Limited – Investment holding.
CBP China – Development, manufacturing and distribution of pharmaceutical products.

CBP China's principal country of operations is the People's Republic of China (the "PRC") and maintains their accounting records in Renminbi ("RMB"). Substantially all of the Company's assets and operation are located in the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has included all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the result of operations for the three months ended January 31, 2012 and 2011. The condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes for the year ended October 31, 2011 included in the Company's Annual Report on Form 10-K. Interim results are not necessarily indicative of results for the full year due to seasonal and other factors.

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's condensed consolidated financial statements. The condensed consolidated financial statements and notes are representation of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements for January 31, 2012 and October 31, 2011.

a. Basis of presentation of financial statements

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are expressed in terms of US dollars.

The Company operates in one operating segment in accordance with accounting guidance FASB ASC Topic 280, “*Segment Reporting*”. Our CEO has been identified as the chief operating decision maker as defined by FASB ASC Topic 280.

b. Principles of consolidation

The condensed consolidated financial statements include the financial statements of CBP and its subsidiaries.

All inter-company transactions and balances have been eliminated in consolidation.

FASB ASC Topic 810, “*Consolidation*”, requires noncontrolling minority interests to represent the portion of earnings that is not within the parent company’s control. The noncontrolling minority interests are required to be reported as equity instead of as a liability on the balance sheet. In addition this statement requires net income from noncontrolling minority interest to be shown separately on the condensed consolidated statements of operations and comprehensive income. The Company has no noncontrolling interest as of January 31, 2012 and October 31, 2011.

c. Use of estimates

The preparation of these condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the condensed consolidated financial statements and the reported amounts of net sales and expenses during the reported periods.

Significant estimates and assumptions by management include, among others, uncollectible accounts receivable, slow moving, obsolete and/or damaged inventory, the carrying amount of property and equipment and intangible assets, reserve for employee benefit obligations, stock warrant valuation, noncash rental expense and other uncertainties. Actual results may differ from these estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

d. Foreign currency translation

The Company’s principal country of operations is in PRC. The financial position and results of operations of the subsidiaries are determined using the local currency (“Renminbi” or “RMB”) as the functional currency.

Translation of amounts from RMB into US dollars for reporting purposes is performed by translating the results of operations denominated in foreign currency at the weighted average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency (US dollars) are reported as a component of accumulated other comprehensive income in shareholders' equity.

As of January 31, 2012 and October 31, 2011, the exchange rates were RMB 6.29 and RMB 6.38, respectively. For the three months ended January 31, 2012 and 2011, the average exchange rates were RMB 6.33 and RMB 6.64 and the translation adjustments totaled \$1,485,999 and \$664,421, respectively.

e.

Cash

There are no restriction to cash at January 31, 2012 and October 31, 2011. Substantially all of the Company's cash is held in bank accounts in the PRC and is not protected by the Federal Deposit Insurance Corporation ("FDIC") insurance or any other similar insurance. Given the current economic environment and risks in the banking industry, there is a risk that deposits may not be readily available.

f.

Trade receivables, net

Trade receivables are recorded at the invoiced amount and do not bear interest. Trade receivable payment terms vary and amounts due from customers are stated in the condensed consolidated financial statements net of an allowance for doubtful accounts and sales rebates. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its trade receivables. Trade receivables outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time the trade receivable is past due, the Company's previous loss history, the counter party's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off receivables when they are deemed uncollectible, and payments subsequently received on such trade receivables are credited to the allowance for doubtful accounts. There were no write offs for the three months ended January 31, 2012 and 2011. The Company does not have any off-balance sheet credit exposure related to its customers.

g. Inventory, net

Inventory consists of raw materials, work-in-progress and finished goods and is valued at the lower of cost or market value. The value of inventory is determined using the weighted average cost method and includes any related production overhead costs incurred in bringing the inventory to their present location and condition. Overhead costs included in finished goods include, direct labor cost and other costs directly applicable to the manufacturing process.

The Company estimates an inventory allowance for excessive, slow moving and obsolete inventories as well as inventory whose carrying value is in excess of net realizable value. Inventory amounts are reported net of such allowances. There were no inventory write offs for the three months ended January 31, 2012 and 2011.

h. Property and equipment, net

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives for significant property and equipment categories are as follows:

Machinery and equipment	10 years
Office equipment and furnishings	5-10 years
Motor vehicles	5-10 years

i. Intangible assets, net

Intangible assets consist of purchased patents and resource using right. Intangible assets are carried at cost less accumulated amortization and any impairment. Intangible assets with a finite useful life are amortized using the straight-line method over valid periods varied from 10 to 30 years, which is the estimated economic life of the intangible assets.

j. Accounting for the impairment of long-lived assets

The Company's long-lived assets and other assets (consisting of property and equipment) are reviewed for impairment in accordance with the guidance of the FASB ASC Topic 360, "*Property, Plant, and Equipment*," FASB ASC Topic 350, "*Intangibles - Goodwill and Others*," and FASB ASC Topic 205 "*Presentation of Financial Statements*." The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management's estimates on asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Through the three months ended January 31, 2012 and 2011, the Company had not experienced impairment losses on its long-lived assets. However, there can be no assurances that demand for the Company's products or services will continue, which could result in an impairment of long-lived assets in the future.

k. Fair value of financial instruments

The Company applies the provisions of accounting guidance, FASB ASC Topic 825 that requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of January 31, 2012 and October 31, 2011 the carrying value of cash, trade receivables, other receivables and accounts payable, approximated their fair value. All derivatives are recorded at fair value evaluated based on Black-Scholes option model.

