China Botanic Pharmaceutical
Form 10-Q
September 19, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 31, 2012

o **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.)*

Level 11, Changjiang International Building

No. 28, Changjiang Road, Nangang District, Harbin

Heilongjiang Province, China 150090

(Address of principal executive offices)

86-451-5762-03787

(Registrant's Telephone Number, Including Area Code)

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

x Yes o 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).

x Yes o No

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (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).

o Yes x No

As of September 4, 2012, there were 37,239,536 shares of the registrant's $0.001 par value common stock issued and outstanding.

TABLE OF CONTENTS

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

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

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

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	Note	July 31, 2012 (Unaudited)	October 31, 2011 (Audited)
ASSETS			
Current assets			
Cash		$41,308,177	$ 15,283,583
Trade receivables, net	5	17,129,544	21,548,325
Inventory, net	7	15,301,659	7,416,720
Other receivables, net	6	180,211	6,823,410
Total current assets		73,919,591	51,072,038
Property and equipment, net	8	4,254,975	1,778,984
Intangible assets, net	9	16,739,514	17,146,700
Construction-in-progress	10	1,952,353	1,937,103
Deposits for properties	12	33,818,763	37,822,113
Deferred tax assets	13	140,322	139,226
Total assets		$130,825,518	$ 109,896,164
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		$1,785,043	$ 2,098,256
Tax payable		2,358,644	5,976,417
Accrued employee benefits	16	2,710,301	2,131,565
Warrant Liabilities	17	1,086	23,443
Total liabilities		6,855,074	10,229,681
Shareholders' equity			
Preferred stock (no par value, 1,000,000 shares authorized; none issued and outstanding as of July 31, 2012 and October 31, 2011,respectively)	18	-	-
Common stock ($0.001 par value, 100,000,000 shares authorized; 37,239,536 issued and outstanding as of July 31, 2012 and October 31, 2011, respectively)	18	37,240	37,240
Additional paid-in capital		8,332,212	7,763,987
Common stock warrants	19	0	496,732
Reserves	20	3,372,697	3,372,697

Accumulated other comprehensive income	9,440,272	8,620,695
Retained earnings	102,788,023	79,375,132
Total shareholders' equity	123,970,444	99,666,483
Total liabilities and shareholders' equity	$130,825,518	$ 109,896,164

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

1

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Note	For the three months ended July 31,		For the nine months ended July 31,	
		2012	2011	2012	2011
Sales, net		$15,076,663	12,376,352	66,239,139	53,875,101
Cost of goods sold		6,190,688	4,908,939	27,399,579	21,450,356
Gross profit		8,885,975	7,467,413	38,839,560	32,424,745
Operating and administrative expenses:					
Sales and marketing		1,832,351	1,559,863	5,247,122	4,430,053
General and administrative		1,365,805	1,233,288	3,221,192	2,744,932
Research and development		1,900,363	1,686,677	2,928,875	2,585,863
Total operating expenses		5,098,519	4,479,828	11,397,189	9,760,848
Income from operations		3,787,456	2,987,585	27,442,371	22,663,897
Other income:					
Interest income, net		44,153	34,144	109,079	81,286
Income before income tax expenses		3,831,609	3,021,729	27,551,450	22,745,183
Income tax expenses	14	576,071	501,884	4,138,559	2,195,987
Net income		$3,255,538	2,519,845	23,412,891	20,549,196
Other comprehensive income:					
Unrealized currency translation adjustments		143,931	828,537	819,577	3,004,411
Total comprehensive income		3,399,469	3,348,382	24,232,468	23,553,607
Earnings per common stock- Basic	15	$0.09	0.07	0.63	0.55
Earnings per common stock - Diluted		$0.09	0.07	0.63	0.54
Weighted average common stock outstanding	15				
Basic		37,239,536	37,239,536	37,239,536	37,239,536
Diluted		37,239,536	37,473,911	37,239,536	37,749,587

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

2

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Note	For the nine months ended July 31, 2012	2011
Cash flows from operating activities:			
Net income		$ 23,412,891	$ 20,549,196
Adjustments to reconcile net income to operating activities:			
Depreciation		367,173	286,379
Amortization		541,380	368,782
Share compensation		71,493	96,981
Noncash rental expenses		760,652	572,065
Warrants liability reevaluation		(22,357)	(305,797)
Deferred tax assets		-	(135,409)
Changes in assets and liabilities:			
Decrease in trade receivables, net		4,581,688	6,891,867
(Increase) in due from related parties		-	(98,049)
(Increase) in inventory, net		(7,815,061)	(3,815,951)
Decrease (Increase) in other receivables, net		6,687,086	(115,187)
(Decrease) in accounts payable		(329,248)	(159,845)
(Decrease) Increase in tax payable		(3,659,443)	1,898,697
Increase in accrued employee benefits		561,130	391,128
Net cash provided by operating activities		25,157,384	26,424,857
Cash flows from investing activities:			
Deposits for land use right, property and patents		(908,396)	(15,255,064)
Refunds from patents deposit		2,525,651	-
Increase in construction-in-progress		-	(1,884,000)
Purchase of property and equipment		(908,396)	(5,862)
Net cash provided by (used in) investing activities		708,859	(17,144,926)
Effect of exchange rate changes on cash		158,351	1,215,171
Net increase in cash		26,024,594	10,495,102
Cash, beginning of year		15,283,583	27,826,142
Cash, end of year		$ 41,308,177	$ 38,321,244
Supplemental disclosure of cash flow information:			
Noncash investing activities in office building	8	1,917,149	-
Cash paid during the year for income taxes		8,595,354	-
Interest paid during the year		-	-

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

3

CHINA BOTANIC PHARMACEUTICAL INC.

Notes to Unaudited Condensed Consolidated Financial Statements

July 31, 2012 and 2011

NOTE 1 – DESCRIPTION OF THE BUSINESS

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

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

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a. Basis of presentation of financial statements

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

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

b. Principles of consolidation

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

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

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

c. Use of estimates

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

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

d. Foreign currency translation

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

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

As of July 31, 2012 and October 31, 2011, the exchange rates were RMB 6.33 and RMB 6.38, respectively. For the three months ended July 31, 2012 and 2011, the average exchange rates were RMB 6.33 and RMB 6.48, and the net income translation adjustments totaled $143,931 and $828,537, respectively. For the nine months ended July 31, 2012 and 2011, the average exchange rates were RMB 6.34 and RMB 6.56, and the net income translation adjustments totaled $819,577 and $3,004,411, respectively.

e. Cash

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

f. Trade receivables, net

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

g. Inventory, net

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

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

h. Property and equipment, net

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

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

Machinery and equipment	10 years
Office equipment and furnishings	5-10 years
Motor vehicles	5-10 years
Office buildings	30 years

i. Intangible assets, net

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

j. Accounting for the impairment of long-lived assets

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

k. Fair value of financial instruments

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

l. Fair value measurements

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

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

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

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

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

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

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

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

m. Revenue recognition

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

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

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

As of July 31, 2012 and October 31, 2011, the Company has accrued $1,225,303 and $1,681,721, respectively, for sales rebates, which offset the balance of trade receivables. For the three months ended July 31, 2012 and 2011, the Company has deducted sales rebates in the amount of $1,408,448 and $790,792, respectively, from sales. For the nine months ended July 31, 2012 and 2011, the Company has deducted sales rebates in the amount of $6,061,247 and $4,995,396, respectively, from sales.

n. Sales returns and allowances

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

o. Cost of goods sold

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

p. Sales and marketing

Sales and marketing costs consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the Company's sales and marketing personnel. Sales and marketing expenses are expensed as incurred and amounted to $1,832,351 and $1,559,863 during the three months ended July 31, 2012 and 2011, respectively, and $5,247,122 and $4,430,053 during the nine months ended July 31, 2012 and 2011, respectively.

q. Research and development

Research and development ("R&D") consists primarily of cost of materials and overhead expenses incurred by research and development staff. Research and development costs are expensed as incurred. Research and development expenses amounted to $1,900,363 and $1,686,677 during the three months ended July 31, 2012 and 2011, respectively, and $2,928,875 and $2,585,863 for the nine months ended July 31, 2012 and 2011, respectively.

r. Employee benefit costs

According to the PRC regulations on pension, a company contributes to a defined contribution retirement plan organized by municipal government in the province in which the CBP China was registered and all qualified employees are eligible to participate in the plan. Contributions to the plan are calculated at 22% of the employees' salaries above a fixed threshold amount.

s. Share-based compensation

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

t. Taxation

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

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

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

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

Generally, years beginning after fiscal 2007, the Company is open to examination by PRC taxing authorities. In the United States, we are open to examination from 2008 onward.

