China Botanic Pharmaceutical
Form 10-K
January 24, 2011

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

Form 10-K

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

For the fiscal year ended October 31, 2010

¨ 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 incorporation or organization)	(I.R.S. Employer Identification No.)

No. 218, Taiping
Taiping District, Harbin, Heilongjiang Province, P.R. China 100016
(Address of principal executive offices)

86-451-5762-03787
(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	NYSE Amex LLC

Securities registered under Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
¨ Yes x No

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.
x 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, 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 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 x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of April 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $43,821,232 based upon the closing price of $2.70 as quoted on the Pink Sheet OTC. Shares of common stock held by each executive officer and director and by each person who is known to own 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates of the Company. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 11, 2011, there were 37,239,536 shares of the registrant's $0.001 par value common stock issued and outstanding.

No documents are incorporated into the text by reference.

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FORWARD LOOKING STATEMENTS

In this Annual Report on Form 10-K, 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. Inc. and its consolidated subsidiaries.

This Annual Report contains certain forward-looking statements. When used in this Annual Report, statements which are not historical in nature, including the words "anticipate," "estimate," "should," "expect," "believe," "intend" "may," "proj 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 Annual 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. Business.

Overview

We are a high-tech enterprise engaged in the development, manufacturing, and distribution of botanical products, bio-pharmaceutical products, and traditional Chinese medicines, or TCM, in the People's Republic of China ("PRC" or "China"). We have three "Good Manufacturing Practice" or GMP certified production facilities - Ah City natural and biopharmaceutical plant, Dongfanghong pharmaceutical plant and Qingyang natural extraction plant - capable of producing 18 dosage forms and over 200 different products. Our products include, but are not limited to, botanical anti-depression and nerve-regulation products, biopharmaceutical products, and botanical antibiotic and traditional over-the-counter ("OTC") Chinese medicines. Botanical anti-depression and nerve-regulation products account for over 70% of our revenues and we intend to strengthen our developments in this area. We have entered into sales agency agreements with sales agents in 19 provinces and four municipalities, through which our products are sold to over 3,000 distributors and over 70 sales centers across 24 provinces in China

Corporate History and Structure

We were incorporated in the State of Nevada on August 18, 1988, originally under the corporate name of Solutions, Incorporated. We were inactive until August 16, 1996, when we changed our corporate name to Suarro Communications, Inc, and engaged in the business of providing internet based business services. In 2006 we discontinued our business operation at the time and became a non-operating public company.

On August 28, 2006, we entered into a Share Exchange Agreement (the "Exchange Agreement") with Harbin Renhuang Pharmaceutical Company Limited or Renhuang BVI, a company incorporated in the British Virgin Islands. Pursuant to the Exchange Agreement we acquired all of the outstanding capital stock of Renhuang BVI, and indirect ownership of Renhuang BVI's wholly owned subsidiary, Harbin Renhuang Pharmaceutical Co. Ltd or Renhuang China, which operates a pharmaceutical development, manufacturing and distribution business through various research and manufacturing facilities in the PRC.

Since our inception, we have had the following name changes:

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")
July 2006	Renhuang Pharmaceuticals, Inc
November 2010	China Botanic Pharmaceutical Inc.

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Substantially all of our assets and operations are located in the PRC. The following diagram illustrates our corporate structure as of October 31, 2010

China Botanic Pharmaceutical Inc. and its subsidiaries will be referred collectively as “We”, “us” or “the Company” hereinafter.

Recent Developments

On October 14, 2010, our board of directors approved, and recommended that our Articles of Incorporation be amended (the “Amendment”) to change our name to China Botanic Pharmaceutical Inc. (the “Name Change”). On October 14, 2010, the holders of approximately 75.89% of the outstanding shares of Common Stock executed a written consent adopting and approving the Amendment. Pursuant to the provisions of the Nevada Revised Statutes (the “NRS”) and our Articles of Incorporation, the holders of at least a majority of the outstanding voting shares are permitted to approve the Amendment by written consent in lieu of a meeting, provided that notice of such action is given to our other shareholders. Pursuant to the rules and regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), an information statement was sent to the holders of voting stock who did not sign the written consent at least 20 days prior to the effective date of the action. On or about October 27, 2010, the information statement was sent to all holders of record on October 13, 2010 (the “Record Date”). On November 18, 2010, the Name Change was effectuated upon the filing of the Amendment with the Secretary of State of Nevada.

On July 8, 2010, we executed an Exclusive Purchase Agreement with Yichun Red Star Forest Bureau of Heilongjiang Province (the “Forest Bureau”) for indefinite exclusive right to purchase harvested wild Siberian Ginseng from forest of approximately 6,667 hectares. The company is negotiating with the Forest Bureau about specific terms of certain definitive acquisition agreement. In addition to generating income for the Forest Bureau, this resource base will provide employment opportunities for local farmers. Siberian Ginseng is a plant with medically-established anti-depressant and mood regulation qualities and is also an active ingredient in our market-leading line of all-natural anti-depressant medications. The Siberian Ginseng plant yield is expected to amount to an estimated 500 tons annually. The Siberian Ginseng fields will be maintained and harvested by personnel supervised by the Forest Bureau and we will pay a whole sales price lower than market retail price for the Siberian Ginseng harvested. We will be responsible for continued maintenance and protection of wild resources to make this area a professional Siberian Ginseng base.

Our Products

Our products mainly fall into the following three categories: (i) botanical anti-depression & nerve-regulation products, (ii) biopharmaceutical products, and (iii) botanical antibiotics and traditional OTC Chinese medicines. The table below is an illustration of our products and their main functions according to the Chinese Pharmacopeia:

Product Category	Product	Main Functions
Botanical anti-depression and nerve-regulation products	Siberian Ginseng (Acanthopanax) Series: Siberian Ginseng (Acanthopanax) Tablets Siberian Ginseng (Acanthopanax) Syrup	Antidepressant properties: Regulation of nervous excitation and inhibition; calm and inhibit spontaneous activities; improve sleep and anticonvulsant properties
	Siberian Ginseng (Acanthopanax) Extract(200g) Siberian Ginseng (Acanthopanax) Extract(338g) [Note: The Drug Approval Number of Ginseng (Acanthopanax) Extract is under the name of Stock Co.*]	Improve blood properties: Improve blood flow, blood lipid profile and blood viscosity; prevent and improve cerebral thrombosis, hyperlipidemia, hypotension (low blood pressure), coronary heart disease, diabetes, leukopenia, and gonadotrophic dilation of blood vessels
	Tianma Series: Tianma Pills (sugar coated, 48 tablets) Tianma Pills (sugar coated, 100 tablets)	Dispel coldness; relieve pain and headache caused by blood supply shortage and blood stasis
	Compound Yangjiao Tablets (sugar coated, 50 tablets)	Relieve pain from migraines, vascular headaches, tension headaches and nervous headaches
	Compound Schizandra Tablets	Regulation of the central nervous system. to generate body fluids and alleviate thirst, nourish the kidneys, cure insomnia and palpitations, and is also widely used as treatment for neurasthenia.
Biopharmaceutical products	Shark Vital Capsules	Improve the cerebral and cardiovascular oxygen supply; resist radiation; increase white blood cells; and prevent cancer
	Badger Fat [Note: The Drug Approval Number of Badger Fat is under the name of Stock Co.*]	Treatment of burn and scald
	Ginseng and Venison Extract [Note: The Drug Approval Number of Ginseng and Venison Extract are	Nourish the blood and the kidneys, restore the body's energy and increase endurance.

under the name of Stock Co.*]

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Product Category	Product	Main Functions
Botanical antibiotics and traditional OTC Chinese medicines	Banlangen Granules	Antiviral (anti-influenza) and broad-spectrum antibiotic
	Compound Honeysuckle Granules	Antiviral; antibacterial; and anti-inflammatory
	Shengmai Granules	Regulate blood flow; strengthen heart beat; and improve the immune system and blood quality
	Qing Re Jie Du Oral Liquid	Treating the flu, upper respiratory infections, and sore throats

*The Siberian Ginseng (Acanthopanax) Extract, Badger Fat, and Ginseng and Venison Extract are registered by Renhuang Stock Co. ("Stock Co."), a company of which Mr. Shaoming Li, our chairman, chief executive officer and president, serves as chairman and is a 50% shareholder. In 2010, we received licenses from Stock Co. to produce Siberian Ginseng (Acanthopanax) Extract.

The following table reflects the approximate sales, before sales rebates, of our three product categories during the fiscal years ended October 31, 2010 and 2009:

	2010			2009			Change (2010 – 2009)		
Product Category	Quantity (Pack'000)	Amount ($'000)	% of Sales	Quantity (Pack'000)	Amount ($'000)	% of Sales	Quantity (Pack'000)	Amount ($'000)	% of Sales
Botanical anti-depression and nerve-regulation products	529	44,697	71.3	567	40,748	78.0	(38)	3,949	(6.7)
Biopharmaceutical products	15	3,210	5.1	13	5,803	11.1	(2)	(2,593)	(6.0)
Botanical antibiotics and traditional OTC Chinese medicines	307	14,794	23.6	147	5,709	10.9	160	9,085	12.7
Total	851	62,701	100.0	727	52,260	100.0	124	10,441	-

The following table reflects the approximate sales rebates and net sales, of our three product categories during the fiscal years ended October 31, 2010 and 2009:

	2010			2009			Change (2010-2009)		
Product Category	Sales ($'000)	Sales rebates ($'000)	Net sales ($'000)	Sales ($'000)	Sales rebates ($'000)	Net sales ($'000)	Sales %	Sales rebates %	Net sales %
Botanical anti-depression and nerve-regulation products	$ 44,698	$ 5,459	$ 39,239	$ 40,747	$ 5,517	$ 35,230	9.7	(1.1)	11.4
Biopharmaceutical products	3,209	1,004	2,205	5,803	2,484	3,319	(44.7)	(59.6)	(33.6)
Botanical antibiotics and traditional OTC Chinese medicines	14,794	1,054	13,740	5,709	847	4,862	159.1	24.4	182.6
Total	$ 62,701	$ 7,517	$ 55,184	$ 52,259	$ 8,848	$ 43,411	19.7	(15.0)	27.1

Botanical anti-depression and nerve-regulation products

Botanical anti-depression and nerve-regulation products contributed approximately $39.23 million to our revenue in 2010 ($35.23 million in 2009) and accounted for approximately 71.1% of total product sales in 2010 (81.1% in 2009).

Siberian Ginseng (Acanthopanax):

Acanthopanax, which is known in the United States as Siberian Ginseng, has been used for centuries in China. According to Chinese Pharmacopoeia, it has numerous medical efficacies including, improving kidney and spleen function; tranquilizing the mind (anxiolytic effect), improving appetite; decreasing pain (analgesic effect); and improving sleep quality. In addition, further pharmacologic studies and clinical trials conducted over the medical efficacies of Siberian Ginseng (Acanthopanax) have shown additional benefits, including:

- Antidepressant

Regulating the nervous system: Siberian Ginseng (Acanthopanax) not only improves the excitation process of the central nervous system but also the inhibition process, making it more efficient. It also helps to balance the two processes to improve human intellectual and physical functions. (Source: "Chinese Medicine Information" - Microbiology Teaching and Research Section of Suzhou Medical College)

Treating neurasthenia: Siberian Ginseng (Acanthopanax) can significantly reduce the symptoms of neurasthenia; improves insomnia, restless sleep, heart palpitations, forgetfulness, and fatigue. (Source: “Chinese Patent Medicine Studies, Acanthopanax Research Situation at Home and Abroad” - Traditional Chinese Medicine Research Section of Heilongjiang Institute of Chinese Medicine)

Treating insomnia: Siberian Ginseng (Acanthopanax) has been proven to be effective in treating hypochondria and depression caused by insomnia and nerve dysfunction by an increasing number of scientific research departments and national institutions. There is a natural link between insomnia and depression. “Junk sleep” will lead to restlessness, low spirits and decreased work quality. Although hypochondria and depression can be attributed to external stimulus, stress and other factors, they are mainly attributed to nerve dysfunction and are classified as a psychiatric illness.

(Source: “Insomnia and Depression Treatment Website” http://www.shimianyiyu.net)

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- Treat cerebrovascular and cardiovascular disease. Siberian Ginseng (Acanthopanax) has positive effects on coronary heart disease, angina, high blood pressure and blood pressure regulation. (Source: "China Acanthopanax Web" http://bjcp.xsjk.net)

- Anti-fatigue. Total Glucosides of Siberian Ginseng (Acanthopanax) has powerful anti fatigue effects that are more effective than Ginseng. (Source: "China Acanthopanax Web" http://bjcp.xsjk.net)

- Antioxidant. Siberian Ginseng (Acanthopanax) helps to delay the aging process. (Source: "China Acanthopanax Web" http://bjcp.xsjk.net)

- Strengthening the body: Total Glucosides of Siberian Ginseng (Acanthopanax) promotes fat, sugar and protein metabolism, and regeneration of hepatic (liver) cells; it improves protein and nucleic acid synthesis and strengthens physical performance. (Source: "China Acanthopanax Web" http://bjcp.xsjk.net)

Tianma Pills and Compound Yangjiao Tablets:

Tianma Pills and Compound Yangjiao Tablets are botanic drugs used to treat headaches and regulate nerves. Their known benefits and low side-effects have led to them being the top sellers among medication with similar properties in China.

Compound Schisandra Tablets

Compound Schisandra Tablets are also botanic drug which is used to regulate central nervous system, generate body fluids and alleviate thirst, nourish the kidneys, cure insomnia and palpitations, and is also widely used as treatment for neurasthenia.

Biopharmaceutical products

Biopharmaceutical products contributed approximately $2.21 million to our revenue net of sales rebate in 2010 ($3.32 million in 2009) and accounted for approximately 4.0% of total product sales net of sales rebate, in 2010 (7.6% in 2009).

Shark Vital Capsule

Shark vital capsule is a marine biology medicine containing squalene, an extract from shark liver, which is known to have the following effects: Improve kidney and liver function, reduce cholesterol levels, alleviate occurrence of heart disease, increase leukocyte in blood, relieve fatigue and strengthen the overall immune system.

Ginseng and Venison Extract

Ginseng and Venison Extract comprises nutrients from ginseng and deer, and is used to nourish the blood and the kidneys, restore the body's energy and increase endurance.