I. Fair value measurements

The FASB ASC Topic 820, “*Fair Value Measurements and Disclosures*,” clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements.

Various inputs are considered when determining the fair value of the Company’s financial instruments. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. These inputs are summarized in the three broad levels listed below.

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.).

Level 3 – significant unobservable inputs (including the Company’s own assumptions in determining the fair value of financial instruments).

The Company’s adoption of FASB ASC Topic 825 did not have a material impact on the Company’s condensed consolidated financial statements.

The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a nonrecurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared.

The availability of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation does not require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

m. Revenue recognition

Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, “*Revenue Recognition*,” which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

Interest income is recognized when earned, taking into account the average principal amounts outstanding and the interest rates applicable.

During the three months ended January 31, 2012 and 2011, the Company has no sales or contracts that included multiple deliverables that would fall under the scope of FASB ASC Topic 605, “*Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force*.”

The Company provided annual sales rebates to its distributors based upon sales volumes. Sales rebates are recorded as a current liability at the time of the sale based upon the Company’s estimates of whether each customer would be entitled to rebates for the period. At quarter end, the accrued rebate amount is adjusted to the actual amount earned and reclassified to trade receivables in accordance with legal right of offset. Sales rebates were deducted from sales in the accompanying condensed consolidated statements of operations and comprehensive income.

As of January 31, 2012 and October 31, 2011, the Company has accrued \$2,464,641 and \$1,681,721, respectively, for sales rebates, which offset the balance of trade receivables. For the three months ended January 31, 2012 and 2011, the Company has deducted sales rebates in the amount of \$2,620,692 and \$3,431,869, respectively, from sales. Sales rebates are calculated based on terms specified in contracts with individual distributors.

n. Sales returns and allowances

The Company does not allow return of products except for products that were damaged during shipment. The total amount of returned product is less than 0.05% of total sales. The cost of damaged products is netted against sales and cost of goods sold, respectively.

o. Cost of goods sold

Cost of goods sold primarily consists of direct and indirect manufacturing costs, including raw material, packaging material, production overhead costs, city construction tax and educational tax for the products sold.

p. Sales and marketing

Sales and marketing costs consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the Company's sales and marketing personnel. Advertising expenses are expensed as incurred and amounted to \$1,548,368 and \$1,264,717 during the three months ended January 31, 2012 and 2011, respectively.

q. Research and development

Research and development ("R&D") consists primarily of cost of materials and overhead expenses incurred by research and development staff. Research and development costs are expensed as incurred. Research and development expenses amounted to \$236,415 and \$180,674 during the three months ended January 31, 2012 and 2011, respectively.

r. Employee benefit costs

According to the PRC regulations on pension, a company contributes to a defined contribution retirement plan organized by municipal government in the province in which the CBP China was registered and all qualified

employees are eligible to participate in the plan. Contributions to the plan are calculated at 22% of the employees' salaries above a fixed threshold amount.

s. Share-based compensation

For purposes of determining the variables used in the calculation of stock compensation expense under the provisions of FASB ASC Topic 505, "*Equity*" and FASB ASC Topic 718, "*Compensation — Stock Compensation*," we perform an analysis of current market data and historical Company data to calculate an estimate of implied volatility, the expected term of the option and the expected forfeiture rate. With the exception of the expected forfeiture rate, which is not an input, we use these estimates as variables in the Black-Scholes option pricing model. Depending upon the number of stock options granted, any fluctuations in these calculations could have a material effect on the results presented in our condensed consolidated statement of operations and comprehensive income. In addition, any differences between estimated forfeitures and actual forfeitures could also have a material impact on our condensed consolidated financial statements.

t. Taxation

Taxation on profits earned in the PRC has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC in which the Company operates after taking into effect the benefits from any special tax credits or "tax holidays" allowed in the country of operations.

The Company accounts for income tax under the provisions of FASB ASC Topic 740, "*Income Taxes*," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the condensed consolidated financial statements or tax returns. Deferred income taxes are recognized for all significant temporary differences between tax and financial statements bases of assets and liabilities. Valuation allowances are established against net deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company does not have any long-term deferred tax assets or liabilities in the PRC that will exist once the tax holiday expires. The Company does not have any significant deferred tax asset or liabilities that relate to tax jurisdictions not covered by the tax holiday.

The Company does not accrue United States income tax on unremitted earnings from foreign operations, as it is the Company's intention to invest these earnings in the foreign operations indefinitely.

Generally, years beginning after fiscal 2006, the Company is open to examination by PRC taxing authorities. In the United States, we are open to examination from 2006 onward.

