OptimumBank Holdings, Inc.
Form 10-Q
May 14, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 000-50755

OPTIMUMBANK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Florida	**55-0865043**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-776-2332

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨ *The registrant has not yet been phased into the interactive data requirements.

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 3,276,842 shares of Common Stock, $.01 par value, issued and outstanding as of May 14, 2010

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

INDEX

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Cash and due from banks	$ 1,594	$ 1,556
Interest-bearing deposits with banks	13,204	8,506
Federal funds sold	18,899	26,722
Total cash and cash equivalents	33,697	36,784
Securities held to maturity (fair value of $31,096 and $76,984)	34,510	81,141
Loans, net of allowance for loan losses of $6,843 and $9,363	131,152	134,126
Federal Home Loan Bank stock	3,551	3,551
Premises and equipment, net	2,904	2,941
Foreclosed real estate	6,023	5,487
Accrued interest receivable	911	1,088
Deferred tax asset	-	772
Income taxes receivable	4,349	3,577
Other assets	559	490
Total assets	$ 217,656	$ 269,957
Liabilities and Stockholders Equity		
Liabilities:		
Noninterest-bearing demand deposits	279	199
Savings, NOW and money-market deposits	47,515	44,222
Time deposits	112,478	107,261
Total deposits	160,272	151,682
Federal Home Loan Bank advances	41,700	57,700
Other borrowings	-	41,800
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	1,152	945
Official checks	512	694
Other liabilities	683	693
Total liabilities	209,474	258,669
Stockholders equity:		

Common stock, $.01 par value; 6,000,000 shares authorized, 3,276,842 shares issued and outstanding	33	33
Additional paid-in capital	19,046	19,046
Accumulated deficit	(10,897)	(7,791)
Total stockholders equity	8,182	11,288
Total liabilities and stockholders equity	$ 217,656	$ 269,957

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2010	**2009**
Interest income:		
Loans	$ 1,901	$ 2,420
Securities	930	1,247
Other	14	-
Total interest income	2,845	3,667
Interest expense:		
Deposits	758	976
Borrowings	884	1,214
Total interest expense	1,642	2,190
Net interest income	1,203	1,477
Provision for loan losses	692	405
Net interest income after provision for loan losses	511	1,072
Noninterest income:		
Service charges and fees	11	30
Gain on sale of securities	1,344	-
Other	7	1
Total noninterest income	1,362	31
Noninterest expenses:		
Salaries and employee benefits	422	543
Occupancy and equipment	152	156
Data processing	48	45
Professional fees	298	92
Insurance	14	16
Stationary and supplies	11	7
Regulatory assessment	188	71
Foreclosed real estate	42	7
Loss on early extinguishment of debt	3,699	-
Other	105	73
Total noninterest expenses	4,979	1,010

(Loss) earnings before income taxes	(3,106)	93
Income taxes	-	35
Net (loss) earnings	$ (3,106)	$ 58
Net (loss) earnings per share:		
Basic	$ (.95)	$ .02
Diluted	$ (.95)	$ .02
Dividends per share	$ -	$ -

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders Equity

Three Months Ended March 31, 2010 and 2009

(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2008	3,120,992	$ 31	$ 18,494	$ 4,244	$ (4)	$ 22,765
Comprehensive income:						
Net earnings for the three months ended March 31, 2009 (unaudited)	-	-	-	58	-	58
Net change in unrealized loss on security available for sale (unaudited)	-	-	-	-	2	2
Comprehensive income (unaudited)						60
Balance at March 31, 2009 (unaudited)	3,120,992	$ 31	$ 18,494	$ 4,302	$ (2)	$ 22,825
Balance at December 31, 2009	3,276,842	$ 33	$ 19,046	$ (7,791)	$ -	$ 11,288
Comprehensive loss-						
Net loss for the three months ended March 31, 2010 (unaudited)	-	-	-	(3,106)	-	(3,106)
Balance at March 31, 2010 (unaudited)	3,276,842	$ 33	$ 19,046	$ (10,897)	$ -	$ 8,182

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net (loss) earnings	$ (3,106)	$ 58
Adjustments to reconcile net (loss) earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	44	47
Provision for loan losses	692	405
Net amortization of fees, premiums and discounts	(2)	24
Decrease in accrued interest receivable	177	23
(Increase) decrease in other assets	(69)	146
Provision for losses on foreclosed real estate	-	5
Gain on sale of securities	(1,344)	-
Loss on early extinguishment of debt	3,699	-
(Decrease) increase in official checks and other liabilities	(192)	37
Net cash (used in) provided by operating activities	(101)	745
Cash flows from investing activities:		
Purchases of securities held to maturity	-	(9,025)
Principal repayments of securities held to maturity	2,585	4,721
Proceeds from sale of securities	45,428	-
Net decrease (increase) in loans	1,710	(1,847)
Purchases of premises and equipment	(7)	(4)
Purchase of Federal Home Loan Bank stock	-	(25)
Net cash provided by (used in) investing activities	49,716	(6,180)
Cash flows from financing activities:		
Net increase in deposits	8,590	9,845
Net decrease in other borrowings	(44,764)	-
Repayment of Federal Home Loan Bank advances	(16,735)	-
Net increase in advanced payments by borrowers for taxes and insurance	207	246
Net cash (used in) provided by financing activities	(52,702)	10,091
Net (decrease) increase in cash and cash equivalents	(3,087)	4,656
Cash and cash equivalents at beginning of the period	36,784	3,220
Cash and cash equivalents at end of the period	$ 33,697	$ 7,876

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,794	$ 2,128
Income taxes	$ -	$ 50
Noncash transactions:		
Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale	$ -	$ 2
Loans transferred to foreclosed real estate	$ 536	$ -
Deferred tax asset reclassified to income taxes receivable	$ 772	$ -

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) ***General.*** OptimumBank Holdings, Inc. (the Holding Company) is a one-bank holding company and owns 100% of OptimumBank (the Bank), a state (Florida)-chartered commercial bank. The Holding Company s only business is the operation of the Bank and its subsidiaries. The Bank s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. The Bank offers a variety of community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. The Bank s wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC, OB Real Estate Holdings 1503, LLC, and OB Real Estate Holdings 1695, LLC, all of which were formed in 2009. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. OB Real Estate Holdings, LLC, OB Real Estate Holdings 1503, LLC, and OB Real Estate Holdings 1695, LLC, hold and dispose of foreclosed real estate.

In the opinion of the management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at March 31, 2010, and the results of operations and cash flows for the three-month periods ended March 31, 2010 and 2009. The results of operations for the three months ended March 31, 2010, are not necessarily indicative of the results to be expected for the full year.

(2) ***Securities.*** Securities have been classified according to management s intent. The carrying amount of securities and approximate fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Held to Maturity:				
At March 31, 2010:				
Mortgage-backed securities	$ 34,410	$ 48	$ (3,462)	$ 30,996
State of Israel bond	100	-	-	100
	$ 34,510	$ 48	$ (3,462)	$ 31,096
At December 31, 2009:				
Mortgage-backed securities	$ 81,041	$ 1,567	$ (5,724)	$ 76,884
State of Israel bond	100	-	-	100
	$ 81,141	$ 1,567	$ (5,724)	$ 76,984

During 2010, the Company sold twenty-two securities in order to downsize and deleverage its balance sheet. This action was taken in an effort to comply with a significant increase in the regulatory capital requirements imposed on the Bank under a Consent Order issued by the Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation (See Note 9). The securities were sold for gross proceeds of $45.4 million. A gain of $1.3 million was recognized from the sale of these securities.

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** Securities with gross unrealized losses at March 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Held to Maturity-				
Mortgage-backed securities	$ (9)	$ 1,651	$ (3,453)	$ 26,849

Management evaluates securities for other-than-temporary impairment approximately on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment (OTTI) losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. However, the Company has not recognized any loss in other comprehensive loss because management does not believe the market value of the securities are significantly depressed. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company s position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) ***Securities, Continued.*** The unrealized losses on thirteen investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

In evaluating mortgage-backed securities with unrealized losses greater than 12 months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. Based on management s analysis, there was no OTTI charge during the first quarter of 2010 or 2009.

(3) ***Loan Impairment and Credit Losses.*** The activity in the allowance for loan losses was as follows (in thousands):

	Three Months Ended March 31,	
	2010	**2009**
Balance at beginning of period	$ 9,363	$ 1,906
Charge-offs, net of recoveries	(3,212)	(484)
Provision for loan losses	692	405
Balance at end of period	$ 6,843	$ 1,827

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) ***Loan Impairment and Credit Losses, Continued.*** The following summarizes the impaired loans at March 31, 2010 and 2009 (in thousands):

	At March 31, 2010	At March 31, 2009
Collateral dependent loans identified as impaired:		
Gross loans with no related allowance for loan losses	$ 26,634	$ 5,264
Gross loans with related allowance for losses recorded	7,600	6,129
Less allowance on these loans	(3,020)	(967)
Net loans with related allowance	4,580	5,162
Net investment in collateral dependent impaired loans	31,214	10,426
Noncollateral dependent loans identified as impaired:		
Gross loans with related allowance for losses recorded	3,623	-
Less allowance on these loans	(65)	-
Net investment in noncollateral dependent impaired loans	3,558	-
Net investment in impaired loans	$ 34,772	$ 10,426

The average net investment in impaired loans and interest income recognized and received on impaired loans during the three months ended March 31, 2010 and 2009 were as follows (in thousands):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Average net investment in impaired loans	$ 37,663	$ 10,513
Interest income recognized on impaired loans	$ 234	$ 60
Interest income received on impaired loans	$ 236	$ 60

At March 31, 2010 and 2009, the Company had no loans over ninety days past due still accruing interest. Nonaccrual loans were as follows (in thousands):

	At March 31, 2010	At March 31, 2009

Nonaccrual loans	$ 21,094	$ 7,608

(continued)

10

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at March 31, 2010 of the regulatory capital requirements and the Bank s capital on a percentage basis:

	Bank	**Regulatory Requirement***
Tier I capital to total average assets	5.18%	4.00%
Tier I capital to risk-weighted assets	7.94%	4.00%
Total capital to risk-weighted assets	9.23%	8.00%

* These are the ratios required to be considered adequately capitalized under the FDIC prompt corrective action rules. On July 15, 2010, the Bank will be subject to significantly increased capital requirements imposed under the Consent Order, as discussed in Note 9.

(5) ***(Loss) Earnings Per Share***. Basic (loss) earnings per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. In 2009, diluted earnings per share were computed based on the weighted average number of shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method. In 2010, basic and diluted loss per share is the same due to the net loss incurred by the Company. All amounts reflect the 5% stock dividend declared in May 2009. (Loss) earnings per common share have been computed based on the following:

	Three Months Ended March 31, 2010	**2009**
Weighted average number of common shares outstanding used to calculate basic (loss) earnings per common share	3,276,842	3,276,842
Effect of dilutive stock options	-	-
Weighted average number of common shares outstanding used to calculate diluted (loss) earnings per common share	3,276,842	3,276,842

The following options were excluded from the calculation of the 2009 earnings per share due to the exercise price being above the average market price:

	Number Outstanding	**Exercise Price**	**Expire**
For the three months ended March 31, 2009-			
Options	528,766	$ 4.54-11.33	2011-2015

(6) ***Stock-Based Compensation***. As of December 31, 2005, all stock options were fully vested and no options have been granted since 2005; therefore, no stock-based compensation has been recognized.

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(6) ***Stock-Based Compensation, Continued***. The Company established an Incentive Stock Option Plan (the Plan) for officers, directors and employees of the Company and reserved 630,720 (amended) shares of common stock for the plan. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of the stock options is determined by the board of directors at the time of grant, but cannot be less than the fair market value of the common stock on the date of grant. The options vest over three and five years. The options must be exercised within ten years from the date of grant. At March 31, 2010, 169,925 options were available for grant.

A summary of the activity in the Company s stock option plan is as follows. All amounts reflect the 5% stock dividend declared in May 2009:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	419,956	$ 7.13		
Forfeited	(46,186)	7.25		
Outstanding and exercisable at March 31, 2010	373,770	$ 7.12	3.6 years	$ -

(7) ***Fair Value Measurements.*** Impaired collateral-dependent loans and foreclosed real estate are carried at fair value when the current collateral value less estimated selling costs is lower than the carrying value of the loan or foreclosed real estate. Those impaired collateral-dependent loans and foreclosed real estate which are measured at fair value on a nonrecurring basis are as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations For the Three Months Ended March 31, 2010
As of March 31, 2010:						
Impaired loans [(1)]	$ 14,075	-	-	14,075	2,599	536
Foreclosed real estate	$ 6,023	-	-	6,023	82	-

(1) Loans with a carrying value of $17,139,000 were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

(continued)

Table of Contents

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) ***Fair Value Measurements, Continued.*** The estimated fair values of the Company s financial instruments were as follows (in thousands):

	At March 31, 2010
	Carrying Amount
	33,697 $
	34,510
	131,152
	3,551

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

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

25

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

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

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

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

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

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

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

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

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

26

rrent produce our Siberian Ginseng Extract, Ginseng and Venison Extract and Badger Oil through a drug approval number using agreement with Renhuang Stock which may not be legal under the SFDA regulations.

to drug approval number using agreements between Renhuang Stock and our PRC subsidiary, our PRC subsidiary is producing three s, namely Siberian Ginseng Extract, Ginseng and Venison Extract and Badger Oil, which are registered under the name of Renhuang . These three products are produced in Dofanghong pharmaceutical plant, which we lease from Renhuang Stock. We have submitted ns to SFDA for the transfer of the registrations of these three products from Renhuang Stock to us. However, such arrangement made ur PRC subsidiary may be deemed as producing these three products without obtaining required drug approvals before we obtain the oduction permission of the drugs, which may result in administrative penalties including confiscation of the inventories of these three nfiscation of the gains arising from the manufacturing of these three products, fines, suspension of the operation and/or revocation of the Drug Production Permit of our PRC subsidiary.

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

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

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

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

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

Our holding company structure may hinder the payment of dividends.