Enterprise income tax

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

CBP China secured preferential tax treatment in the jurisdiction where it conducts its manufacturing activity, where it was granted tax exemption of 10% from the government, for being a new and high-technology enterprise. The Company currently pays 15% enterprise income tax.

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

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

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

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

Value added tax

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

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

u. Comprehensive Income

Total comprehensive income is defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income equals net income plus or minus adjustments for currency translation. Total comprehensive income represents the activity for a period net of related tax and was $3,399,469 and $3,348,382 for the three months ended July 31, 2012 and 2011, respectively, and $24,232,468 and $23,553,607 for the nine months ended July 31, 2012 and 2011, respectively.

While total comprehensive income is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income as of the balance sheet date. For the Company, AOCI is primarily the cumulative balance related to the currency adjustments and increased overall equity by $9,440,272 and $8,620,695 as of July 31, 2012 and October 31, 2011, respectively.

v. Earnings per share

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

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Earnings per share, assuming dilution, is based on the weighted-average number of shares of common stock outstanding adjusted for the effects of common stock that may be issued as a result of the following types of potentially dilutive instruments:

- warrants,
- employee stock options, and
- other equity awards, which include long-term incentive awards.

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

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

w. Warrants

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

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

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

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU No. 2011-10, "Property, Plant and Equipment (Topic 360): Derecognition of in Substance Real Estate – a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). The ASU No. 2011-10 requires that a parent deconsolidate a subsidiary if the parent ceases to have a controlling financial interest in the subsidiary (except for a sale of in substance real estate). However, in situations other than a sale of in substance real estate, differing views exist in practice on whether the parent of an in substance real estate subsidiary must satisfy the criteria in Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales, in order to derecognize the in substance real estate. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's condensed consolidated financial statements.

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

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

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform a quantitative impairment test for that asset. Entities are required to test indefinite-lived assets for impairment at least annually, and more frequently if indicators of impairment exist. This ASU will be effective for the Company on February 3, 2013, with early adoption permitted. The adoption of this ASU is not expected to have a significant effect on our results of operations or financial position.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company’s present or future consolidated financial statements.

NOTE 4 - CONCENTRATIONS OF BUSINESS AND CREDIT RISK

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

(1) Cash

The Company maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. Cash balance held in PRC bank accounts amounted to $41,308,177 and $15,283,583, as of July 31, 2012 and October 31, 2011, respectively. No cash balances were restricted as of July 31, 2012 and October 31, 2011.

12

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

(2) Sales and trade receivables

The Company provides credit in the normal course of business and substantially all customers are located in the PRC. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. Prior to deduction of sales rebates, there is one individual customer accounted for 12% of total sales and there is none accounted for over 10% of total sales during the three months ended July 31, 2012 and 2011, respectively. This individual customer is accounted for 12% of accounting receivables as of July 31, 2012. There is one individual customer accounted for 10% of total sales and there is none accounted for over 10% of total sales during nine months ended July 31, 2012 and 2011, respectively. This individual customer is accounted for 12% of account receivables as of July 31, 2012.

The Company's products are sold throughout the PRC. For three months ended July 31, 2012 and 2011, botanical anti-depression and nerve-regulation products accounted for 71% and 70%, respectively, of total sales. For nine months ended July 31, 2012 and 2011, botanical anti-depression and nerve-regulation products accounted for 68% and 68%, respectively, of total sales.

(3) Foreign currency

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

(4) Dividends

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

(5) Price control

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

(6) Cost of goods sold

Cost of goods sold is subject to price fluctuations due to various factors beyond the Company’s control, including, among other pertinent factors, inflation and changes in governmental regulations and programs. The Company expects cost of goods sold will continue to fluctuate and be affected by inflation in the future. The Company’s raw materials are purchased from various independent suppliers. The Company does have long term relationships with major suppliers to ensure quality material, good service with competitive prices. The Company maintains an updated qualified supplier list to secure the Company’s material needs in case of changing situation from any one of our major suppliers. There are three and four individual suppliers of over 10% of total purchasing accounted for 59% and 68% of total purchasing during the three months ended July 31, 2012 and 2011, respectively. These three and four individual suppliers are accounted for 87% and 100% of trade payable as of July 31, 2012 and October 31, 2011, respectively. There are three and two individual suppliers of over 10% of total purchasing accounted for 43% and 36% of total purchasing during nine months ended July 31, 2012 and 2011, respectively. These three and two individual suppliers are accounted for 87% and 75% of trade payable as of July 31, 2012 and October 31, 2011.

NOTE 5 - TRADE RECEIVABLES, NET

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

	July 31, 2012 US$	October 31, 2011 US$
Trade receivables	18,832,775	23,704,241
Less: Sales rebates	(1,225,303)	(1,681,721)
Less: Allowance for doubtful accounts	(477,928)	(474,195)
Trade receivables, net	17,129,544	21,548,325

NOTE 6 - OTHER RECEIVABLES, NET

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

	July 31, 2012 US$	October 31, 2011 US$
Advanced Siberian Ginseng payment	-	6,631,157
Other receivables	568,545	577,554
Less: Allowance for doubtful accounts	(388,334)	(385,301)
Other receivables, net	180,211	6,823,410

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

NOTE 7 - INVENTORY, NET

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

	July 31, 2012 US$	October 31, 2011 US$
Raw materials	1,443,678	946,600
Packaging materials	3,782,804	1,896,169
Work-in-progress	8,740,389	3,205,862
Finished goods	1,404,006	1,436,767
Less: Inventory provision	(69,218)	(68,678)
Inventory, net	15,301,659	7,416,720

NOTE 8 - PROPERTY AND EQUIPMENT, NET

On April 10, 2010, CBP China entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two office floors for a total consideration of $6,064,878. Pursuant to the Purchase Agreement, a payment of $4,245,415 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $1,819,463was paid in May 2012. The title of one office floor was transferred in May 2012, the Company reclassified $2,829,699 from deposits to property and equipment and started depreciation over the estimated useful life of the asset. The other office floor is still in the process of title transfer.