Enterprise income tax

On March 16, 2007, the PRC National People's Congress passed the PRC Enterprise Income Tax Law ("New EIT Law") which became effective on January 1, 2008. Pursuant to the New EIT Law, a unified enterprise income tax rate of 25 percent and unified tax deduction standards will be applied consistently to both domestic-invested enterprises and foreign-invested enterprises. However, the New EIT Law repealed most of the existing preferential tax rates and tax holidays. A five-year transition period is allowed for enterprises that obtained preferential tax treatment under the prior tax regime. Under the prior tax regime, foreign-invested enterprises were generally subject to a 30 percent federal tax rate plus a 3 percent local tax rate for a total tax rate of 33 percent.

CBP China secured preferential tax treatment in the jurisdiction where it conducts its manufacturing activity, where it was granted tax exemption of 10% from the government, for being a new and high-technology enterprise.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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A provision has not been made for the three months ended January 31, 2012 and 2011 for U.S. or additional foreign withholding taxes on approximately \$91,682,365 of undistributed earnings of foreign subsidiaries because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability on such undistributed earnings.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes by the State. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current State officials.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of January 31, 2012 and October 31, 2011 is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax benefits as of January 31, 2012, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition or cash flows.

Value added tax

The Provisional Regulations of The People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in The People's Republic of China is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

u. Comprehensive Income

Total comprehensive income is defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income equals net income plus or minus adjustments for currency translation. Total comprehensive income represents the activity for a period net of related tax and was \$13,793,231 and \$11,612,716 for the three months ended January 31, 2012 and 2011, respectively.

While total comprehensive income is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income as of the balance sheet date. For the Company, AOCI is primarily the cumulative balance related to the currency adjustments and increased overall equity by \$1,485,999 and \$664,421 as of January 31, 2012 and 2011, respectively.

v. Earnings per share

Basic net earnings per common stock are computed by dividing net earnings applicable to common shareholders by the weighted-average number of common stock outstanding during the period. Diluted net earnings per common stock is determined using the weighted-average number of common stock outstanding during the period, adjusted for the dilutive effect of common stock equivalents, using the treasury stock method, consisting of shares that might be issued upon exercise of common stock warrants. In periods where losses are reported, the weighted-average number of common stock outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock outstanding

adjusted for the effects of common stock that may be issued as a result of the following types of potentially dilutive instruments:

-warrants,

-employee stock options, and

-other equity awards, which include long-term incentive awards.

The FASB ASC Topic 260, "*Earnings per Share*," requires the Company to include additional shares in the computation of earnings per share, assuming dilution. The additional shares included in diluted earnings per share represent the number of shares that would be issued if all of the Company's outstanding dilutive instruments were converted into common stock.

Diluted earnings per share are based on the assumption that all dilutive options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options are assumed to be exercised at the time of issuance, and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

w.

Warrants

The Company evaluates its warrants on an ongoing basis considering the accounting guidance of FASB ASC Topic 825, which establishes standards for issuers of financial instruments with characteristics of both liabilities and equity related to the classification and measurement of those instruments. The warrants are evaluated considering the accounting guidance of FASB ASC Topic 815, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.

In accordance with accounting guidance FASB ASC Topic 825, the Company accounts for financial instruments as a liability if it embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets. Freestanding financial instruments are financial instruments that are entered into separately and apart from any of the entity's other financial instruments or equity transactions, or that is entered into in conjunction with some other transaction and is legally detachable and separately exercisable. The liability recorded is fair market value per Black-Scholes option model.

On March 25, 2010, we issued warrants to purchase 160,000 shares of our common stock to a certain investor relation service provider. The warrants were recognized at fair value and were recorded as liability.

3. ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued ASU 2011-02 Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This ASU clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. For public companies, this ASU is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early application is permitted. It is not expected to have a material impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU is the result of joint efforts by the FASB and International Accounting Standards Board ("IASB") to develop a single, converged fair value framework — that is, converged guidance on how (not when) to measure fair value and on what disclosures to provide about fair value measurements. Thus, there are few differences between this ASU and its international counterpart, IFRS 13. While this ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands Topic 820's existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. GAAP and IFRSs. However, some could change how the fair value measurement guidance in Topic 820 is applied. This ASU is effective for interim and annual periods beginning after December 15, 2011 for public entities. It is not expected to have a material impact on the Company's condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements. This ASU removes the presentation options in Topic 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This ASU does not change the items that must be reported in other comprehensive income. For public entities, the

amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. This ASU does not require incremental disclosures in addition to those required by Topic 250 or any transition guidance. Because the Company is currently adopted to present comprehensive income within the condensed consolidated statements of changes of equity and therefore, it is expected this ASU would change the presentation of comprehensive income in the Company's condensed consolidated financial statements upon its adoption. It is not expected to have a material impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued ASU 2001-11 Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities: The amendments in this Update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. It is not expected to have a material impact on the Company's condensed consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220): In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report 2 reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. It is not expected to have a material impact on the Company's condensed consolidated financial statements.

