

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.  
Form 10-Q  
November 18, 2009

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2009

**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: 000-04494

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**13-5661446**

(IRS Employer Identification  
Number)

**Wenyang Town**

**Feicheng City**

**ShanDong, China 271603**

(Address of principal executive offices)

**86 538 3850 703**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Not Applicable.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 18, 2009 the Issuer had 26,000,000 shares of common stock issued and outstanding.

**PART I-FINANCIAL INFORMATION**

**ITEM 1.**

**FINANCIAL STATEMENTS.**

The consolidated financial statements of China RuiTai International Holdings Co., Ltd., a Delaware corporation, included herein were prepared, without audit, pursuant to rules and regulations of the Securities and Exchange Commission. Because certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America were condensed or omitted pursuant to such rules and regulations, these financial statements should be read in conjunction with the financial statements and notes thereto included in the audited financial statements of China RuiTai International Holdings, Co., Ltd. in its Form 10-K, and all amendments thereto, for the fiscal year ended December 31, 2008.

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.**

**FINANCIAL STATEMENTS**

**PERIOD ENDED SEPTEMBER 30, 2009**

<b>INDEX TO FINANCIAL STATEMENTS:</b>	<b>Page</b>
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5-6
Consolidated Statements Of Changes In Shareholders' Equity And Comprehensive Income	7-9
Consolidate Statements of Cash Flows	10-11
Notes to Unaudited Financial Statements	12-37



**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 10,315,910	\$ 5,319,456
Bank checks and commercial paper	3,325,531	8,244,207
Accounts receivable, net (Note 5)	5,221,491	3,295,341
Due from unaffiliated suppliers (Note 6)	528,929	346,976
Prepaid expenses (Note 7)	3,041,623	2,330,898
Inventory (Note 8)	6,678,788	8,157,592
Advance to employees (Note 15)	217,468	150,294
Restricted cash (Note 11)	25,155,026	19,112,900
Due from a related party-current portion (Note 15)	25,191,376	10,321,711
Total current assets	79,676,142	57,279,375
Property and Equipment, net (Note 9)	13,283,937	12,936,668
Land use right, net (Note 10)	5,015,572	5,084,515
Long-term investment	888,908	886,780
Due from a related party (Note 15)	5,931,837	5,931,837
Total Assets	\$ 104,796,396	\$ 82,119,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank loan (Note 16)	\$ 27,193,749	\$ 22,022,146
Bank checks payable (Note 12)	40,950,042	29,180,000
Accounts payable and accrued expenses	6,605,415	6,247,060
Taxes payable	6,395,751	5,411,445
Deferred revenue	182,427	418,776
Due to employees (Note 15)	1,622,723	1,707,383
Employee security deposit	1,038,818	972,181

Total Current Liabilities

83,988,925

65,958,991

Commitments and Contingencies (Note 22) -

Shareholders' Equity:

China Ruitai International Holdings Co., Ltd. Shareholders'  
Equity

Preferred stock, par value \$0.001, 10,000,000 shares authorized, no shares outstanding as of September 30, 2009 and December 31, 2008	-	-
Common stock, par value \$0.001, 50,000,000 shares authorized, 26,000,000 shares issued and outstanding as of September 30, 2009 and December 31, 2008	26,000	26,000
Additional paid-in capital	2,908,171	2,908,171
Unamortized contractual services costs	-	(165,978)
Statutory Reserves	1,369,652	1,369,652
Retained earnings	14,954,348	10,560,128
Accumulated other comprehensive income	1,346,633	1,304,357
Total China Ruitai International Holdings Co., Ltd. Shareholders' equity	20,604,804	16,002,330
Noncontrolling Interest	202,667	157,854
Total Shareholders' Equity	20,807,471	16,160,184
Total Liabilities and Shareholders' Equity	\$ 104,796,396	\$ 82,119,175