We plan to introduce Badger oil, a new biopharmaceutical product, which, according to the Chinese Pharmacopoeia, treats burns and scalds, in 2011.

Botanical antibiotics and traditional OTC Chinese medicine products

Botanical antibiotics and traditional OTC Chinese medicines contributed approximately $13.74 million to our revenue net of sales rebate in 2010 ($4.86 million in 2009) and accounted for approximately 24.9% of total product sales net of sales rebate in 2010 (11.2% in 2009).

Raw materials and Suppliers

The raw materials of Siberian Ginseng (Acanthopanax) based products are effective ingredients extracted from the Siberian Ginseng (Acanthopanax) plant. In China, about 94% of the wild Siberian Ginseng (Acanthopanax) resources grow in the Heilongjiang Province (Source: Heilongjiang Dongbei net). Through our Exclusive Purchase Agreement with Dongfanghong Forestry Bureau, we have the exclusive rights for an indefinite term to purchase the wild Siberian Ginseng (Acanthopanax) grown on 6,667 hectares of land in Dongfanghong, which represents approximately 500 tons, or 70% of the annual production, of wild Siberian Ginseng (Acanthopanax) resources in China. Additionally, since 2006, we have been developing our own Siberian Ginseng (Acanthopanax) cultivation base in Dongfanghong, Heilongjiang, China.

Other raw materials and packaging materials are purchased from various independent suppliers, and we do not rely on any one supplier. To ensure consistent quality, we have established long-term relationships with many of our suppliers, ensuring that we have at least ten different suppliers for each type of raw materials. We chose our suppliers based on criteria such as quality, reputation, price, delivery capacity and GMP certification. In addition, we conduct stringent inspections on each batch of raw materials supplied, and perform a periodic review of supplier qualifications.

Manufacturing and production facilities

We have three production facilities: Ah City natural and biopharmaceutical plant, Dongfanghong pharmaceutical plant and Qingyang natural extraction plant. The facilities, with a total usable area of over 160 thousand square meters, are capable of producing more than 200 kinds of pharmaceuticals, health food, and functional food in 18 dosage forms, including tablets, capsules (hard and soft), granules, oral liquid, frozen powder injection, powder injection, liquid injection, dropping pills, and ointments. We also have -lactams and plant extraction lines and automatic packaging lines.

Our production is in strict compliance with "Good Manufacturing Practice”, or GMP, and Chinese standards of "Health Food Good Manufacturing Practice", and "Sterile Product Quality Control Norms”. We have state of the art automated equipment, precise testing instruments, efficient air conditioning, cleaning systems and a modern logistic center for storage and distribution of products.

Quality Assurance

We are committed to delivering high-quality pharmaceutical products, and have set in place comprehensive testing and quality control measures. We have a quality control team that carries out quality control procedures in compliance with internal policies, GMP standards and State Food and Drug Administration, or SFDA, regulations. There are quality checks at every stage of production, including testing the quality of raw materials throughout our manufacturing process, testing finished products against various criteria such as ingredient composition, weight and physical appearance, and testing sanitary conditions of the production line. We also have a pre-arranged emergency plan in the case of adverse events such as emergency plans for operational accidents and

force majeure.

Our production facilities comply with pharmaceutical GMP standards. We employ automated processes and scientific parameters throughout the manufacturing process that are designed to ensure that all products meet our quality requirements. We believe that our rigorous testing and inspection procedures have been critical in ensuring that our products are quality products.

Marketing and Product Distribution

We have entered into sales agency agreements with sales agents in 19 provinces and four municipalities, through which our products are sold to over 3,000 distributors and over 70 sales centers across 24 provinces in China. Our products are mainly sold by our distributors to pharmacies, medicine wholesale centers, hospitals and other medical agencies. One customer has contributed to 11.01% and 10.44% of our total revenue in 2010 and 2009.

Based on our product nature, distribution channel and market practices, we currently manage our sales and distribution network through four departments:

- General Business Department. This department is mainly responsible for distribution of botanical anti-depression and nerve-regulation products. These products are distributed to provincial distributors, who further distribute the products to local distributors. The local distributors through various sales channels, including hospitals and media marketing methods, will market the products to end consumers.

- Brand Business Department. This department is mainly responsible for distribution of biopharmaceutical products. These products are distributed to provincial distributors, who further distribute the products to regional drugstores. The provincial distributors usually employ their own sales forces to promote the products and launch promotion campaigns with our support in marketing the products to end consumers.

- OTC Business Department. This department is mainly responsible for distribution of botanical antibiotics and traditional OTC Chinese medicines. These products are distributed to provincial distributors, who further distribute the products to regional drugstores. The provincial distributors usually employ their own sales forces and launch their own promotion campaigns in marketing the products to end consumers.

- Allocation Business Department. This department is responsible for bulk distribution of commonly used products. These products are distributed to medical trading centers and major market agents, who further distribute the products to nationwide drugstores and township clinics.

Research and Development

We are committed to developing new products and improving our current products. During the fiscal years ended October 31, 2010 and 2009, we spent approximately $3,043,000 and $2,529,000, respectively, on research and development.

Aligned with our line of business, our research and development ("R&D") activities are focused on the following:

- Development of single-plant anti-depression & nerve regulation products;
- Extraction of certain components from Siberian Genseng
- Cultivation of Siberian Genseng; and
- Development of OTC product upgrades.

In 2010, we focused our research on cultivation techniques of Siberian Ginseng to solidify our future raw material supply. We are also researching on new drugs containing certain effective ingredients from Siberian Ginseng, which we expect to launch in the following years.

To further become an innovative enterprise, we continuously employ qualified talent to strengthen our research team. Currently we have established an open and innovative R&D environment consisting of Proprietary R&D Centers, Cooperation R&D Centers and Post-doctoral Workstations.

- Proprietary R&D Centers. These centers are responsible for initial research of potential products and development of existing product upgrades. We have comprehensive research and development facilities, including an innovative medicine division, a standard extractions division, a healthcare division, a comprehensive division, planning & registration division and a mid-phrase test division. In addition, our labs have received government and industry recognitions, namely: the "Key Lab on TCM Extractions'" from the Science and Technology Bureau of Heilongjiang Province and the "Innovative Medicine Lab" from the Industry Information Committee of Harbin.

- Cooperation R&D Centers. These centers have established committees consisting of well-known medical professionals in China, who specialize in biopharmaceutical and botanical medicines. The committees guide and advise the execution and direction of R&D projects, as well as evaluating research findings. The Cooperation Centers also work closely with the academic agencies including the Institute of Biophysics and Ecological Centre of the Environment in the Chinese Academy of Science; the Medical Research Institute of National Navy; the Chinese Biochemical Medicine Research Center; the Second Army Medical University; the China Medicine University; the Beijing University of Traditional Chinese Medicine; the Heilongjiang Province Chinese Medicine University; the Northeast Forestry University and the Harbin Medical University.

- Post-doctoral Workstations. The workstations allow post-doctoral studies on projects that are considered to be valuable to our development.

R&D Strategy

Our strategy is to be the first brand and industry leader in single-plant drugs for the treatment of depression and nerve-regulation, mainly through the development of products from Siberian Ginseng (Acanthopanax) and Schisandra. Our goal is consistent with the following trends:

- Development of single-plant medicines is one of the three main developments in the Chinese pharmaceutical industry; and

- Antidepressants are one of the best selling drugs in the world.

To implement this strategy, we have established a cultivation base and are focusing our effects to set the industry standard for Siberian Ginseng (Acanthopanax) and Schisandra products. This cultivation project has received significant support from various government departments, including the Ministry of Science and Technology, Development and Reform Commission.

R&D Achievements

We have received the following recognition for our research and development:

2009	The Siberian Ginseng (Acanthopanax) Polysaccharides products were awarded "Key Products in Heilongjiang Province" by Heilongjiang Science and Technology Office
	The "Pollution-Free and Environment-Friendly Extraction Process for Total Alkaloids of Sophora Flavescens and Colorless Sterile Injection against Hepatitis B" project was listed as a Major Intellectual Property Rights Project by Harbin Intellectual Property Bureau.
	The "Industrialization of Siberian Ginseng (Acanthopanax) Extraction: Total Glucosides, Total Flavonoids and Polysaccharides" project was listed as a special high-tech project by Heilongjiang Development and Reform Commission.
	The "Siberian Ginseng (Acanthopanax) Oral liquid" project was listed as a new industrialization special project by Harbin Development and Reform Commission.
2008	The "Research on New Siberian Ginseng (Acanthopanax) Anti-depression Drugs" project was listed as a Harbin technological innovation talents project by Harbin Science and Technology Bureau.
2007	The "Secondary Development and Industrialization of Genuine Medical Materials Siberian Ginseng (Acanthopanax) Series Products" project was listed as a major provincial-level pre-project by Heilongjiang Development and Reform Commission.

Current R&D Projects

- Siberian Ginseng (Acanthopanax) Development Project. We have been successful in separating effective components of Siberian Ginseng (Acanthopanax), namely total glucosides, total flavonoids and syringing, in particular, syringin has significant effects in the treatment of depression and nerve regulation. We have created a sample of syringin freeze-dried Acanthopanax powder spasmolytic that is currently undergoing pilot test. If successful, this achievement represents great pioneering work in the field of Chinese medicine, and will enhance our competitive edge in this area.

- Schisandra Integrated Development Project. Schisandra is a wild plant with high medical and health values. Modern studies have shown that Schisandra contains lignin, which has strong effects in treating insomnia. At present, we have successfully completed preliminary review of patent application for Schisandra lignin extraction method and are working on setting its quality standards. These achievements lay the foundation for advanced development of Schisandra products.

- Total Alkaloids of Sophora Flavescens Development Project. As a new drug against Hepatitis B, total alkaloids of Sophora flavescens can be used to replace - interferon, matrine and oxymatrine injections.

Intellectual Property

We rely on intellectual property such as trade secrets and technical innovations, to protect and build our competitive position.

Patents

We have purchased from Harbin Renhuang Pharmaceutical Stock Co., Ltd (“Stock Co.”) two patents, Injection Preparation Method against Hepatitis B (Patent No.: ZL200410043718.5) and Total Alkaloids of Sophora Flavescens Extraction Method (Patent No.: ZL200410043717.0). Our PRC subsidiary has been registered as the owner of such patents with the Intellectual Property Office of the PRC. Stock Co. is a company of which Mr. Shaoming Li, our chairman, chief executive officer and president, serves as chairman and is a 50% shareholder. The patents will be expired in 2024.

Trademarks

We have received from Stock Co. a perpetual and non-exclusive license to use the word “RENHUANG” in our trade name and as a trademark in connection with the sale of our products.

Design Patents

Design patents are one of three patent categories available under Chinese patent law and are awarded to recognize a unique shape, pattern, or a combination of the two, in an industrial application. A design patent can strengthen brand value by protecting a valuable item of intellectual property. On December 20, 2009, the State Intellectual Property Office of China ("SIPO") of the People's Republic of China recently granted us patent protection for the product packaging design for its Compound Honeysuckle Granules. The patent term is 10 years. The package design of Compound Honeysuckle Granule is unique and instantly recognizable with an array of bright colors. The packaging features images of the plants which form the key ingredients of the remedies, reminding consumers that the products are all-natural, plant-based products. We now hold a total of four patents for packaging designs for Tianma Pills, Shengmai Granules, Compound Honeysuckle Granules, and Ginseng and Venison Extract and we intend to seek patents for other proprietary designs by 2011.

Growth Strategy

We believe that as a result of the rapid growth of the Chinese economy, substantial increase in drug spending, aging of the population, increase in diseases related to lifestyle, government support in the pharmaceutical market and gradual application of the health insurance fund, China's pharmaceutical market will have significant potentials. In particular, we believe the demand for our products in China will increase significantly, based on the following:

Global market condition of depression and melancholy

Depression has been recognized as a common mental illness. According to World Health Organization (WHO) officials, 5% of the world population is suffering from depression. In 2002, the WHO identified depression as the world’s fourth largest disease and estimated that depression would be the second largest disease by 2020. What was unexpected was that depression has become the world’s second largest disease (second only to cardio-cerebral vascular disease) after only 6-7 years.

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According to official statistics, about 200 million Chinese were suffering from depression at the end of 2009. In the past several decades, Chinese diagnostic techniques and treating solutions of depression lagged behind western countries. Chinese people do not have adequate knowledge of this disease. At present, only about 10% of depression patients are getting medical care, far lagging behind the world treatment rate. (Source: Analysis and Prospect of China's Anti-depressant Market in 2009, edited by HDCMR.com, http://www.hdcmr.com/ Source: Medicine Economic News, dated October 30, 2009).

Currently the eight best-selling anti-depressants in the world are: fluoxetine, paroxetine, sertraline, fluvoxamine, venlafaxine, mirtazapine, duloxetine and amitriptyline. Combined, they have 80% market share in the global anti-depression market. However, they are relatively high priced and have numerous adverse side effects. Siberian Ginseng (Acanthopanax) products, which are botanical medication used to treat depression and nerve-regulation, have minor side effects and are moderately priced. Therefore we believe they have significant market potential.

Medical Reform in China

The Chinese government has promised that Renminbi 850 billion will be invested into the national health insurance system by 2011. This plan has been approved by the State Council of the People's Republic of China "PRC". The implementation of this plan will give more than 90% of China's population basic health insurance policies, providing better public health and medical services.

On April 6, 2009, the State Council officially promulgated Opinions of the CPC Central Committee and the State Council on Deepening the Health Care System Reform (final version). "The Opinions" first proposed that basic medical and health institutions will be available to all the people as public products. By 2011, all urban and rural residents will have been covered by this system. The reform includes:

- Accelerate the building of basic medical insurance system. The basic medical insurances for urban workers, urban residents and the new type of rural cooperative medical care system for rural residents will cover over 90% of those eligible within three years.

- Establish national essential medicines system. All essential medicines will be listed in the reimbursement catalog of essential medicine for health insurance. To ensure essential medicine quality, the government will select a number of preferred manufacturers to be the essential medicine suppliers. The selection criteria will include but are not limited to quality, reputation, capacity, qualification, and price.

- Perfecting the system of health care services at grass-roots levels. The construction of hospitals in counties (including Chinese medicine hospitals), central health clinics in towns and townships, health care clinics in villages in remote regions and community-level medical and health institutions in underdeveloped cities will be enhanced and improved.