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

	July 31, 2012 US$	October 31, 2011 US$
Machinery and equipment	3,739,492	3,710,282
Office Building	2,829,699	-
Office equipment and furnishings	66,874	66,352
Motor vehicles	57,206	56,759
Total:	6,693,271	3,833,393
Less: Accumulated depreciation	(2,438,296)	(2,054,409)
Net book value	4,254,975	1,778,984

The depreciation expense incurred and recognized on our condensed consolidated statements of income and comprehensive income during the three and nine months ended July 31, 2012 and 2011 were as follow:

	For the three months ended July 31,	
	2012 US$	2011 US$
Depreciation expenses in general and administrative	75,251	5,365
Depreciation expenses in cost of goods sold	94,418	92,283
Total depreciation expenses	169,669	97,648

	For the nine months ended July 31,	
	2012 US$	2011 US$
Depreciation expenses in general and administrative	84,185	12,899
Depreciation expenses in cost of goods sold	282,988	273,480
Total depreciation expenses	367,173	286,379

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

NOTE 9 - INTANGIBLE ASSETS, NET

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

	July 31, 2012 US$	October 31, 2011 US$
YiChun undergrowth resources	15,808,527	15,685,044
Product patents	2,529,364	2,509,607
Total	18,337,891	18,194,651
Less: Accumulated amortization	(1,598,377)	(1,047,951)
Intangible assets, net	16,739,514	17,146,700

15

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

	For the three months ended July 31,	
	2012	2011
	US$	US$
Amortization Expense:	180,631	167,776

	For the nine months ended July 31,	
	2012	2011
	US$	US$
Amortization Expense:	541,380	368,782

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

Year	Amortization Expense
2012 remaining	$ 180,631
2013	722,524
2014	722,524
2015	722,524
2016	722,524
2017 and thereafter	13,668,787
Total	$ 16,739,514

NOTE 10 - CONSTRUCTION-IN-PROGRESS

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

	July 31, 2012	October 31, 2011
	US$	US$
Ah City Pharmaceutical Plant phase two	1,952,353	1,937,103

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

NOTE 11 - RELATED PARTY TRANSACTIONS

On October 12, 2009, we entered into a purchase agreement with Renhuang Stock, which Mr. Shaoming Li, our chairman, chief executive officer and president, is also chairman and a 50% shareholder of Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock"), to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,293,644. Pursuant to the purchase agreement, a payment of $15,808,527 was made to Renhuang Stock in October 2009 and a payment of $7,904,264 was made to Renhuang Stock in January 2011, with a final payment of $1,580,853 due by the date of receiving all the related government transfer documents, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as of July 31, 2012. The Company recorded the payments under the Deposits for properties on condensed consolidated balance sheet.

Before the transaction is completed, the Company is deemed to lease property and plant from Renhuang Stock. Rental expenses related to this lease, incurred and expensed to condensed consolidated statements of income and comprehensive income, which were forgiven rental expenses and recognized to account for the rental exemption pursuant to the purchase agreement, and the deposits for the property were reduced accordingly. Under the purchase terms, the Company does not pay rent to Renhuang Stock for the use of the property and plant before the title is transferred. The detailed forgiven rental expense incurred and recognized to date is explained at Note. 12.

NOTE 12 - DEPOSITS FOR PROPERTIES

Deposits for properties as of July 31, 2012 and October 31, 2011 were listed as following:

	July 31, 2012			October 31, 2011		
Name of Asset	Prepaid Amount	Rent expenses deducted	Net deposits	Prepaid Amount	Rent expenses deducted	Net deposits
Ah City Pharmaceutical Plant	$23,712,791	$(1,811,457)	$21,901,334	$23,527,566	$(1,209,375)	$22,318,191
Office Floor	3,032,439	(236,530)	2,795,909	4,212,253	(268,209)	3,944,044
Product Patents	9,121,520	-	9,121,520	11,559,878	-	11,559,878
Total	$35,866,750	$(2,047,987)	$33,818,763	$39,299,697	$(1,477,584)	$37,822,113

Forgiven rental expenses incurred and recognized to the condensed consolidated financial statements of income and comprehensive income during the three and nine months ended July 31, 2012 and 2011, respectively, were listed as following:

	For the three months ended July 31,	
	2012	2011
	US$	US$
Ah City Pharmaceutical Plant	197,503	195,661
Two Office Floor	33,805	-
Total	231,308	195,661

	For the nine months ended July 31,	
	2012	2011
	US$	US$
Ah City Pharmaceutical Plant	591,949	572,065

Two Office Floor	168,703	-
Total	760,652	572,065

On April 10, 2010, the Company through its wholly own subsidiary, CBP China, entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two office floors for a total consideration of $6,064,878. Pursuant to the Purchase Agreement, a payment of $4,245,415 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, a final payment of $1,819,463 was made in May 2012. The title of one office floor was transferred in May 2012, the Company reclassified $2,829,699 from deposits to property and equipment and started depreciation over the estimated useful life of the asset. The other office floor is still in the process of title transfer.

Based on the purchase agreement between CBP China and Hongxiangmingyuan, the Company does not pay any rental fees before the title is transferred. Rental expenses related to this lease incurred and expensed before transfer of title were forgiven rental expenses and recognized to account for the rental exemption pursuant to the purchase agreement, and the deposits for the property were reduced accordingly.

In the fourth quarter of our fiscal year 2011, we entered into contracts to purchase Patent of Ingredients and preparation for Parkinson Drug, Patent of Ingredients and preparation for Xiangdousu, etc. and deposited $11,559,878 towards the purchase. The Company decided not to purchase two other patents and received $2,509,607 amount of deposit.

NOTE 13 - DEFERRED TAX ASSETS

Deferred tax assets as of July 31, 2012 and October 31, 2011 were listed as following:

Deferred tax assets as of	Allowance for doubtful and inventory provision	Temporary difference	Income tax rate	Deferred tax assets
July 31, 2012	$ 935,480	$ 935,480	15 %	$ 140,322
October 31, 2011	$ 928,174	$ 928,174	15 %	$ 139,226

NOTE 14 - INCOME TAX EXPENSES

Pursuant to FASB ASC Topic 740, there is no unrecognized tax benefits included in the condensed consolidated balance sheet at July 31, 2012 and October 31, 2011 that would, if recognized, affect the effective tax rate.

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

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

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

	For the three months ended July 31,		For the nine months ended July 31,	
	2012	2011	2012	2011
	US$	US$	US$	US$
Tax savings	385,066	303,004	2,760,059	2,102,619
Benefit per share:				
Basic	0.01	0.01	0.07	0.06
Diluted	0.01	0.01	0.07	0.06

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

	For the three months ended July 31,		For the nine months ended July 31,	
	2012	2011	2012	2011
	US$	US$	US$	US$
Net income	3,255,538	2,519,845	23,412,891	20,549,196
Less Tax savings	(385,066)	(303,004)	(2,760,059)	(2,102,619)
Proforma Net income	2,870,472	2,216,841	20,652,832	18,446,577
Proforma Net income per share:				
Basic	0.08	0.06	0.55	0.50
Diluted	0.08	0.06	0.55	0.49

NOTE 15 - EARNINGS PER SHARE

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

The following reconciles the components of the EPS computation for the three months ended July 31, 2012 and 2011:

	Income (Numerator) US$	Shares (Denominator)	Per Share Amount US$
For the three months ended July 31, 2012:			
Net income	3,255,538		
Basic EPS income available to common shareholders	3,255,538	37,239,536	0.09
Effect of dilutive securities:			
Share Options	-	-	-
Share Warrants	-	-	-
Diluted EPS income available to common shareholders	3,255,538	37,239,536	0.09
For the three months ended July 31, 2011:			
Net income	2,519,845		
Basic EPS income available to common shareholders	2,519,845	37,239,536	0.07
Effect of dilutive securities:			
Share Options		-	

Share Warrants	-	234,375	-
Diluted EPS income available to common shareholders	2,519,845	37,473,911	0.07

For the three months ended July 31, 2012, warrants of 160,000 shares and option of 284,998 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock. For the three months ended July 31, 2011, warrants of 160,000 shares and option of 270,000 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock.