**See Notes to Consolidated Financial Statements**

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Revenues				
Sales	\$ 10,181,155	\$ 12,716,798	\$ 26,876,118	\$ 31,962,737
Costs of Sales	6,864,455	8,678,426	17,347,059	22,174,756
Gross Profit	3,316,700	4,038,372	9,529,059	9,787,981
Operating Expenses				
Selling expenses				
Sales commission	99,769	149,493	386,216	474,407
Freight-out	170,768	289,765	494,549	670,688
Advertising	-	16,262	26,019	33,695
Travel and entertainment	21,210	23,618	90,200	86,704
Office expenses	16,267	15,096	32,875	66,859
Other selling expenses	9,246	9,234	21,372	34,927
Total selling expenses	317,260	503,468	1,051,231	1,367,280
General and administrative expenses				
Payroll and employees benefits	179,463	119,775	394,643	392,549
Insurance	37	7,937	187,847	171,765
Consultant fees	55,050	167,398	258,238	455,122
Professional fees	9,453	6,899	49,472	23,759
Research and development expenses	2,205	-	289,580	-
Depreciation and amortization expenses	37,162	27,755	107,852	81,059
Taxes	32,293	71,258	119,553	175,017
Office expenses	105,660	187,307	342,034	448,322
Travel and entertainment	75,903	50,303	198,464	202,985
	18,656	77,751	67,169	132,489



Other general and  
administrative

Total general and  
administrative  
expenses

515,882

716,383

2,014,852

2,083,067

Total Operating Expenses	833,142	1,219,851	3,066,083	3,450,347
Income from Operations	2,483,558	2,818,521	6,462,976	6,337,634
Other Income (Expense)				
Interest income	751,983	461,173	1,676,899	1,182,170
Interest expense	(783,328)	(1,009,475)	(2,032,410)	(2,234,495)
Governmental subsidies	-	171,885	-	171,885
Gain(Loss) on foreign currency transaction	(25,415)	(210,889)	(36,352)	(203,073)
Loss on physical inventory count (Note 21)	-	-	(146,200)	-
Other income (expense)	5,140	1,576	(6,771)	9,801
Total other income (expense)	(51,620)	(585,730)	(544,834)	(1,073,712)
Income before Provision for Income Tax	2,431,938	2,232,791	5,918,142	5,263,922
Provision for Income Tax	607,985	558,198	1,479,536	1,315,980
Net Income	1,823,953	1,674,593	4,438,606	3,947,942
Less: Net income attributable to noncontrolling interest	(18,239)	(16,746)	(44,386)	(39,479)
Net Income attributable to China Ruitai International Holdings Co., Ltd.	\$ 1,805,714	\$ 1,657,847	\$ 4,394,220	\$ 3,908,463

**See Notes to Consolidated Financial Statements**



## CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-in (Registered) Capital	Unamortized contractual services costs	Statutory Reserves	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income
	\$0.001 Shares	Par Value Amount					
Balances at							
December 31, 2006	22,645,348	\$ 22,645	\$ 2,369,526	\$ -	\$ 272,979	\$ 1,594,417	\$ 80,376
Reverse merger adjustment *	3,354,652	3,355	(3,355)	-	-	-	-
Comprehensive income							
Net income	-	-	-	-	-	4,875,834	-
Other comprehensive income, net of tax:							
Effects of foreign currency conversion							490,336
Total other comprehensive income							490,336
Total comprehensive income							490,336
Appropriation to							
statutory reverse funds	-	-	-	-	769,376	(769,376)	-

Balances at

December 31, 2007  
26,000,000 \$ 26,000 \$ 2,366,171 \$ - \$ 1,042,355 \$ 5,700,875 \$ 570,712 \$

150,000 shares of warrants issued for									
contractual services	-	-	174,000	(29,000)	-	-	-	-	-
200,000 shares of warrants issued for									
contractual services	-	-	368,000	(136,978)	-	-	-	-	-
Comprehensive income									
Net income	-	-	-	-	-	5,186,550	-	-	52,
Other comprehensive income,  net of tax:									
Effects of foreign  currency conversion								733,645	7,
Total other comprehensive  income									
Total comprehensive income									
Appropriation to									
statutory reverse funds	-	-	-	-	327,297	(327,297)	-	-	-
Balances at									
December 31, 2008	26,000,000 \$	26,000 \$	2,908,171 \$	(165,978) \$	1,369,652 \$	10,560,128 \$	1,304,357		157,

150,000 shares of warrants issued for contractual services	-	-	-	29,000	-	-	-
200,000 shares of warrants issued for contractual services	-	-	-	136,978	-	-	-
Comprehensive income							

Net income	-	-	-	-	-	4,394,220	-	44,38
Other comprehensive income,								
net of tax:								
Effects of foreign currency conversion							42,276	42
Total other comprehensive income								
Total comprehensive income								
Balances at								
September 30, 2009	26,000,000 \$	26,000 \$	2,908,171 \$	- \$	1,369,652 \$	14,954,348 \$	1,346,633	202,600

\* The reverse merger adjustment represents the recording of the minority shareholders' shares outstanding at the time of the reverse merger.  
**See Notes to Consolidated Financial Statements**



## CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended	
	September 30,	
	<u>2009</u>	<u>2008</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
<u>Operating Activities</u>		
Net income (loss)	\$ 4,394,220	\$ 3,908,463
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Minority interest	44,386	39,479
Depreciation	967,838	503,881
Amortization of land use rights	80,328	51,444
Amortization of contractual service costs	165,978	238,478
Changes in operating assets and liabilities:		
(Increase)/Decrease in bank checks and commercial paper	4,934,918	(1,047,463)
(Increase)/Decrease in accounts receivable	(1,916,865)	(3,364,446)
(Increase)/Decrease in prepaid expenses	(704,625)	181,090
(Increase)/Decrease in inventory	1,497,306	(1,477,159)
(Increase)/Decrease in advance to employees	(66,765)	(127,742)
Increase/(Decrease) in accounts payable and accrued expenses	343,116	(1,653,536)
Increase/(Decrease) in bank checks payable	11,691,617	12,094,828
Increase/(Decrease) in taxes payable	970,622	1,249,217
Increase/(Decrease) in deferred revenue	(237,184)	251,260
Increase/(Decrease) in employee	64,258	88,947

security deposit

Net cash provided (used) by operating activities	22,229,148	10,936,740
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Investing Activities

Purchase of fixed assets	(1,282,358)	(1,753,506)
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Loans to unaffiliated suppliers	(180,990)	-
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Payback of loans to unaffiliated suppliers	-	519,915
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Loans to a related party	(14,820,016)	(6,142,086)
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Net cash (used) by investing activities	(16,283,364)	(7,375,677)
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Financing Activities

Bank loans	5,115,079	2,857,610
Decrease (Increase) in restricted cash to secure bank checks payable	(5,991,954)	(6,943,834)
Loans from employees	-	436,098
		-
Payback of loans from employees	(88,694)	
Net cash provided (used) by financing activities	(965,569)	(3,650,126)
Increase (decrease) in cash	4,980,215	(89,063)
Effects of exchange rates on cash	16,239	516,397
Cash at beginning of period	5,319,456	4,166,713
Cash at end of period	\$ 10,315,910	\$ 4,594,047

## Supplemental Disclosures of Cash Flow Information:

Cash paid (received) during year for:

Interest	\$ 2,038,052	\$ 2,307,952
Income taxes	\$ 515,767	\$ 394,386

**See Notes to Consolidated Financial Statements.**

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1-BASIS OF PRESENTATION**

The accompanying unaudited financial statements as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) for interim financial information. They do not include all of the information and footnotes for complete financial statements as required by GAAP. In Management's opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2009 and 2008 presented are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 2008.

**Note 2-ORGANIZATION AND BUSINESS BACKGROUND**

China Ruitai International Holdings Co., Ltd. ("China Ruitai" or the "Company") was initially organized under the laws of the State of Delaware on November 15, 1955 as Inland Mineral Resources Corp. The Company subsequently changes its name to Parker-Levitt Corporation, and in 1997 changed its name to Commercial Property Corporation, and in 2006 changed its name to Shangdong Ruitai Chemical Co., Ltd. on March 12, 2007, the Company changed its name to China Ruitai International Holdings Co., Ltd. On February 26, 2007, the Company changed its fiscal year end from October 31 to December 31.

The Company was engaged in various real estate and development projects. The Company was not successful and discontinued the majority of its operations by 1981. On November 19, 1997, the Company issued common stock that resulted in a change in control and entered into a new development stage as defined in Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises".

On August 29, 2007, the Company entered into a Share Exchange Agreement with Pacific Capital Group Co., Ltd., ( Pacific Capital Group ) a corporation incorporated under the laws of the Republic of Vanuatu, and the stockholders of Pacific Capital Group (the Stockholders ). Pursuant to the terms of the Share Exchange Agreement, the Stockholders agreed to transfer all of the issued and outstanding shares of common stock in Pacific Capital Group to the Company in exchange for the issuance of an aggregate of 22,645,348 shares of the Company's common stock to the Stockholders, thereby causing Pacific Capital Group's and Pacific Capital Group's majority-owned operating subsidiary, TaiAn RuiTai Cellulose Co., Ltd. ( TaiAn ), a Chinese limited liability company, to become wholly-owned and majority owned-subsiidiaries, respectively of the Company. The parties closed the share exchange contemplated by the Share Exchange Agreement on November 8, 2007.