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

A provision has not been made at October 31, 2011 for U.S. or additional foreign withholding taxes on approximately $79,375,132 of d earnings of foreign subsidiaries because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations.

Risks Related to Doing Business in China

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

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

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

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

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

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

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

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

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

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

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

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

lso subject to numerous national, provincial and local governmental regulations, including environmental, labor, waste management, l safety matters and product specifications and regulatory approvals from healthcare agencies. We are subject to laws and regulations ning our relationship with our employees including: wage requirements, limitations on hours worked, working and safety conditions, nship requirements, work permits and travel restrictions. These local labor laws and regulations may require substantial resources for

e. Our PRC subsidiary may not fully contribute the social insurance and housing fund for the employees and the failure to do so may lt in penalties and fines from PRC labor administration authorities at the provincial and local level. We are also subject to significant ment regulation with regard to property ownership and use in connection with our facilities in the PRC, import restrictions, currency tions and restrictions on the volume of domestic sales and other areas of regulation. These regulations can limit our ability to react to market pressures in a timely or effective way, thus causing us to lose business or miss opportunities to expand our business.

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

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

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

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

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

January, 2011, our PRC subsidiary was granted a 10% tax exempt and paid 15% of enterprise income tax. Before that time, our PRC y was granted by the national tax office of Ah City a tax holiday and was fully exempt from the 25% enterprise income tax. This tax was granted, without a statutory basis at the national level, by the governmental authorities of Ah City for the purposes of promoting local economic development.

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

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

Risks Related to our Securities

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

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

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

articles of incorporation provide that our board of directors will be authorized to issue from time to time, without further stockholder 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 cations, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares g any series or designations of any series. Such shares of preferred stock could have preferences over our common stock with respect nds and liquidation rights. We may issue additional preferred stock in ways which may delay, defer or prevent a change of control of npany without further action by our stockholders. Such shares of preferred stock may be issued with voting rights that may adversely he voting power of the holders of our common stock by increasing the number of outstanding shares having voting rights, and by the creation of class or series voting rights.

We do not expect to pay dividends.

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

The market price for our shares may be volatile.

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

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

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

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

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

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

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

e believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the eeable future. As of October 31, 2011, we had cash of approximately $15.28 million and total current assets of approximately $51.07 s of October 31, 2011, we had a working capital surplus of approximately $40.27 million. We may, however, require additional cash ue to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. ources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain one or more onal credit facilities. The sale of additional equity securities could result in additional dilution to our stockholders. The incurrence of dness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

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

ubstantial number of shares of our common stock in the public market, or the perception that such sales could occur, could adversely market price of our common stock. Our Articles of Incorporation permits the issuance of up to approximately 100,000,000 shares of on stock, of which there are 37,239,536 outstanding as of October 31, 2011. Thus, we have the ability to issue substantial amounts of common stock in the future, which would dilute the percentage ownership held by our current stockholders.

Item 1B. ***Unresolved Staff Comments.***

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

Item 2. ***Properties.***

our Dongfanghong pharmaceutical plant located at Hulin City, Heilongjiang Province from Renhuang Stock, a company 50% owned haoming Li, our chairman, chief executive officer and president. The lease has a total of approximately 3,580 square meters used for production and inventory. The lease is long term lease and we do not pay any rental fees for this.

r 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd (“Renhuang Stock”) to acquire se right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,096,070. The ty Natural and Biopharmaceutical plant is located at Harbin City, Heilongjiang Province and used for manufacturing and warehouse. the purchase agreement, a payment of $15,685,044 was made to Renhuang Stock in October 2009 and a payment of $7,842,522 was de to Renhuang Stock in January 2011, with a final payment of $1,568,504 will be paid once we received all the related title transfer ent 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.

sidiary entered into a Contract Letter dated March 3, 2007 with Yerui Pharmaceutical Co of Zhongfa Industry Group (“Yerui”), under our PRC subsidiary may, at a consideration of RMB 3,600,000 (including repayment of a bank loan granted by Agricultural Bank of na originally borrowed by Yerui with the amount of RMB 1,090,000), acquire the properties and assets of Yerui’s Chinese traditional plant. Our PRC subsidiary is currently allowed by Yerui to occupy and use the Qingyang plant without rent payment. The Qingyang ated at Harbin City, Heilongjiang Province and used for manufacturing and warehousing. However, our PRC subsidiary has not fully d the bank loan on behalf of Yerui nor has the ownership of the properties of Qingyang plant been transferred to our PRC subsidiary. tionally, the properties of Qingyang plant have been mortgaged to Agricultural Bank of China as collateral for the bank loan, and the Agricultural Bank of China will have the right to dispose of the mortgaged properties.

subsidiary entered into a Property Purchase Contract dated April 10, 2010 with Heilongjiang Yongtai Co, which is not a related party npany, pursuant to which our PRC subsidiary may purchase the 10th and 11th floors of the building located at No. 28, Changjiang St., ng District of Harbin Municipal. Our PRC subsidiary has paid the 1st installment of the total purchase price pursuant to such Property ontract and upon the full payment of the purchase price, Heilongjiang Yongtai Co. will transfer the ownership of such property to our PRC subsidiary. The Changjiang property is used by our corporate headquarters.

on of increasing demand of our products and further expansion of our business, we started Siberian Ginseng Depth Development and ation Project ("Ah City Phase Two") in the beginning of 2011. We have finished the architectural design of Ah City Phase Two project the process of obtaining approval documents from relevant government authorities. We expect to receive all the documents by April, will start the construction thereafter. As of October 31, 2011, we have incurred a total of $1,937,103of construction-in-progress. The hase Two project will be used for expanding our current Siberian Ginseng Series product production and is expected to be completed in the year of 2013.

eve our current facilities with the ability to manufacture 18 dosage forms and over 200 products could not meet our anticipated future and and we are building our Ah City Phase Two project to allow us to capture future market growth and demand for our products. In addition as part of our growth strategy, we may also acquire new facilities or business in the future to expand our business.

Item 3. ***Legal Proceedings.***

o time, we may be involved in litigation relating to claims arising out of its operations in the normal course of business. Any of these could subject us to costly litigation and, while we generally believe that we have adequate insurance to cover many different types of ur insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If re to happen, the payment of any such awards could have a material adverse effect on our results of operations and financial position. nally, any such claims, whether or not successful, could damage our reputation and business. As of December 31, 2011, we are not a to, or threatened by, any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Item 4. ***[Removed and Reserved.]***

PART II

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

Market Information

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

	High	Low
Year Ended October 31, 2010:		
1st Quarter	$1.18	$0.52
2nd Quarter	$3.00	$1.00
3rd Quarter	$2.79	$1.69
4th Quarter	$2.36	$1.26
Year Ending October 31, 2011:		
1st Quarter	$2.80	$1.80
2nd Quarter	$2.45	$1.40
3rd Quarter	$1.69	$0.71
4th Quarter	$1.42	$0.71

3, 2012, the closing sale price of our shares of common stock was $0.80 per share and there were 37,239,536 shares of our common tstanding. On October 31, 2011, our shares of common stock were held by approximately 77 stockholders of record. The number of ers was determined from the records of our transfer agent and does not include beneficial owners of our common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

Dividend Policy

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

Item 6. Selected Financial Data

Not applicable.

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

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

Overview

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

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

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

Pricing of Our Products. Seven of our products, which accounted for 36.2% of our total revenues in fiscal year 2011, 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.

n Capacity. We believe much of the pharmaceutical market in China is still underserved, particularly with respect to treatment of , melancholy and nerve regulation. The demand for our products that treat depression, melancholy and regulate nerves, continuously nd we were able to increase our production of such products to capture much of this growth. We believe our current facilities with to manufacture 18 dosage forms and over 200 products could not meet our future demand and we are building our Ah City Phase ct, Depth Development and Industrialization of Siberian Ginseng, to produce more advanced Siberian Ginseng products and to allow re future market growth and increase our revenue and market share accordingly.

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

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

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

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

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

37

Results of Operations

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

	For the year ended October 31,	
	2011	2010
	($ in thousands)	
Statements of Operations Data		
Sales, net	72,714	55,184
Cost of goods sold	29,531	25,766
Gross profit	43,183	29,418
Operating and administrative expenses		
Sales and marketing	6,024	4,966
General and administrative	4,046	3,615
Research and development	3,593	3,043
Total operating expenses	13,663	11,624
Income from operations	29,520	17,794
Other income	127	75
Income before income tax expenses	29,647	17,869
Income tax expenses	3,728	
Net income	25,919	17,869
Other comprehensive income:		
Cumulative currency translation adjustments	3,852	1,401
Total comprehensive income	29,771	19,270

Comparison of Years Ended October 31, 2011 and 2010

Total Comprehensive Income

Total comprehensive income increased by approximately $10.501 million, or 54.5%, from approximately $19.27 million in 2010 to ely $29.77 million in 2011. This increase was primarily attributable to an increase of approximately $17.53 million, or 31.8%, in net n increase of approximately $3.77 million, or 14.6%, in cost of goods sold and an increase of approximately $1.06 million, or 21.3%, nd marketing expenses, an increase of approximately $0.43 million, or 11.9%, in general and administration expenses, an increase of proximately $0.55 million, or 18.1%, in research and development expenses, and an increase of $2.45 million in cumulative currency translation adjustments. Our gross profit margin increased from 53.3% in 2010 to 59.4% in 2011.

Sales

es consist primarily of revenues generated from sales of Botanical anti-depression and nerve regulation products; Biopharmaceutical s and Botanical antibiotics and traditional OTC Chinese medicines. Sales increased by approximately $17.53 million, or 31.8%, from proximately $55.18 million in 2010 to approximately $72.71 million in 2011. This increase in sales was primarily attributable to the ing of our new products and strong market acceptance of our Siberian Ginseng Series products as a result of our marketing efforts, in addition to the price increase of our overall products.

38

e incentive sales rebates to our sales agents. The rebate rate, which is based on a product basis, averaged of 8.7% and 12.0% of total for the year ended October 31, 2011 and 2010, respectively. Sales rebates are netted against total sales. The following table sets forth mation regarding the net sales of our principal products before sales rebate during the fiscal years ended October 31, 2011 and 2010:

	2011			2010			2011 over 2010		
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	356	40,939	51.4 %	388	32,208	51.4 %	-32	8,731	0.0 %
Tianma Series	50	5,448	6.8 %	59	4,780	7.6 %	-9	668	-0.8 %
Compound Yangjiao Tablets	68	7,854	9.9 %	77	7,271	11.6 %	-9	583	-1.7 %
Shark Vital Capsules	-	-	0.0 %	5	2,345	3.7 %	-5	-2,345	-3.7 %
Shengmai Granules	52	2,427	3.0 %	79	3,224	5.1 %	-27	-797	-2.1 %
Banlangen Granules	39	1,587	2.0 %	49	1,374	2.2 %	-10	213	-0.2 %
Compound Honeysuckle Granules	115	8,046	10.1 %	163	9,723	15.5 %	-48	-1,677	-5.4 %
QingReJieDu Oral Liquid	36	1,295	1.6 %	16	473	0.8 %	20	822	0.8 %
Compound Schizandra Tablets	15	1,548	1.9 %	5	438	0.7 %	10	1,110	1.2 %
Ginseng and Venison Extract	66	8,283	10.4 %	10	865	1.4 %	56	7,418	9.0 %
Badger Oil	9	2,181	2.9 %	-	-	0.0 %	9	2,181	2.9 %
Total	806	79,608	100.0%	851	62,701	100.0%	-45	16,907	0.0 %

had increased sales, we experienced a decrease in the sales of a number of our products mainly from the following few reasons. First, d the overall selling prices of our products range from 14.6% to 46.5% on January 1, 2011. The market normally needs six months or to absorb the impact of price increase. Second, as the PRC government moves forward with the Healthcare Reform, we experienced ding fluctuation and this situation will continue until the Healthcare Reform fully in place and the national healthcare system mature. e increased the capacity per package for some of our products, such as Siberian Ginseng Tablets, the tablets per bottle increased from tablets per bottle. Fourth, we focused our effort to our main products, Siberian Ginseng Series, Ginseng and Venison Extract, Badger ompound Schizandra Tablets which accounted for 66.5% of our total sales and have higher gross margin and we have dominated the market of these four products and will continue to put more effort to strengthen our market share.

overnment is injecting funds into healthcare insurance system to reimburse full or part of the medical expenses consumed by Chinese Ve expect the Healthcare Reform, when fully in place, will greatly improve the affordability of healthcare cost of Chinese people and re increase the demand for our products. We have established Medical Reform Sales Department as a dedicated resource focused on capturing this tremendous growth opportunity.

39

ird quarter of our fiscal year 2010, we introduced two new products to the market, Qing Re Jie Du Oral Liquid, which is used to cure al flu, and Compound Schisandra Tablets, also known as magnolia vine, has been clinically proven to have significant benefits to the and regulation of the central nervous system. In the last quarter of our fiscal year 2010, we introduced Ginseng and Venison Extract o the market which nourishes the blood and kidney, restores the body's energy and increase endurance and has been in great demand unched the product. In the first quarter of our fiscal year 2011, we introduced Badger Oil which treats burns and scalds and attracted great attention from many patients.

On January 1, 2011, we increased the average sales price per pack of our products, as demonstrated in the table below:

	2011	2010
Sales revenues before sales rebate (in thousands)	$79,608	$62,701
Total sales quantity (pack in thousands)	806	851
Average selling prices/pack (in thousands)	$99	$74

crease in average sales price per pack, as reflected in the table, is primarily attributable to the increase in the sales price of individual products, namely Siberian Ginseng (Acanthopanax) Series, Tianma Series, Banlangen Granules and Ginseng and Venison Extract as ed in the following table, which reflects the average sales price per pack by product for 2011 and 2010 and the percentage changes in the sales price per pack.