4. CONCENTRATIONS OF BUSINESS AND CREDIT RISK

The Company conducts all of its primary trade in the PRC. There can be no assurance that the Company will be able to successfully conduct its trade, and failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, the success of the Company's operations is subject to numerous contingencies, some of which are beyond management's control. These contingencies include general economic conditions, price of raw material, competition, governmental and political conditions, and changes in regulations. Because the Company is dependent on foreign trade in the PRC, the Company is subject to various additional political, economic and other uncertainties. Among other risks, the Company's operations will be subject to risk of restrictions on transfer of funds, domestic and international customs, changing taxation policies, foreign exchange restrictions, and political and governmental regulations.

(1) Cash

The Company maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. Cash balance held in PRC bank accounts to \$21,424,980 and \$15,283,583, as of January 31, 2012 and October 31, 2011, respectively. No cash balances were restricted as of January 31, 2012 and October 31, 2011.

As of January 31, 2012 and October 31, 2011, substantially all of the Company's cash were held by major financial institutions located in the PRC which management believes are of high credit quality.

(2) Sales and trade receivables

The Company provides credit in the normal course of business and substantially all customers are located in the PRC. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. Prior to deduction of sales rebates, no individual customer accounted for over 10% of total sales during the three months ended January 31, 2012 and 2011, respectively.

The Company's products are sold throughout the PRC. For three months ended January 31, 2012 and 2011, botanical anti-depression and nerve-regulation products accounted for 73.0% and 73.4%, respectively, of total sales.

(3) Foreign currency

The Company operates in the PRC, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between U.S. dollars and the Chinese currency RMB.

(4) Dividends

Payments of dividends may be subject to some restrictions due to the fact that the operating activities are conducted in a subsidiary residing in the PRC.

(5) Price control

The retail prices of certain pharmaceuticals sold in the PRC, primarily those included in the national and provincial Medical Insurance Catalogs are subject to price controls in the form of fixed prices or price ceilings. As such, the retail prices for certain of the Company's pharmaceutical products can be adjusted downward or upward from time to time. Price controls did not have a material impact on the Company's operation during the three months ended January 31, 2012 and 2011.

(6) Cost of goods sold

Cost of goods sold is subject to price fluctuations due to various factors beyond the Company's control, including, among other pertinent factors, inflation and changes in governmental regulations and programs. The Company expects cost of goods sold will continue to fluctuate and be affected by inflation in the future. The Company's raw materials are purchased from various independent suppliers, and the Company does not rely on any single supplier.

5. TRADE RECEIVABLES, NET

The trade receivables amount included in the condensed consolidated balance sheets as of January 31, 2012 and October 31, 2011 were as follows:

	2012	2011
	US\$	US\$
Trade receivables	35,536,275	23,704,241
Less: Sales rebates	(2,464,641)	(1,681,721)
Less: Allowance for doubtful accounts	(480,847)	(474,195)
Trade receivables, net	32,590,787	21,548,325

6. OTHER RECEIVABLES, NET

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The other receivables amount included in the condensed consolidated balance sheets as of January 31, 2012 and October 31, 2011 were as follows:

	2012	2011
	US\$	US\$
Advanced Siberian Ginseng payment		6,631,157
Other receivables	545,002	577,554
Less: Allowance for doubtful accounts	(390,706)	(385,301)
Other receivables, net	154,296	6,823,410

The Company advanced Siberian Ginseng payment to two of our employees in our Dongfanghong branch, Mr. Zhao, Fengwu and Mr. Deng, Fujie before October 31, 2011 for the purchasing of Siberian Ginseng raw material in the Siberian Ginseng harvest season. There was no such advance at January 31, 2012.

7.INVENTORY, NET

The inventory amounts included in the condensed consolidated balance sheets for as of January 31, 2012 and October 31, 2011 comprised of:

	2012	2011
	US\$	US\$
Raw materials	8,389,112	946,600
Packaging materials	4,960,138	1,896,169
Work-in-progress	1,420,923	3,205,862
Finished goods	1,716,875	1,436,767
Less: Inventory provision	(69,641)	(68,678)
Inventory, net	16,417,407	7,416,720

8. PROPERTY AND EQUIPMENT, NET

Property and equipment and related accumulated depreciation as of January 31, 2012 and October 31, 2011 were as follows:

	2012	2011
	US\$	US\$
Machinery and equipment	3,762,331	3,710,282
Office equipment and furnishings	67,283	66,352
Motor vehicles	57,555	56,759
Total:	3,887,169	3,833,393
Less: Accumulated depreciation	(2,182,837)	(2,054,409)
Net book value	1,704,332	1,778,984

Depreciation expense for the three months ended January 31, 2012 and 2011 was \$98,910 and \$94,091, respectively, of which \$94,379 and \$89,969 were included as a component of cost of goods sold in the respective periods.

No assets were pledged for borrowings as of January 31, 2012 and October 31, 2011.