- Promote the gradual equalization of basic public health services. Increase in public health services and improve the funding criteria which will bring broader acceptance of Chinese medicine.

- Promote the reform of public hospitals. Hospital management system, operation and supervision mechanisms will be reformed to improve service quality of medical institutions.

Pursuant to the Notice Concerning Releasing the State Medicine Catalogue for Basic Medical Insurance, Occupational Injury Insurance and Maternity Insurance of the PRC, all medicines in the national essential drug list are Tier A medicines in the national medical insurance catalog; a vast majority of patients will be fully reimbursed for medicines listed in the national essential drug list. And therefore terminal sales of the listed medicines at hospitals and drug stores will be spurred. Two of our products, Banlangen Granules and Shengmai Granules, have been included in the national essential drug list. We believe we will enjoy long-term benefits from the healthcare reform as more patients could afford our products due to such full reimbursement. In addition, we expect to become one of China's essential medicine suppliers as the PRC government moves forward with its reforms in 2010 and 2011.

Our growth strategy involves maximizing the opportunities that the above developments bring and capturing as much of the market share as possible in the process. To implement this strategy we plan to:

- Strengthen the market position of Siberian Ginseng (Acanthopanax). Siberian Ginseng (Acanthopanax) products have been widely recognized for their benefit in the treatment of depression and nerve-regulation. We hope to strengthen our current market share of Siberian Ginseng (Acanthopanax) products by focusing on related R&D and launching new products into market. In addition, we plan to enhance sales and marketing efforts to promote the application of Siberian Ginseng (Acanthopanax) products as alternatives to chemical medicines used to treat depression and nerve-regulation.

- Expand our Siberian Ginseng (Acanthopanax) cultivating bases and adopt scientific management, gradually improving quality standards of Siberian Ginseng (Acanthopanax). This would enable us to be the standards-maker of Siberian Ginseng (Acanthopanax) and provide us with a competitive edge over our competitors.

- Reduce distribution costs through use of direct sales system: We intend to gradually switch the sales method of our key products from the current agency system to a direct sales system. We believe that moving to a direct sales system will reduce distribution cost and increase our profit margins. In addition, it is expected that once certain drugs become essential government procurement drugs, the sales of these drugs will also be part of our direct sales system.

Competition

We face competition from pharmaceutical manufacturers producing the same type of pharmaceuticals. Our competitors vary by product categories:

Botanical anti-depression and nerve-regulation products

As a result of our low-cost access to significant wild Siberian Ginseng (Acanthopanax) resources, our advanced technology and equipment, our R&D efforts and our ability to effectively set the standard on the market, we have become the main manufacturer of these products, with approximately 51% market share as of fiscal year 2010. Our major competitors are Heilongjiang Gerun Pharmaceutical Co., Ltd. and Harbin Shengyuan Biological Engineering Co., Ltd. We intend to further develop this market and strengthen our leadership position.

Biopharmaceutical products

We are the main Shark Vital Capsules manufacturer in China, with a market share of 3.7% as of fiscal year 2010. We believe this product is approaching the end of its life cycle and have decreased the marketing efforts for this product. Our major competitors are Beijing Saishali Biotechnology Research Center and Shantou Xianle Pharmaceuticals Co., Ltd.

We have a number of competitive advantages over our competitors, primarily:

- Lower production costs: We purchase our raw materials directly from Australia at prices which we believe are lower than our competitors, who mostly purchase from coastal areas in China; and

- Solid customer bases: We have accumulated a large and firm hospital customer and sales base as a result of our early entry into this biopharmaceutical market and having our products recognized for their excellent quality, mainly as a result of past clinical trials.

Botanical Antibiotics and traditional OTC Chinese medicines

Our Banlangen Granules have a market share of 13% as of fiscal year 2010. Our major competitors are Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd. and Guangzhou Xiangxue Bio-Medical Engineering Co., Ltd.

Our Compound Honeysuckle Granules have a market share of 15.5% as of fiscal year 2010. Our major competitors are Hebei Guojin Pharmaceutical Co., Ltd. and Shiyitang Pharmaceutical Factory of Harbin Pharmaceutical Group.

Our Shengmai Granules have a market share of 5% as of fiscal year 2010. Our major competitors are Hebei Meibao Pharmaceutical Co., Ltd. and Guangxi Nanjing Weiwei Pharmacy Co. Ltd.

We are aware that the main competitive factors in selling products are quality, price and product awareness. We believe that we have corresponding advantages in all of these factors.

Government Regulation

Our products are subject to regulatory controls governing pharmaceutical products. As a developer, manufacturer and distributor of pharmaceuticals, we are subject to regulation and oversight by different levels of the food and drug administration in China, in particular, the PRC State Food and Drug Administration, or SFDA. The “Law of the PRC on the Administration of Pharmaceuticals,” as amended on February 28, 2001, provides the basic legal framework for the administration of the production and sale of pharmaceuticals in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in China. Its implementing regulations set out detailed rules with respect to the administration of pharmaceuticals in China. We believe we are in compliance with these laws and regulations in all material aspects.

Regulations at the national, provincial and local levels in China are subject to change. To date, compliance with governmental regulations has not had a material impact on our earnings or competitive position, but, because of the evolving nature of such regulations, we are unable to predict the impact such regulation may have in the foreseeable future.

Our products are subject to regulatory controls governing pharmaceutical products. As a developer, manufacturer and distributor of pharmaceuticals, we are subject to regulation and oversight by different levels of the food and drug administration in China, in particular, the PRC State Food and Drug Administration, or SFDA. The "Law of the PRC on the Administration of Pharmaceuticals," as amended on February 28, 2001, provides the basic legal framework for the administration of the production and sale of pharmaceuticals in China and covers the manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products in China. Its implementation regulations set out detailed implementation rules with respect to the administration of pharmaceuticals in China.

Pharmaceutical Manufacturer

As a manufacturer of pharmaceutical products and raw materials, we are subject to continuing regulation by the SFDA. Pursuant to the PRC laws and regulations on the administration and supervision of the pharmaceutical manufacturers in the PRC, a pharmaceutical manufacturer must obtain pharmaceutical manufacturing permit from SFDA's provincial branch. This permit is valid for five years and is renewable upon its expiration. Our current pharmaceutical manufacturing permit, issued by the Heilongjiang branch of SFDA, will be valid until January 1, 2011. We have renewed our pharmaceutical manufacturing permit as of October 31, 2010. The new permission would be effective until 2015.

A pharmaceutical manufacturer must meet the GMP standards for each of its production facilities in the PRC in respect of each form of pharmaceutical products it produces. If a manufacturer meets the GMP standards, SFDA will issue to the manufacturer a GMP certificate with a five-year validity period. We have obtained GMP certification from SFDA to produce pharmaceutical products and raw materials in China for all of our manufacturing facilities. The GMP certification criteria include institution and staff qualifications, production premises and facilities, equipment, raw materials, hygiene conditions, production management, quality controls, product distributions, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. In addition, we have obtained pharmaceutical manufacturing permits from the provincial food and drug administration. Our current pharmaceutical manufacturing permit, issued by the Heilongjiang branch of SFDA, will be valid until August 17, 2011. We expect to renew our GMP in due course.

Approval and Registration of Pharmaceutical Products

A medicine must be registered and approved by the SFDA before it can be manufactured. A pharmaceutical manufacturer is allowed to manufacture a medicine only if it has obtained the medicine registration approval of such medicine. The registration and approval process requires the manufacturer to submit to SFDA a registration application containing detailed information concerning the efficacy and quality of the medicine and the manufacturing process and the production facilities the manufacturer expects to use. The effective term of such medicine registration approval is five years and the pharmaceutical manufacturer needs to apply for and obtain the renewed medicine registration approval if it intends to continue manufacturing such medicine upon the expiration of the first five-year term. The process by SFDA for issuing and renewing the medicine registration approvals can be lengthy, and the results are unpredictable.

All of our products other than Ginseng and Venison Extract have received medicine registration approvals from SFDA, which approves their manufacturing with a national standard. We are applying for transfer the production approval of Ginseng and Venison Extract from Stock Co, to us, and expected to complete the transfer in 2011. Our PRC subsidiary is in the process of renewing the drug approval registrations for certain of its products and medicines that are currently in production. Such applications have been accepted by SFDA and our PRC subsidiary is allowed by SFDA to continue to use the current drug approval numbers to manufacture its products and medicines during the application process.

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Pursuant to a license agreement of drug approval numbers between Stock Co. and our PRC subsidiary, our PRC subsidiary is also producing two additional products (namely Siberian Ginseng Extract and Ginseng and Venison Extract) which are registered under the name of Stock Co. These three products are produced in Dofanghong pharmaceutical plant, the ownership of which is still under Stock Co. We have submitted applications to SFDA for the transfer of the registrations of these three products from Stock Co. to us. We will not be charged of any license fee under the agreement before the transfer is completed. Such arrangement made by our PRC subsidiary may be deemed as producing these three products without obtaining required drug approvals before we obtain the production permission of the drugs, which may result in administrative penalties including confiscation of the inventories of these three products, confiscation of the gains arising from the manufacturing of these three products, fines, suspension of the operation and/or revocation of the Drug Production Permit of our PRC subsidiary.

Price Controls

The retail prices of certain pharmaceuticals sold in China, primarily those included in the national and provincial Medical Insurance Catalogs and those pharmaceuticals whose production or trading are deemed to constitute monopolies are subject to price controls in the form of fixed prices or price ceilings. The retail prices of medicines that are subject to price controls are administered by the Price Control Office of the National Development and Reform Commission, or the NDRC, and provincial and regional price control authorities. Of our products, .are subject to price controls. These seven products accounted for 47.54% of our total sales in fiscal year 2010.

Reimbursement Under the National Medical Insurance Program

The Ministry of Labor and Social Security, together with other government authorities of the PRC, determines which medicines are to be included in or removed from the national insurance medicine catalog (including Tier A and Tier B medicines) for the National Medical Insurance Program, which may affect the amounts reimbursable to program participants for their purchases of medicines. These determinations are based on a number of factors, including price and efficacy of a medicine. Although it is designated as a national program, the implementation of the National Medical Insurance Program is delegated to provincial governments, each of which has established its own medicine catalog. A provincial government must include all Tier A medicines listed in the national insurance medicine catalog in its provincial medicine catalog, but may at its sole discretion add other medicines to, or exclude Tier B medicines listed in the national insurance medicine catalog from, its provincial medicine catalog, so long as the combined numbers of the medicines added and excluded do not exceed 15% of the Tier B medicines listed in the national catalog. Depending on which Tier A or Tier B medicine is classified as in the provincial medicine catalog, a National Medical Insurance Program participant residing in that province can be reimbursed for the full cost of a Tier A medicine and for part of the cost of a Tier B medicine.

Currently, four dosages of our products, including Siberian Ginseng Tablets, Shengmai Granules, Banlangen Granules and Qing Re Jie Du Oral Liquid, are included in the national catalog of the 2009 version which is currently effective and seven dosages of our products, including Siberian Ginseng Tablets, Shengmai Granules, Banlangen Granules, Compound Honeysuckle Granules, Tianma Pills, Compound Yangjiao Tablets and Qing Re Jie Du Oral Liquid, are included in the provincial medicine catalogs of Heilongjiang province.

National essential drug list

The national essential drug list is a part of the recent 2009 healthcare reform of the PRC. This new catalog is considered superior to the national medical insurance catalog because all medicines in the essential drug list are Tier A medicines in the national medical insurance catalog. Under the healthcare reform, the Chinese government proposed to establish a national basic medicine system based on a national essential drug list. According to the relevant policy, 90% of China's citizens will be covered by a universal healthcare system by the year 2012. As a result, a vast majority of patients will be fully reimbursed for medicines listed in the national essential drug list and partially reimbursed for medicines listed in the national medicine insurance catalog for the National Medical Insurance Program. Two of our products, Shengmai Granules and Banlangen Granules, have been included in the national essential drug list. We therefore believe we will enjoy long-term benefits from the healthcare reform as more patients could afford our products due to such full reimbursement. In addition, we expect that we will become one of China's essential medicine suppliers as the PRC government moves forward with its reforms in 2011.

Environmental Matters

Our manufacturing facilities are subject to various pollution control regulations with respect to noise, water and air pollution and the disposal of waste and hazardous materials. We are also subject to periodic inspections by local environmental protection authorities. Our operating facilities have received certifications from the relevant PRC government agencies in charge of environmental protection indicating that the operations are in compliance with the relevant PRC environmental laws and regulations. We are not currently subject to any pending actions alleging any violations of applicable PRC environmental laws. We have obtained certification issued by the relevant local environmental protection bureau to verify Ah City plant's compliance of environmental laws.

Employees

As of December 31, 2010, we have 66 full-time employees who have entered into labor contracts with our PRC subsidiary; we have approximately 561 employees dispatched from a labor dispatching company. We have approximately 104 employees in management positions, 30 in research and development, 400 in the production, storage and distribution, and 27 in the marketing and sales (excluding our 3,000 distributors in over 70 sales centers across 24 provinces in China). Our PRC subsidiary may not fully contribute the social insurance and housing fund for such 66 employees, and may not fully contribute the social insurance for the 450 dispatched employees as required by the agreement between our PRC subsidiary and the relevant employee dispatching agency.

Properties

We lease our Ah City Natural and Biopharmaceutical plant and our Dongfanghong Pharmaceutical plant from Stock Co., a company of which Mr. Shaoming Li, our chairman, chief executive officer and president, is a 50% shareholder and chairman of our board of directors. The lease is approximately 105,000 square feet used for production and inventory and is paid monthly.

On October 12, 2009, we entered into a purchase agreement with Stock Co. to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $23,472,000. Pursuant to the purchase agreement, a payment of $14,670,000 was made to Stock Co. in October 2009, with a final payment of $8,802,000 due by December 31, 2011, at which time title for the assets will be transferred.

Our PRC subsidiary entered into a Contract Letter dated March 3, 2007 with Yerui Pharmaceutical Co of Zhongfa Industry Group ("Yerui"), under which our PRC subsidiary may, at a consideration of RMB 3,600,000 (including repayment of a bank loan granted by Agricultural Bank of China originally borrowed by Yerui with the amount of RMB 1,090,000), acquire the properties and assets of Yerui's Chinese traditional extraction plant located at Qingyang Area of Harbin. Our PRC subsidiary is currently allowed by Yerui to occupy and use the Qingyang plant. However, our PRC subsidiary has not fully paid the bank loan on behalf of Yerui nor has the ownership of the properties of Qingyang plant been transferred to our PRC subsidiary. Additionally, the properties of Qingyang plant have been mortgaged to Agricultural Bank of China as collateral for the bank loan, and the Agricultural Bank of China will have the right to dispose of the mortgaged properties.