	Average Price Per Pack		Percentage	
Product	2011	2010	**Change**	
Siberian Ginseng (Acanthopanax) Series	$115	$83	38.5	%
Tianma Series	109	81	34.5	%
Compound Yangjiao Tablets	116	94	23.4	%
Shark Vital Capsules	-	469	-100.0	%
Shengmai Granules	47	41	14.6	%
Banlangen Granules	41	28	46.4	%
Compound Honeysuckle Granules	70	60	16.7	%
Compound Schizandra Tablets	103	88	17.0	%
Ginseng and Venison Extract	126	86	46.5	%
Qing Re Jie Du Oral Liquid	36	30	20.0	%
Badger Oil	242	-	-	
Total	$99	$74	33.8	%

expect the demand for our products will increase as we continue to garner greater market acceptance, in particular the benefits of our nseng (Acanthopanax) Series in treating depression and nerve-regulation. Further, we see signs of increased demand from our newly oduct, Ginseng and Venison Extract which accounted for over 10% of our total sales revenue in fiscal year 2011. We believe that we e 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 China's essential medicine suppliers as the PRC government moves forward with its Health Reforms in 2012.

Cost of Goods Sold

sts of goods sold consist primarily of direct and indirect manufacturing costs, including raw material, packaging material, labor cost, nd depreciation. Cost of goods sold increased approximately $3.77 million, or 14.6%, from approximately $25.77 million in 2010 to ely $29.53 million in 2011. This increase was primarily attributable to increase in products sold and increases in certain raw material prices such as sugar and Siberian Ginseng raw material.

ugh we anticipate that the cost of goods will increase due to inflationary price increases, we do not believe that such increases will be for fiscal year 2012. We anticipate that beyond 2012, our price for raw materials and other production costs will continue to increase e 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 t expenses. Our total operating expenses increased by approximately $2.04 million, or 17.5%, from approximately $11.62 million in 2010 to approximately $13.66 million in 2011.

d Marketing. Our sales and marketing expenses consist primarily of advertising and market promotion expenses, and other overhead s incurred by the Company's sales and marketing personnel. Sales and marketing expenses increased approximately $1.06 million, or %, from approximately $4.97 million for 2010 to approximately $6.02 million for 2011. This increase was primarily attributable to an se of approximately $0.97 million, or 20.2%, in advertising expenses as the Company intensified TV advertisements in Heilongjiang for our botanic anti-depression series. Sales and marketing expenses are likely to increase as we continue expanding our distribution network throughout China and seek to increase our market share and awareness of our products.

l Administrative. Our general and administrative expenses consist primarily of salary, travel, entertainment expenses, rental, benefits, ased compensation, and professional service fees. General and administrative expenses increased by approximately $0.43 million, or , from approximately $3.61 million for 2010 to approximately $4.05 million for 2011. This increase was primarily attributable to an approximately $0.29 million in rental expenses, an increase of approximately $0.13 million in amortization expenses and an increase 60.09 million in salary expenses. General and administrative expenses are likely to increase as we continue to expand our production, sourcing capacity, and distribution capacity throughout China.

arch and Development. Our research and development expenses consist primarily of salary, equipment rental expenses, and Siberian (Acanthopanax) cultivation related expenses. Research and development expenses increased approximately $0.55 million, or 18.1%, ximately $3.04 million for 2010 to approximately $3.59 million for 2011. This increase was primarily attributable to development of erian Ginseng (Acanthopanax) cultivation and extraction of effective components of the Siberian Ginseng (Acanthopanax) plant, and ment of other products, and research in cultivation techniques for Siberian Ginseng. Research and development expenses are likely to increase as we continue to devote our resources to development of new products and enhancement of our existing products.

Income from Operations

esult of the foregoing, our income from operations increased by approximately $11.73 million, or 65.9%, from approximately $17.79 million in our fiscal year 2010 to approximately $29.52 million in our fiscal year 2011.

Income Tax Expenses

ubject to U.S. federal and state income taxes. Our subsidiary registered in the PRC is subject to enterprise income taxes in China. For r years of 2011and 2010, our PRC subsidiary was granted a tax reduction of 10% and 25%, respectively, with income tax payable of %, respectively. Our income tax expenses increased from $0 for fiscal year 2010 to approximately $3.73 million for fiscal year 2011.

Cumulative Currency Translation Adjustments

cipal country of operations is the PRC and our functional currency is the Renminbi, but our reporting currency is the U.S. dollar. All djustments resulting from the translation of our financial statements into U.S. dollars are reported as cumulative currency translation ts. Our cumulative currency translation adjustments increased by approximately $2.45 million, from approximately $1.40 million in 2010 to approximately $3.85 million in 2011.

Liquidity and Capital Resources

ined earnings of approximately $53.46 million and $79.38 million as of October 31, 2010 and 2011, respectively. As of October 31, had cash of approximately $15.28 million and total current assets of approximately $51.07 million. As of October 31, 2011, we had a ital surplus of approximately $40.84 million. 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 cash flow information is as follows:

	Year ended October 31	
Net cash provided by (used in):	2011	2010
	($ in thousands)	

Operating activities	21,140	23,835
Investing activities	(34,664)	(4,699)

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased approximately $2.70 million, from net cash provided by operating activities of
ately $23.84 million in 2010 to net cash provided by operating activities of approximately $21.14 million in 2011. This decrease was
attributable to an increase in net income of approximately $8.05 million, an increase in the trade receivables of approximately $4.61
result of increased sales, an increase in inventories of approximately $4.97 million, an increase in other receivables of approximately
$6.37 million and an increase in tax payable of approximately $4.90 million.

Net Cash Used in Investing Activities

ed in investing activities increased approximately $29.97 million, from approximately $4.70 million in 2010 to approximately $34.66 n 2011. This increase was primarily attributable to the increase in payments made to purchase land use right, exclusive using right of undergrowth resources, prepayment of five patents and construction in progress.

Net Cash Provided by Financing Activities

We did not have any financing activities during fiscal years ended October 31, 2011 and 2010.

Outstanding Long-Term Indebtedness

None

Expansion Strategy

the market for pharmaceutical products in China is growing rapidly. Our growth strategy involves capturing as much of this market ible during this rapid growth phase. To implement this strategy we plan to strengthen our dominant position in the Siberian Ginseng ax) market, expand our Siberian Ginseng (Acanthopanax) cultivating bases and improving the quality standards of Siberian Ginseng opanax), 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 ng. In general, the commitment of funds to research and development, or acquisition or construction of plant and equipment tends to idity. However, we believe that because of the upward trend in our revenues in recent years, even if this trend levels off, our income uing operations coupled with such additional financing, if required, should provide sufficient liquidity to meet our expansion needs.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

r 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock") to acquire nd use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,096,070. the purchase agreement, a payment of $15,685,044 was made to Renhuang Stock in October 2009 and a payment of $7,842,522 was de to Renhuang Stock in January 2011, with a final payment of $1,568,504 will be paid once we received all the related title transfer ent 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.

), 2010, CBP China entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two s for a total consideration of $6,017,504. Pursuant to the Purchase Agreement, a payment of $4,212,253 was made in April 2010 and as deposits on the consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $1,805,251 is due by December 2, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as at October 31, 2011.

43

Name of Fixed Asset	Purchase Date	Prepaid Amount	**Remaining Amount**	Total Amount
		US$	US$	US$
Ah City Pharmaceutical Plant	October, 2009	23,527,566	1,568,504	25,096,070
Two Office Floor	April, 2010	4,212,253	1,805,251	6,017,504
Total		27,739,819	3,373,755	31,113,574

2011, CBP China started its Ah City Phase Two project for Siberian Ginseng products development and industrialization and entered nstruction and Engineering Design Contract (the "Contract") with Heilongjiang Medical Architecture Design Institute (the "Institute") fo l design. A few payments have been made to Institute and relevant local government departments for design and start up fees and we ded $1,937,103 as Construction in progress for Ah City Phase Two project. The estimated total investment for Ah City Phase Two is . In anticipation of the project proceeding, we expect to pay approximately $9,356,129 in our fiscal year 2012 and $7,528,821 in our fiscal year 2013. The project is anticipated to be finished in 2013.

Name of Construction in Progress	Started Date	Paid Amount	**Remaining Amount**	**Projected Total Amount**
		US$	US$	US$
Ah City Phase Two(Siberian Ginseng Product Industrialization)	August, 2011	1,937,103	16,884,950	18,822,053

y 11, 2011, CBP China entered into an Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest urces under Yichun Red Star Forestry Bureau (the "Agreement") with Yichun Red Star Forestry Bureau of Heilongjiang Province (the orestry Bureau") which provides us with 30 years exclusive license right to use approximately 6,667 hectares of undergrowth resources pproximately 67 hectares of Siberian Ginseng GAP cultivation base in Heilongjiang Province. Pursuant to the Agreement, a payment 7,842,522 was made to Forestry Bureau in January, 2011, second payment of $6,274,018 was made in October, 2011 and with a final ent of $1,568,504 due in 12 months from the date of Agreement approved by local government authorities for a total consideration of 5,685,044. Siberian Ginseng is a plant with medically-established anti-depressant and mood regulation qualities and is also an active gredient 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.

In the fourth quarter of our fiscal year 2011, we purchased five patents listed as the following table.

angible Assets	Purchase Date	Paid Amount	**Remaining Amount**	Total Amount
		US$	US$	US$
redients and preparation for Parkinson Drug	August, 2011	1,348,914	1,348,914	2,697,828

redients and preparation for XiangDousu	August, 2011	1,333,229	1,333,229	2,666,458
douye Extract	September, 2011	1,882,205	1,882,205	3,764,410
ngdoushan Extract	September, 2011	2,368,442	2,368,442	4,736,884
redients and preparation for Jizhi Pills	October, 2011	2,117,481	2,117,481	4,234,962
Star Forrest Bureau Undergrowth Resource Exclusive Licensing right	January, 2011	14,116,540	1,568,504	15,685,044
		23,166,811	10,618,775	33,785,586

y 1, 2011, the Company entered into an advertising contract with Harbin Weishi Advertising Company to advertise its products from February 1, 2011 to January 31, 2012 as shown on the following table.

Advertising Contract	Contract Date	Paid Amount US$	Remaining Amount US$	Total Amount US$
Harbin TV Weishi Advertising Company	February, 2011	4,587,875	1,529,292	6,117,167

October 31, 2011, the Company has capital commitments for purchase of Ah City Nature and Pharmaceutical Plant, two office floors, vth resources right, five patents, advertising contract and Ah City Phase Two construction in progress of approximately $32,406,772. The amounts to be paid in the future years are as follows:

Calendar Year	Payment for properties
2012	$23,072,700
2013	9,334,072
2014	
2015	
2016	
Thereafter	
Total	$32,406,772

Critical Accounting Policies

onsolidated 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

mounts included in or affecting our consolidated financial statements and related disclosures must be estimated, requiring us to make ssumptions with respect to values or conditions that cannot be known with certainty at the time the financial statements are prepared. imates and assumptions affect the amounts we report for assets and liabilities and our disclosure of contingent assets and liabilities at e of our financial statements. We routinely evaluate these estimates, utilizing historical experience, consulting with experts and other we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any 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.

45

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

f 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.

timate 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.

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

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

cognition – 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.

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

New Accounting Pronouncements

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

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

46

011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which revises the which entities present comprehensive income in their financial statements. This ASU removes the presentation options in Topic 220 ires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two te but consecutive statements. This ASU does not change the items that must be reported in other comprehensive income. For public ties, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early permitted. This ASU does not require incremental disclosures in addition to those required by Topic 250 or any transition guidance. use the Company is currently adopted to present comprehensive income within the consolidated statements of changes of equity and it is expected this ASU would change the presentation of comprehensive income in the Company's consolidated financial statements upon its adoption. It is not expected to have a material impact on the Company's consolidated financial statements.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

Financial Statements

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

ober 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our chief officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such ed under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act"). Accordingly, based evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were not ective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, zed and reported, within the time periods specified by the Securities and Exchange Commission's rules and regulations. Based on the gement's assessment and review of our financial statements and results for the year ended October 31, 2011, we have not established effective internal controls.

Management's Report on Internal Control over Financial Reporting

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

48

review of our financial statements and results for the year ended October 31, 2011, our management, under the supervision and with participation of our chief executive officer and chief financial officer, assessed the effectiveness of our internal control over financial ng. Based on the evaluation of our internal control over financial reporting, we determined that we had significant deficiencies which sely affect our ability to initiate, authorize, record, process or report financial data in accordance with US GAAP. While the areas we d are sources of potential risk, we do not believe that these potential risks have affected our financial statements or that there are any our previously reported financial statements that would require restatement. The significant deficiencies we found related to a lack of ent qualified accounting and financing personnel with an appropriate level of US GAAP knowledge and experience appropriate to its eporting requirements. Based on our evaluation and because of the significant deficiencies we identified, our management concluded that our internal control over financial reporting was not effective as of October 31, 2011.

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

Remediation Plan

voting significant resources to remediating, improving and documenting our disclosure controls and procedures and internal controls edures, and implementing additional financial and management controls, reporting systems and procedures. These measures may not ensure the adequacy of our internal controls over our financial processes and reporting in the future.

Changes in Internal Controls

ird quarter of our 2009 fiscal year, we have begun the implementation of remedial measures including hiring of a new chief financial ficer in January 2010 (who resigned on August 3, 2010 for personal reason and was replaced by an interim chief financial officer. On mber 14, 2010, we subsequently hired Mr. Weiqiu Dong as our new chief financial officer), adding additional staff, appointing three nt Directors to our board of directors, engaging consultants to advise management on the preparation of Sarbanes-Oxley Section 404 liance with internal controls over financial reporting for fiscal year 2011, providing relevant training to our staff, implementing more gorous policies and procedures relating to period-end financial reporting and other key processes, strengthening key controls such as l-entry approval, reconciliation procedures and maintaining relevant supporting documentation. We expect to continue to implement nal financial and management controls and procedures going forward. As results of these measures and until we have completed the remediation process, there has been and will be changes and further improvement to our internal controls over financial reporting.

Item 9B. Other Information

None.