9. INTANGIBLE ASSETS, NET

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Intangible assets and related accumulated amortization as of January 31, 2012 and October 31, 2011 were as follows:

	2012 US\$	2011 US\$
YiChun undergrowth resources	15,905,078	15,685,044
Product patents	2,544,813	2,509,607
Total	18,449,891	18,194,651
Less: Accumulated amortization	(1,244,481)	(1,047,951)
Intangible assets, net	17,205,410	17,146,700

The amortization expense of intangible assets incurred and recognized on our condensed consolidated statements of operations and comprehensive income during the three months ended January 31, 2012 and 2011 were as follow:

For the three	
months ended	
January 31,	
2012	2011
US\$	US\$

Amortization Expense: 180,554 35,253

The following table shows the estimated amortization expenses expected to be incurred in the next five years:

Year	Amortization Expense
2012	\$722,216
2013	722,216
2014	722,216
2015	722,216
2016	722,216
Thereafter	13,594,330
Total	\$17,205,410

10. CONSTRUCTION-IN-PROGRESS

The total capital expenses in Construction-in-progress as of January 31, 2012 and October 31, 2011 were as follows:

	2012	2011
	US\$	US\$
Ah City Pharmaceutical Plant phase two	1,964,277	1,937,103

Plant and production lines currently under development at the Ah City Pharmaceutical Plant Phase Two are accounted for as construction-in-progress. Construction-in-progress is recorded at historical cost, including development expenditures, professional fees and the interest expenses capitalized during the course of construction for the purpose of financing the project. Upon readiness for use of the project, the cost of construction-in-progress is transferred to property and equipment, at which time depreciation will commence. The Company had no capitalized interest and to date has funded this construction through operations without the use of outside debt financing. The Ah City Phase Two is expected to be completed in the end of 2013 and these amounts will be reclassified to property and equipment

when it is ready to use.

11. RELATED PARTY TRANSACTIONS

On October 12, 2009, we entered into a purchase agreement with Renhuang Stock to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of \$25,448,125. Pursuant to the purchase agreement, a payment of \$15,905,078 was made to Renhuang Stock in October 2009 and a payment of \$7,952,539 was made to Renhuang Stock in January 2011, with a final payment of \$1,590,508 due by the date of receiving all the related government transfer documents, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as of January 31, 2012. The Company records the deposits under the Deposits for properties item on condensed consolidated balance sheet.

Before the transaction is completed, the Company is deemed to lease property and plant from Renhuang Stock. Rental expenses related to this lease, incurred and expensed to condensed consolidated statements of operations and comprehensive income, which were forgiven rental expenses and recognized to account for the rental exemption pursuant to the purchase agreement, and the deposits for the property were reduced accordingly. Under the lease terms, the Company no longer needs to pay rent to Renhuang Stock for the use of the property and plant.

12. DEPOSITS FOR PROPERTIES

Deposits for properties as of January 31, 2012 and October 31, 2011 were as follows:

Name of Asset	2012			2011		
	Prepaid Amount	Rent expenses deducted	Net deposits	Prepaid Amount	Rent expenses deducted	Net deposits
Ah City Pharmaceutical Plant(Note 11)	\$23,857,617	\$(1,424,691)	\$22,432,926	\$23,527,566	\$(1,209,375)	\$22,318,191
Two Office Floor	4,271,344	(339,964)	3,931,380	4,212,253	(268,209)	3,944,044
Product Patents	9,177,230	-	9,177,230	11,559,878	-	11,559,878
Total	\$37,306,191	\$(1,764,655)	\$35,541,536	\$39,299,697	\$(1,477,584)	\$37,822,113

Forgiven rental expenses incurred and recognized to the condensed consolidated financial statements of operations and comprehensive income during the three months ended January 31, 2012 and 2011, respectively, were as follows.

	For the three months ended	
	January 31, 2012	January 31, 2011
	US\$	US\$
Ah City Pharmaceutical Plant(Note 11)	197,419	188,202
Two Office Floor	67,516	
Total	264,935	188,202

On April 10, 2010, the Company through its wholly own subsidiary, CBP China, entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two office floors for a total consideration of \$6,101,920. Pursuant to the Purchase Agreement, a payment of \$4,271,344 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of \$1,830,576 is due by December 20, 2012, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as of January 31, 2012. Based on the purchasing agreement between CBP China and Hongxiangmingyuan, the Company does not need to pay any rental fees before the title is transferred. Rental expenses related to this lease, incurred and expensed to consolidated statements of operations and comprehensive income, which were forgiven rental expenses and recognized to account for the rental exemption pursuant to the purchase agreement, and the deposits for the property were reduced accordingly.

In the fourth quarter of our fiscal year 2011, we entered into contracts to purchase Patent of Ingredients and preparation for Parkinson Drug, Patent of Ingredients and preparation for Xiangdousu, etc. and deposited \$9,177,230 towards the purchase.

13. DEFERRED TAX ASSETS

Deferred tax assets as of January 31, 2012 and October 31, 2011 was as follows:

Deferred tax assets as of	Allowance for doubtful and inventory provision	Temporary difference	Income tax rate	Deferred tax assets
January 31, 2012	\$ 941,194	\$ 941,194	15%	\$ 141,179
October 31, 2011	\$ 928,174	\$ 928,174	15%	\$ 139,226

14. INCOME TAX EXPENSES

The Company adopted FIN No. 48 on January 1, 2007. There were no unrecognized tax benefits as of the date of adoption and there is no unrecognized tax benefits included in the condensed consolidated balance sheet at January 31, 2012, that would, if recognized, affect the effective tax rate.