The Share Exchange is being accounted for as a reverse merger, since the stockholders of Pacific Capital Group own a majority of the outstanding shares of the Company's common stock immediately following the Share Exchange.

Pacific Capital Group is deemed to be the acquirer in the reverse merger. Consequently, the assets and liabilities and the historical operations that will be reflected in the financial statements for periods prior to the Share Exchange will be those of Pacific Capital Group and its subsidiary and will be recorded at the historical cost basis. After completion of the Share Exchange, the Company's consolidated financial statements will include the assets and liabilities of both China Ruitai and Pacific Capital Group, the historical operations of Pacific Capital Group and the operations of the Company and its subsidiaries from the closing date of the Share Exchange.

**Note 2- ORGANIZATION AND BUSINESS BACKGROUND (continued)**

Pacific Capital Group was incorporated on November 23, 2006 under the laws of the Republic of Vanuatu as a holding company, for the purposes of seeking and consummating a merger or acquisition with a business entity. On April 26, 2007, following the approval by the relevant governmental authorities in the PRC, Pacific Capital Group acquired a 99% ownership interest in TaiAn, which was formed in the PRC on November 10, 1999. As a result of the transaction, TaiAn became a majority-owned subsidiary of Pacific Capital Group.

TaiAn is the only one of these affiliated companies that is engaged in business operations. China RuiTai and Pacific Capital Group are holding companies, whose business is to hold an equity ownership interest in TaiAn. TaiAn is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. TaiAn's assets exist solely in the PRC, and its revenues are derived from its operations therein.

China Ruitai, Pacific Capital Group, and TaiAn are hereafter referred to as the Company.

**Note 3- CONTROL BY PRINCIPAL OWNERS**

The directors, executive officers, their affiliates, and related parties own, directly or indirectly, beneficially and in the aggregate, the majority of the voting power of the outstanding capital of the Company. Accordingly, directors, executive officers and their affiliates, if they voted their shares uniformly, would have the ability to control the approval of most corporate actions, including approving significant expenses, increasing the authorized capital and the dissolution, merger or sale of the Company's assets.

**Note 4- SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries which require consolidation. Inter-company transactions have been eliminated in consolidation.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This basis of accounting differs from that used in the statutory accounts of

the Company, which are prepared in accordance with the "Accounting Principles of China " ("PRC GAAP"). Certain accounting principles, which are stipulated by US GAAP, are not applicable in the PRC GAAP. The difference between PRC GAAP accounts of the Company and its US GAAP financial statements is immaterial.

### **Foreign Currencies Translation**

The Company maintains its books and accounting records in PRC currency "Renminbi" ("RMB"), which is determined as the functional currency. Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People's Bank of China ( PBOC ) prevailing at the date of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. Exchange differences are included in the statements of changes in owners' equity. Gain and losses resulting from foreign currency transactions are included in operations.

The Company's financial statements are translated into the reporting currency, the United States Dollar ( US\$ ). Assets and liabilities of the Company are translated at the prevailing exchange rate at each

reporting period end. Contributed capital accounts are translated using the historical rate of exchange when capital is injected. Income and expense accounts are translated at the average rate of exchange during the reporting period. Translation adjustments resulting from translation of these financial statements are reflected as accumulated other comprehensive income (loss) in the owners' equity.

Translation adjustments resulting from this process are included in accumulated other comprehensive income (loss) in the consolidated statement of changes in shareholders' equity and amounted to \$1,346,633 as of September 30, 2009, and \$1,304,357 as of December 31, 2008. The balance sheet amounts with the exception of equity at September 30, 2009 were translated at 6.838 RMB to \$1.00 USD as compared to 6.854 RMB at December 31, 2008. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the nine months ended September 30, 2009 and 2008 were 6.843 RMB and 7.00 RMB, respectively.

### **Statement of Cash Flows**

In accordance with FASB guidance, cash flows from the Company's operations is calculated based upon the functional currency. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows may not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

### **Revenue Recognition**

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to unaffiliated customer or picked up by unaffiliated customers in the Company's warehouse, title and risk of loss have been transferred, collectability is reasonably assured and pricing is fixed or determinable. The corresponding freight-out and handling costs are included in the selling expenses.

### **Deferred Revenue**

Deferred revenue consists of prepayments to the Company for products that have not yet been delivered to the customers. Payments received prior to satisfying the Company's revenue recognition criteria are recorded as deferred revenue.

### **Use of Estimates**



The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates.

### **Fair Value of Measurements**

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

**Level 1:**

Unadjusted quoted prices in active markets for identical assets or liabilities.