49

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors, Executive Officers and Significant Employees

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

Name	Age	Position	Period Served
Shaoming Li	50	Chairman of the board of directors, Chief Executive Officer, and President	2006-present
Weiqiu Dong	41	Chief Financial Officer	2010-present
Zack Pan	44	Independent Director, Chairman of Audit Committee	2011-present(1)
Bingchun Wu	79	Independent Director, Chairman of Compensation Committee	2010-present
Changxiong Sun	67	Independent Director, Chairman of Nominations Committee	2010-present
Dianjun Pi	56	Director	2010-present
Jiang He	41	Secretary	2006-present

(1) Mr. Pan was appointed on October 15, 2011 by the Board of Directors.

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

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

. Zack Pan was appointed to our board of director on October 15, 2011. Mr. Pan is Chairman of the Audit Committee of the board of . From December 30, 2009 until April 2011, Mr. Pan served as a director of Biostar Pharmaceuticals, Inc., a Chinese pharmaceutical listed on NASDAQ (“Biostar”), and also the chairman of the board of directors’ audit committee of Biostar. Since April 2011, Mr. Pan has served as Chief Financial Officer of Biostar. Mr. Pan is a Certified Public Accountant, certified by the Oklahoma State Board of ccountancy and member of American Institute of Certified Public Accountant (AICPA). Mr. Pan was chief financial officer of China Alliance, Inc., a provider of quality educational resources in China, to which he was appointed in August 2009. Prior to that position, s an audit manager with Eide Bailly CPAs & Business Advisors (“Eide Bailly”) at its Oklahoma City office. Mr. Pan had been working y since September 2005. From September 1998 to September 2005, Mr. Pan was a statistical analyst and economist with the State of oma. From 1994 to 1996, Mr. Pan worked as a loan project officer for Asian Development Bank Loan Management Office in Anhui, na. From 1988 to 1994, Mr. Pan was an associate professor at Anhui University, China. Mr. Pan graduated with a Master of Business istration from the University of Central Oklahoma in 1999. He obtained his Bachelor of Arts from Anhui University, China in 1988.

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

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

n Pi. Dianjun Pi was appointed to the board of directors on April 27, 2010. Since 2004, Mr. Pi has served as our Executive Manager. 003 to 2004, Mr. Pi served as the Assistant General Manager of Sunflower Pharmaceuticals. From 1992 to 2003, Mr. Pi served as the General Manager of China Resources Snow Breweries Co., Ltd. Mr. Pi has a post graduate degree from Renmin University of China.

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

Our Board of Directors

ring fiscal year 2011, our board of directors is comprised of a majority of independent directors as defined under NYSE Amex listing . Messrs. Pan, Sun and Wu satisfy the independence requirements established by Section 803(A)(2) of the NYSE AMEX Rules. The rectors has determined that none of the designated independent directors have any relationship that, under NYSE Amex rules, would ir service on any of the standing committees of the board of directors. In making its determination, the board considered transactions and relationships between each director or his immediate family and the Company and its subsidiaries.

ved as our independent director and chairman of our audit committee since October 15, 2011. Prior to that time, Mr. Xiaoheng Shao, our former director served as our independent director and chairman of our audit committee.

a smaller reporting company and under the NYSE AMEX Rules, we are only required to maintain a Board comprising of directors at f of which are independent directors, and an audit committee of at least two members, comprised solely of independent directors who also meet the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended ("Exchange Act").

the following board committees: Audit Committee, Compensation Committee and Nominations Committee. Each Board Committee sts entirely of independent and non-employee directors. The Board has adopted a written charter for each of the committees which is on the Company's website www.renhuang.com. Printed copies of each of our committee charter may be obtained, without charge, by the corporate secretary, China Botanic Pharmaceutical Inc., Level 11, Changjiang International Building, No. 28, Changjiang Road, Nangang District, Harbin, Heilongjiang Province, China 150090.

Board Leadership Board's Role in Risk Oversight

rman of the board of director and chief executive officer is Mr. Li. During fiscal year 2011, the majority of directors are independent Audit Committee, Compensation Committee and Nominating Committee are comprised entirely of independent directors. We do not ead independent director. Audit Committee is responsible for oversight of risks relating to our accounting matters, financial reporting gal and regulatory compliance. To satisfy these oversight responsibilities, the Audit Committee meets with management, our internal ditor and independent registered public accounting firm. The Compensation Committee is responsible for overseeing risks relating to oyment policies and our policies on structuring compensation programs. To satisfy these oversight responsibilities, the Compensation ittee intends to meet regularly with management to understand the implications of compensation decisions, and particularly risks our compensation policies pose to our finances, human resources and stockholders.

Meetings of the Board of Directors

he fiscal year 2011, our board took action by unanimous board of director consents 1 time and held 1 meeting. During the fiscal year audit committee held 4 meetings and took action by written consent 1 time, and our nominating committee did not hold a meeting in r 2011. We do not have a policy with regard to Board members' attendance at annual meetings of stockholders. All directors with the exception of Mr. Xiaoheng Shao attended our 2010 Annual Meeting of Stockholders.

Audit Committee

f directors has established an Audit Committee in accordance with section 3(a)(58)(A) of the Exchange Act which, during fiscal year nsists of the following independent directors: Messrs. Pan, Sun and Wu. Mr. Pan, served as our independent director and chairman of committee since October 15, 2011. Prior to that time, Mr. Xiaoheng Shao, our former director served as our independent director and chairman of our audit committee.

ber of the Audit Committee meets the independence criteria prescribed by Rule 10A-3 under the Exchange Act, and each constitutes an "independent director" as defined in Section 803(A)(2) of the NYSE AMEX Rules.

primary purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the function of the Audit e includes retaining our independent auditors, reviewing their independence standards, reviewing and approving the planned scope of ual audit, reviewing and approving any fee arrangements with our auditors, overseeing their audit work, reviewing and pre-approving on-audit services that may be performed by them, reviewing the adequacy of accounting and financial controls, reviewing our critical accounting policies and reviewing and approving any related party transactions.

Audit Committee Financial Expert

ober 15, 2011, Mr. Pan was appointed as the chairman of audit committee of our board of directors and served as the chairman of our audit committee. From December 30, 2009 until April 2011, Mr. Pan served as a director of Biostar Pharmaceuticals, Inc., a Chinese utical company listed on NASDAQ ("Biostar"), and also the chairman of the board of directors' audit committee of Biostar. Since April Pan has served as Chief Financial Officer of Biostar. Mr. Pan is a Certified Public Accountant, certified by the Oklahoma State Board ccountancy and member of American Institute of Certified Public Accountant (AICPA). Mr. Pan was chief financial officer of China Alliance, Inc., a provider of quality educational resources in China, to which he was appointed in August 2009. Prior to that position, s an audit manager with Eide Bailly CPAs & Business Advisors ("Eide Bailly") at its Oklahoma City office. Mr. Pan had been working Bailly since September 2005. During his term with the Company, Mr. Pan's extensive finance, industry, and CFO experience provides Board with a valuable resource in understanding company operations and evaluating strategic opportunities. During fiscal year ended ber 31, 2011, the Board has determined that Mr. Pan is the "audit committee financial expert" as such term is defined in Item 407(d) of Regulation S-K promulgated by the SEC.

Other Board Committees

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

ination Committee held 1 meeting during fiscal year 2011. The Compensation Committee did not hold a meeting in fiscal year 2011.

53

Compensation Committee

pensation Committee assists the Board in discharging the Board’s responsibilities relating to management organization, performance, pensation and succession. The Compensation Committee is permitted to delegate its authority in accordance with Nevada law unless d by the Company’s bylaws or the Compensation Committee charter. In discharging its responsibilities, the Compensation Committee shall, amongst other things:

nd authorize the compensation philosophy for the Company's personnel.
l approve corporate goals and objectives relevant to chief executive officer and senior management compensation, evaluate chief fficer and senior management performance in light of those goals and objectives and, either as a committee or together with other t directors (as directed by the Board of Directors), determine and approve chief executive officer and senior management on based on this evaluation.
eview and approve perquisites for the chief executive officer and senior management.
nmendations to the Board of Directors with respect to the Company's employee benefit plans.
 incentive, deferred compensation and equity based plans.
eview and update this Charter for consideration by the Board of Directors.
valuate performance and function of the Compensation Committee.
matters considered and actions taken by the Compensation Committee to the Board of Directors.

Compensation Committee Interlocks and Insider Participation

nt members of the Compensation Committee are independent directors, and all past members were independent directors at all times r service on such Committee. None of the past or present members of our Compensation Committee are present or past employees or of ours or any of our subsidiaries. No member of the Compensation Committee has had any relationship with us requiring disclosure -04 of Regulation S-K. None of our executive officers serves on the board of directors or compensation committee of a company that has an executive officer that serves on our Board or compensation committee.

Nominations Committee

tions Committee assists the Board in identifying individuals qualified to become our directors and in determining the composition of the Board and its committees. The Nominations Committee is responsible for, among other things:

nmendations to the Board with respect to the size and composition of the Board;
nmendations to the Board on the minimum qualifications and standards for director nominees and the selection criteria for the Board nd

qualifications of potential candidates for the Board;
mmendations to the Board on nominees to be elected at the Annual Meeting of Stockholders; and
entify a qualified director nominee, in the event that a director vacancy occurs, to be recommended to the Board for either
t by the Board to serve the remainder of the term of a director position that is vacant or election at the Annual Meeting of the
rs.

54

Code of Ethics

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

of our knowledge, based solely on information publicly available, during the fiscal year ended October 31, 2011, all of our directors and executive officers complied with Section 16(a) filing requirements.

Involvement in Certain Legal Proceedings

directors, executive officers or control persons has been involved in any of the events described in Rule 401(f) of Regulation S-K in the last 10 years.

55

Item 11. Executive Compensation

Summary Compensation Table

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

owing table sets forth information regarding all forms of compensation received by all persons who served as our Principal Executive nd Principal Financial Officer during the fiscal years ended October 31, 2011 and 2010, respectively. We did not have any executive officer who received more than $100,000 for services during the fiscal years ended October 31, 2011 and 2010, respectively.

rincipal	Year (b)	Salary (c)	Bonus (d)	Stock Awards (e)(1)	Option Awards (f)(1)	All Other Compensation (g)	Total (h)
, Chairman of Board of Directors, Chief Executive President	2011	$31,250	$ -0-	$ -0-	$-0-	$ -0-	$31,250
	2010	$31,250	$ -0-	$ -0-	$-0-	$ -0-	$31,250
g, ial Officer(2)	2011	$91,993	$ -0-	$ -0-	$259,251 (2)	$ -0-	$351,2444
	2010	$-	$ -	$ -	$-	$ -	$-
, im Chief Financial Officer(3)	2011	$7,051	$ -0-	$ -0-	$-0-	$ -0-	$7,051
	2010	$7,051	$ -0-	$ -0-	$-0-	$ -0-	$7,051
	2011	$4,500	$ -0-	$ -0-	$-0-	$ -0-	$4,500
	2010	$4,500	$ -0-	$ -0-	$-0-	$ -0-	$4,500

(1) Reflects the grant date fair value of the awards calculated in accordance with FASB ASC Topic 718 – Stock Compensation.

ong was appointed to the position of Chief Financial Officer effective December 14, 2010. In accordance with the appointment, Mr. eived, on December 16, 2010, an option to purchase 200,000 shares of the Company's common stock under our 2003 Omnibus Plan. n has a six (6) year term and vests 60,000 shares on the first anniversary of the date of grant and 70,000 shares on each of the second ird anniversaries of the date of grant, conditioned upon continued employment on such date. The exercise price of the option grant is osing price on the date of the grant. The fair value of the option award is $259,251, of which $76,032 was recorded as compensation expenses for fiscal year ended October 31, 2011 and $0 was recorded for fiscal year ended October 31, 2010.

56

u was appointed to the position of interim Chief Financial Officer effective August 20, 2010 and replaced by Mr. Dong on December 14, 2010.

Employment Agreements with Executive Officers

mber 14, 2010, we entered into the CFO Appointment Agreement with Mr. Weiqiu Dong, who became our chief financial officer on hat date. The agreement provides that Mr. Dong will receive an annual base salary of RMB 600,000 per year. In accordance with the t, Mr. Dong received, on December 16, 2010, an option to purchase 200,000 shares of the Company's common stock under our 2003 an. The option has a six (6) year term and vests 60,000 shares on the first anniversary of the date of grant and 70,000 shares on each d and third anniversaries of the date of grant, conditioned upon continued employment on such date. The exercise price of the option grant is $2.12, the closing price on the date of the grant. Fair market value of the option granted was $259,251.

ve no other employment agreements with our executive officers. Our chairman, chief executive officer and president, Mr. Li receives annual salary and is reimbursed for out of pocket expenses. Our secretary, Mr. He receives $4,500 in annual salary and is reimbursed for out of pocket expenses.

Benefit Plans

have any profit sharing plan or similar plans for the benefit of our officers, directors or employees. However, we may establish such the future. Certain employees of our subsidiary, including Mr. Shaoming Li, our Chairman, Chief Executive Officer, and President, receive pension and healthcare benefits through plans offered by such subsidiary, as required by local Chinese laws.

2007 Non-Qualified Company Stock Grant and Option Plan and 2003 Omnibus Securities Plan

19, 2007, our board of directors approved the 2007 Non-Qualified Company Stock Grant and Option Plan (the “2007 Plan”). The 2007 n is intended to serve as an incentive and to encourage stock ownership by our directors, officers, and employees, and certain persons ervice 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 Plan, up to 200,000 shares of our common stock may be subject to options.

n February 28, 2003, our board of directors approved our 2003 Omnibus Securities Plan (the “2003 Plan”), which was approved by our olders on April 11, 2003. The 2003 Plan offers selected employees, directors, and consultants the opportunity to acquire our common nd serves to encourage such persons to remain employed by us and to attract new employees. The 2003 Plan allows for the award of 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 number of shares in the 2003 Securities Plan is automatically adjusted to an amount equal to ten percent of our outstanding stock on of the immediately preceding year. As of April 30, 2011, the number of shares of common stock outstanding was 37,239,536 making 3,723,954 shares of common stock subject to the 2003 Plan.