The following reconciles the components of the EPS computation for the nine months ended July 31, 2012 and 2011:

	Income (Numerator) US$	Shares (Denominator)	Per Share Amount US$
For the nine months ended July 31, 2012:			
Net income	23,412,891		
Basic EPS income available to common shareholders	23,412,891	37,239,536	0.63
Effect of dilutive securities:			
Share Options		-	
Share Warrants	-	-	-
Diluted EPS income available to common shareholders	23,412,891	37,239,536	0.63
For the nine months ended July 31, 2011:			
Net income	20,549,196		
Basic EPS income available to common shareholders	20,549,196	37,239,536	0.55
Effect of dilutive securities:			
Share Options		-	
Share Warrants	-	510,051	-
Diluted EPS income available to common shareholders	20,549,196	37,749,587	0.54

For the nine months ended July 31, 2012, warrants of 160,000 shares and option of 284,998 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company’s common stock. For the nine months ended July 31, 2011, warrants of 160,000 shares and option of 270,000 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company’s common stock.

NOTE 16 - EMPLOYEE BENEFITS

The full-time employees of the Company’s subsidiary that is incorporated in the PRC are entitled to staff welfare benefits, including medical care, welfare subsidies, unemployment insurance and pension benefits. The PRC companies are required to accrue for these benefits based on certain percentages of the employees’ salaries in accordance with the relevant regulations, and to make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total amounts expensed to the condensed consolidated statements of income and comprehensive income for such employee benefits amounted to approximately $257,207 and $99,183 for the three months ended July 31, 2012 and 2011, respectively, and $509,246 and $357,569 for the nine months ended July 31, 2012 and 2011, respectively.

NOTE 17 - ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

20

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

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

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

	Fair value measurement		
	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
July 31, 2012 Warrants liability	-	$ 1,086	-
October 31, 2011 Warrants liability	-	$ 23,443	-

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

Expected volatility	68.96	%
Expected dividends	0	%
Expected term (in years)	0.65 years	
Risk-free rate	0.30	%

NOTE 18 - PREFERRED STOCK, COMMON STOCK AND EQUITY TRANSACTIONS

(1) Preferred Stock

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

(2) Common Stock and Equity Transactions

On May 15, 2009, the Company issued an aggregate of 2,142,856 shares of the Company's common stock and 1,071,428 warrants with an exercise price of $0.875 per share to Allied Merit International Investments, Inc. and Griffin Ventures Ltd. Total consideration of the issuance was $ 1,500,000. The warrants expired on May 15, 2012 and there was no warrants exercised by the expire date.

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

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

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

NOTE 19 - OPTIONS AND WARRANTS

Share-based compensation amounted to $22,877 and $36,182 for the three months ended July 31, 2012 and 2011, respectively, and $71,493 and $96,981, respectively, for the nine months ended July 31, 2012 and 2011.

(1) 2003 Omnibus Plan

On February 28, 2003, our board of directors approved the Renhuang Pharmaceuticals, Inc. 2003 Omnibus Securities Plan (the “2003 Plan”), which was approved by our shareholders on April 11, 2003. The 2003 Plan offers selected employees, directors, and consultants opportunities to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. The 2003 Plan allows for the award of stock and options, up to 25,000 (after giving effect to the 1-for-30 reverse stock split in 2006) shares of our common stock. On May 1, of each year, the number of shares in the 2003 Securities Plan is automatically adjusted to an amount equal to ten percent of our outstanding stock on October 31, of the immediately preceding year. As of July 31, 2012 and October 31, 2011, there were 3,723,954 shares available for issuing subject to the 2003 Omnibus Securities Plan.

a) On December 14, 2010, we appointed Mr. Weiqiu Dong as our chief financial officer. Based on the employment agreement, Mr. Dong received, on December 14, 2010, an option to purchase 200,000 shares of the Company's common stock with an exercise price of $2.15 per share, under the 2003 Omnibus Plan. The option vests 60,000 shares on the first anniversary of the date of grant and 70,000 shares on each of the second and third anniversaries of the date of grant. The Option is conditioned upon continued employment on such date, and has a contractual life of 3 years.

The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be $259,251, of which $20,040 and $62,982 were recorded as compensation expenses for the three and nine months ended July 31, 2012. The valuation was based on the assumptions noted in the following table.

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

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

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

The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be $34,042, of which $2,837 and $8,511 were recorded as compensation expenses for the three and nine months ended July 31, 2012. The valuation was based on the assumptions noted in the following table.

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

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

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

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

(3) Option Activity and Status

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

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term
For the three months ended July 31, 2012				
Outstanding at May 1, 2012	284,998	$ 1.96	$ 381,886	4.15

Granted	-		-		-	-
Exercised	-		-		-	-
Forfeited or expired	-		-		-	-
Outstanding at July 31, 2012	284,998	$	1.96	$	381,886	3.90
For the three months ended July 31, 2011						
Outstanding at May 1, 2011	270,000	$	2.26	$	426,083	4.81
Granted	-		-		-	-
Exercised	-		-		-	-
Forfeited or expired	-		-		-	-
Outstanding at July 31, 2011	270,000	$	2.26	$	426,083	4.62

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term
For the nine months ended July 31, 2012				
Outstanding at November 1, 2011	284,998	$ 1.96	$ 381,886	4.64
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at July 31, 2012	284,998	$ 1.96	$ 381,886	3.90
For the nine months ended July 31, 2011				
Outstanding at November 1, 2010	70,000	$ 2.57	$ 166,832	2.45
Granted	200,000	2.15	259,251	5.38
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at July 31, 2011	270,000	$ 2.26	$ 426,083	4.62

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

	Options	Weighted average granted date fair value
For the three months ended July 31, 2012		
Non-vested at May 1, 2012	181,668	$ 1.60
Granted	-	-
Vested	(4,166)	0.68
Forfeited or expired	-	-
Non-vested at July 31, 2012	177,502	$ 1.17
For the three months ended July 31, 2011		
Non-vested at May 1, 2011	240,835	$ 2.22
Granted	-	-
Vested	-	-
Forfeited or expired	-	-
Non-vested at July 31, 2011	240,835	$ 2.22

	Options	Weighted average granted date fair value
For the nine months ended July 31, 2012		
Non-vested at November 1, 2011	250,000	$ 1.17
Granted	-	-
Vested	(72,498)	1.19
Forfeited or expired	-	-
Non-vested at July 31, 2012	177,502	$ 1.17
For the nine months ended July 31, 2011		
Non-vested at November 1, 2010	58,334	$ 2.57
Granted	200,000	2.15
Vested	(17,499)	2.57
Forfeited or expired	-	-
Non-vested at July 31, 2011	240,835	$ 2.22

The unrecognized compensation costs related to non-vested share-based compensation granted under the Company's option plan were $142,931 and $333,836 on July 31, 2012 and 2011, respectively.