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three months ended January 31, 2012 and 2011:

	The three months ended January 31,	
	2012	2011
US statutory rates	34.00%	34.00%
Foreign tax rate difference	(9.0 %)	(9.0 %)
Income tax holiday	(10.0 %)	(10.0 %)
Tax per financial statements	15.00%	15.00%

Taxation on profits earned in the PRC has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC in which the Company operates after taking into effect the benefits from any special tax credits or "tax holidays" allowed in the country of operations. If the Company did not have any tax exemption, the effects of the tax per share were as follows:

	For the three months ended January 31,	
	2012	2011
	US\$	US\$
Tax savings	1,450,350	1,000,000
Benefit per share:		
Basic	0.04	0.03
Diluted	0.04	0.03

Had the tax exemption not been in place for the three months ended January 31, 2012 and 2011, the Company estimates the following pro forma financial statement impact:

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	For the three months ended January 31,	
	2012	2011
	US\$	US\$
Net income before tax provision, as reported	12,307,232	10,948,295
Less Tax savings	(1,450,350)	(1,000,000)
Proforma Net income	10,856,882	9,948,295
Proforma Net income per share:		
Basic	0.29	0.27
Diluted	0.29	0.26

15. EARNINGS PER SHARE

When calculating diluted earnings per share for common stock equivalents, the Earnings per Share, FASB ASC Topic 260, requires the Company to include the potential shares that would be outstanding if all outstanding stock options or warrants were exercised. This is offset by shares the Company could repurchase using the proceeds from these hypothetical exercises to obtain the common stock equivalent.

The following reconciles the components of the EPS computation:

	Income (Numerator) US\$	Shares (Denominator)	Per Share Amount US\$
For the three months ended January 31, 2012:			
Net income	12,307,232		
Basic EPS income available to common shareholders	12,307,232	37,239,536	0.33
Effect of dilutive securities:			
Share Options		4,023	
Share Warrants	-	-	-
Diluted EPS income available to common shareholders	12,307,232	37,243,559	0.33
For the three months ended January 31, 2011:			
Net income	10,948,295		
Basic EPS income available to common shareholders	10,948,295	37,239,536	0.29
Effect of dilutive securities:			
Share Options		654,845	
Share Warrants	-	1,497	-
Diluted EPS income available to common shareholders	10,948,295	37,895,878	0.29

For the three months ended January 31, 2012, warrants of 1,231,428 shares and option of 234,998 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock.

For the three months ended January 31, 2011, option of 70,000 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock.

16. EMPLOYEE BENEFITS

The full-time employees of the Company's subsidiary that is incorporated in the PRC are entitled to staff welfare benefits, including medical care, welfare subsidies, unemployment insurance and pension benefits. The PRC companies are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant regulations, and to make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total amounts expensed to the condensed consolidated statements of operations and comprehensive income for such employee benefits amounted to approximately \$94,571 and \$134,612 for the three months ended January 31, 2012 and 2011, respectively.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

On March 25, 2010, the Company issued warrants (the “Warrants”) for 160,000 common shares to an investor relation service provider that have an exercise price of \$2.00 per share and a contractual life of 3 years. The terms of the Warrant agreement include the following factors that in accordance with FASB ASC Topic 815, requires that the Warrants be classified at their fair value to liabilities in each reporting period.

The holder of the Warrants (the “Holder”) is entitled to the benefits of Rule 144 promulgated under the Securities Act of 1933, as amended and any other rule or regulation of the SEC that may at any time permit the Holder to sell securities of the Company to the public without registration. Noncompliance with such rules and regulations could result in the Company having to settle the Warrant obligation in cash.

The exercise price and number of shares issuable upon exercise of the Warrants (the “Warrant Shares”) are subject to adjustment for standard dilutive events, including the issuance of common stock, or securities convertible into or exercisable for shares of common stock, that will adversely affect the Holder’s rights under the Warrants. There were no dilutive events for the three months ended January 31, 2012 and 2011, which would have resulted in an adjustment to the exercise price or number of Warrant Shares.

The Company had no assets measured at fair value at January 31, 2012 and October 31, 2011. The Company had the following warrant liability measured at fair value on January 31, 2012 and October 31, 2011:

	Fair value measurement		
	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
January 31, 2012 Warrants liability	-	\$ 18,445	-
October 31, 2011 Warrants liability	-	\$ 23,443	-

The Company used the Black-Scholes valuation model to estimate the fair value of the Warrants. The valuation of warrants liability on January 31, 2012 was based on the assumptions noted in the following table.

Expected volatility	78.87	%
Expected dividends	0	%
Expected term (in years)	1.15	years
Risk-free rate	0.3	%

18. PREFERRED STOCK, COMMON STOCK AND EQUITY TRANSACTIONS

(1) Preferred Stock

The Company's articles of incorporation provide that our board of directors will be authorized to issue from time to time, without further stockholder approval, up to 1,000,000 additional shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect to dividends and liquidation rights. As of January 31, 2012 and October 31, 2011, there is no preferred stock outstanding.