Our PRC subsidiary entered into a Property Purchase Contract dated April 10, 2010 with Heilongjiang Yongtai Co, pursuant to which our PRC subsidiary may purchase the 10th and 11th floors of the building located at No. 28, Changjiang St., Nangang District of Harbin Municipal. Our PRC subsidiary has paid the 1st installment of the total purchase price pursuant to such Property Purchase Contract and upon the full payment of the purchase price, Heilongjiang Yongtai Co. will transfer the ownership of such property to our PRC subsidiary.

We believe that our facilities are suitable for our current operations. As part of our growth strategy, we plan to expand our production capacity at our current facilities and to acquire and construct new facilities in the future.

Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of its operations in the normal course of business. Any of these claims could subject us to costly litigation and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our results of operations and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. We are not a party to, or threatened by, any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Corporate Information

Our principal executive office is located at The 11th Floor, Changjiang International Building, No. 28, Changjiang Road, Nangang District, Harbin, Heilongjiang Province, P.R. China 150090. Our telephone number at that address is 86-451-8260-2162. Our website address is www.renhuang.com. The information on our website is not a part of this Form 10-K.

Item 1A. Risk Factors.

Investment in our common stock involves risk. You should carefully consider the risks we describe below before deciding to invest. The market price of our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. In assessing these risks, you should also refer to the other information included in this Annual Report, including our consolidated financial statements and the accompanying notes. You should pay particular attention to the fact that we are a holding company with substantial operations in China and are subject to legal and regulatory environments that in many respects differ from that of the United States. Our business, financial condition or results of operations could be affected materially and adversely by any of the risks discussed below and any others not foreseen. This discussion contains forward-looking statements.

Risks Related to our Business

Our products may not achieve or maintain widespread market acceptance.

Success of our products is highly dependent on market acceptance. We believe that market acceptance of our products will depend on many factors, including:

- the perceived advantages of our products over competing products and the availability and success of competing products;
- the brand effect of our products and channel loyalty;
- the effectiveness of our sales and marketing efforts;
- the pricing and cost effectiveness of our products;
- the efficacy of our products and the prevalence and severity of adverse side effects, if any; and
- publicity concerning our products, product candidates or competing products.

If our products fail to achieve or maintain market acceptance, or if new products are introduced by others that are more favorably received than our products, are more cost effective or otherwise render our products obsolete, or if our competitors spend much more in sales and marketing efforts than we do, we may experience a decline in the demand for our products. If we are unable to market and sell our products successfully, our business, financial condition, results of operation and future growth would be adversely affected.

Our future research and development projects may not be successful.

The successful development of pharmaceutical products can be affected by many factors. Products that appear to be promising at their early phases of research and development may fail to be commercialized for various reasons, including the failure to obtain the necessary regulatory approvals. In addition, the research and development cycle for new products for which we may obtain an approval certificate is long.

There is no assurance that all of our future research and development projects will be successful or completed within the anticipated time frame or budget or that we will receive the necessary approvals from relevant authorities for the production of these newly developed products, or that these newly developed products will achieve commercial success. Even if such products can be successfully commercialized, they may not achieve the level of market acceptance that we expect.

We face substantial competition in connection with the marketing and sale of our products.

Our products compete with products with similar medical efficacy in similar market areas. Some of our competitors are well established and may have greater financial, marketing, personnel and other resources. The pharmaceutical industry is also characterized by the frequent introduction of new products. We may be unable to compete successfully or our competitors may develop products which have greater medical efficacy or gain wider market acceptance than ours.

Our disclosure controls and procedures and our internal control over financial reporting were ineffective until recently, although we have taken remedial measures, if we are unable to effectively improve and maintain such controls and procedures, investors could lose confidence in our financial and other reports, the price of our shares of common stock may decline, and we may be subject to increased risks and liabilities.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002. The Securities Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. Section 404 of the Sarbanes-Oxley Act requires, among other things, that we include a report of our management on our internal control over financial reporting. We are also required to include quarterly reports and certifications of our management regarding the effectiveness of our disclosure controls and procedures. In the past, our management has concluded that our disclosure controls and procedures and internal control over financial reporting were ineffective due to our late filings, and more recently, that we lack sufficient qualified accounting and financial personnel with an appropriate level of US GAAP knowledge and experience appropriate to meet our financial reporting requirements. Although we have been diligent in implementing remedial measures since the third quarter of fiscal 2009, including hiring a new chief financial officer with US GAAP and SEC reporting experience, adding additional staff, appointing three independent directors to our board of directors, engaging consultants to advise management on the preparation of Sarbanes-Oxley Section 404 compliance with internal controls over financial reporting for fiscal year 2010, there is no assurance that we will continue to have effective disclosure controls and procedures and internal control over financial reporting. If we cannot effectively and efficiently improve our controls and procedures, we could suffer material misstatements in our financial statements and other information we report and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial and other information. This could lead to a decline in the trading price of our shares of common stock. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from NYSE Amex, regulatory investigations and civil or criminal sanctions.

Our chairman, chief executive officer and president currently owns approximately 48% of our common stock and has the ability to prevent certain types of corporate actions, to the detriment of other stockholders.

As of October 31, 2010, Mr. Shaoming Li, our chairman, chief executive officer and president, owns 17,850,000 shares of our common stock, which represents approximately 48% of our outstanding shares of common stock. Mr. Li is able to exercise significant influence over all matters requiring stockholder approval, including the election of a majority of the directors and determination of significant corporate actions. This concentration of ownership could also have the effect of delaying or preventing a change in control that could otherwise be beneficial to our stockholders.

We have entered into and may continue to enter into transactions with related parties.

We have entered into, and may continue to enter into, transactions with our related parties, including without limitation Heilongjiang Renhuang Pharmaceutical Limited and Harbin Renhuang Pharmaceutical Stock Co., Ltd. ("Stock Co."), during the normal course of our business or otherwise. Mr. Shaoming Li, a major stockholder of ours and our chairman, chief executive officer and president, is a major stockholder of Heilongjiang Renhuang Pharmaceutical Limited and chairman of the board of directors and 50% stockholder of Stock Co. Among others, in 2009, we entered into purchase agreements with Stock Co. to acquire certain real property and intellectual property for a total consideration of $23,472,000 and $2,347,200, respectively. The purchase prices were based on fair market value appraised by independent third party appraisal firm. Although we believe that the transactions we have entered into with Heilongjiang Renhuang Pharmaceutical Limited and Stock Co. are, on the whole, no more favorable, and no less favorable, than those available from unaffiliated third parties, there were no independent directors on our board at those times to approve such transactions. As such, the transactions were approved by only Mr. Shaoming Li in his capacity as our sole director. See "Certain Relationships and Related Party Transactions." We may continue to enter into transactions with Heilongjiang Renhuang Pharmaceutical Limited and Stock Co. in the future.

We may not be able to manage our expansion of operations effectively.

We anticipate significant continued expansion of our business to address growth in demand for our products, as well as to capture new market opportunities. To manage the potential growth of our operations, we will be required to improve our operational and financial systems, procedures and controls, increase manufacturing capacity and output, expand, train and manage our growing employee base, and continuously increase our promotion budget. Furthermore, we need to maintain and expand our relationships with our customers, suppliers and other third parties. In addition, the success of our growth strategy depends on a number of internal and external factors, such as the expected growth of the pharmaceutical market in China and the competition from other pharmaceutical companies. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

Our future liquidity needs are uncertain and we may need to raise additional funds in the future.

We may, from time to time, need to raise funds as part of our business operations, such as to devote financial resources to research and development of projects that we believe to have significant commercialization potential, and the acquisition or construction of manufacturing facilities. We cannot assure you that our revenues will be sufficient to meet our operational needs and capital requirements. If we need to obtain external financing, we cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Our future liquidity needs and other business reasons could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to our stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

The retail prices of certain of our products are subject to control, including periodic adjustment, by PRC government authorities.

Certain of our pharmaceutical products, primarily those included in the national and provincial Medical Insurance Catalogs, are subject to price controls in the form of fixed retail prices or retail price ceilings. As such, the retail prices for certain of our pharmaceutical products can be adjusted downward or upward from time to time. If the retail prices of our products are reduced by the government, our business or results of operations may be adversely affected.

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Currently, of our products, Siberian Ginseng Tablets, Compound Yangjiao Tablets, Tianman Pills, Banlangen Granules, Qing Re Jie Du Oral Liquid, Compound Honeysuckle Granules and Shengmai Granules, are subject to such price controls. These seven products accounted for 47.54% of our total sales in fiscal year 2010.

Our results of operations may be affected by fluctuations in availability and price of raw materials.

The raw materials we use are subject to price fluctuations due to various factors beyond our control, including, among other pertinent factors:

- increasing market demand;
- inflation;
- severe climatic and environmental conditions;
- seasonal factors, and
- changes in governmental regulations and programs.

Changes to our raw materials prices may result in increases in production and packaging costs, and we may be unable to raise the prices of our products to offset the increased costs in the short-term or at all. As a result, our results of operations may be materially and adversely affected.

Extensive regulation of the pharmaceutical manufacturers industry in China could increase our expenses resulting in reduced profits.

We are subject to extensive regulation by various governmental authorities in jurisdictions in which our products are manufactured or sold, regarding the processing, packaging, storage, distribution and labeling of our products. Our processing facilities and products are subject to periodic inspection by national, provincial and local authorities. We believe that we are currently in substantial compliance with all material governmental laws and regulations and maintain all permits and licenses relating to our operations.

Clinical trials are expensive, time-consuming and difficult to design and implement.

Clinical trials are expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols

In addition, we (or SFDA), may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the regulatory bodies find serious deficiencies in our investigational new drug, submissions or the conduct of these trials. Therefore, we cannot predict with any certainty the schedule for future clinical trials.

The results of our clinical trials may not support our product candidate claims.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support our product candidate claims. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for indicated uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates.

Physicians, patients and other end consumer may abandon existing drugs or choose not to accept and use our new drugs.

Physicians and patients may not accept and use our products. Acceptance and use of our products will depend upon a number of factors including:

- perceptions by members of the health care community, including physicians, about the safety and effectiveness of our products;
- cost-effectiveness of our products relative to competing products; and
- effectiveness of marketing and distribution efforts by us and distributors, if any.

Because we expect sales of our current and future products to generate substantially all of our product revenues for the foreseeable future, the failure to find market acceptance would materially harm our business and results of operations.

Our drug-development program depends upon third-party research scientists who are not subject to our control.

We depend upon independent investigators and collaborators, such as universities and medical institutions, to conduct our pre-clinical and clinical trials under agreements with us. These collaborators are not our employees and we cannot control the amount or timing of resources that they devote to our programs. These investigators may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our applications, and our introduction of new drugs, will be delayed. These collaborators may also have relationships with other commercial entities, some of which may compete with us. If our collaborators assist our competitors at our expense, our competitive position and business could be materially and adversely affected.

If we cannot compete successfully for market share against other similar product oriented companies, we may not achieve sufficient product revenues and our business will suffer.

The market for our product candidates is characterized by intense competition and rapid technological advances. We will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs or have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing drugs;
- undertaking pre-clinical testing and human clinical trials;
- obtaining regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

Developments by competitors may render our products or technologies obsolete or non-competitive.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological changes. A large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies in China and other countries. In addition, companies pursuing different but related fields represent substantial competition. Many of these organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, longer drug development history in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. These organizations also compete with us to attract qualified personnel and parties for acquisitions, joint ventures or other collaborations.

We have limited patent protection and are subject to substantial competition.

We only have two patented production techniques, Injection Preparation Method against Hepatitis B (Patent No.: ZL200410043718.5) and Total Alkaloids of Sophora Flavescens Extraction Method (Patent No.: ZL200410043717.0). Many pharmaceutical companies compete in the same market segment with similar products or products having comparable medicinal applications or therapeutic effects which may be used as direct substitutes for our products. As a result of the lack of patent protection, competitors with potential substitutes could launch similar products in the market with their prices analogous to or lower than those manufactured and sold by us. Further, the lack of patent protection could also attract an even greater number of competitors who believe they can develop products that are substantially similar to ours at a lower cost.

If we fail to obtain or maintain applicable regulatory clearances or approvals for our products, or if such clearances or approvals are delayed, we will be unable to distribute our products in a timely manner, or at all, which could significantly disrupt our business and materially and adversely affect our sales and profitability.

The sale and marketing of our products are subject to regulation in the PRC and in most other countries where we intend to conduct business. For a significant portion of our products, we need to obtain and renew licenses and registrations with the PRC State Food and Drug Administration, or SFDA, and its equivalent in other markets. The processes for obtaining regulatory clearances or approvals can be lengthy and expensive, and the results are unpredictable. Our PRC subsidiary is in the process of renewing the approval registrations for its products and medicines that are currently in production. Such applications have been accepted by SFDA and our PRC subsidiary is allowed by SFDA to continue to use the current drug approval numbers to manufacture its products and medicines during the application period. If we are unable to obtain clearances or approvals needed to market existing or new products, or obtain such clearances or approvals in a timely fashion, our business could be significantly disrupted and our sales and profitability could be materially and adversely affected.

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In addition, our PRC subsidiary is producing three products which are registered under the name of Stock Co. pursuant to the agreements between Stock Co. and our PRC subsidiary related to the free use of drug approval numbers. We have submitted applications to SFDA for the transfer of the registrations of these three products from Stock Co. to us. Before the transfer is completed, such arrangement made by our PRC subsidiary may be deemed as producing these three products without obtaining required drug approvals, which may result in administrative penalties including confiscation of the inventories of these three products, confiscation of the gains arising from the manufacturing of these three products, fines, suspension of the operation and/or revocation of the Drug Production Permit of our PRC subsidiary.

In particular, as we enter foreign markets, we lack the experience and familiarity with both the regulators and the regulatory systems, which could make the process more difficult, more costly, more time consuming and less likely to succeed.