(4) Warrants

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

	Warrants	Average exercise price
For the three months ended July 31, 2012		
Outstanding warrants at May 1, 2012	1,231,428	$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	1,071,428	0.88
Outstanding warrants at July 31, 2012	160,000	$ 2.00
For the three months ended July 31, 2011		
Outstanding warrants at May 1, 2011	1,231,428	$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at July 31, 2011	1,231,428	$ 1.03

25

	Warrants	Average exercise price	
For the nine months ended July 31, 2012			
Outstanding warrants at November 1, 2011	1,231,428	$	1.03
Warrants granted	-		-
Exercised	-		-
Expired/cancelled	1,071,428		0.88
Outstanding warrants at July 31, 2012	160,000	$	2.00
For the nine months ended July 31, 2011			
Outstanding warrants at November 1, 2010	1,231,428	$	1.03
Warrants granted	-		-
Exercised	-		-
Expired/cancelled	-		-
Outstanding warrants at July 31, 2011	1,231,428	$	1.03

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

	Warrants Outstanding	Weighted average remaining contractual life(years)	Weighted average exercise price	
Warrants outstanding at July 31, 2012	160,000	0.65		2.00
	1,071,428	0.79	$	0.88
	160,000	1.65		2.00
Warrants outstanding at July 31, 2011	1,231,428	0.90	$	1.03

NOTE 20 - RESERVES

(1) Statutory reserves

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

(2) Public welfare funds

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

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

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

NOTE 21 - COMMITMENTS AND CONTINGENCIES

The Company has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business, generally for quantities required for the Company's business and at prevailing market prices. No material annual loss is expected from these commitments and there are no minimum purchase commitments.

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

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

(1) Operating lease arrangements

We currently have no operating lease agreement with any company.

(2) Capital commitments

On October 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock") to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,293,644. Pursuant to the purchase agreement, a payment of $15,808,527 was made to Renhuang Stock in October 2009 and a payment of $7,904,264 was made to Renhuang Stock in January 2011, with a final payment of $1,580,853 will be paid once we received all the related title transfer documents from local government, at which time title for the assets will be transferred. According to the agreement, we were exempted from lease payments for the underlying assets starting from May 1, 2010.

Name of Fixed Asset	Purchase Date	Prepaid Amount	Remaining Amount	Total Amount
Ah City Pharmaceutical Plant	October 2009	$ 23,712,791	$ 1,580,853	$ 25,293,644

In January 2011, CBP China started its Ah City Phase Two project for Siberian Ginseng products development and industrialization and entered into a Construction and Engineering Design Contract (the "Contract") with Heilongjiang Medical Architecture Design Institute (the "Institute") for architectural design. A few payments have been made to Institute and relevant local government departments for design and start up fees and we recorded $1,952,353 as Construction-in-progress for Ah City Phase Two project. The estimated total investment for Ah City Phase Two is $18,970,232. The project is anticipated to be finished in the year of 2013.

Name of Construction-in-Progress	Start Date	Paid Amount	Remaining Amount	Projected Total Amount
Ah City Phase Two (Siberian Ginseng Product Industrialization)	January 2011	$ 1,952,353	$ 17,017,879	$ 18,970,232

On January 11, 2011, CBP China entered into an Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest Resources under Yichun Red Star Forestry Bureau (the “Agreement”) with Yichun Red Star Forestry Bureau of Heilongjiang Province (the “Forestry Bureau”) which provides us with 30 years exclusive license right to use approximately 6,667 hectares of undergrowth resources including approximately 67 hectares of Siberian Ginseng GAP cultivation base in Heilongjiang Province. Pursuant to the Agreement, a payment of $7,904,264 was made to Forestry Bureau in January 2011, second payment of $6,323,411 was made in October 2011 and the final amount of $1,580,853 will be paid by receiving all the required material from local government authorities. 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. We will be responsible for continued maintenance and protection of wild resources to make this area a professional Siberian Ginseng base.

As of July 31, 2012, the Company has the following intangible assets which need our future capital commitments:

Name of Intangible Assets	Purchase Date	Paid Amount	Remaining Amount	Total Amount
Patent of Ingredients and preparation for Parkinson Drug	August 2011	$ 1,359,533	$ 1,359,533	$ 2,719,066
Patent of Ingredients and preparation for XiangDousu	August 2011	1,343,725	1,343,725	2,687,450
Patent of Mudouye Extract	September 2011	1,897,023	1,897,023	3,794,046
Patent of Hongdoushan Extract	September 2011	2,387,088	2,387,088	4,774,176
Patent of Ingredients and preparation for Jizhi Pills	October 2011	2,134,151	2,134,151	4,268,302
Yichun Undergrowth Resource Exclusive Using right	January 2011	14,227,675	1,580,853	15,808,528
Total		$ 23,349,195	$ 10,702,373	$ 34,051,568

On January 24, 2012, the Company entered into an advertising contract with Harbin Weishi Advertising Company to advertise its products from February 1, 2012 to January 31, 2013 as shown on the following table.

Advertising Contract	Contract Date	Paid Amount	Remaining Amount	Total Amount

		US$	**US$**	**US$**
Harbin TV Weishi Advertising Company	January 2012	3,604,344	3,604,344	7,208,688

As of July 31, 2012, the Company has capital commitments for purchase of Ah City Nature and Pharmaceutical Plant, undergrowth resources right, product patents, advertising contract and Ah City Phase Two construction-in-progress of approximately $32,905,449. The amounts to be paid in the future years are as follows:

Year	Payment for properties
2012	$14,085,398
2013	18,820,051
Total	$32,905,449

NOTE 22 - SUBSEQUENT EVENT

Management has evaluated subsequent events through the date these condensed consolidated financial statements were issued and has concluded no events need to be reported during this period.

28

Item 2. 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 unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly 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 Quarterly Report. See also Risk Factors contained in our Form 10-K for the year ended October 31, 2011.

Overview

We are a high-tech enterprise engaged in the research, development, manufacture, 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 (i) botanical anti-depression and nerve-regulation products, (ii) biopharmaceutical products, and (iii) botanical antibiotic and traditional over-the-counter ("OTC") Chinese medicines. Botanical anti-depression and nerve-regulation products account for approximately 70% of our revenues and we intend to strengthen our development in this area. We have entered into sales agency agreements with our sales agents. Through our sales agent, we have sold our products to over 3,000 distributors and over 70 sales centers across 24 provinces in the PRC.

Recent Developments

Schisandra Lignin Extraction Method Patent. On July 4, 2012, we were granted a patent by the State Intellectual Property Office of the PRC ("SIPO") for our proprietary Schisandra lignin extraction method developed by our research and development department. Research in China suggests that Schisandra is a wild plant with significant medical and health benefits. Schisandra has been found to prevent liver damage and is an effective sedative for treating insomnia and central nervous system depression. Additionally, research indicates Lignin compounds are a good source of powerful anti-oxidants with promising benefits in fighting major conditions, including HIV, cancer and high blood pressure. Our proprietary Schisandra lignin extraction method enables us to obtain higher purity of lignin and remove impurities from the plant, resulting in extract with over 50% lignin, which may substantially enhance the efficacy of medicines produced from these compounds. The patent is good for a period of 20 years from the patent application date of Feb. 2010.

Tax Treatment of Subsidiary

As a recipient of the PRC's State High-Tech Enterprise certificate, Harbin Renhuang Pharmaceutical Co. LTD ("CBP China") is eligible for a number of national and local government support programs, including preferential tax treatment. In order to receive these benefits CBP China must, on an annual basis, pass a High-Tech Enterprise assessment. CBP China passed this assessment in February 2012 and, as a result, pays a reduced enterprise income tax rate of 15% in the year of 2012 compared with statutory enterprise income tax rate of 25%.

Critical Accounting Policies

The unaudited condensed 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 unaudited condensed 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 condensed consolidated 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 condensed consolidated 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 unaudited condensed consolidated financial statement preparation process than others, which policies are discussed below. See also Note 2 to the unaudited condensed consolidated financial statements for a summary of our significant 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.

Estimate of share-based compensation – We must estimate the fair value of share-based compensation.