(2) Common Stock and Equity Transactions

On May 15, 2009, the Company issued an aggregate of 2,142,856 shares of the Company's common stock and 1,071,428 warrants with an exercise price of \$0.875 per share to Allied Merit International Investments, Inc. and Griffin Ventures Ltd. Total consideration of the issuance was \$ 1,500,000.

The fair value of the warrants is estimated on the date of grant using the Black-Scholes option valuation model to be \$496,732. The valuation was based on the assumptions noted in the following table.

Expected volatility	175.80 %
Expected dividends	0 %
Expected term (in years)	3 years
Risk-free rate	1.375 %

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the warrants at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since May 15, 2008. Our methodology is consistent with prior period volatility assumptions. The expected life of the warrants is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

19. OPTIONS AND WARRANTS

Share-based compensation amounted to \$25,739 and \$14,400 in the three months ended January 31, 2012 and 2011, respectively.

(1) 2003 Omnibus Plan

On February 28, 2003, our board of directors approved the Renhuang Pharmaceuticals, Inc. 2003 Omnibus Securities Plan (the "2003 Plan"), which was approved by our shareholders on April 11, 2003. The 2003 Plan offers selected employees, directors, and consultants an opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. The 2003 Plan allows for the award of stock and options, up to 25,000 (after giving effect to the 1-for-30 reverse stock split in 2006) shares of our common stock. On May 1, of each year, the number of shares in the 2003 Securities Plan is automatically adjusted to an amount equal to

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ten percent of our outstanding stock on October 31, of the immediately preceding year. As of January 31, 2012 and October 31, 2011, there were 3,723,954 shares available for issuing subject to the 2003 Omnibus Securities Plan.

a) On December 14, 2010, we appointed Mr. Weiqiu Dong as our chief financial officer. Base on the employment agreement, Mr. Dong received, on December 14, 2010, an option to purchase 200,000 shares of the Company's common stock under the 2003 Omnibus Plan. The option vests 60,000 shares on the first anniversary of the date of grant and 70,000 shares on each of the second and third anniversaries of the date of grant. The Option is conditioned upon continued employment on such date, and has a contractual life of 3 years.

The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be \$259,251, of which \$22,902 was recorded as compensation expenses for the three months ended January 31, 2012. The valuation was based on the assumptions noted in the following table.

Expected volatility	96.46	%
Expected dividends	0.00	%
Expected term (in years)	3	years
Risk-free rate	1.06	%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since December 13, 2009. Our methodology is consistent with prior period volatility assumptions. The expected life of the options is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

b) On October 15, 2011, we entered into an independent director agreement with Mr. Pan, who became our director on October 15, 2011. The agreement provides that Mr. Pan, the Chair of our Audit Committee, will receive (i) a fee of \$2,500 per month, (ii) options to purchase 50,000 shares of common stock under the 2003 Plan, at an exercise price of \$0.80 per share, which is equal to the closing price of the Company's common stock on October 15, 2011, subject to vesting on a quarterly basis (4,166 shares of option to vest on the first 11 quarter anniversaries of the grant and 4,174 shares of option to vest on the 12th quarter anniversary of the grant with the initial 4,166 shares of option vesting to commence on January 15, 2012), and with all vesting conditional upon continued service as a director of the Company as of each such anniversary; and (iii) a reimbursement of out-of-pocket expenses incidental to his services on the Board. The agreement expires on the earlier of (i) the date Mr. Pan ceases to be a member of the board, or (ii) the date of termination of the Agreement.

The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be \$34,042, of which \$2,837 was recorded as compensation expenses for the three months ended January 31, 2012. The valuation was based on the assumptions noted in the following table.

Expected volatility	127.76%
Expected dividends	0.00%
Expected term (in years)	3 years
Risk-free rate	1.12%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since October 14, 2010. Our methodology is consistent with prior period volatility assumptions. The expected life of the options is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

(2) 2007 Non-Qualified Company Stock Grant and Option Plan

On March 19, 2007, our board of directors approved the 2007 Non-Qualified Company Stock Grant and Option Plan (the "2007 Plan"). The 2007 Plan is intended to serve as an incentive to and to encourage stock ownership by our directors, officers, and employees, and certain persons rendering service to us, so that such persons may acquire or increase their proprietary interest in our success, and to encourage them to remain in our service. Under the 2007, up to 200,000 shares of our common stock may be subject to options.

On January 13, 2010, an option to purchase 50,000 shares was granted under the 2007 Plan to an employee that vests on the 12-month anniversary of the date of grant, conditioned upon continued employment on such date, and has a

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contractual life of 3 years. The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be \$47,527. The valuation was based on the assumptions noted in the following table. The option was forfeited at departure of the employee on August 6, 2010.