Compliance with rules and regulations concerning corporate governance may be costly, which could harm our business.

We will continue to incur significant legal, accounting and other expenses to comply with regulatory requirements. The Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission has required and will require us to make changes in our corporate governance, public disclosure and compliance practices. Compliance with these rules and regulations has increased our legal and financial compliance costs, which have had, and may continue to have, an adverse effect on our profitability.

We have limited insurance coverage and may incur losses resulting from product liability claims or business interruptions.

The nature of our business exposes us to the risk of product liability claims that is inherent in the research and development, manufacturing and marketing of pharmaceutical products. These risks are greater for our products that receive regulatory approval for commercial sale. Even if a product were approved for commercial use by an appropriate governmental agency, there can be no assurance that users will not claim effects other than those intended resulted from the use of our products. While to date no material claim for personal injury resulting from allegedly defective products has been brought against us, a substantial claim or a substantial number of claims, if successful, could have a material adverse impact on our business, financial condition and results of operations.

Compliance with rules and regulations concerning corporate governance may be costly, which could harm our business.

We will continue to incur significant legal, accounting and other expenses to comply with regulatory requirements. The Sarbanes-Oxley Act of 2002, together with rules implemented by the Securities and Exchange Commission has required and will require us to make changes in our corporate governance, public disclosure and compliance practices. In addition, we have incurred costs and will continue to incur costs in connection with ensuring that we are in compliance with rules promulgated by the Securities and Exchange Commission regarding internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Compliance with these rules and regulations has increased our legal and financial compliance costs, which have had, and may continue to have, an adverse effect on our profitability.

We are unable to assure that all of the distributors and sales centers which are selling our products have obtained the medicine supply approvals and meet the Good Supply Practice standards.

A distributor of pharmaceutical products in China must obtain pharmaceutical distribution permit from the competent provincial or local SFDA branch. Furthermore, SFDA applies Good Supply Practice standards, or GSP standards, to all pharmaceutical wholesale and retail distributors to ensure quality of drug distribution in China.

We believe that our PRC subsidiary does not need to apply for the pharmaceutical distribution permit or GSP certification because our PRC subsidiary does not engage in the wholesale or retail of pharmaceutical manufacturer's medicines. Instead, we have entered into sales agency agreements with sales agents in 19 provinces and four municipalities, through which our products are sold to over 3,000 distributors and over 70 sales centers in China. Such distributors need to obtain the pharmaceutical distribution permit and GSP certification to sell our products. We are unable to assure that all of the distributors and sales centers which are selling our products have obtained the medicine supply approvals and meet the Good Supply Practice standards.

We have a limited operating history and limited historical financial information upon which you may evaluate our performance.

We began our operations in 2006 and continue to face risks in a growth industry. We may not successfully address these risks and uncertainties or successfully implement our operating strategies. If we fail to do so, it could materially harm our business to the point of having to cease operations and could impair the value of our common stock to the point investors may lose their entire investment. Even if we accomplish these objectives, we may not generate positive cash flows or the profits we anticipate in the future.

We rely on key executive officers and their knowledge of our business and technical expertise would be difficult to replace.

Our success is dependent, to a large extent, on our ability to retain the services of our executive management, who have contributed to our growth and expansion to date. Our chairman, chief executive officer and president, Mr. Shaoming Li, has been, and will continue to be, instrumental to our success. Accordingly, the loss of his services, without suitable replacements, will have an adverse effect on our business generally, operating results and future prospects. We have not entered into an employment agreement with Mr. Li.

In addition, the loss of the technical knowledge and management and industry expertise of any of our key personnel could result in delays in product development, loss of customers and sales and diversion of management resources, which could adversely affect our operating results.

Our holding company structure may hinder the payment of dividends.

China Botanic Pharmaceutical Inc. has no direct business operations, other than its ownership of our subsidiaries. We intend reinvest all undistributed earnings to expand our PRC operations, which the management would be most benefit our shareholder. Should we decide in the future to payout dividends, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us due to restrictive covenants in agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions applicable to our subsidiaries. If future dividends are paid in Renminbi, fluctuations in the exchange rate for the conversion of Renminbi into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

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A provision has not been made at October 31, 2010 for U.S. or additional foreign withholding taxes on approximately $53,456,047 of undistributed earnings of foreign subsidiaries because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations.

Risks Related to Doing Business in China

Our manufacturing plants are located in China and our pharmaceutical and medical products production, sale and distribution are subject to Chinese regulation.

Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. This could either benefit or damage our operations and profitability. Some changes that could have this effect are: (i) level of government involvement in the economy; (ii) control of foreign exchange; (iii) methods of allocating resources; (iv) balance of payment positions; (v) international trade restrictions; and (vi) international conflict. Additionally, as a manufacturer of pharmaceutical and medical products located in China, we are a state-licensed company and facility and subject to Chinese regulations and laws. The Chinese government has been active in regulating the pharmaceutical industry. If we were to lose our state-licensed status we would no longer be able to manufacture pharmaceuticals in China, which is our sole operation.

We depend upon governmental laws and regulations that may be changed in ways that will harm our business.

Our business and products are subject to government regulations mandating the manufacturing of pharmaceuticals in China and other countries. Changes in the laws or regulations in China, or other countries we sell into, that govern or apply to our operations could have a materially adverse effect on our business. For example, the law could change so as to prohibit the use of certain pharmaceuticals. If one of our pharmaceuticals or medical products is prohibited, this change would reduce our productivity of that product.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, pharmaceutical regulations, and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

The Chinese legal system may have inherent uncertainties that could materially and adversely impact our ability to enforce the agreements governing our operations.

We are subject to oversight at the provincial and local levels of government. Our operations and prospects would be materially and adversely affected by the failure of the local government to honor our agreements or an adverse change in the laws governing them. In the event of a dispute, enforcement of these agreements could be difficult in China. China tends to issue legislation, which is followed by implementing regulations, interpretations and guidelines that can render immediate compliance difficult. Similarly, on occasion, conflicts arise between national legislation and implementation by the provinces that take time to reconcile. These factors can present difficulties in our ability to achieve compliance. Unlike the United States, China has a civil law system based on written statutes in which judicial decisions have limited precedential value. The Chinese government has enacted laws and regulations to deal with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, our experience in interpreting and enforcing our rights under these laws and regulations is limited, and our future ability to enforce commercial claims or to resolve commercial disputes in China is therefore unpredictable. These matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination.

It will be extremely difficult to acquire jurisdiction and enforce liabilities against our officers, directors and assets based in China.

Substantially all of our assets will be located outside of the United States and most of our officers and directors will reside outside of the United States. As a result, it may not be possible for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under Federal securities laws of the United States. Moreover, we have been advised that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement of criminal penalties of the Federal securities laws of the United States.

National, provincial and local governments have established many regulations governing our business operations.

We are also subject to numerous national, provincial and local governmental regulations, including environmental, labor, waste management, health and safety matters and product specifications and regulatory approvals from healthcare agencies. We are subject to laws and regulations governing our relationship with our employees including: wage requirements, limitations on hours worked, working and safety conditions, citizenship requirements, work permits and travel restrictions. These local labor laws and regulations may require substantial resources for compliance. Our PRC subsidiary may not fully contribute the social insurance and housing fund for the employees and the failure to do so may result in penalties and fines from PRC labor administration authorities at the provincial and local level. We are also subject to significant government regulation with regard to property ownership and use in connection with our facilities in the PRC, import restrictions, currency restrictions and restrictions on the volume of domestic sales and other areas of regulation. These regulations can limit our ability to react to market pressures in a timely or effective way, thus causing us to lose business or miss opportunities to expand our business.

The PRC currency is not a freely convertible currency and fluctuations in the exchange rate between the PRC currency and the U.S. dollar could adversely affect our operating results.

The PRC currency, the "Renminbi" or "RMB," is not a freely convertible currency. We rely on the PRC government's foreign currency conversion policies, which may change at any time, in regard to our currency exchange needs. This substantial regulation by the PRC government of foreign currency exchange may restrict our business operations and a change in any of these government policies could negatively impact our operations, which could result in a loss of profits.

The functional currency of our operations in China is the Renminbi. However, results of our operations are translated at average exchange rates into U.S. dollars for purposes of reporting results. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Fluctuations may adversely affect the comparability of period-to-period results. We do not currently use hedging techniques, and any hedging techniques which we may use in the future, may not be able to eliminate and may exacerbate the effects of currency fluctuations. Thus, exchange rate fluctuations could cause our profits, and therefore our stock prices, to decline.

We are subject to various tax regimes, which may adversely affect our profitability and tax liabilities in the future.

We are incorporated in the U.S. and have subsidiaries and other operations in the PRC and the British Virgin Islands. We will be subject to the tax regimes of these countries. Although virtually all of our profits will be earned outside of the U.S., under U.S. tax laws our earnings generally will be subject to U.S. taxation, because U.S. companies are generally taxed on their world-wide income. This may be true even if we do not repatriate any of its foreign earnings to the U.S. For certain types of income (generally, income from an active trade or business), U.S. companies are not required to pay tax on that income until they repatriate those earnings to the U.S. (such as for use in paying dividends or repurchasing shares). As a result, repatriation of earnings would trigger more immediate tax obligations. As a result of the imposition of U.S. taxes, our after-tax profits could decrease and could be below the level that would have been obtained if we were incorporated outside the U.S. The amount of taxes payable in the U.S. generally depends on the profitability of our various operations and the application of available tax credits and tax treaties. We are not currently receiving the benefit of any U.S. tax credit, and we are not currently conducting a material amount of business in a country with an advantageous tax treaty. Since the effect of tax credits and tax treaties depends on the profitability of operations in various jurisdictions, the amount of our tax will vary over time as we change the geographic scope of our activities. However, for the near term we expect that our total tax rate will be significantly influenced by the taxes we pay in China, so that our total tax obligation might decrease as a result of favorable tax treatment in China even though we were subject to additional U.S. taxes. In the future, we may pay significantly higher taxes than we have paid historically. In addition, any change in tax laws and regulations or the interpretation or application thereof, either internally in one of those jurisdictions or as between those jurisdictions, may adversely affect our profitability and tax liabilities in the future.

For the fiscal years of 2010 and 2009, our PRC subsidiary was granted by the national tax office of Ah City a tax holiday and was fully exempt from the 25% enterprise income tax. This tax holiday was granted, without a statutory basis at the national level, by the governmental authorities of Ah City for the purposes of promoting local economic development. As a result, this tax holiday may be terminated and our PRC subsidiary may be subject to the 25% enterprise income tax upon the termination of the tax holiday.

Because Chinese law governs almost all of our material agreements, we may not be able to enforce our legal rights internationally, which might results in a significant loss of business, business opportunities, or capital.

Chinese law will govern almost all of our material agreements. We cannot assure you that we will be able to enforce any of our material agreements or that remedies will be available outside of the PRC. The system of laws and the enforcement of existing laws in the PRC may not be as certain in implementation and interpretation as in the United States. The Chinese judiciary is relatively inexperienced in enforcing corporate and commercial law, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital.

Risks Related to our Securities

The market price of our shares is subject to significant price and volume fluctuations.

The price of our common shares may be subject to wide fluctuations due to variations in our operating results, news announcements, our limited trading volume, general market trends both domestically and internationally, currency movements, sales of common shares by our officers, directors and our principal stockholders, and sales of common shares by existing investors. Certain events, such as the issuance of common shares upon the exercise of our outstanding stock options, could also materially and adversely affect the prevailing market price of our common shares. Further, the stock markets in general have recently experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies and that have been unrelated or disproportionate to the operating performance of such companies. In addition, a change in sentiment by U.S. investors for China-based companies could have a negative impact on the stock price. These fluctuations may materially and adversely affect the market price of our common shares and the ability to resell shares at or above the price paid, or at any price.

Our Articles of Incorporation authorize our board of directors to issue new series of preferred stock that may have the effect of delaying or preventing a change of control, which could adversely affect the value of your shares.

Our 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. We may issue additional preferred stock in ways which may delay, defer or prevent a change of control of our company without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely affect the voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

We do not expect to pay dividends.

We expect to apply our future earnings, if any, toward the further expansion and development of our business. The likelihood of us paying dividends is further reduced by the fact that, in order to pay dividends, we would need to repatriate profits earned outside of the U.S., and in doing so those profits generally would become subject to U.S. taxation. Thus, the liquidity of your investment is dependent upon your ability to sell your shares at an acceptable price, rather than receiving an income stream from your investment. The price of our stock may decline and fluctuations in market price coupled with limited trading volume in our shares may limit your ability to realize any value from your investment, including recovering the initial purchase price.

“Penny Stock” rules may make buying or selling our common stock difficult, and severely limit its market and liquidity.

Trading in our common stock is subject to certain regulations adopted by the SEC, commonly known as the “penny stock” rules. Our common shares qualify as “penny stocks” and are covered by Section 15(g) of the Securities Exchange Act, which imposes additional sales practice requirements on broker-dealers who sell such common shares in the aftermarket. “Penny stock” rules govern how broker-dealers can deal with their clients and with “penny stocks”. For sales of our common stock, the broker-dealer must make a special suitability determination and receive from you a written agreement prior to making a sale of stock to you. The additional burdens imposed upon broker-dealers by the “penny stock” rules may discourage broker-dealers from effecting transactions in our common stock, which could severely affect its market price and liquidity. This could prevent our stockholders from reselling their shares and could cause the price of the shares to decline.

The market price for our shares may be volatile.

The market price for our shares is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for our products;
- changes in the economic performance or market valuations of companies in our industry;
- announcements by us, or our competitors of new products, acquisitions, strategic relationships, joint ventures or capital commitments;
- addition or departure of senior management and key personnel; and
- fluctuations of exchange rates between the RMB and the U.S. dollar.

Volatility in the price of our shares may result in stockholder litigation that could in turn result in substantial costs and a diversion of our management’s attention and resources.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices have been and continue to be extremely volatile. Volatility in the price of our shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations. In the past, following periods of volatility in the market price of a public company’s securities, stockholders have frequently instituted securities class action litigation against that company. Litigation of this kind could result in substantial costs and a diversion of our management’s attention and resources.

Because we do not intend to pay dividends on our shares, stockholders will benefit from an investment in our shares only if those shares appreciate in value.

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We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend on factors our board of directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities, if any, and any other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our shares, and there is no guarantee that our shares will appreciate in value.