Estimate of noncash rental expenses – We must estimate the noncash rental expenses.

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 unaudited condensed consolidated financial statements included elsewhere in this filing for a complete summary of all of our significant accounting policies.

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 the PRC is growing rapidly driven by the PRC'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 the PRC. 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 the PRC 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 40% and 36% of our total revenues before sales rebate in the three and nine months ended July 31, 2012, are listed on the National or Provincial 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 the PRC 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 current facilities with the ability to manufacture 18 dosage forms and over 200 products could not meet our future demand and we are building our Ah City Phase Two project, Depth Development and Industrialization of Siberian Ginseng, to produce more advanced Siberian Ginseng products and to 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 the PRC have contributed to a greater demand for health-care products with perceived health benefits. We believe many consumers in the PRC 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 research and development.

- ***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

Three-Month Period Ended July 31, 2012 Compared to Three-Month Period Ended July 31, 2011

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

	For three Months Ended July 31,	
	2012	2011
	($ in thousands)	
	(Unaudited)	
Statements of Income Data		
Sales, net	15,077	12,376
Cost of goods sold	6,191	4,909
Gross profit	8,886	7,467
Operating and administrative expenses		
Sales and marketing	1,832	1,560
General and administrative	1,366	1,233
Research and development	1,900	1,687

Other income	44	34
Income before income tax expenses	3,832	3,022
Income tax expenses	576	502
Net income	3,256	2,520
Other comprehensive income:		
Unrealized currency translation adjustments	143	829
Total comprehensive income	3,399	3,348

31

Total Comprehensive Income

Total comprehensive income increased by approximately $0.05 million, or 2%, from approximately $3.35 million for the three months ended July 31, 2011 to approximately $3.40 million for the three months ended July 31, 2012. This increase was primarily attributable to an increase of approximately $2.70 million, or 22%, in net sales, and an increase of approximately $1.28 million, or 26%, in cost of goods sold and an increase of approximately $0.27 million, or 17%, in sales and marketing expenses, an increase of approximately $0.13 million, or 11%, in general and administration expenses, an increase of approximately $0.21 million, or 13%, in research and development expenses, and an decrease of $0.68 million, or 83%, in unrealized currency translation adjustments. Our gross profit margin decreased from 60% for the three months ended July 31, 2011 to 59% for the three months ended July 31, 2012.

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. Net sales increased by approximately $2.70 million, or 22%, from approximately $12.38 million in three months ended July 31, 2011 to approximately $15.08 million in three months ended July 31, 2012. This increase in sales was primarily attributable to strong market acceptance of our Siberian Ginseng Series products, Compound Yangjiao Tablets, Tianma Series and Compound Honeysuckle Granules as a result of our marketing efforts.

We provide incentive sales rebates to our sales agents. For the three months ended July 31, 2012 and 2011, the Company has deducted sales rebates in the amount of $1.41 million and $0.79 million, respectively, from total sales. Sales rebates are netted against total sales. The following table sets forth information regarding the total sales of our principal products before sales rebates during the three months ended July 31, 2012 and 2011:

	Three Months Ended July 31, 2012				Three Months Ended July 31, 2011				Change For the Three Months Ended July 31, 2012 and 2011			
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	54	8,109	49	%	53	6,478	50	%	1	1,631	-1	%
Tianma Series	11	1,334	8	%	8	952	7	%	3	382	1	%
Compound Yangjiao Tablets	15	1,845	11	%	11	1,342	10	%	4	503	1	%
Shengmai Granules	12	590	4	%	9	423	3	%	3	167	1	%

Banlangen Granules	9	402	2	%	8	320	2	%	1	82	-	
Compound Honeysuckle Granules	19	1,415	9	%	16	1,112	9	%	3	303	-	
QingReJieDu Oral Liquid	7	283	2	%	6	209	2	%	1	74	-	
Compound Schizandra Tablets	4	419	3	%	3	334	3	%	1	85	-	
Ginseng and Venison Extract	12	1,631	10	%	11	1,472	11	%	1	159	-1	%
Badger Oil	2	446	2	%	2	401	3	%		45	-1	%
Total	145	16,474	100	%	127	13,043	100	%	18	3,431	-	

Since the selling price of all products increased in January 2011, we have experienced sales volume decrease from most of products in the year of 2011. After longer than expected stable period and the effort of propagation through advertisement and promotion, and the most important, the high quality of our products, we see our sales volume start to increase in our fiscal year of 2012.

In the third quarter of our fiscal year 2012, we introduced two new packages to the market, Siberian Ginseng Extract 50g and Siberian Ginseng 200g, which are replacing current Siberian Ginseng Extract 100g package. We expect the two new packages bring more sales and profit for the Company.

The change in average sales price per pack, as reflected in the following table, is primarily attributable to the change of currency translation from RMB to US Dollar and rounding. The average selling price of each product denominated in RMB has stayed the same for the three months ended July 31, 2012 and 2011. The sales price of individual product is demonstrated in the following table, which reflects the average sales price per pack by product for the three months ended July 31, 2012 and 2011 and the percentage changes in the sales price per pack. The average prices per pack showing below for 2012 are calculated from exact sales and quantities before rounding.

	Average Price Per Pack For The Three Months Ended July 31,		
Product	2012	2011	Change
Siberian Ginseng (Acanthopanax) Series	$ 151	$ 122	23.7 %
Tianma Series	122	119	2.1 %
Compound Yangjiao Tablets	124	122	1.8 %
Shengmai Granules	49	47	3.4 %
Balangen Granules	43	40	8.0 %
Compound Honeysuckle Granules	73	70	4.1 %
QingReJieDu Oral Liquid	39	35	11.1 %
Compound Schizandra Tablets	108	111	-2.7 %
Ginseng and Venison Extract	135	134	0.7 %
Badger Oil	270	201	34.4 %
Total	$ 113	$ 103	10.4 %

We expect the demand for our products will continue increase as we continue to garner greater market acceptance, in particular the benefits of our Siberian Ginseng (Acanthopanax) Series in treating depression and nerve-regulation. We believe that we will have a continuous and stable sales increase in these products for fiscal year 2012. In addition, we anticipate that we will be successful in becoming one of the PRC’s essential medicine suppliers as the PRC government moves forward with its Health Reforms in 2012.

Cost of Goods Sold

Our costs of goods sold consist primarily of sales tax and additions, direct and indirect manufacturing costs, including production overhead costs, and handling costs for the products sold. Costs of goods sold increased approximately $1.28 million, or 26%, from approximately $4.91 million for the three months ended July 31, 2011 to approximately $6.19 million for the three months ended July 31, 2012. This increase was primarily attributable to the sales increase in Siberian Ginseng Series, Compound Yangjiao Tablet, Tianma Tablets and Compound Honeysuckle granules, increases in average raw material prices as a result of inflation and sales tax and additions. The Siberian Ginseng raw material purchase price has been increased 16% from our fiscal year 2011 to 2012 mainly due to higher labor cost and transportation cost increase. Most of other material prices stayed the same in our fiscal year 2012 and 2011.

We anticipate that beyond 2012, 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 $0.62 million, or 14%, from approximately $4.48 million for the three months ended July 31, 2011 to approximately $5.10 million for the three months ended July 31, 2012.