57

Outstanding Equity Awards at October 31, 2011

owing table sets forth certain information concerning unexercised options, stock that has not vested, and equity incentive plan awards outstanding as of October 31, 2011 for the named executive officers below:

Outstanding Equity Awards at Fiscal Year Ended

October 31, 2011

	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
ui Dong(1)	0	200,000	0	$ 2.12	12/16/2016	–	–	–	–

000 options vest on December 14, 2011, 70,000 options vest on December 14, 2012, and 70,000 options vest on December 14, 2013.

Compensation of Directors

The following table sets forth compensation paid to our non-executive directors for the fiscal year ended October 31, 2011.

Name

(a)	Fees Paid in Cash ($) (b)[1]	Stock Awards ($) (c)[2]	Option Awards ($) (d)[2]		Non-Equity Incentive Plan Compensation ($) (e)	Nonqualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($)
Zack Zibing Pan	1,250	-0-	34,042	(3)	-0-	-0-	-0-	35,292
Bingchun Wu	5,527	-0-	-0-		-0-	-0-	-0-	5,527
Changxiong Sun	5,527	-0-	-0-		-0-	-0-	-0-	5,527
Xiaoheng Shao	36,000	-0-	-0-	(4)	-0-	-0-	-0-	36,000

(1) The dollar value reflected is based on the average exchange rate for fiscal year 2011 with 1US Dollar equals to 6.52225RMB.

58

(2) Reflects the grant date fair value of the awards calculated in accordance with FASB ASC Topic 718 – Stock Compensation.

tered into an independent director agreement with Mr. Pan dated October 15, 2011, pursuant to which, as consideration for Mr. Pan's ces, we agreed to: (i) pay Mr. Pan a fee of $2,500 per month, (ii) grant Mr. Pan an option to purchase 50,000 shares of common stock 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, ect 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 st on the 12th quarter anniversary of the grant with the initial 4,166 shares of option vesting to commence on January 15, 2012). The lue of the option award is $34,042, of which $2,837 was recorded as compensation expenses for fiscal year ended October 31, 2011.

red into an independent director agreement with Mr. Shao dated April 13, 2010, pursuant to which we granted Mr. Shao an option to total amount of 70,000 shares of our common stock under the 2003 Plan at a purchase price of $2.57 per share. Mr. Shao serviced as nded on October 15, 2011 and was vested options to purchase an aggregate 34,998 shares of our common stock. The fair value of the rd is $171,397, of which $57,131 and $31,462, respectively, were recorded as compensation expenses for fiscal years ended October 31, 2011 and 2010.

Independent Director Agreements

We currently have agreements with our independent directors.

tober 15, 2011, we entered into an independent director agreement with Mr. Pan, who became our director on October 15, 2011. The t 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 es 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 ock 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 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 ommence on January 15, 2012), and with all vesting conditional upon continued service as a director of the Company as of each such ; 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.

19, 2010, we entered into an independent director agreement with Mr. Wu, who became a director on April 20, 2010. The agreement s that Mr. Wu will receive a compensation of approximately RMB 3,000 per month for board meeting attendance as well as expense ent. The Agreement expires on the earlier of (i) the date Mr. Wu ceases to be a member of the board, or (ii) the date of termination of the Agreement.

19, 2010, we entered into an independent director agreement with Mr. Sun, who became a director on April 20, 2010. The agreement s that Mr. Sun will receive a compensation of approximately RMB 3,000 per month for board meeting attendance as well as expense ment. The Agreement expires on the earlier of (i) the date Mr. Sun ceases to be a member of the board, or (ii) the date of termination of the Agreement.

3, 2010, we entered into an independent director agreement with Mr. Shao, who became a director on April 15, 2010. The agreement that Mr. Shao, the Chair of our Audit Committee, will receive a compensation of approximately $3,000 per month for board meeting nce as well as expense reimbursement. Additionally, Mr. Shao was granted an option to purchase up to 70,000 shares of our common the 2003 Plan, at an exercise price of $2.57 per share. The option will vest on a quarterly basis such that Mr. Shao will be entitled to hase 5,833 shares of our common stock on the first 11 quarter anniversaries of the grant date (April 15, 2010) and 5,837 shares of our mmon stock on the twelfth quarter anniversary of the grant date. The option has a term of 3 years, starting from the date of grant. The nt expires on the earlier of (i) the date Mr. Shao ceases to be a member of the board, or (ii) the date of termination of the Agreement. eased to be a director on October 15, 2011 and received 34,998 options for his past service with our company. The remaining 35,002 option shares have been cancelled.

rently no agreement with Mr. Li or Mr. Pi for compensation. Mr. Li and Mr. Pi are entitled to reimbursement for travel expenses. We do not pay additional amounts for committee participation or special assignments of the board of directors.

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

wing table sets forth, as of December 31, 2011, information concerning the beneficial ownership of shares of our common stock held rectors, our named executive officers, our directors and executive officers as a group, and each person known by us to be a beneficial owner of 5% or more of our outstanding common stock.

neficial ownership is determined according to the rules of the SEC. Beneficial ownership means that a person has or shares voting or power of a security and includes any securities that person has the right to acquire within 60 days after the measurement date, such as rable pursuant to options, warrants or convertible notes. Except as otherwise indicated, we believe that each of the beneficial owners non stock listed below, based on information each of them has given to us, has sole investment and voting power with respect to such ficial owner's shares, except where community property or similar laws may apply. For purposes of the column for shares underlying ertible securities, in accordance with rules of the SEC, shares of our common stock underlying securities that a person has the right to thin 60 days of December 31, 2011 are deemed to be beneficially owned by such person for the purpose of computing the percentage p of that person, but we do not treat them as outstanding for the purpose of computing the ownership percentage of any other person.

	Common Stock Beneficially Owned			
ddress of Beneficial	Total Outstanding	Shares Underlying Convertible Securities [1]	Total	Percent [2]
d Named Executive Officers[3]				
i	17,850,000 [4]	0	17,850,000	47.9 %
g	21,800	60,000 [5]	81,800	*
	0	4,166 [6]	4,166	*
ao[7]	0	34,998 [7]	34,998	*
u	0	0	0	*
Sun	0	0	0	*
	4,278,000 [8]	0	4,278,000	11.5 %
	0	0	0	*
d executive officers as sons)	22,149,800 [9]	99,164	22,249,964	59.6 %
al Owners				
– New BVI Co.[10]				
7, Offshore Incorporation Center, Road Town, Tortola, British Virgin	2,670,000	0	2,670,000	7.2 %
man – Total Prosperity Company Limited[11]				
7, Offshore Incorporation Center, Road Town, Tortola, British Virgin	3,159,450	0	3,159,450	8.5 %

*Individual owns less than 1% of our securities.

shares of our common stock issuable upon exercise of options or upon conversion of warrants or convertible notes within 60 days.
n 37,239,536 shares of our common stock outstanding as of December 31, 2011.
ress for this beneficial owner is No. 281, Taiping Road, Taiping District, Harbin, Heilongjiang Province, China 150050.
17,850,000 shares of common stock owned by Celebrate Fortune Company Limited, an entity controlled by Mr. Shaoming Li.
options to purchase 60,000 shares of common stock as of December 31, 2011, with an exercise price of $2.12 per share, in
on with option granted on December 14, 2010 to purchase 200,000 shares of our common stock. The option vest on an annual basis
Mr. Dong is entitled to purchase 60,000 shares of our common stock on the first anniversary of the grant date and 70,000 shares of
mon stock on the send and third anniversary of the grant date.
options to purchase 4,166 shares of common stock as of December 31, 2011, with an exercise price of $0.80 per share, in
on with option granted on October 15, 2011 to purchase 50,000 shares of our common stock. The option vest on a quarterly basis
t Mr. Pan is entitled to purchase 4,166 shares of our common stock on the first 11 quarter anniversaries of the grant date and 4,174
f our common stock on the twelfth quarter anniversary of the grant date.
o cease to be our director on October 15, 2011. Includes options to purchase 34,998 shares of our common stock.
4,278,000 shares of Common Stock owned by China Wealth Source Company Ltd, an entity controlled by Mr. Dianjun Pi.
17,850,000 shares of Common Stock owned by Celebrate Fortune Company Limited, an entity controlled by Mr. Shaoming Li, and
00 shares of Common Stock owned by China Wealth Source Company Ltd, an entity controlled by Mr. Dianjun Pi.
2,670,000 shares of Common Stock owned by New BVI Co., an entity controlled by Mr. Tuya Wulan.
3,159,450 shares of Common Stock owned by Total Prosperity Company Limited, an entity controlled by Mr. Cheung Yunman.

Securities Authorized for Issuance under Equity Compensation Plans

e following table provides aggregate information as of October 31, 2011 with respect to all compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance.

	A	B	C
ry	Number of securities to be issued upon exercise of outstanding options, and warrants	Weighted-average exercise price of outstanding options, and warrants	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
ensation plans approved by security holders	284,998	$ 1.96	3,438,956
ensation plans not approved by security	0	$ 0.00	200,000
	284,998	$ 1.96	3,638,956

On March 19, 2007, our board of directors approved the 2007 Non-Qualified Company Stock Grant and Option Plan (the “2007 Plan”). Plan was not approved by our shareholders. The 2007 Plan is intended to serve as an incentive and to encourage stock ownership by s, officers, and employees, and certain persons rendering service to us, so that such persons may acquire or increase their proprietary our success, and to encourage them to remain in our service. Under the 2007 Plan, up to 200,000 shares of our common stock may be subject to options.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons:

ning Li, our chairman, chief executive officer and president, is also chairman and a 50% shareholder of Renhuang Stock. On October ve entered into a purchase agreement with Renhuang Stock to acquire the land use right, property and a plant located in Ah City for a sideration of $25,096,070. Pursuant to the purchase agreement, payments of $23,527,566 have been made to Renhuang Stock before 31, 2011, with a final payment of $1,568,504 due by December 31, 2011, at which time title for the assets will be transferred. As we eceived all the required transfer documents from related local government authorities, the Company has to postpone the title transfer e transfer documents been received. The final payment will be made to Renhuang Stock at the time of title transfer. According to the agreement, we were exempted from lease payments for the underlying assets starting from May 1, 2010.

operty and a plant from Renhuang Stock. Under the lease terms, we no longer pay rent to Renhuang Stock for the use of the property However, the rental expenses related to this lease, incurred and expensed to consolidated statements of operations and comprehensive ome during the year ended October 31, 2011 and 2010 amounted to $766,607 and $367,224, respectively, which were forgiven rental nd recognized to account for the rental exemption pursuant to the purchase agreement, and the deposits for the property were reduced accordingly.

ber 1, 2009, we entered into a Purchase Agreement with Renhuang Stock, to acquire two production patents, for a total consideration 9,607. Pursuant to the Purchase Agreement, a payment of $1,568,504 was made to Renhuang Stock, in October 2009 and recorded as s on the consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $941,103is due by December 31, 2010, at time title for the assets will be transferred. In August, 2010, final payment was made to Renhuang Stock and the tile of the patent was transferred at the same month.

Review, Approval or Ratification of Transactions with Related Persons

Audit Committee reviews and approves or ratifies any related person transaction that is required to be disclosed as such transactions the approval of our Audit Committee. We did not have any related party transactions during fiscal years ended October 31, 2011 and 2010.

Item 14. Principal Accountant Fees and Services

ry 13, 2010, we engaged Windes & McClaughry Accountancy Corporation (“W&M”) as our independent registered public accounting firm.

Audit Fees

year ended October 31, 2011 and 2010, the fees for W&M were approximately $194,000 and $195,000, respectively. The fees were professional services for the audit of our Form 10-K financial statements and review of our quarterly Form 10-Q financial statements.

63

Audit-Related Fees

e years ended October 31, 2011 and 2010, there were no fees relating to the performance of any other audit or review of our financial statements by W&M.

Tax Fees

During the years ended October 31, 2011 and 2010, there were no fees relating to professional tax services by W&M.

All Other Fees

During the years ended October 31, 2011 and 2010, there were no other fees relating to services provided by W&M.

The above-mentioned fees are set forth as follows in tabular form:

	2011	2010
Total Audit Fees	$194,000	$195,000
Total Audit Related Fees	$-0-	$-0-
Total Tax Fees	$-0-	$-0-
Total of All Other Fees	-0-	-0-

and fees described above for the years ended October 31, 2011 and 2010 were approved by either the entire board of directors or the nittee. The Audit Committee's pre-approval policies and procedures were detailed as to the particular service and the audit committee vas informed of each service and such policies and procedures did not include the delegation of the audit committee's responsibilities.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

The following documents are filed as part of this Annual Report:

(a) Financial Statements:

Exhibits

The following exhibits are filed as a part of this Annual Report.

escription

estated Articles of Incorporation(1)
mended and Restated Bylaws(2)
ertificate of Amendment to Articles of Incorporation(3)
ertificate of Amendment to Articles of Incorporation reflecting change of name to China Botanic Pharmaceutical Inc. (4)
007 Non-Qualified Company Stock Grant and Option Plan(5)
003 Omnibus Securities Plan (6)
oan Conversion Agreement among the Company, Allied Merit International Inc. and Griffin Ventures Ltd. dated May 15, 2009(7)
mployment Agreements with Weiqiu Dong(4)
nglish translation of Purchase Agreement for Patents dated September 1, 2009(8)
nglish translation of Purchase Agreement for Ah City Natural and Biopharmaceutical plant dated October 12, 2009(8)
nglish translation of Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company dated April 10, 2010(9)
dependent Director Agreement with Mr. Xiaoheng (Sean) Shao, dated April 13, 2010(9)
dependent Director Agreement with Mr. Bingchun Wu, dated April 19, 2010(9)
dependent Director Agreement with Mr. Changxiong Sun, dated April 19, 2010(9)
dependent Director Agreement with Mr. Zack Plan, dated October 15, 2011*
nglish translation of the Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest Resources
nder Yichun Red Star Forestry Bureau *
ubsidiaries of the registrant(3)
onsent Of Windes & McClaughry Accountancy Corporation*
ertification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the
arbanes-Oxley Act of 2002*
ertification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the
arbanes-Oxley Act of 2002*
ertification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley
ct of 2002*
ertification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley
ct of 2002*

BRL Instance Document (10)
BRL Taxonomy Extension Schema (10)
BRL Taxonomy Extension Calculation Linkbase (10)
BRL Taxonomy Extension Definition Linkbase (10)
BRL Taxonomy Extension Label Linkbase (10)
BRL Taxonomy Extension Presentation Linkbase (10)

---

rewith.

rated by reference from Form 8-K filed with the SEC on April 22, 2003.
rated by reference from Form 8-K filed with the SEC on January 10, 2012.
rated by reference from Form 10-K filed with the SEC on February 13, 2007.
rated by reference from Form 10-K filed with the SEC on January 24, 2011.
rated by reference from Form 8-K filed with the SEC on May 2, 2007.
rated by reference from Form 8-K filed with the SEC on April 22, 2003.
rated by reference from Form 10-Q filed with the SEC on September 21, 2009.
rated by reference from Form 10-K filed with the SEC on January 29, 2010.
rated by reference from Form 10-Q filed with the SEC on June 7, 2010.
Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus oses of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities ge Act of 1934, as amended, and otherwise is not subject to liability under these sections.