We may need additional capital, and the sale of additional shares or equity or debt securities could result in additional dilution to our stockholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future. As of October 31, 2010, we had cash and cash equivalents of approximately $27.83 milloion and total current assets of approximately $50.52 million. As of October 31, 2010, we had a working capital surplus of approximately $47.13 million. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain one or more additional credit facilities. The sale of additional equity securities could result in additional dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

Sales of a substantial number of shares of our common stock may adversely affect the market price of our common stock and the issuance of additional shares will dilute all other stockholdings.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of our common stock. Our Articles of Incorporation permits the issuance of up to approximately100,000,000 shares of common stock, of which there are 37,239,536 outstanding as of October 31, 2010. . Thus, we have the ability to issue substantial amounts of common stock in the future, which would dilute the percentage ownership held by our current stockholders.

Item 1B. Unresolved Staff Comments.

Because we are not an accelerated filer, a large accelerated filer or a well-known seasoned issuer, this Item 1B is not applicable.

Item 2. Properties.

We lease our principal executive offices located at No. 281 Taiping Road, Taiping District, Harbin, Heilongjiang Province, 150050, China, our Ah City Natural and Biopharmaceutical plant and our Dongfanghong Pharmaceutical plant from Stock Co., a company 50% owned by Mr. Shaoming Li, our chairman, chief executive officer and president. The lease is a total of 105,416 square foot office space, with approximately 15,000 square feet used for executive offices and approximately 90,000 square feet used for production and inventory. The lease is year-to-year lease, with a monthly rent of $52,246.

On October 12, 2009, we entered into a purchase agreement with Stock Co. to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $23,472,000. Pursuant to the purchase agreement, a payment of $14,670,000 was made to Stock Co., in October 2009 with a final payment of $8,802,000 due by December 31, 2011, at which time title for the assets will be transferred.

We lease a 970 square meter office space in Harbin, Heilongjiang Province from a third party with a current monthly rent of $10,742. This lease is from May 1, 2007 to April 30, 2010.

We own our Qingyangnatural Extraction plant.

Upon expiration of our current leases, we believe that we will be able to either renew our existing leases or arrange new leases in nearby locations on acceptable terms. We believe that these properties are adequately covered by insurance.

We believe that our facilities are suitable for our current operations. As part of our growth strategy, we plan to expand our production capacity at our current facilities and to acquire and construct new facilities in the future.

Item 3. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of its operations in the normal course of business. Any of these claims could subject us to costly litigation and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our results of operations and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. As of January 10, 2011, we are not a party to, or threatened by, any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Item 4. [Removed and Reserved.]

PART II

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

Market Information

On July 2, 2010, our common stock started trading on the NYSE Amex under the symbol "CBP." Prior to the listing on the NYSE Amex, our common stock was quoted on the Pink Sheets OTC Markets and OTC Bulletin Board. The table below lists the high and low sales price or bid price, as applicable, per share of our common stock for the respective periods as reported on the Pink Sheet OTC Market, OTC Bulletin Board or the NYSE Amex, as applicable. The following prices for each quarter during the past two fiscal years reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
Year Ended October 31, 2009:		
1st Quarter	$ 0.65	$ 0.16
2nd Quarter	$ 0.51	$ 0.16
3rd Quarter	$ 0.69	$ 0.20
4th Quarter	$ 1.69	$ 0.50
Year Ending October 31, 2010:		
1st Quarter	$ 1.18	$ 0.52
2nd Quarter	$ 3.00	$ 1.00
3rd Quarter	$ 2.79	$ 1.69
4th Quarter	$ 2.36	$ 1.26

On January 18, 2011, the closing sale price of our shares of common stock was $2.12 per share and there were 37,239,536 shares of our common stock outstanding. On October 31, 2010, our shares of common stock were held by approximately 78 stockholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of our common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Dividend Policy

We presently do not expect to declare or pay such dividends in the foreseeable future and reinvest all undistributed earnings to expand our PRC operations, which the management would most benefit our shareholder.. Undistributed earnings will be reinvested in our operations in PRC. Payment of dividends to our stockholders would require payment of dividends by our PRC subsidiary to us. This, in turn, would require a conversion of Renminbi into US dollars and repatriation of funds to the US. Under current PRC law, the conversion of Renminbi into foreign currency generally requires government consent. Further, government authorities may impose restrictions that could have a negative impact in the future on the conversion process or on our cash needs, which, in turn, affects our ability to pay cash dividends to our stockholders. Although our subsidiary's classification as a wholly foreign owned enterprise under PRC law permits them to declare dividends and repatriate their funds to us in the United States, any change in this status or the regulations permitting such repatriation could prevent them from doing so. Any inability to repatriate funds to us would in turn prevent payments of dividends to our stockholders.

Item 6. Selected Financial Data

Not applicable.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes appearing elsewhere in this Annual Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in "Item 1A. Risk Factors."

Overview

We are engaged in the development, manufacturing, and distribution of botanical products, bio-pharmaceutical products, and traditional Chinese medicines, or TCM, in the People's Republic of China. We have three GMP certified production facilities - Ah City natural and biopharmaceutical plant, Dongfanghong pharmaceutical plant and Qingyang natural extraction plant -capable of producing 18 dosage forms and over 200 different products. Our products include but are not limited to (i) botanical anti-depression and nerve-regulation products, (ii) biopharmaceutical products, and (iii) botanical antibiotic and traditional OTC Chinese medicines. Botanical anti-depression and nerve-regulation products account for over 71.1% of our revenues and we intend to strengthen our developments in this area. We have entered into sales agency agreements with sales agents in 19 provinces and four municipalities, through which our products are sold to over 3,000 distributors and over 70 sales centers across 24 provinces in China.

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

- Pharmaceutical Industry Growth. We believe the market for pharmaceutical products in China is growing rapidly driven by China's economic growth, increased pharmaceutical expenditure, an aging population, increased lifestyle-related diseases, government support of the pharmaceutical industry, as well as the increased availability of funding for medical insurance in China. In particular, in January 2009, the PRC's State Council passed a far-reaching medical reform plan ("Health Reform") to help provide universal primary medical insurance coverage and increased access to medical facilities to a greater majority of its citizens. Both the central government of China and provincial governments has published Lists of Essential Medicines to regulate the market. We expect these factors to continue to drive industry growth.

- Pricing of Our Products. Seven of our products, which accounted for 47.54% of our total revenues in fiscal year 2010, are listed on the National List of Essential Medicines published by the Chinese government, and therefore subject to government pricing limits. We do not believe pricing controls will influence our sales significantly and expect that the health care reform will help increase our sales.

- Production Capacity. We believe much of the pharmaceutical market in China is still underserved, particularly with respect to treatment of depression, melancholy and nerve regulation. The demand for our products that treat depression, melancholy and regulate nerves, continuously increased and we were able to increase our production of such products to capture much of this growth. We believe our facilities with the ability to manufacture 18 dosage forms and over 200 products will allow us to capture future market growth and increase our revenue and market share accordingly.

- Perceptions of Product Quality. We believe that rising health concerns in China have contributed to a greater demand for health-care products with perceived health benefits. We believe many consumers in China tend to prefer natural health care products with, we believe, limited side effects. Accordingly, we believe our reputation for quality and leadership position in a number of our products allow our products to command a higher average selling price and generate higher gross margins than our competitors.

- Raw Material Supply and Prices. The per unit costs of producing our products are subject to the supply and price volatility of raw materials, which are affected by various market factors such as market demands, fluctuations in production and competition.

- Expenses Associated with Research and Development. In order to enhance our existing products and develop new products for the market, we have devoted significant resources to R&D.

- Expenses Associated with Sales and Marketing. In order to promote our product brand and gain greater market awareness, we have devoted significant resources to sales and marketing, in particular advertising activities.

- Demand for Our Products. We expect the market demand for our botanic anti-depression and nerve-regulation products will increase along with the growth of the general market for such products.

Results of Operations

The following table sets forth certain information regarding our results of operation.

	For the years ended October 31,	
	2010	2009
	($ in thousands)	
Statements of Operations Data		
Sales, net	55,184	43,411
Cost of goods sold	25,766	20,311
Gross profit	29,418	23,100
Operating and administrative expenses:	-	-
Sales and distribution	4,966	3,650
General and administrative	3,615	2,117
Research and development	3,043	2,529
Total operating expenses	11,624	8,296
Income from operations	17,794	14,804
Other income:	-	-
Other income, net	75	43
Income from operations before income tax expenses	17,869	14,847
Income tax expenses		
Net income	17,869	14,847
Other comprehensive income:	-	-
Cumulative currency translation adjustments	1,401	66
Total comprehensive income	19,270	14,913

Comparison of Years Ended October 31, 2010 and 2009

Total Comprehensive Income

Total comprehensive income increased by approximately $4.36 million, or 29.2%, from approximately $14.91 million in 2009 to approximately $19.27 million in 2010. This increase was primarily attributable to an increase of approximately $11.77 million, or 27.11%, in sales, and an increase of approximately $5.46 million, or 26.9%, in cost of goods sold and an increase of approximately $1.32 million, or 36.05%, in sales and marketing expenses, an increase of approximately $1.50 million, or 70.7%, in general and administration expenses an increase of approximately $0.51 million, or 20.3%, in research and development expenses, and an increase of $1.33 million in cumulative currency translation adjustments. Our gross profit margin increased from 53.2% in 2009 to 53.3% in 2010.

Sales

Our sales consist primarily of revenues generated from sales of Botanical anti-depression and nerve regulation products; Biopharmaceutical products and Botanical antibiotics and traditional OTC Chinese medicines. Sales increased by approximately $11.77 million, or 27.12%, from approximately $43.41 million in 2009 to approximately $55.18 million in 2010. This increase in sales was primarily attributable to launching of the new OTC medicines, and increased demand and strong market acceptance of our products as a result of our marketing efforts, in addition to price increase for a number of our products.

We provide incentive sales rebates to our sales agents. The rebate rate, which is determined on a product basis, averaged from 12% to 19% of sales for the year ended October 31, 2010 and 2009, respectively. Sales rebates are netted against total sales. The following table sets forth information regarding the net sales of our principal products before sales rebate during the fiscal years ended October 31, 2010 and 2009:

	2010			2009			2010 over 2009		
Product name	Quantity (Pack'000)	Amount ($'000)	% of Sales	Quantity (Pack'000)	Amount ($'000)	% of Sales	Quantity (Pack'000)	Amount ($'000)	% of Sales
Siberian Ginseng (Acanthopanax) Series	388	27,971	50.6	408	24,022	55.4	(21)	3,949	(4.65)
Tianma Series	59	3,661	6.6	68	3,927	9.0	(9)	(266)	(2.41)
Compound Yangjiao Tablets	77	7,271	13.2	91	7,281	16.8	(14)	(10)	(3.60)
Shark Vital Capsules	5	1,341	2.4	13	3,319	7.6	(8)	(1,978)	(5.22)
Shengmai Granules	79	2,469	4.5	104	2,774	6.4	(25)	(305)	(1.91)
Banlangen Granules	49	1,374	2.5	12	306	0.7	37	1,068	1.79
Compound Honeysuckle Granules	163	9,423	17.1	31	1,782	4.1	132	7,641	12.97
Compound Schizandra Tablets	5	336	0.6	-	0	-	5	336	0.61
Ginseng and Venison Extract	10	865	1.6	-	0	-	10	865	1.57
Qing Re Jie Du Oral Liquid	16	473	0.9	-	0	-	16	473	0.86
	851	55,184	100.0	727	43,411	100	124	11,772	-

We experienced a slight decrease in the demand of a number of our products mainly from reduced order volumes as the effect of the Health Reform filters through the chain drug stores. The chain drug stores reacting to the potential competition that the Heath Reform may bring are being cautious and maintaining lower than usual stock levels. As the PRC government moves forward with the Health Reform, hospitals, health clinics and institutions will be established in villages, remote regions and under-developed cities, creating additional channels for the rural population to purchase drugs aside from the chain drug stores. We expect the Health Reform, when fully in place, will greatly improve the rural population's access to healthcare, and therefore increase the demand for our products. We have established Medical Reform Sales Department as a dedicated resource focused on capturing this tremendous growth opportunity.

In the third quarter of our fiscal year 2010, we introduced two new products to the market, Qing Re Jie Du Oral Liquid, which is used to cure seasonal flu, and Compound Schisandra Tablets, also known as magnolia vine, has been clinically proven to have significant benefits to the functioning and regulation of the central nervous system. In the last quarter of 2009, we introduced two new products to the market, Banlangen Granules and Compound Honeysuckle Granules, both of which have well accepted anti-viral qualities, and were in great demand during the H1N1 pandemic.

In 2010, we increased average sales price per pack of our products, as demonstrated in the table below:

	2010	2009
Sales revenues (in thousands)	$ 62,701	$ 52,260
Total sales quantity (pack in thousands)	851	727
Average selling prices/pack (in thousands)	$ 73.68	$ 71.88

The increase in average sales price per pack, as reflected in the table, is primarily attributable to the increase in the sales price of individual products, namely Siberian Ginseng (Acanthopanax) Series, Compound Yangjiao Tablets and Shengmai Granules as demonstrated in the following table, which reflects the average sales price per pack by product for 2010 and 2009 and the percentage change in the sales price per pack.

	Average Price Per Pack		Percentage
Product	2010	2009	Change
Siberian Ginseng (Acanthopanax) Series	$ 83	$ 69	20.3
Tianma Series	81	75	8.0
Compound Yangjiao Tablets	94	80	17.5
Shark Vital Capsules	469	446	5.2
Shengmai Granules	41	35	17.1
Banlangen Granules	28	26	7.7
Compound Honeysuckle Granules	60	57	5.3
Compound Schizandra Tablets	88	-	-
Ginseng and Venison Extract	86	-	-
Qing Re Jie Du Oral Liquid	30	-	-
Total	$ 73.79	$ 71.85	2.7

We expect the demand for our products will continue to increase as a result of gaining greater market acceptance, in particular the benefits of our Siberian Ginseng (Acanthopanax) Series in treating depression and nerve-regulation. Further, we believe many of our products will be listed in the reimbursement catalog of essential medicine for health insurance. In addition, we anticipate that we will be successful in becoming one of China's essential medicine suppliers as the PRC government moves forward with its Health Reforms in 2011.