Sales and Marketing. Our sales and marketing expenses consist primarily of advertising expenses, and other overhead expenses incurred by the Company's sales and marketing personnel. Sales and marketing expenses increased approximately $0.27 million, or 17%, from approximately $1.56 million for the three months ended July 31, 2011 to approximately $1.83 million for the three months ended July 31, 2012. This increase was primarily attributable to an increase of approximately $0.30 million, or 20%, in advertising expense 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 the PRC 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, rental, benefits, share-based compensation, and professional service fees. General and administrative expenses increased by approximately $0.13 million, or 11%, from approximately $1.23 million for the three months ended July 31, 2011 to approximately $1.37 million for the three months ended July 31, 2012. This increase was primarily attributable to an increase of approximately $0.07 million in depreciation expense and a increase of $0.09 million in medical insurance expense. General and administrative expenses are likely to increase in the future as we expand our production, sourcing capacity, and distribution capacity throughout the PRC.

Research and Development. Our research and development expenses consist primarily of salary and Siberian Ginseng (Acanthopanax) cultivation related expenses. Research and development expenses increased approximately $0.21 million, or 13%, from approximately $1.69 million for the three months ended July 31, 2011 to approximately $1.90 million for the three months ended July 31, 2012. 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 before income tax expenses

As a result of the foregoing, our income before income tax expenses increased by approximately $0.81 million, or 27%, from approximately $3.02 million for the three months ended July 31, 2011 to approximately $3.83 million for the three months ended July 31, 2012.

Income Tax Expenses

We are subject to U.S. federal and state income taxes. For the three months ended July 31, 2012 and 2011, the Company did not incur U.S. federal and state income taxes as it is the Company's intention to invest these earnings in the foreign operations indefinitely. Our subsidiary registered in the PRC is subject to enterprise income taxes. For the calendar years of 2012 and 2011, CBP China was granted a 10% tax exemption, and pays enterprise income taxes of 15%.

Unrealized 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 unrealized currency translation adjustments. Our unrealized currency translation adjustments decreased by approximately $0.69 million, from approximately $0.83 million for the three months ended July 31, 2011 to approximately $0.14 million for the three months ended July 31, 2012.

Nine-Month Period Ended July 31, 2012 Compared to Nine-Month Period Ended July 31, 2011

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

	For the Nine Months Ended July 31,	
	2012	2011
	($ in thousands)	
	(Unaudited)	
Statements of Income Data		
Sales, net	66,239	53,875
Cost of goods sold	27,399	21,450
Gross profit	38,840	32,425
Operating and administrative expenses		
Sales and marketing	5,247	4,430
General and administrative	3,221	2,745
Research and development	2,929	2,586
Other income	109	81
Income before income tax expenses	27,551	22,745
Income tax expenses	4,139	2,196
Net income	23,413	20,549
Other comprehensive income:		
Unrealized currency translation adjustments	820	3,004
Total comprehensive income	24,232	23,554

Total Comprehensive Income

Total comprehensive income increased by approximately $0.68 million, or 3%, from approximately $23.55 million for the nine months ended July 31, 2011 to approximately $24.23 million for the nine months ended July 31, 2012. Our gross profit margin decreased from 60% for the nine months ended July 31, 2011 to 59% for the nine months ended

July 31, 2012.

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. Net sales increased by approximately $12.36 million, or 23%, from approximately $53.88 million in nine months ended July 31, 2011 to approximately $66.24 million in nine months ended July 31, 2012. This increase in sales was primarily attributable to strong market acceptance of our Siberian Ginseng Series products, Compound Honeysuckle Granules and the contributions from Ginseng and Venison Extract as a result of our marketing efforts.

We provide incentive sales rebates to our sales agents. For the nine months ended July 31, 2012 and 2011, the Company has deducted sales rebates in the amount of $6.06 million and $5.00 million, respectively, from total sales. Sales rebates are netted against total sales. The following table sets forth information regarding the total sales of our principal products before sales rebate during the nine months ended July 31, 2012 and 2011:

	Nine Months Ended July 31, 2012				Nine Months Ended July 31, 2011				Change For the Nine Months Ended July 31, 2012 and 2011			
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	283	36,332	50	%	253	28,197	48	%	30	8,135	2	%
Tianma Series	37	4,487	6	%	40	4,249	7	%	-3	238	-1	%
Compound Yangjiao Tablets	54	6,653	9	%	54	6,213	11	%	0	440	-2	%
Shengmai Granules	47	2,285	3	%	44	2,055	3	%	3	230	-	
Banlangen Granules	37	1,583	2	%	31	1,267	2	%	6	316	-	
Compound Honeysuckle Granules	102	7,433	10	%	98	6,795	11	%	4	638	-1	%
QingReJieDu Oral Liquid	34	1,315	2	%	30	1,080	2	%	4	235	-	
Compound Schizandra Tablets	13	1,423	2	%	11	1,121	2	%	2	302	-	
Ginseng and Venison Extract	63	8,558	12	%	52	6,363	11	%	11	2,195	1	%
Badger Oil	8	2,231	4	%	6	1,531	3	%	2	700	1	%
Total	678	72,300	100	%	619	58,871	100	%	59	13,429	-	

Since the selling price of all products increased in January 2011, we have experienced sales volume decrease from most of products in the year of 2011. After longer than expected stable period and the effort of propagation through advertisement and promotion, and the most important, the high quality of our products, we see our sales volume start to increase in our fiscal year of 2012.

The average prices per pack showing below for year 2012 are calculated from exact sales and quantities before rounding.

Product	Average Price Per Pack For The Nine Months Ended July 31, 2012	2011	Change
Siberian Ginseng (Acanthopanax) Series	$ 129	$ 111	15.9 %
Tianma Series	121	106	14.5 %
Compound Yangjiao Tablets	124	115	7.9 %
Shengmai Granules	49	47	3.4 %
Balangen Granules	43	41	5.4 %
Compound Honeysuckle Granules	73	69	5.7 %
QingReJieDu Oral Liquid	39	36	8.1 %
Compound Schizandra Tablets	108	102	5.8 %
Ginseng and Venison Extract	135	122	10.6 %
Badger Oil	270	255	5.8 %
Total	$ 107	$ 95	12.2 %

We expect the demand for our products will continue increase as we continue to garner greater market acceptance, in particular the benefits of our Siberian Ginseng (Acanthopanax) Series in treating depression and nerve-regulation. We believe that we will have a continuous and stable sales increase in these products for fiscal year 2012. In addition, we anticipate that we will be successful in becoming one of the PRC's essential medicine suppliers as the PRC government moves forward with its Health Reforms in 2012.

Cost of Goods Sold

Our costs of goods sold consist primarily of sales tax and additions, direct and indirect manufacturing costs, including production overhead costs, and handling costs for the products sold. Costs of goods sold increased approximately \$5.95 million, or 28%, from approximately \$21.45 million for the nine months ended July 31, 2011 to approximately \$27.40 million for the nine months ended July 31, 2012. This increase was primarily attributable to sales tax and additions, the sales increase in Siberian Ginseng Series and Ginseng and Venison Extract products, and increases in raw material prices as a result of inflation.

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 2012. We anticipate that beyond 2012, 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 \$1.64 million, or 17%, from approximately \$9.76 million for the nine months ended July 31, 2011 to approximately \$11.40 million for the nine months ended July 31, 2012.

Sales and Marketing. Our sales and marketing expenses consist primarily of advertising and other overhead expenses incurred by the Company's sales and marketing personnel. Sales and marketing expenses increased approximately \$0.82 million, or 18%, from approximately \$4.43 million for the nine months ended July 31, 2011 to approximately \$5.25 million for the nine months ended July 31, 2012. This increase was primarily attributable to an increase of approximately \$0.89 million, or 21%, 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 the PRC 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, rental, benefits, share-based compensation, and professional service fees. General and administrative expenses increased by approximately $0.48 million, or 17%, from approximately $2.75 million for the nine months ended July 31, 2011 to approximately $3.22 million for the nine months ended July 31, 2012. This increase was primarily attributable to an increase of approximately $0.19 million in rental expenses and an increase of approximately $0.17 million in amortization expenses. General and administrative expenses are likely to increase as we continue to expand our production, sourcing capacity, and distribution capacity throughout the PRC.