65

SIGNATURES

nt to the requirements of Section 13 or 15(d) 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: January 30, 2012	CHINA BOTANIC PHARMACEUTICAL INC.
	By: /s/ Shaoming Li Shaoming Li, Chief Executive Officer and President (Principal Executive Officer)
Date: January 30, 2012	By: /s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer (Principal Accounting and Financial Officer)

the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the registrant and in the capacity and on the dates indicated.

Date: January 30, 2012	/s/ Shaoming Li Shaoming Li, Chief Executive Officer, President, Chairman of the Board
Date: January 30, 2012	/s/ Zack Zibing Pan Zack Zibing Pan, Director
Date: January 30, 2012	/s/ Changxiong Sun Changxiong Sun, Director
Date: January 30, 2012	/s/ Bingchun Wu Bingchun Wu, Director
Date: January 30, 2012	/s/ Dianjun Pi Dianjun Pi, Director
Date: January 30, 2012	/s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of China Botanic Pharmaceutical Inc.

udited the accompanying consolidated balance sheets of China Botanic Pharmaceutical Inc. as of October 31, 2011 and 2010, and the ed consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the year period ended October 31, 2011. China Botanic Pharmaceutical Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China anic Pharmaceutical Inc. as of October 31, 2011 and 2010, and the results of their operations and their cash flows for the years in the vo-year period ended October 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Windes & McClaughry Accountancy Corporation

Windes & McClaughry Accountancy Corporation

Long Beach, California

January 30, 2012

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Note	October 31, 2011	October 31, 2010
ts:			
		$15,283,583	$27,826,142
ables, net	5	21,548,325	19,814,438
ated parties	11	—	28,877
et	7	7,416,720	2,645,616
ables, net	6	6,823,410	200,994
assets		51,072,038	50,516,067
equipment, net	8	1,778,984	2,069,460
ssets	9	17,146,700	1,953,617
in progress	10	1,937,103	—
properties	11,12	37,822,113	18,605,935
assets	13	139,226	—
		$109,896,164	$73,145,079
S AND SHAREHOLDERS' EQUITY			
yable		$2,098,256	$333,555
		5,976,417	1,064,066
ployee benefits	16	2,131,565	1,645,192
bilities	19	23,443	342,770
ies		10,229,681	3,385,583
s' equity			
ck (no par value, 1,000,000 shares authorized; none issued and outstanding as of October October 31, 2010,respectively)	18		
ck ($0.001 par value, 100,000,000 shares, authorized; 37,239,536 issued and outstanding as 1,2011 and October 31, 2010, respectively)	18	37,240	37,240
aid-in capital		7,763,987	7,627,987
ck warrants	19	496,732	496,732
	20	3,372,697	3,372,697
d other comprehensive income		8,620,695	4,768,793
nings		79,375,132	53,456,047
olders' equity		99,666,483	69,759,496
ies and shareholders' equity		$109,896,164	$73,145,079

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

F-3

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Note	For the year ended October 31, 2011	2010
Sales, net		$72,713,748	$55,183,941
Cost of goods sold		29,531,087	25,765,835
Gross profit		43,182,661	29,418,106
Operating and administrative expenses:			
Sales and distribution		6,024,230	4,966,062
General and administrative		4,046,197	3,614,809
Research and development		3,592,555	3,042,815
Total operating expenses		13,662,982	11,623,686
Income from operations		29,519,679	17,794,420
Other income:			
Interest income		126,943	74,522
Income before income tax expenses		29,646,622	17,868,942
Income tax expenses	14	3,727,537	—
Net income		$25,919,085	$17,868,942
Other comprehensive income:			
Cumulative currency translation adjustments		3,851,902	1,401,134
Total comprehensive income		$29,770,987	$19,270,076
Earnings per common stock- Basic	15	$0.70	$0.48
Earnings per common stock - Diluted		$0.69	$0.47
Weighted average common stock outstanding	15		
Basic		37,239,536	37,239,536
Diluted		37,678,525	37,778,028

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

CHINA BOTANIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common stock ($0.001 par value) Number of Shares	Par Value US$	Additional Paid-in Capital US$	Common Stock Warrants US$	**Reserves** US$	Accumulated Other Comprehensive Income US$	Retained Earnings US$	Total Shareholders' Equity US$
as of October 31, 2009	37,239,536	37,240	7,596,525	496,732	3,372,697	3,367,659	35,587,105	50,457,958
Granted	—	—	31,462	—	—	—	—	31,462
ome	—	—	—	—	—	—	17,868,942	17,868,942
y translation adjustments	—	—	—	—	—	1,401,134	—	1,401,134
as of October 31, 2010	37,239,536	37,240	7,627,987	496,732	3,372,697	4,768,793	53,456,047	69,759,496
ome	—	—	—	—	—	—	25,919,085	25,919,085
Granted	—	—	136,000	—	—	—	—	136,000
y translation adjustments	—	—	—	—	—	3,851,902	—	3,851,902
as of October 31, 2011	37,239,536	37,240	7,763,987	496,732	3,372,697	8,620,695	79,375,132	99,666,483

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

CHINA BOTANIC PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended October 31, 2011 US$	2010 US$
Cash flows from operating activities:		
Net income	$ 25,919,085	$ 17,868,942
Adjustments to reconcile net income to operating activities:		
Depreciation	383,846	363,567
Amortization	569,643	435,653
Warrants issued for service	(319,327)	342,770
Share Compensation	136,000	31,462
Forgiven Rent	1,028,781	367,224
Deferred tax assets	(136,093)	—
Changes in assets and liabilities:		
(Increase)Decrease in trade receivables	(794,722)	3,814,889
(Increase)Decrease in due from related parties	29,539	(28,300)
(Increase) Decrease in inventory, net	(4,543,566)	423,480
Decrease in prepayments	—	89,397
(Increase) in other receivables, net	(6,464,282)	(94,232)
Decrease in accounts payable	(5,017)	(44,546)
Increase(Decrease) in tax payable	4,753,483	(145,371)
Increase in accrued employee benefits	400,691	442,040
(Decrease) increase in other payable	181,646	(31,413)
Net cash provided by operating activities	21,139,707	23,835,562
Cash flows from investing activities:		
Deposits for land use right and properties	(21,464,985)	(3,944,749)
Deposits for patents	(11,299,782)	(717,926)
Construction in progress	(1,893,518)	—
Purchase of property and equipment	(5,891)	(36,473)
Net cash used in investing activities	(34,664,176)	(4,699,148)
Cash flows from financing activities:		
Net cash provided by financing activities	—	—
Effect of exchange rate changes on cash	981,910	578,214
Net increase (decrease) in cash	(12,542,559)	19,714,628
Cash, beginning of year	27,826,142	8,111,514
Cash, end of year	$ 15,283,583	$ 27,826,142

Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	$—	$—
Interest paid during the year	$—	$—

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATION

accompanying 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."

was incorporated in the State of Nevada on August 18, 1988, originally under the corporate name of Solutions, Incorporated. It was until August 16, 1996, when it changed its corporate name to Suarro Communications, Inc, and engaged in the business of providing et 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.

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

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 consolidated financial statements are as follow:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation of financial statements

companying 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.

e 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 168, *Th counting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement* This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, ve and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification ("ASC"), also known ely as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional ative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, B Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting ooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative ing guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This nent applies beginning in third quarter 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ny 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.

Principles of consolidation

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

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

eginning third quarter 2009, the FASB Topic 810, "*Consolidation Topic,"* revised the accounting treatment for noncontrolling minority rests of partially-owned subsidiaries. Noncontrolling minority interests represent the portion of earnings that is not within the parent pany's control. These amounts are now required to be reported as equity instead of as a liability on the balance sheet. In addition this nt requires net income from noncontrolling minority interest to be shown separately on the consolidated statements of operations and mprehensive income. As the Company has no noncontrolling interest at October 31, 2011, this change did not have an impact on the Company's consolidated financial statements.

Use of estimates

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

t estimates and assumptions by management include, among others, uncollectible accounts receivable, slow moving, obsolete and/or inventory, property and equipment, reserve for employee benefit obligations, stock warrant valuation, and other uncertainties. Actual y differ from these estimates. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Foreign currency translation

mpany'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 currenc

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

er 31, 2011 and 2010, the exchange rate was RMB 6.38 and RMB 6.67, respectively. Translation adjustments totaled $3,851,902 and $1,401,134 for the year ended October 31, 2011 and 2010, respectively.

Cash

restriction to cash at October 31, 2011 and 2010. Substantially all of the Company's cash is held in bank accounts in the PRC and is rotected 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trade receivables, net

eceivables are recorded at the invoiced amount and do not bear interest. Trade receivable payment terms vary and amounts due from stomers are stated in the financial statements net of an allowance for doubtful accounts and sales rebates. The Company maintains an ce for doubtful accounts for estimated losses inherent in its trade receivables. Trade receivables outstanding longer than the payment onsidered past due. The Company determines its allowance by considering a number of factors, including the length of time the trade vable is past due, the Company's previous loss history, the counter party's current ability to pay its obligation to the Company, and the on of the general economy and the industry as a whole. The Company writes off receivables when they are deemed uncollectible, and subsequently received on such trade receivables are credited to the allowance for doubtful accounts. There were no write offs for the years ended October 31, 2011 and 2010. The Company does not have any off-balance sheet credit exposure related to its customers.

Inventory, net

entory consists of raw materials, work-in-progress and finished goods and is valued at the lower of cost or market value. The value of ry is determined using the weighted average cost method and includes any related production overhead costs incurred in bringing the y 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.

any estimates an inventory allowance for excessive, slow moving and obsolete inventories as well as inventory whose carrying value ess of net realizable value. Inventory amounts are reported net of such allowances. There were no inventory write offs for the years ended October 31, 2011 and 2010.

Property and equipment, net

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

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

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

Intangible assets, net

ssets consist of purchased patents. Intangible assets are carried at cost less accumulated amortization and any impairment. Intangible 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.

Accounting for the impairment of long-lived assets

npany's long-lived assets and other assets (consisting of property and equipment) are reviewed for impairment in accordance with the the FASB Topic ASC 360, "*Property, Plant, and Equipment,"* FASB Topic ASC 360, *"Intangibles - Goodwill and Others,"* and FASB C Topic 205 "*Presentation of Financial Statements*." The Company tests for impairment losses on long-lived assets used in operations vents or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated e asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying f the asset exceeds its fair value. Impairment evaluations involve management's estimates on asset useful lives and future cash flows. eful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting nd financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted ket values and third-party independent appraisals, as considered necessary. Through the years ended October 31, 2011 and 2010, the 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fair value of financial instruments

e Company applies the provisions of accounting guidance, FASB Topic ASC 825 that requires all entities to disclose the fair value of instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair efines 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 October 31, 2011 and 2010 the carrying value of cash, trade receivables, other receivables, accounts payable, approximated their fair value. All derivatives are recorded at fair value evaluated based on Black-Scholes option model.

Fair value measurements

tive April 1, 2009, the FASB ASC Topic 825, "*Financial Instruments*," requires disclosures about fair value of financial instruments in quarterly reports as well as in annual reports.

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.

inputs are considered when determining the fair value of the Company's financial instruments. The inputs or methodologies used for curities 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.).

ignificant unobservable inputs (including the Company's own assumptions in determining the fair value of financial instruments).

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

g value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and ties measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no ssets 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.

lity of inputs observable in the market varies from instrument to instrument and depends on a variety of factors including the type of nent, whether the instrument is actively traded, and other characteristics particular to the transaction. For many financial instruments, uts are readily observable in the market, the valuation methodology used is widely accepted by market participants, and the valuation require significant management discretion. For other financial instruments, pricing inputs are less observable in the market and may require management judgment.

Revenue recognition

enue is recognized in accordance with Staff Accounting Bulletin No. 104, "*Revenue Recognition*," which states that revenue should be nized 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

October 31, 2011, the Company has no sales or contracts that included multiple deliverables that would fall under the scope of FASB Topic ASC 605, "*Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force*."

pany provided annual sales rebates to its distributors based upon sales volumes. Sales rebates are recorded as a current liability at the he sale based upon the Company's estimates of whether each customer would be entitled to rebates for the period. At quarter end, the ate 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 consolidated statements of operations and comprehensive income.

er 31, 2011 and, 2010, the Company has accrued $1,681,721 and $2,141,055, respectively, for sales rebates, which offset the balance t receivables. For the years ended October 31, 2011 and 2010, the Company has deducted sales rebates in the amount of $6,894,477 d $7,516,231, respectively, from sales. Sales rebates are calculated based on terms specified in contracts with individual distributors.

Sales returns and allowances

ny 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.

Cost of goods sold

st 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.

Sales and marketing

es and marketing costs consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the 's sales and marketing personnel. Advertising expenses are expensed as incurred and amounted to $5,772,548 and $4,803,286 during the years ended October 31, 2011 and 2010 respectively.