Expected volatility	236.50%
Expected dividends	0.00%
Expected term (in years)	3 years
Risk-free rate	1.50%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since January 13, 2009. Our methodology is consistent with prior period volatility assumptions. The expected life of the options is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

(3) Option Activity and Status

A summary of option activity and movement during the three months ended at January 31, 2012 and 2011, respectively, are as follow:

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term
For the three months ended January 31, 2012				
Outstanding at November 1, 2011	284,998	\$ 1.96	\$ 381,886	4.64
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at January 31, 2012	284,998	\$ 1.96	\$ 381,886	4.39
For the three months ended January 31, 2011				
Outstanding at November 1, 2010	70,000	\$ 2.57	\$ 166,832	2.45
Granted	200,000	2.15	259,251	5.87
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at January 31, 2011	270,000	\$ 2.26	\$ 426,083	4.99

A summary of the status of the Company's non-vested options as of January 31, 2012 and 2011, respectively, and movements during the three months then ended are as follow:

	Options	Weighted average granted date fair value
For the three months ended January 31, 2012		
Non-vested at November 1, 2011	250,000	\$ 1.17
Granted	-	-
Vested	(4,166)	0.68
Forfeited or expired	-	-
Non-vested at January 31, 2012	245,834	\$ 1.18
For the three months ended January 31, 2011		
Non-vested at November 1, 2010	58,334	\$ 2.38

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Granted	200,000	1.30
Vested	(5,833)	2.38
Forfeited or expired	-	-
Non-vested at January 31, 2011	252,501	\$ 1.52

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The unrecognized compensation costs related to non-vested share-based compensation granted under the Company's option plan were \$188,685 and \$373,508 on January 31, 2012 and 2011, respectively.

(4) Warrants

A summary of warrant activity and movement during the three months ended at January 31, 2012 and 2011, respectively, are as follow:

	Warrants	Average exercise price
For the three months ended January 31, 2012		
Outstanding warrants at November 1, 2011	1,231,428	\$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at January 31, 2012	1,231,428	\$ 1.03
For the three months ended January 31, 2011		
Outstanding warrants at November 1, 2010	1,231,428	\$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at January 31, 2011	1,231,428	\$ 1.03

Information regarding the warrants outstanding at January 31, 2012 and 2011 are summarized as below:

	Warrants Outstanding	Weighted average remaining contractual life(years)	Weighted average exercise price
Warrants outstanding at January 31, 2012			
	1,071,428	0.29	\$0.88
	160,000	1.15	2.00
	1,231,428	0.4	\$1.03
Warrants outstanding at January 31, 2011			
	1,071,428	1.29	\$0.88

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160,000	2.15	2.00
1,231,428	1.40	\$1.03

20. RESERVES**(1) Statutory reserves**

Pursuant to the relevant laws and regulations of the PRC, the Company is required to annually transfer 10% of its after tax profit as reported on condensed consolidated financial statements prepared under the accounting principles of the PRC to a statutory surplus reserve fund until the balance reaches 50% of the registered share capital. This reserve can be used to make up any losses incurred or to increase share capital. Except for reducing losses incurred, any other application may not result in this reserve balance falling below 25% of the registered capital.

(2) Public welfare funds

Prior to January 1, 2007, the Company was required each year to transfer 5% of its after tax profit as reported on condensed consolidated financial statements prepared under the accounting principles of the PRC to the public welfare funds. This reserve was restricted to capital expenditure for employees' collective welfare facilities that are owned by the Company. The public welfare funds are not available for distribution to the stockholders (except in liquidation). Once capital expenditures for staff welfare facilities have been made, an equivalent amount must be transferred from the public welfare funds to the discretionary common reserve funds. Due to a change in PRC law, appropriation of profit to the public welfare funds is no longer required.

The reserve funds as of January 31, 2012 and October 31, 2011 were comprised of the following:

	2012	2011
	US\$	US\$
Statutory surplus reserve	3,090,320	3,090,320
Public welfare fund	282,377	282,377
Total	3,372,697	3,372,697

21. COMMITMENTS AND CONTINGENCIES

The Company has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business, generally for quantities required for the Company's business and at prevailing market prices. No material

annual loss is expected from these commitments and there are no minimum purchase commitments.

The Company and its subsidiaries are self-insured, and they do not carry any property insurance, general liability insurance, or any other insurance that covers the risks of their business operations. As a result any material loss or damage to its properties or other assets, or personal injuries arising from its business operations would have a material adverse effect on the Company's financial condition and operations.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

(1) Operating lease arrangements

We currently have no lease agreement with any company.

(2) Capital commitments

On October 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock") to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of \$25,448,125. Pursuant to the purchase agreement, a payment of \$15,905,078 was made to Renhuang Stock in October 2009 and a payment of \$7,952,539 was made to Renhuang Stock in January 2011, with a final payment of \$1,590,508 will be paid once we received all the related title transfer documents from local government, at which time title for the assets will be transferred. According to the agreement, we were exempted from lease payments for the underlying assets starting from May 1, 2010.

On April 10, 2010, CBP China entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two office floors for a total consideration of \$6,101,920. Pursuant to the Purchase Agreement, a payment of \$4,271,344 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of \$1,830,576 is due by December 20, 2012, at which time title for the assets will be transferred.

Name of Fixed Asset	Purchase Date	Prepaid Amount	Remaining Amount	Total Amount
Ah City Pharmaceutical Plant	October 2009	\$23,857,617	\$1,590,508	\$25,448,125
Two Office Floor	April 2010	4,271,344	1,830,576	6,101,920
Total		\$28,128,961	\$3,421,084	\$31,550,045