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 $0.34 million, or 13%, from approximately $2.59 million for the nine months ended July 31, 2011 to approximately $2.93 million for the nine months ended July 31, 2012. 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 before income tax expenses

As a result of the foregoing, our income before income tax expenses increased by approximately $4.81 million, or 21%, from approximately $22.75 million for the nine months ended July 31, 2011 to approximately $27.55 million for the nine months ended July 31, 2012.

Income Tax Expenses

We are subject to U.S. federal and state income taxes. For the nine months ended July 31, 2012 and 2011, the Company did not incur U.S. federal and state income taxes as it is the Company's intention to invest these earnings in the foreign operations indefinitely. Our subsidiary registered in the PRC is subject to enterprise income taxes. For the calendar years of 2012 and 2011, CBP China was granted a 10% tax exemption, and pays enterprise income tax of 15%.

Unrealized 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 unrealized currency translation adjustments. Our unrealized currency translation adjustments decreased by approximately $2.18 million, from approximately $3.00 million for the nine months ended July 31, 2011 to approximately $0.82 million for the nine months ended July 31, 2012.

Liquidity and Capital Resources

We had retained earnings of approximately $102.79 million and $79.38 million as of July 31, 2012 and October 31, 2011, respectively. As of July 31, 2012 and October 31, 2011, we had cash of approximately $41.31 million and $15.28 million, respectively, total current assets of approximately $73.92 million and $51.07 million, respectively. As of July 31, 2012 and October 31, 2011, we had a working capital surplus of approximately $67.06 million and $40.84 million, respectively. With the anticipated income from 2012, we believe our cash are adequate to satisfy our working capital needs and sustain our ongoing operations for the next twelve months.

Our summary of cash flow information is as follows:

	Nine months ended July 31,	
Net cash provided by (used in):	2012	2011
Operating activities	$25,157,384	$26,424,857
Investing activities	$708,859	$(17,144,926)

38

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased approximately $1.27 million, from net cash provided by operating activities of approximately $26.42 million for the nine months ended July 31, 2011 to net cash provided by operating activities of approximately $25.16 million for the nine months ended July 31, 2012. This decrease was primarily attributable to an increase in trade receivables of approximately $2.31 million, an increase in inventory of approximately $4.00 million, a decrease in tax payable of approximately $5.56 million and offset by a decrease in other receivables of approximately $6.80 million, an increase in net income of approximately of $2.86 million.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities increased approximately $17.85 million, from approximately $17.14 million used during the nine months ended July 31, 2011 to approximately $0.71 million provided during the nine months ended July 31, 2012. This increase was primarily attributable to the deposit of land use right, final payment made on one office floor and refund from cancellation of two patents purchased.

Net Cash Provided by Financing Activities

We did not incur any financing activities during the nine months ended July 31, 2012 and 2011.

Trade Receivables

The net trade receivables decreased approximately $4.42 million from approximately $21.55 million on October 31, 2011 to approximately $17.13 million on July 31, 2012. The trade receivable payment term is 90 days. This decrease in net trade receivable was primarily attributable to the decrease in net sales of approximately $3.76 million from approximately $18.84 million for the three months ended October 31, 2011 to approximately $15.08 million for the three month ended July 31, 2012. The third quarter of our fiscal year is always the slowest quarter in the year in term of sales.

Inventory

Inventory amounts increased approximately $7.88 million from approximately $7.42 million on October 31, 2011 to approximately $15.30 million on July 31, 2012. This increase was primarily attributable to an increase of $0.50 million in raw materials from approximately $0.95 million on October 31, 2011 to $1.44 million on July 31, 2012, an increase of $1.89 million in packaging materials from $1.90 million on October 31, 2011 to $3.78 million on July 31, 2012 and an increase of $5.53 million in work-in-progress from $3.21 million on October 31, 2011 to $8.74 million on July 31, 2012. The increase in inventory is mainly due to our actual sales lower than our original forecasted sales during the nine months ended July 31, 2012 and our Siberian Ginseng stem purchased during the beginning of our fiscal year 2012 were based on our original sales forecast.

Other Receivables

Other receivables decreased by $6.64 million from approximately $6.82 million at October 31, 2011 to $0.18 million at July 31, 2012. The decrease was primarily attributable to the advanced Siberian Ginseng payments in October 2011 for the purchase of Siberian Ginseng raw material. The Company received Siberian Ginseng raw material in the first quarter of 2012.

Outstanding Long-Term Indebtedness

None

Expansion Strategy

We believe the market for pharmaceutical products in the PRC is growing. Our growth strategy involves capturing as much of this market as possible during this 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.

Contractual Obligations

Please refer to Note 21. COMMITMENTS AND CONTINGENCIES.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Because we are a smaller reporting company, this Item 3 is not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company is required to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as this Quarterly Report, is recorded, processed, summarized and reported within the periods specified by or pursuant to the Exchange Act, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Management evaluated the effectiveness of our disclosure controls and procedures for the quarter ended July 31, 2012 under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. During fiscal year ended October 31, 2011, our management identified a material weakness in our internal control over financial reporting which we view as an integral part of our disclosure controls and procedures. Consequently, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was not effective at October 31, 2011, because we had insufficient accounting personnel with appropriate knowledge of US GAAP. We are still in the process of remediating this material weakness, which substantially influenced the conclusion of our Chief Executive Officer and Chief Financial Officer that our disclosure controls and procedures were not effective as of July 31, 2012.

Changes in Internal Controls over Financial Reporting

Since the third quarter of our 2009 fiscal year, we have begun the implementation of remedial measures including hiring chief financial officers since January 2010, appointing three independent directors to our board of directors in early 2010, engaging consultants to help management on the preparing and improving internal controls over financial reporting in 2010 and 2011.

We are working on improving our internal control over financial reporting through more rigorous policies and procedures over key controls such as journal entry approval, reconciliation procedures and maintaining relevant supporting documentations. We do not expect that our plan will fully remediate the material weakness identified above until at least October 31, 2013. Material weaknesses or significant deficiencies in our internal controls over financial reporting may result in our investors losing confidence in our reported financial information, which could lead to a decline in our stock price, limit our ability to access the capital markets in the future, and require us to incur additional costs to further improve our internal control systems and procedures.

Except for the above mentioned remedial measures, there have not been any changes in our internal control over financial reporting for the nine months ended July 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company was not a party to pending legal proceedings during the period ended July 31, 2012.

Item 1A. Risk Factors

Because we are a smaller reporting company, this Item 1A is not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

In the three-month period ended July 31, 2012, and subsequent period through the date hereof, we did not default upon any senior securities.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	**Description**
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive and Financial Officers pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase (1)
101.FRE	XBRL Taxonomy Extension Presentation Linkbase (1)

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* Filed herewith

(1) XBRL Interactive Data File will be filed by amendment to this Form 10-Q within 30 days of the filing date of this Form 10-Q as permitted by Rule 405(f) (3) of Regulation S-T.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized.

Date: September 19, 2012	CHINA BOTANIC PHARMACEUTICAL INC.
	By: /s/ Li Shaoming Li Shaoming, Chief Executive Officer and President (Principal Executive Officer)
Date: September 19, 2012	By: /s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer (Principal Financial Officer)