**Level 2:**

Input other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

**Level 3:**

Unobservable inputs. Unobservable inputs reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.

**Subsequent Events**

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on November 18, 2009. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits in banks with maturities of three months or less, and all highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less at the time of purchase.

**Bank checks and commercial paper**

Bank checks and commercial paper include bank checks and commercial paper with original maturities of approximately 180 days or less at the time of issuance. Book value approximates fair value because of the short maturity of those instruments. The Company receives these financial instruments as payments from its customers in the ordinary course of business.

### **Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. We generally grant new customers a one-month period in which to pay for goods that we have delivered to them, and we grant existing customers a two to three month period in which to pay for goods that we have delivered to them. We used an indirect method of accounting to write off any accounts receivable which exceeded the allotted three month time period which we provide to our customers. In circumstances in which we receive payment for accounts receivable which have previously been written off, we reverse the allowance and bad debt expenses.

### **Concentrations of Credit Risk**

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash and cash equivalents with high-quality institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and therefore bear minimal risk.

### **Fair Value of Financial Instruments**

The carrying value of financial instruments including cash and cash equivalents, bank checks and commercial paper, receivables, accounts payable and accrued expenses, approximates their fair value due to the relatively short-term nature of these instruments.

### **Inventory**

Inventories are stated at the lower of cost or market value. Actual cost is used to value raw materials and supplies. Finished goods and work-in-progress are valued on the weighted-average-cost method. Elements of costs in finished good and work-in-progress include raw materials, direct labor, and manufacturing overhead.

### **Due from unaffiliated suppliers**

The Company has been extending temporally short-term loans to some unaffiliated suppliers. These loans are unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. Cash flows from due from unaffiliated suppliers are classified as cash flows from investing activities.

The Management believes the loans can help theses suppliers run their business, and in turn these suppliers can provide raw materials and services to the Company in a stable price. The Managements evaluates the financial resources of the borrowers on a regular basis, to make sure the suppliers have the capability to pay back these loans.

Also, the Company has never had any bad debt with these suppliers. Therefore, the Management believes that these loans are collectable.

### **Long-term investment**

The long-term investment represents monetary investments in the Wenyang Xinyong Bank, a local state owned bank in Wenyang County, Shandong Province, PRC. The investments are transferable in accordance with the laws of the PRC. The investments are carried at cost which approximates fair value. The Company did not purchase any such long-term investment in the nine months ended September 30, 2009 and 2008, respectively. Dividend income on these investment is recorded when received. There were no dividend received in the nine months ended September 30, 2009 and 2008, respectively. The Company may sell these investments back to the bank at the book value.

### **Valuation of Long-Lived assets**

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### **Restricted cash, and Bank checks payable**

The Company pays its suppliers with bank checks in its ordinary business transactions. Generally, the Company deposits 40% to 100% of the bank check amount into a restricted bank account, the bank then

issues a bank check payable to a supplier in 180 days or less. The Company delivers the bank check as payment to the supplier, who can discount the bank check before its maturity. When the bank check is maturity, the bank takes the deposit in the restricted bank accounts and the balance, if any, from other bank account(s) that the Company has with the bank. While the bank does not charge interest expenses on the balance, the bank pays interest on the deposit in the restricted bank account to the Company. The bank generally charges 0.0005% of the bank check amount as service fee for issuance of the bank check. The Company also takes out bank checks to make loans to Shandong Ruitai as disclosed more fully in Note 15.

### **Property, Plant and Equipment**

Property, plant and equipment are carried at cost. Maintenance, repairs and minor renewals are expensed as incurred; major renewals and improvements that extend the lives or increase the capacity of plant assets are capitalized.

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the reporting period of disposition.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets without residual value. The percentages or depreciable life applied are:

### **Property, Plant and Equipment (continued)**

Building and warehouses	20 years
Machinery and equipment	7 to 10 years
Office equipment and furniture	5 years
Motor vehicles	5 years

### **Land Use Right**

All land belongs to the State in PRC. Enterprises and individuals can pay the State a fee to obtain a right to use a piece of land for commercial purpose or residential purpose for an initial period of 50 years or 70 years, respectively. The land use right can be sold, purchased, and exchanged in the market. The successor owner of the land use right will reduce the amount of time which has been consumed by the predecessor owner.