Cost of Goods Sold

Our costs of goods sold consist primarily of direct and indirect manufacturing costs, including production overhead costs shipping and handling costs for the products sold. Cost of goods sold increased approximately $5.45 million, or 26.9%, from approximately $20.31 million in 2009 to approximately $25.77 million in 2010. This increase was primarily attributable to increase in products sold and increases in certain raw material prices such as sugar.

Although we anticipate that the cost of goods will increase due to inflationary price increases, we do not believe that such increases will be material for fiscal year 2010. We anticipate that beyond 2010, our price for raw materials and other production costs will continue to increase due to inflation. If our costs of goods increase, this may have a negative effect on our net income because due to market conditions and competitive conditions, we may not be able to increase the price for our products in proportion to the increase in costs of goods sold.

Operating and Administrative Expenses

Our total operating expenses consist primarily of sales and marketing expenses, general and administrative expenses and research and development expenses. Our total operating expenses increased by approximately $3.33 million, or 40.1%, from approximately $8.30 million in 2009 to approximately $11.62 million in 2010.

Sales and Marketing. Our sales and marketing expenses consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the Company's sales and marketing personnel. Sales and marketing expenses increased approximately $1.32 million, or 36.1%, from approximately $3.65 million for 2009 to approximately $4.97 million for 2010. This increase was primarily attributable to an increase of approximately $1.21 million, or 33.47%, in advertising expenses as the company intensified TV advertisements in Heilongjiang province for our botanic anti-depression series. Sales and marketing expenses are likely to increase as we continue expanding our distribution network throughout China and seek to increase our market share and awareness of our products.

General and Administrative. Our general and administrative expenses consist primarily of salary, travel, entertainment expenses, benefits, share-based compensation, and professional service fees. General and administrative expenses increased by approximately $1.50 million, or 70.7%, from approximately $2.11 million for 2009 to approximately $3.61 million for 2010. This increase was primarily attributable to increase of approximately $0.34 million, in warrants and options granted for investor relation services, an increase in audit fees of $0.16 million, or 109.02% in professional service fee for SOX 404 compliance, an increase in legal fees of $92,000, and an increase in amortization of approximately $0.44 million. General and administrative expenses are likely to increase as we continue to expand our production, sourcing capacity, and distribution capacity throughout China.

Research and Development. Our research and development expenses consist primarily of salary, equipment rental expenses, and Siberian Ginseng (Acanthopanax) cultivation related expenses. Research and development expenses increased approximately $0.51 million, or 20.3%, from approximately $2.53 million for 2009 to approximately $3.04 million for 2010. This increase was primarily attributable to development of Siberian Ginseng (Acanthopanax) cultivation and extraction of effective components of the Siberian Ginseng (Acanthopanax) plant, and development of other products, and research in cultivation techniques for Siberian Ginseng. Research and development expenses are likely to increase as we continue to devote our resources to development of new products and enhancement of our existing products.

Income from Operations

As a result of the foregoing, our income from operations increased by approximately $2.99 million, or 20.20%, from approximately $14.80 million to approximately $17.79 million in 2010.

Income Tax Expenses

We are subject to U.S. federal and state income taxes. Our subsidiary registered in the PRC is subject to enterprise income taxes. For the years of 2010 and 2009, our PRC subsidiary was granted a tax holiday and is entitled to full exemption from enterprise income taxes of 25%.

Cumulative Currency Translation Adjustments

Our principal country of operations is the PRC and our functional currency is the Renminbi, but our reporting currency is the U.S. dollar. All translation adjustments resulting from the translation of our financial statements into U.S. dollars are reported as cumulative currency translation adjustments. Our cumulative currency translation adjustments increased by approximately $1.33 million, from approximately $0.07 million in 2009 to approximately $1.40 million in 2010.

Liquidity and Capital Resources

We had retained earnings of approximately $53.46 million and $35.59 million as of October 31, 2010 and 2009, respectively. As of October 31, 2010, we had cash and cash equivalents of approximately $27.83 million and total current assets of approximately $50.52 million. As of October 31, 2010, we had a working capital surplus of approximately $47.13 million. We believe our cash and cash equivalents are adequate to satisfy our working capital needs and sustain our ongoing operations for the next twelve months.

Our summary cash flow information is as follows:

	Year ended October 31	
Net cash provided by (used in):	2010	2009
	($ in thousands)	
Operating activities	23,835	13,068
Investing activities	(4,699)	(16,221)
Financing activities	-	1,500

Net Cash Provided by Operating Activities
Net cash provided by operating activities increased approximately $10.77 million, from net cash provided by operating activities of approximately $13.07 million in 2009 to net cash provided by operating activities of approximately $23.84 million in 2010. This increase was primarily attributable to an increase in net income from operations of approximately $3.02 million, a increase in the level of decrease in trade receivables of approximately $6.14 million as a result of tightened credit terms given to customers, a decrease in the level of increase in inventories of approximately $0.82 million, and an decrease in value added tax payable of approximately $0.64 million.

Net Cash Used in Investing Activities
Net cash used in investing activities decreased approximately $11.52 million, from approximately $16.22 million in 2009 to approximately $4.70 million in 2009. This decrease was primarily attributable to decrease in payments made to purchase land use rights of approximately $10.73 million.

Net Cash Provided by Financing Activities
Net cash provided by financing activities decreased approximately $1.50 million, from $1.50 million in 2009 to approximately $0 thousand in 2010. This decrease was attributable to consideration received from Allied Merit International Investments, Inc. and Griffin Ventures Ltd for 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, and that no offering of our common stock was made during 2010.

Outstanding Long-Term Indebtedness

None

Expansion Strategy

We believe the market for pharmaceutical products in China is growing rapidly. Our growth strategy involves capturing as much of this market as possible during this rapid growth phase. To implement this strategy we plan to strengthen our dominant position in the Siberian Ginseng (Acanthopanax) market, expand our Siberian Ginseng (Acanthopanax) cultivating bases and improving the quality standards of Siberian Ginseng (Acanthopanax), and extend our distribution network through internal distribution channels reforms. Our expansion strategy will require the continued retention and investment of our earnings from operations and, we believe, additional funding from private debt and equity financing. In general, the commitment of funds to research and development, or acquisition or construction of plant and equipment tends to impair liquidity. However, we believe that because of the upward trend in our revenues in recent years, even if this trend levels off, our income from continuing operations coupled with such additional financing, if required, should provide sufficient liquidity to meet our expansion needs.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Capital commitments

We have capital commitments for purchase of land use right, property and equipment and resource rights from a related party, Stock Co, of approximately $10,718,154. We expect to fund this commitment with cash provided from operation.

Contractual Obligations

We lease office premise from a third party, Heilongjiang JiuSanYouZhi Co., Ltd. The lease is from May 1, 2007 to April 30, 2010, with average monthly rental payment of $10,527. We also lease property and plant from a related party, Stock Co. The lease is from April 30, 2009 to May 1, 2010, with average monthly rental payment of $52,246. The lease expired at May 1, 2010.

On October 12, 2009, the Company through its wholly own subsidiary, CBP China, entered into a Purchase Agreement with Stock Co, to acquire the land use right, property and plant, for a total consideration of $23,406,185. Pursuant to the Purchase Agreement, a payment of $14,670,000 was made to Stock Co, in October 2009 and $14,988,459 and $14,670,000 was recorded as deposits on the consolidated balance sheet as at October 31, 2010 and 2009, respectively. Pursuant to the Purchase Agreement, final payment of $8,417,726 is due by December 31, 2011, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as at October 31, 2010.

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 $5,750,263. Pursuant to the Purchase Agreement, a payment of $4,025,184 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $1,725,079 is due by December 20, 2012, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as at October 31, 2010.

Critical Accounting Policies

The consolidated financial statements include the financial statements of the Company and our subsidiaries. All transactions and balances among us and our subsidiaries have been eliminated upon consolidation.

Accounting Judgments and Estimates

Certain amounts included in or affecting our consolidated financial statements and related disclosures must be estimated, requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. These estimates and assumptions affect the amounts we report for assets and liabilities and our disclosure of contingent assets and liabilities at the date of our financial statements. We routinely evaluate these estimates, utilizing historical experience, consulting with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

We believe that certain accounting policies are of more significance in our consolidated financial statement preparation process than others, which policies are discussed below. See also Note 2 to the consolidated financial statements for a summary of our principal accounting policies.

Estimates of allowances for bad debts – We must periodically review our trade and other receivables to determine if all are collectible or whether an allowance is required for possible uncollectible balances.

Estimate of the useful lives of property and equipment – We must estimate the useful lives and proper salvage values of our property and equipment. We must also review property and equipment for possible impairment.

Estimate of the useful lives of intangible assets – We must estimate the useful lives of our intangible assets. We must also review intangible assets for possible impairment.

Inventory – We must determine whether we have any obsolete or impaired inventory.

Revenue recognition – Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are shipped to customers and the title has passed.

Please refer to the notes to the financial statements included elsewhere in this filing for a more complete listing of all of our critical accounting policies.

New Accounting Pronouncements

Accounting Standards Update ("ASU") ASU No. 2009-05 (ASC Topic 820), which amends Fair Value Measurements and Disclosures - Overall, ASU No. 2009-08, Earnings per Share, ASU No. 2009-12 (ASC Topic 820), Investments in Certain Entities That Calculate Net Asset Value per Share, and various other ASU's No. 2009-2 through ASU No. 2009-15 which contain technical corrections to existing guidance or affect guidance to specialized industries or entities were recently issued. These updates have no current applicability to the Company, or their effect on the financial statements would not have been significant.

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-20, Receivables – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ("ASU No. 2010-20"). ASU No. 2010-20 will require a company to provide more information about the credit quality of its financing receivables in the disclosures to the financial statements, including aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on both how a company develops its allowance for credit losses and it manages its credit exposure. ASU No. 2010-20 is effective for interim and annual reporting periods after December 15, 2010. The adoption of ASU 2010-20 is not expected to have a material effect on our financial statements.

In May, 2010, the FASB issued ASU 2010-19¸ "Foreign Currency" (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (SEC Update). The purpose of this Update is to codify the SEC Staff Announcement made at the March 18, 2010 meeting of the FASB Emerging Issues Task Force (EITF) by the SEC Observer to the EITF. The Staff Announcement provides the SEC staff's view on certain foreign currency issues related to investments in Venezuela. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations, or cash flows of the Company.

In April 2010, the FASB issued Accounting Standards Update, 2010-17, Revenue Recognition—Milestone Method (Topic 605): "Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task Force." This is an update regarding the milestone method of revenue recognition. The scope of this update is limited to arrangements that include milestones relating to research or development deliverables. The update specifies criteria that must be met for a vendor to recognize consideration that is contingent upon achievement of a substantive milestone in its entirety in the period in which the milestone is achieved. The criteria apply to milestones in arrangements within the scope of this update regardless of whether the arrangement is determined to have single or multiple deliverables or units of accounting. The update will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early application is permitted. Companies can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. This update is not expected to have a material impact on the Company's financial statements.

In March 2010, the FASB issued Accounting Standards Update, 2010-13, Compensation—Stock Compensation (Topic 718): "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades—a consensus of the FASB Emerging Issues Task Force." This is an update regarding the effect of denominating the exercise price of a share-based payment awards in the currency of the market in which the underlying equity securities trades and that currency is different from (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee. The update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should be considered an equity award assuming all other criteria for equity classification are met. The update will be effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected entities will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. This update is not expected to have a material impact on the Company's financial statements.

In March, 2010, the FASB issued Accounting Standards Update, 2010-11, Derivatives and Hedging (Topic 815): "Scope Exception Related to Embedded Credit Derivatives." This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This update also has transition provisions, which permit entities to make a special one-time election to apply the fair value option to any investment in a beneficial interest in securitized financial assets, regardless of whether such investments contain embedded derivative features. This update is effective on the first day of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of any fiscal quarter beginning after March 5, 2010. This update is not expected to have a material impact on the Company's financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

Financial Statements

Please see the accompanying Financial Statements attached hereto beginning on page F-1.

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

(a) On January 9, 2009, we dismissed Schwartz Levitsky Feldman, LLP ("Schwartz") as our principal independent accountant. Schwartz issued an Independent Auditor's Report for the fiscal year ended October 31, 2007 and the six months ended October 31, 2006. Schwartz also reviewed the interim financial statements of our wholly-owned subsidiary, Harbin Renhuang Pharmaceutical Stock Co., Ltd, a company incorporated in the People's Republic of China, for the six months ended April 30, 2006.

During the fiscal year ended October 31, 2007 and six months ended October 31, 2006, and through January 9, 2009, (i) there were no disagreements between us and Schwartz on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Schwartz would have caused Schwartz to make reference to the matter in its reports on our financial statements, and (ii) Schwartz's reports on our financial statements did not contain an adverse opinion or disclaimer of opinion, nor were they modified as to audit scope or accounting principles. During the fiscal year ended October 31, 2007 and six months ended October 31, 2006 and through January 9, 2009, there were no reportable events as that term is described in Item 304(a)(1)(iv) of Regulation S-K.

On January 9, 2009, our board of directors appointed MSPC, Certified Public Accountants and Advisors a Professional Corporation ("MSPC") as the principal independent accountant. Our board of directors participated in and approved the decision to change principal independent accountant.

(b) On January 13, 2010, we dismissed MSPC as our independent registered public accounting firm.

For fiscal year ended October 31, 2008, MSPC issued an audit report on our consolidated balance sheet as of October 31, 2008, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended. The report of MSPC on the foregoing financial statements did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to any uncertainty, audit scope or accounting

principles.

During the fiscal year ended October 31, 2008 and through January 13, 2010, (i) there were no disagreements between us and MSPC on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of MSPC would have caused MSPC to make reference to the subject matter of disagreement in connection with its reports on our financial statements, and (ii) there were no reportable events as that term is described in Item 304(a)(1)(iv) of Regulation S-K.

On January 13, 2010, we engaged Windes & McClaughry Accountancy Corporation ("W&M") as our new independent registered public accounting firm. Our board of directors recommended, authorized, and approved the decision to dismiss MSPC as our independent registered public accounting firm and to engage W&M to serve as our independent registered public accounting firm.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of October 31, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act"). Accordingly, based upon that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and regulations. Based on the management's assessment and review of our financial statements and results for the year ended October 31, 2010, we have not established effective internal controls.