Research and development

nd development ("R&D") consists primarily of cost of materials and overhead expenses r by research and development staff. Research pment costs are expensed as incurred. Research and development expenses amounted to $3,592,555 and $3,042,815 during the years ended October 31, 2011 and 2010 respectively.

Employee benefit costs

ccording 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.

Share-based compensation

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Taxation

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

ny accounts for income tax under the provisions of FASB ASC Topic 740, *"Income Taxes,"* which requires recognition of deferred tax nd liabilities for the expected future tax consequences of the events that have been included in the financial statements or tax returns. eferred income taxes are recognized for all significant temporary differences between tax and financial statements bases of assets and ies. 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.

pany does not have any long-term deferred tax assets or liabilities in China 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.

ompany 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.

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

Enterprise income tax

16, 2007, the PRC National People's Congress passed the PRC Enterprise Income Tax Law ("New EIT Law") which became effective , 2008. Pursuant to the New EIT Law, a unified enterprise income tax rate of 25 percent and unified tax deduction standards will be onsistently to both domestic-invested enterprises and foreign-invested enterprises. However, the New EIT Law repealed most of the preferential tax rates and tax holidays. A five-year transition period is allowed for enterprises that obtained preferential tax treatment rior 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.

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.

red tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement nounts of existing assets and liabilities and their respective tax basis. Deferred tax assets, including tax loss and credit carry forwards, lities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are 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 s the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax abilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their eristics. 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.

provision has not been made at October 31, 2011 for U.S. or additional foreign withholding taxes on approximately $79,375,132 of d 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

ll known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of , 2011, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount ecognized tax benefits as of October 31, 2011, if recognized, would not have a material effect on its effective tax rate. The Company rther believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the zed 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

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

d 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 lved) 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 ervices provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the harges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

Comprehensive Income

rehensive income is defined as all changes in shareholders' equity during a period, other than those resulting from investments by and s to shareholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income equals lus or minus adjustments for currency translation. Total comprehensive income represents the activity for a period net of related tax and was $29,770,987 and $19,270,076 for the years ended October 31, 2011 and 2010, respectively.

While total comprehensive income is the activity in a period and is largely driven by net earnings in that period, accumulated other
ensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income as of the balance sheet date. For the
pany, AOCI is primarily the cumulative balance related to the currency adjustments and increased overall equity by $3,851,902 and $
1,401,134 as of October 31, 2011 and 2010 respectively.

Earnings per share

c net earnings per common stock are computed by dividing net earnings applicable to common shareholders by the weighted-average
er of common stock outstanding during the period. Diluted net earnings per common stock is determined using the weighted-average
f 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
d-average number of common stock outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

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

F-13

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

SB Topic ASC 260, "*Earnings per Share,"* requires the Company to include additional shares in the computation of earnings per share, 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.

arnings per share are based on the assumption that all dilutive options were converted or exercised. Dilution is computed by applying 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.

Warrants

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

nce with accounting guidance FASB Topic ASC 825, the Company accounts for financial instruments as a liability if it embodies an on 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 by transferring assets. Freestanding financial instruments are financial instruments that are entered into separately and apart from any ity's other financial instruments or equity transactions, or that is entered into in conjunction with some other transaction and is legally detachable and separately exercisable. The liability recorded is fair market value per Black-Scholes option model..

15, 2009, we have issued warrants to purchase 1,071,428 shares of common stock to certain investors, associated with an offering of our common stock. The warrants were recognized at fair value and were recorded as equity.

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

3. ACCOUNTING PRONOUNCEMENTS

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

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which revises the which entities present comprehensive income in their financial statements. This ASU removes the presentation options in Topic 220 ires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two te but consecutive statements. This ASU does not change the items that must be reported in other comprehensive income. For public ties, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early permitted. This ASU does not require incremental disclosures in addition to those required by Topic 250 or any transition guidance. use the Company is currently adopted to present comprehensive income within the consolidated statements of changes of equity and it is expected this ASU would change the presentation of comprehensive income in the Company's consolidated financial statements upon its adoption. It is not expected to have a material impact on the Company's consolidated financial statements.

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

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CONCENTRATIONS OF BUSINESS AND CREDIT RISK

ny conducts all of its primary trade in the PRC. There can be no assurance that the Company will be able to successfully conduct its failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, e success of the Company's operations is subject to numerous contingencies, some of which are beyond management's control. These cies include general economic conditions, price of raw material, competition, governmental and political conditions, and changes in ns. Because the Company is dependent on foreign trade in the PRC, the Company is subject to various additional political, economic r 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

any maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. Cash balance held in ank accounts to $15,283,583 and $27,826,142, as of October 31, 2011 and 2010, respectively. No cash balances were restricted as at October 31, 2011 and 2010.

ctober 31, 2011 and 2010, 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

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

The Company's products are sold throughout the PRC. For years ended October 31, 2011 and 2010, Botanical anti-depression and nerve-regulation products accounted for 68.0% and 71.1%, respectively, of total sales after sales rebate.

(3) Foreign currency

Company operates in China, 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

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

ices of certain pharmaceuticals sold in China, primarily those included in the national and provincial Medical Insurance Catalogs are ct to price controls in the form of fixed prices or price ceilings. As such, the retail prices for certain of the Company's pharmaceutical cts 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 years ended October 31, 2011 and 2010.

(6) Cost of goods sold

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

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TRADE RECEIVABLES, NET

e trade receivables amount included in the consolidated balance sheets as at October 31, 2011 and October 31, 2010 were as follows:

	2011 US$	2010 US$
Trade receivables	23,704,241	22,408,628
Less: Sales rebates	(1,681,721)	(2,141,055)
Less: Allowance for doubtful accounts	(474,195)	(453,135)
Trade receivables, net	21,548,325	19,814,438

6. OTHER RECEIVABLES, NET

The other receivables amount included in the consolidated balance sheets as at October 31, 2011 and 2010 were as follows:

	2011 US$	2010 US$
Advanced Siberian Ginseng payment	6,631,157	
Other receivables	577,554	569,184
Less: Allowance for doubtful accounts	(385,301)	(368,190)
Other receivables, net	6,823,410	200,994

npany advanced Siberian Ginseng payment to two of our employees in our DongFanghong branch, Mr. Zhao, Fengwu and Mr. Deng, Fujie, for the purchasing of Siberian Ginseng raw material in the Siberian Ginseng harvest senson.

7. INVENTORY, NET

The inventory amounts included in the consolidated balance sheets for as at October 31, 2011 and 2010 comprised of:

	2011 US$	2010 US$
Raw materials	2,842,769	1,951,185
Work-in-progress	3,205,862	52,411
Finished goods	1,436,767	707,648
Less: Inventory reserves	(68,678)	(65,628)
Inventory, net	7,416,720	2,645,616

8. PROPERTY AND EQUIPMENT, NET

Property and equipment and related accumulated depreciation as of October 31, 2011 and 2010 were as follows:

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2011 US$	2010 US$
Machinery and equipment	3,710,282	3,545,146
Office equipment and furnishings	66,352	58,006
Motor vehicles	56,759	54,237
	3,833,393	3,657,389
Less: Accumulated depreciation	(2,054,409)	(1,587,929)
Net book value	1,778,984	2,069,460

preciation expense for the years ended October 31, 2011 and 2010 was $383,846 and $363,567, respectively, of which $366,483 and $374,973 were included as a component of cost of goods sold in the respective periods.

No assets were pledged for borrowings as at October 31, 2011 and 2010.

9. INTANGIBLE ASSETS, NET

Intangible assets and related accumulated amortization as of October 31, 2011 and 2010 were as follows:

	2011 US$	2010 US$
Using right of undergrowth resources	15,685,044	
Product patents	2,509,607	2,398,153
Less: Accumulated amortization	(1,047,951)	(444,536)
Intangible assets, net	17,146,700	1,953,617

ry 11, 2011, the company through its wholly own subsidiary, CBP China, entered into an Exclusive Licensing Agreement for Harbin ng Pharmaceutical Co., Ltd. to Use Forest Resources under Yichun Red Star Forestry Bureau (the “Agreement”) with Yichun Red Star estry Bureau of Heilongjiang Province (the “Forestry Bureau”) for 30 years exclusive utilizing right of approximately 6,667 hectares of wth resources, which is rich of wild Siberian Ginseng plant and also includes an approximately 67 hectares of Siberian Ginseng GAP vation base. Pursuant to the Agreement, a payment of $14,116,540 was made to Forestry Bureau in 2011 and with a final payment of 04 due in 12 months for a total consideration of $15,685,044. The exclusive utilizing right was effected and started from February 1, 2011 through January 31, 2042 for total of 30 years of utilizing and cultivation right.

10. CONSTRUCTION IN PROGRESS

Construction in progress as of October 31, 2011 and 2010 were as follows:

	2011 US$	2010 US$
Ah City Industrial Park phase Two Project	1,937,103	—
Total Construction In Progress	1,937,103	—

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Plant and production lines currently under development at the Ah City Phase Two are accounted for as construction-in-progress. onstruction-in-progress is recorded at historical cost, including development expenditures, professional fees and the interest expenses apitalized during the course of construction for the purpose of financing the project. Upon readiness for use of the project, the cost of on-in-progress is transferred to property and equipment, at which time depreciation will commence. The Company had no capitalized st and to date has funded this construction through operations without the use of outside debt financing. As of October 31, 2011, the as incurred a total of $1,937,103 of construction-in-progress. The Ah City Phase Two is expected to be completed in the end of 2013 and these amounts will be reclassified to fixed assets when it is ready to use.

11. RELATED PARTY TRANSACTIONS

Due from related parties included in the consolidated balance sheets as at October 31, 2011 and October 31, 2010 comprised of:

	2011 US$	2010 US$
Due from related parties:		
Advances (1)	—	28,877
Deposits (2)	23,527,566	18,605,935
Total	23,527,566	18,634,812

(1) Advances

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”).

ber 31, 2011 and 2010, the Company has a net amount due from Mr. Shaoming Li of $0 and $28,877, respectively, which is advance for travelling and business.

(2) Deposits

12, 2009, we entered into a purchase agreement with Renhuang Stock to acquire the land use right, property and plant located at our City Natural and Biopharmaceutical plant for a total consideration of $25,096,070. Pursuant to the purchase agreement, a payment of 4 was made to Renhuang Stock in October 2009 and a payment of $7,842,522 was made to Renhuang Stock in January 2011, with a ent of $1,568,504 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 October 31, 2011.

(3) Rental Expenses

ompany leases property and plant from Renhuang Stock. Rental expenses related to this lease, incurred and expensed to consolidated nts of operations and comprehensive income during the year ended October 31, 2011 and 2010 amounted to $766,607 and $367,224, ely, which were forgiven rental expenses and recognized to account for the rental exemption pursuant to the purchase agreement, and for the property were reduced accordingly. Under the lease terms, the Company no longer pay rent to Renhuang Stock for the use of the property and plant.

12. DEPOSIT

0, 2010, the Company through its wholly own subsidiary, CBP China, entered into a Purchase Agreement with Hongxiangmingyuan gjiang Yongtai Company, to acquire two office floors for a total consideration of $6,017,504. Pursuant to the Purchase Agreement, a payment of $4,212,253 was made in April 2010 and recorded as deposits on the consolidated balance sheet. Pursuant to the Purchase ent, final payment of $1,805,251 is due by December 20, 2012, at which time title for the assets will be transferred. Accordingly the is considered incomplete as of October 31, 2011. Based on the purchasing agreement between CBP China and Hongxiangmingyuan, any does not need to pay any rental fees before the title is transferred. Rental expenses related to this lease, incurred and expensed to ed statements of operations and comprehensive income during the year ended October 31, 2011 and 2010 amounted to $262,174 and ctively, 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.

F-19

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. DEFERRED TAX ASSETS

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

Allowance for doubtful and Inventory provision	Temporary Difference	Income Tax Rate	Deferred Tax Assets
928,174	928,174	0.15	139,226

14. INCOME TAX EXPENSES

Company adopted FIN No. 48 on January 1, 2007. There were no unrecognized tax benefits as of the date of adoption and there is no unrecognized tax benefits included in the balance sheet at October 31, 2011, that would, if recognized, affect the effective tax rate.

following table reconciles the U.S. statutory rates to the Company's effective tax rate for the years ended October 31, 2011 and 2010:

	The Year ended October 31, 2011	2010
US statutory rates	34.00 %	34.00 %
Foreign tax rate difference	(9.0)%	(9.0)%
Income tax holiday	(10.0)%	(25.0)%
Tax per financial statements	15.00 %	0.00 %

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

	The Year ended October 31, 2011 US$	2010 US$
Tax savings	3,986,144	4,749,398
Benefit per share:		
Basic	0.11	0.13
Diluted	0.11	0.13

the tax exemption not been in place for the years ended October 31, 2011 and 2010, the Company estimates the following pro forma financial statement impact:

F-20

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	The Year ended October 31, 2011 US$	2010 US$
Net income as reported	25,919,085	17,868,942
Less Tax savings	(3,986,144)	(4,749,398))
Proforma Net income	21,932,941	13,119,544
Proforma Net income per share:		
Basic	0.59	0.35
Diluted	0.58	0.35

15. EARNINGS PER SHARE

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

The following reconciles the components of the EPS computation:

	Income (Numerator) US$	Shares (Denominator)	Per Share Amount US$
For the year ended Octorber 31, 2011:			
Net income	25,919,085		
Basic EPS income available to common shareholders	25,919,085	37,239,536	0.70
Effect of dilutive securities:			
Share options			
Warrants		438,989	
Diluted EPS income available to common shareholders	25,919,085	37,678,525	0.69
For the year ended Octorber 31, 2010:			
Net income	17,868,942		

Basic EPS income available to common shareholders	17,868,942	37,239,536	0.48
Effect of dilutive securities:			
Share options			
Warrants		538,492	
Diluted EPS income available to common shareholders	17,868,942	37,778,028	0.47

the year ended October 31, 2011, warrants of 160,000 shares and option of 234,998 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock

r the year ended October 31, 2010, warrants of 160,000 shares and option of 70,000 shares were excluded from calculation of diluted earnings, because the exercise prices exceeded the average price of the Company's common stock.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. EMPLOYEE BENEFITS

l-time employees of the Company's subsidiary that is incorporated in the PRC are entitled to staff welfare benefits, including medical fare subsidies, unemployment insurance and pension benefits. The PRC companies are required to accrue for these benefits based on n percentages of the employees' salaries in accordance with the relevant regulations, and to make contributions to the state-sponsored sion and medical plans out of the amounts accrued for medical and pension benefits. The total amounts expensed to the consolidated ents of operations and comprehensive income for such employee benefits amounted to approximately $353,249 and $401,543 for the years ended October 31, 2011 and 2010, respectively.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

25, 2010, the Company issued warrants (the "Warrants") for 160,000 common shares to an investor relation service provider that have se 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 Topic ASC 815, requires that the Warrants be classified at their fair value to liabilities each reporting period.

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

se price and number of shares issuable upon exercise of the Warrants (the "Warrant Shares") are subject to adjustment for standard ents, including the issuance of common stock, or securities convertible into or exercisable for shares of common stock, that will ffect the Holder's rights under the Warrants. There were no dilutive events for the year ended October 31, 2011, which would have an adjustment to the exercise price or number of Warrant Shares.

r 31, 2011, the fair value of the Company's warrants liability was $23,443. The Company used the Black-Scholes valuation model to estimate the fair value of the Warrants. The valuation was based on the assumptions noted in the following table.

Expected volatility	77.10	%
Expected dividends	0	%
Expected term (in years)	1.4 years	
Risk-free rate	0.41	%

At October 31, 2011, the Company had no assets measured at fair value and had the following liabilities measured at fair value:

	Fair value measurement		
	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	US$	US$	US$
Warrants liability	—	23,443	—

18. PREFERRED STOCK, COMMON STOCK AND EQUITY TRANSACTIONS

(1) Preferred Stock

e Company's articles of incorporation provide that our board of directors will be authorized to issue from time to time, without further r approval, up to 1,000,000 additional shares of preferred stock in one or more series and to fix or alter the designations, preferences, nd any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion ng rights, rights of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number s 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 at October 31, 2011 and 2010, there is no preferred stock outstanding.

F-22

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Common Stock and Equity Transactions

Iay 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 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.

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 %

sk-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 vidend 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 e market price volatility of our common stock was based on historical volatility since May 15, 2008. Our methodology is consistent period volatility assumptions. The expected life of the warrants is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

19. OPTION PLAN AND WARRANTS

Share-based compensation amounted to $134,865 and $31,462 in the years ended October 31, 2011 and 2010, respectively.

(1) 2003 Omnibus Plan

bruary 28, 2003, our board of directors approved the Renhuang Pharmaceuticals, Inc. 2003 Omnibus Securities Plan (the "2003 Plan"), approved by our shareholders on April 11, 2003. The 2003 Plan offers selected employees, directors, and consultants an opportunity ire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. The 2003 Plan 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 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 outstanding stock on October 31, of the immediately preceding year. As of October 31, 2010, the number of shares of common stock outstanding was 37,239,536 making 3,723,954 shares of common stock subject to the 2003 Plan.

13, 2010, an option to purchase 70,000 shares was granted under the 2003 Plan to an independent director that vests on a quarterly nning three months from the date of grant, conditioned upon continued service on such quarterly dates, and has a contractual life of The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be $171,397, $57,131 and $31,462 were recorded as compensation expenses for the year ended October 31, 2011 and 2010, respectively. The was based on the assumptions noted in the following table.

Expected volatility	227.9	%
Expected dividends	0	%
Expected term (in years)	3 years	
Risk-free rate	1.65	%

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 vidend 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 e market price volatility of our common stock was based on historical volatility since April 13, 2009. Our methodology is consistent 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

mber 14, 2010, we appointed Mr. Weiqiu Dong as our chief financial officer. Base on the employment agreement, Mr. Dong on December 14, 2010, an option to purchase 200,000 shares of the Company's common stock under the 2003 Omnibus Plan. The sts 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 ant. The Option is conditioned upon continued employment on such date, and has a contractual life of 3 years.

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 032 was recorded as compensation expenses for the year ended October 31, 2011 and $0 was recorded for the year ended October 31, 2010. The valuation was based on the assumptions noted in the following table.

Expected volatility	96.46	%
Expected dividends	0	%
Expected term (in years)	3 years	
Risk-free rate	1.06	%

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 vidend 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 e. The market price volatility of our common stock was based on historical volatility since December 13, 2009. Our methodology is stent 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.

er 15, 2011, we entered into an independent director agreement with Mr. Pan, who became our director on October 15, 2011. The t 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 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 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 nt 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 e on January 15, 2012), and with all vesting conditional upon continued service as a director of the Company as of each such ry; and (iii) a reimbursement of out-of pocket expenses incidental to his services on the Board. The agreement expires on the earlier date Mr. Pan ceases to be a member of the board, or (ii) the date of termination of the Agreement.

r 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 37 was recorded as compensation expenses for the year ended October 31, 2011 and $0 was recorded for the year ended October 31,

2010. The valuation was based on the assumptions noted in the following table.

Expected volatility	127.76 %
Expected dividends	0 %
Expected term (in years)	3 years
Risk-free rate	1.12 %

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 vidend 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 ure. The market price volatility of our common stock was based on historical volatility since October 14, 2010. Our methodology is stent 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.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9, 2007, our board of directors approved the 2007 Non-Qualified Company Stock Grant and Option Plan (the "2007 Plan"). The 2007 intended to serve as an incentive to and to encourage stock ownership by our directors, officers, and employees, and certain persons ervice 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.

n January 13, 2010, an option to purchase 50,000 shares was granted under the 2007 Plan to an employee that vests on the 12-month ry of the date of grant, conditioned upon continued employment on such date, and has a contractual life of 3 years. The fair value of n award is estimated on the date of grant using the Black-Scholes option valuation model to be $47,527. The valuation was based on the assumptions noted in the following table. The option was forfeited at departure of the employee on August 6, 2010.

Expected volatility	236.5	%
Expected dividends	0	%
Expected term (in years)	3 years	
Risk-free rate	1.5	%

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 vidend 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 ure. The market price volatility of our common stock was based on historical volatility since January 13, 2009. Our methodology is stent 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.

y of option activity under the Company's option plan as of October 31, 2011 and movement during the twelve months then ended are as follow:

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual

				term
		US$	US$	
Outstanding at November 1, 2010	70,000	2.57	171,397	2.45
Granted	250,000	1.88	293,292	4.29
Exercised	-	-	-	-
Forfeited or expired	(35,002)	2.57	(82,803)	1.45
Outstanding at October 31, 2011	284,998	1.96	381,886	3.94

y of the status of the Company's non-vested options as of October 31, 2011 and movements during the year then ended are as follow:

	Options	Weighted average granted date fair value US$
Non-vested at November 1, 2010	70,000	1.91
Granted	250,000	1.17
Vested	34,998	1.91
Forfeited or expired	35,002	1.91
Non-vested at October 31, 2011	250,000	1.17

ber 31, 2011, there was $214,424 of unrecognized compensation cost related to non-vested share-based compensation granted under the Company's option plan.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Warrants

er 31, 2011, the Company has 1,231,428 warrants outstanding at an average exercise price of $1.25 per warrant for one share each of the Company's common stock. The warrants expire in 2012 and 2013.

	Warrants	Average exercise Price US$
Outstanding warrants at November 1, 2010	1,231,428	1.25
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at October 31, 2011	1,231,428	1.25

Information regarding the warrants outstanding at October 31, 2011 is summarized as below:

	Warrants outstanding at October 31, 2011		
Exercise Prices US$	Warrants Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price US$
0.88	1,071,428	-	-
2.00	160,000	-	-
-	1,231,428	0.65	1.03

20. STATUTORY RESERVES

(1) Statutory reserves

o the relevant laws and regulations of the PRC, the Company is required to annually transfer 10% of its after tax profit as reported on atements prepared under the accounting principles of the PRC to a statutory surplus reserve fund until the balance reaches 50% of the stered 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

ior to January 1, 2007, the Company was required each year to transfer 5% of its after tax profit as reported on consolidated financial s prepared under the accounting principles of the PRC to the public welfare funds. This reserve was restricted to capital expenditure loyees' collective welfare facilities that are owned by the Company. The public welfare funds are not available for distribution to the kholders (except in liquidation). Once capital expenditures for staff welfare facilities have been made, an equivalent amount must be 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 October 31, 2011 and October 31, 2010 were comprised of the following:

	2011 US$	2010 US$
Statutory surplus reserve	3,090,320	3,090,320
Public welfare fund	282,377	282,377
Total	3,372,697	3,372,697

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. COMMITMENTS AND CONTINGENCIES

ny has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business, generally for equired 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.

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

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

(1) Operating lease arrangements

We currently have no lease agreement with any company.

(2) Capital commitments

r 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock") to acquire nd use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,096,070. the purchase agreement, a payment of $15,685,044 was made to Renhuang Stock in October 2009 and a payment of $7,842,522 was de to Renhuang Stock in January 2011, with a final payment of $1,568,504 will be paid once we received all the related title transfer ent 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.

), 2010, CBP China entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two s for a total consideration of $6,017,504. Pursuant to the Purchase Agreement, a payment of $4,212,253 was made in April 2010 and s deposits on the consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $1,805,251 is due by December 12, at which time title for the assets will be transferred. Accordingly the transaction is considered incomplete as at October 31, 2011.

Name of Fixed Asset	Purchase Date	Prepaid Amount US$	Remaining Amount US$	Total Amount US$
Ah City Pharmaceutical Plant	October, 2009	23,527,566	1,568,504	25,096,070
Two Office Floor	April, 2010	4,212,253	1,805,251	6,017,504
Total		27,739,819	3,373,755	31,113,574

2011, CBP China started its Ah City Phase Two project for Siberian Ginseng products development and industrialization and entered nstruction and Engineering Design Contract (the “Contract”) with Heilongjiang Medical Architecture Design Institute (the “Institute”) fo l design. A few payments have been made to Institute and relevant local government departments for design and start up fees and we rded $1,937,103as Construction in progress for Ah City Phase Two project. The estimated total investment for Ah City Phase Two is 6. In anticipation of the project proceeding, we expect to pay approximately $9,356,129 in our fiscal year 2012 and $7,528,821 in our fiscal year 2013. The project is anticipated to be finished in 2013.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Name of Construction in Progress	Started Date	Paid Amount	Remaining Amount	Projected Total Amount
		US$	US$	US$
Ah City Phase Two(Siberian Ginseng Product Industrialization)	August, 2011	1,937,103	16,884,950	18,822,053

y 11, 2011, CBP China entered into an Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest ources under Yichun Red Star Forestry Bureau (the "Agreement") with Yichun Red Star Forestry Bureau of Heilongjiang Province (the Bureau") for 30 years exclusive utilizing right of approximately 6,667 hectares of undergrowth resources, which is rich in wild Siberian ant and also includes approximately 67 hectares of Siberian Ginseng GAP cultivation base in Heilongjiang Province. Pursuant to the , a payment of $7,842,522 was made to Forestry Bureau in January 2011, second payment of $6,274,018 was made in October, 2011 with a final payment of $1,568,504 due in 12 months from the date of Agreement approved by local government authorities for a total n of $15,685,044. Siberian Ginseng is a plant with medically-established anti-depressant and mood regulation qualities and is also an gredient 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.

In the fourth quarter of our fiscal year 2011, we purchased five patents listed as the following table.

Name of Intangible Assets	Purchase Date	Paid Amount	Remaining Amount	Total Amount
		US$	US$	US$
Patent of Ingredients and preparation for Parkinson Drug	August, 2011	1,348,914	1,348,914	2,697,828
Patent of Ingredients and preparation for XiangDousu	August, 2011	1,333,229	1,333,229	2,666,458
Patent of Mudouye Extract	September, 2011	1,882,205	1,882,205	3,764,410
Patent of Hongdoushan Extract	September, 2011	2,368,442	2,368,442	4,736,884
Patent of Ingredients and preparation for Jizhi Pills	October, 2011	2,117,481	2,117,481	4,234,962
Yichun Undergrowth Resource Exclusive Using right	January, 2011	14,116,540	1,568,504	15,685,044
Total		23,166,811	10,618,775	33,785,586

y 1, 2011, the Company entered into an advertising contract with Harbin Weishi Advertising Company to advertise its products from February 1, 2011 to January 31, 2012 as shown on the following table.

Advertising Contract	Contract Date	Paid Amount	Remaining Amount	Total Amount
		US$	US$	US$
Harbin TV Weishi Advertising Company	February, 2011	4,587,875	1,529,292	6,117,167

ctober 31, 2011, the Company has capital commitments for purchase of Ah City Nature and Pharmaceutical Plant, two office floors, vth resources right, five patents, advertising contract and Ah City Phase Two construction in progress of approximately $32,406,772. The amounts to be paid in the future years are as follows:

Calendar Year	Payment for properties
2012	$ 23,072,700
2013	9,334,072
2014	—
2015	—
2016	—
Thereafter	—
Total	$ 32,406,772

F-28

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. SUBSEQUENT EVENT

mber 22, 2011, the company withdrew its Registration Statement on Form S1 which was filed on December 06, 2010. The Company ned, because of unfavorable market conditions, not to proceed with the registration and sale of its common stock as contemplated by e Registration Statement. The Registration Statement has not been declared effective and no securities have been sold pursuant to the Registration Statement.

6, 2012, the Board of Directors of China Botanic Pharmaceutical Inc. (the “Company”) approved an amendment and restatement of the bylaws (the “Amended and Restated Bylaws”) pursuant to the authority granted by Section 2 of Article V of the Company’s bylaws. Th nd Restated Bylaws replace the Company’s current bylaws (“Old Bylaws”). The Company’s Board of Directors (the “Board”) believes Amended and Restated Bylaws are in the best interests of the Company’s shareholders.

F-29