Management's Report on Internal Control Over Financial Reporting

Management, under the supervision of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d(f) under the Exchange Act) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States, or GAAP. Internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, (c) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the board of directors, and (d) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis by our internal controls. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the registrant's financial reporting. A "deficiency" in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

During our review of our financial statements and results for the year ended October 31, 2010, our management, under the supervision and with the participation of our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial reporting. During the course of auditing, the auditors has made adjustment entries to correct errors in accounts including intangible assets, revenue, general and administration expenses and cost of goods sold. The management considers the error corrections to be signs of deficiencies or material weaknesses in financial reporting pertaining to a lack of sufficient qualified accounting and financing personnel with an appropriate level of US GAAP knowledge and experience appropriate to its financial reporting requirements.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act that permit us, as a smaller reporting company, permit us to provide only management's report in this Annual Report.

Remediation Plan

We are devoting significant resources to remediating, improving and documenting our disclosure controls and procedures and internal controls and procedures, including hiring a new chief financial officer with US GAAP and SEC reporting experience, additional accounting, and finance staff, and consultants to assist with these functions, and implementing additional financial and management controls, reporting systems and procedures. These measures may not ensure the adequacy of our internal controls over our financial processes and reporting in the future.

On December 14, 2010, we hired Mr. Weiqiu Dong as the Company's new Chief Financial Officer. Mr. Dong's career spans over 10 years with key positions in finance, audit, investment advisory and tax planning, and has served as an investment manager with Hatitac Inc, as an advisor to publicly and privately held institutional clients. From 1998 to 2000, he worked as a senior audit manager with TianHua Accounting Firm. Mr. Dong holds a Bachelor of Engineering from North-Western Polytechnic University in China and is a Certified Financial Planner in Canada.

Changes in Internal Controls

Since the third quarter of our 2009 fiscal year, we have begun the implementation of remedial measures including hiring of a new chief financial officer in January 2010 (who resigned on August 3, 2010 for personal reason and was replaced by an interim chief financial officer. As discussed above, we subsequently hired Mr. Weiqiu Dong as our new chief financial officer), adding additional staff, appointing three independent Directors to our board of directors, engaging consultants to advise management on the preparation of Sarbanes-Oxley Section 404 compliance with internal controls over financial reporting for fiscal year 2010, providing relevant training to our staff, implementing more rigorous policies and procedures relating to period-end financial reporting and other key processes, strengthening key controls such as journal-entry approval, reconciliation procedures and maintaining relevant supporting documentation. We expect to continue to implement additional financial and management controls and procedures going forward. As results of these measures and until we have completed the remediation process, there has been and will be changes and further improvement to our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors, Executive Officers and Significant Employees

The following table sets forth the name and age of each member of our current members of our board of directors and/or executive officers, the positions and offices held by each of them with us, and the period during which they have served in their respective position. Directors serve until the election and qualification of their successors. There was no arrangement or understanding between any executive officer or director and any other person pursuant to which any person was elected as an executive officer or director. There are no family relationships among our officers, directors, or persons nominated for such positions.

Name	Age	Position	Period Served
Shaoming Li	48	Chairman of the board of directors, Chief Executive Officer, and President	2006-present
Weiqiu Dong	40	Chief Financial Officer	2010-present
Xiaoheng Shao	53	Independent Director, Chairman of Audit Committee	2010-present
Bingchun Wu	77	Independent Director, Chairman of Compensation Committee	2010-present
Changxiong Sun	65	Independent Director, Chairman of Nominations Committee	2010-present
Dianjun Pi	56	Director	2010-present
Jiang He	39	Secretary	2006-present

Shaoming Li. Shaoming Li has served as the Chairman of the board of directors, Chief Executive Officer and President since founding Harbin Renhuang Pharmaceutical Co. Ltd. in 2006. Mr. Li has more than 20 years experience in the pharmaceutical and finance industry. Mr. Li has been the Chairman and Chief Executive Officer of Harbin Renhuang Pharmaceutical Stock Co. Ltd since 1996. From 1984 to 1996, Mr. Li served as Vice Chairman of Shenzhen Health Pharmaceutical Co. Ltd, a company dedicated to drug research, production, and sales. Mr. Li is a professor at Harbin Business University and Northeastern Agriculture University. Mr. Li also served as Vice Chairman of Heilongjiang Provincial Chinese Traditional Medicine Association and Heilongjiang Provincial Medicine Association. Mr. Li graduated from Central University of Finance and Economics in Beijing, China with a degree in finance.

Weiqiu Dong. Weiqiu Dong was appointed to the position of Chief Financial Officer effective December 14, 2010. Prior to joining us, Mr. Dong had been the investment manager with Hatitac Inc. for 10 years, and senior audit manager with TianHua Accounting firm for 3 years. Mr. Dong holds a Bachelor of Engineering from North-Western Polytechnic University in China and is a Certified Financial Planner in Canada.

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Xiaoheng Shao. Xiaoheng Shao was appointed to our board of directors in April 2010. Mr. Shao currently serves as (i) independent director and chairman of the audit committee of: Xueda Education Group, a Chinese personalized tutoring services company listed on the NYSE; American Dairy, Inc., a Chinese dairy products company listed on NYSE; China Biologic Products, Inc., a biopharmaceutical company listed on NASDAQ; China Recycling Energy Corporation, an energy recycling system design company listed on NASDAQ and Yongye International, Inc., a Chinese agricultural company listed on NASDAQ; (ii) independent director of AsiaInfo-Linkage, Inc., a Chinese telecom software solutions provider listed on NASDAQ and China Medicine Corporation, a distributor and developer of medicine listed on bulletin board; (iii) independent director and chairman of the nominating committee of Agria Corporation, a Chinese agricultural company listed on NYSE; and (iv) independent director and chairman of the audit and compensation committees of China Nuokang Bio-Pharmaceutical, Inc., a biopharmaceutical company listed on NASDAQ. He served as the chief financial officer of Trina Solar Limited from 2006 to 2008. In addition, Mr. Shao served from 2004 to 2006 as the chief financial officer of ChinaEdu Corporation, an educational service provider, and of Watchdata Technologies Ltd., a Chinese security software company. Prior to that, Mr. Shao worked at Deloitte Touche Tohmatsu CPA Ltd. for approximately a decade. Mr. Shao received his master's degree in health care administration from the University of California at Los Angeles in 1988 and his bachelor's degree in art from East China Normal University in 1982. Mr. Shao is a member of the American Institute of Certified Public Accountants.

Bingchun Wu. Bingchun Wu was appointed to our board of directors in April 2010. Mr. Wu is Chairman of the Compensation Committee of the board of directors. Since 2006, Mr. Wu has served as the Team Leader of the Chinese Medicine Research Group at the Heilongjiang Province Chinese Medicine Research Institute. From 2006 to 2007, Mr. Wu served as the Chief Expert of the Chinese Medicine Group of the Innovation System of Heilongjiang Province Science and Technology Department. From 2004 to 2006, Mr. Wu served as the Director of the Chinese Pharmacology Research Office and the Head of Chinese Medicine Research at the Heilongjiang Province Science and Technology Department. Mr. Wu has a degree in Pharmaceutical Science from Shenyang Medicine University and a bachelor's degree in financial management from Harbin University of Commerce.

Changxiong Sun. Changxiong Sun was appointed to our board of directors on April 2010. Mr. Sun is Chairman of the Nominations Committee of the board of directors. Since 2005, Mr. Sun has served as a Professor and Doctoral Tutor at the Management College of Harbin Institute of Technology. Since 2005 Mr. Sun has served as the Executive Director of the Overseas Development and Layout Association of China Industry, and as the Director of the Heilongjiang Dongbeiya Economy and Technology Committee. From 2004 to 2005, Mr. Sun served as the Vice Secretary General of the Harbin Municipal Government Committee. From 1999 to 2004, Mr. Sun served as the Director of the Harbin Finance Management Department. Mr. Sun has a degree in management science and engineering from the Harbin Institute of Technology.

Dianjun Pi. Dianjun Pi was appointed to the board of directors on April 27, 2010. Since 2004, Mr. Pi has served as our Executive Manager. From 2003 to 2004, Mr. Pi served as the Assistant General Manager of Sunflower Pharmaceuticals. From 1992 to 2003, Mr. Pi served as the Vice General Manager of China Resources Snow Breweries Co., Ltd. Mr. Pi has a post graduate degree from Renmin University of China.

Jiang He. Jiang He was hired as special assistant to the President in 2004 and has served as our Secretary since 2006. In this role he is in charge of asset management, risk and crisis management, and internal audit. From 2001 to 2004, prior to joining us, he was the Vice General Manager of Heilongjiang Tiansheng High Tech Co. Ltd. In this position Mr. He was primarily responsible for managing projects, including, but not limited to, Clean Coal Projects. He received his master's degree in industrial economics in July, 2004, and his bachelor's degree in management from Jilin University in 1992.

Our Board of Directors

Our board of directors is comprised of a majority of independent directors as defined under NYSE Amex listing standards. Messrs. Shao, Sun and Wu satisfy the independence requirements established by Section 803(A)(2) of the NYSE AMEX Rules. The board of directors has determined that none of the designated independent directors have any relationship that, under NYSE Amex rules, would preclude their service on any of the standing committees of the board of directors. In making its determination, the board considered transactions and relationships between each director or his immediate family and the Company and its subsidiaries.

We have the following board committees: Audit Committee, Compensation Committee and Nominations Committee. Each Board Committee consists entirely of independent and non-employee directors.

Board Leadership Board's Role in Risk Oversight

Our chairman of the board of director and chief executive officer is Mr. Li. The majority of directors are independent and our Audit Committee, Compensation Committee and Nominating Committee are comprised entirely of independent directors. Audit Committee is responsible for oversight of risks relating to our accounting matters, financial reporting and legal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets regularly with management, our internal auditor and independent registered public accounting firm. The Compensation Committee is responsible for overseeing risks relating to employment policies and our policies on structuring compensation programs. To satisfy these oversight responsibilities, the Compensation Committee meets regularly with management to understand the implications of compensation decisions, and particularly risks our compensation policies pose to our finances, human resources and stockholders.

Audit Committee

Our board of directors has established an Audit Committee in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") which currently consists of the following independent directors: Messrs. Shao, Sun and Wu. The primary purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the function of the Audit Committee includes retaining our independent auditors, reviewing their independence standards, reviewing and approving the planned scope of our annual audit, reviewing and approving any fee arrangements with our auditors, overseeing their audit work, reviewing and pre-approving any non-audit services that may be performed by them, reviewing the adequacy of accounting and financial controls, reviewing our critical accounting policies and reviewing and approving any related party transactions.

Audit Committee Financial Expert

In April, 2010, Mr. Xiaoheng Shao was appointed as the chairman of audit committee of our board of directors. Mr. Shao currently serves as chairman of audit committee as an audit committee expert of a number of NYSE or NASDAQ listed companies. He also have 10 years experience working with Deloitte Touche Tohmatsu CPA Ltd. Mr. Shao received his master's degree in health care administration from the University of California at Los Angeles in 1988 and his bachelor's degree in art from East China Normal University in 1982. Mr. Shao is a member of the American Institute of Certified Public Accountants. Mr. Shao's extensive finance, industry, and executive experience provides our Board with a valuable resource in understanding company operations and evaluating strategic opportunities.

Other Board Committees

Our board of directors has two additional board committees: the Compensation Committee and the Nominations Committee. The members of our Compensation Committee and Nominations Committee are comprised of the following independent directors: Messrs. Sun, Wu and Shao.

Nominations to the Board of Directors

There were no material changes to the procedures by which security holders may recommend nominees to our board of directors.

Code of Ethics

We have adopted a Code of Ethics. It is available on our website, located at http://www.renhuang.com

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission (hereinafter referred to as the "Commission") initial statements of beneficial ownership, reports of changes in ownership and Annual Reports concerning their ownership, of Common Stock and other of our equity securities on Forms 3, 4, and 5, respectively. Executive officers, directors and greater than 10% shareholders are required by Commission regulations to furnish us with copies of all Section 16(a) reports they file.

To the best of our knowledge, based solely on information publicly available, during the fiscal year ended October 31, 2010, all of our directors and executive officers complied with Section 16(a) filing requirements except for late Form 3 filings by, Mr. Xiaoheng Shao and Ms. Yan Yi Chen.

Involvement in Certain Legal Proceedings

None of our directors, executive officers or control persons has been involved in any of the events described in Rule 401(f) of Regulation S-K in the last 10 years.

Item 11. Executive Compensation

Summary Compensation Table

Our Compensation Committee, which currently consists of Messrs. Shaoming Li and Bingchun Wu, assists our board of directors in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. With the responsibility of establishing, implementing and monitoring our executive compensation program philosophy and practices, our Compensation Committee seeks to ensure that the total compensation paid to our directors and executive officers is fair and competitive.

The following table sets forth information for the fiscal years ended October 31, 2010 and 2009, regarding all forms of compensation received by all persons who served as our Principal Executive Officer, and Principal Financial Officer during the fiscal year ended October 31, 2010. We did not have any executive officer who received more than $100,000 for services during the fiscal year ended October 31, 2010.

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus (d)	Stock Awards (e)(1)	Option Awards (f)(1)	All Other Compensation (g)	Total (h)
Shaoming Li, Chairman of Board of Directors, Chief Executive Officer, and President	2010	$ 31,250	$ -0-	$ -0-	$ -0-	$ -0-	$ 31,250
	2009	$ 31,250	$ -0-	$ -0-	$ -0-	$ -0-	$ 31,250
Xiaoying Lu, Former Interim Chief Financial Officer(2)	2010	$ 7,051	$ -0-	$ -0-	$ -0-	$ -0-	$ 7,051
	2009	$ 7,051	$ -0-	$ -0-	$ -0-	$ -0-	$ 7,051
Yan Yi Chen, Former Interim Chief Financial Officer(3)	2010	$ 33,590	$ -0-	$ -0-	$ -0-(4)	$ -0-	$ 32,242
	2009	$ -	$ -	$ -	$ -	$ -	$ -
Wang Zuoliang Former Interim Chief Financial Officer(5)	2010	$ 4,500	$ -0-	$ -0-	$ -0-	$ -0-	$ 4,500
	2009	$ 4,500	$ -0-	$ -0-	$ -0-	$ -0-	$ 4,500