The Company owns the right to use a piece of land, approximately 23 acre, located in the Wenyang County, Shandong Province for a fifty-year period ended December 2, 2055; and a piece of land, approximately 36 acre, also located in the Wenyang County, Shanxi Province for a forty-eight-year period ended June 5, 2054. The costs of these land use rights are amortized over their prospective beneficial period, using the straight-line method with no residual value. The Company's production facilities and headquarters building are located in these two pieces of land.

### **Government Subsidies**

The Company records government grants as current liabilities upon reception. A government subsidy revenue is recognized only when there is reasonable assurance that the Company has complied with all conditions attached to the grant. The Company recognized government subsidy revenue of \$0 and \$171,885 for the nine months ended September 30, 2009 and 2008, respectively.

### **Research and Development Costs**

Research and development costs relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed when incurred. The major components of these research and development costs include experimental materials and labor costs. The research and development cost was immaterial in the nine months ended September 30, 2008, and was included into other general and administration expenses. The research and development cost was \$289,580 for the nine months ended September 30, 2009, which principally included materials used in developing new products.

### **Advertising Costs**

Advertising costs are expensed as incurred and included as part of selling and marketing expenses. Advertising costs was \$26,019 and \$33,695 for the nine months ended September 30, 2009 and 2008, respectively.

### **Value-added Tax (VAT)**

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's products that are sold in PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by VAT paid on purchase of raw materials included in the cost of producing the finished goods.

### **Comprehensive Income**

FASB guidance establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income, as presented in the accompanying statements of changes in owners' equity consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

### **Segment Reporting**

FASB guidance establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company currently operates in one principal business segment.

### **Related parties**



For the purposes of these financial statements, parties are considered to be related if one party has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### **Pension and Employee Benefits**

Full time employees of the PRC entities participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Company to accrue for these benefits based on certain percentages of the employees' salaries. The Management believes full time employees who have passed the probation period are entitled to such benefits. The total provisions for such employee benefits was \$95,284, and \$55,643 for the nine months ended

September 30, 2009 and 2008, respectively.

### **Statutory Reserves**

Pursuant to the applicable laws in PRC, PRC entities are required to make appropriations to three non-distributable reserve funds, the statutory surplus reserve, statutory public welfare fund, and discretionary surplus reserve, based on after-tax net earnings as determined in accordance with the PRC GAAP, after offsetting any prior years' losses. Appropriation to the statutory surplus reserve should be at least 10% of the after-tax net earnings until the reserve is equal to 50% of the Company's registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of the after-tax net earnings. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. No appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The Company's operating subsidiary, TaiAn has made appropriations to its statutory reserves up to 50% of its registered capital as of December 31, 2008. Therefore, TaiAn is not required to make appropriations to its statutory reserves any more.

### **Income Taxes**

The Company accounts for income tax using the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statement of operations in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

The Company accounts for income taxes in interim periods in accordance with FASB guidance. The Company has determined an estimated annual effective tax rate. The rate will be revised, if necessary, as of the end of each successive interim period during the Company's fiscal year to its best current estimate. The estimated annual effective tax rate is applied to the year-to-date ordinary income (or loss) at the end of the interim period.

Effective January 1, 2007, the Company adopted a new FASB guidance, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The new FASB guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB guidance also provides guidance on de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. In accordance with the new FASB guidance, the Company performed a self-assessment and concluded that

there were no significant uncertain tax positions requiring recognition in its consolidated financial statements.

### **Earnings (Loss) Per Share**

The Company reports earnings per share in accordance with FASB guidance, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There are 350,000 shares and 350,000 shares of warrants issued and outstanding as of September 30, 2009 and 2008, respectively, as more fully disclosed in Note 19.

### **Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ("FASB") amended its guidance on accounting for variable interest entities ("VIE"). Among other things, the new guidance requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE; requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE; enhances disclosures about an enterprise's involvement with a VIE; and amends certain guidance for determining whether an entity is a VIE. Under the new guidance, a VIE must be consolidated if the enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. This new guidance will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that first annual reporting period. Earlier application is prohibited. The Management does not expect that the adoption of this new guidance would have a material effect on the Company's financial position and results of operations.

In May 2009, the FASB issued new accounting and disclosure guidance for recognized and non-recognized subsequent events that occur after the balance sheet date but before financial statements are issued. The new guidance also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new accounting guidance was effective for our Company beginning with our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2009, and is being applied prospectively. This change in accounting policy had no impact on our consolidated financial statements.

In April 2009, the FASB issued new guidance regarding accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. This new guidance amends and clarifies the accounting, measurement and recognition provisions and the related disclosures arising from contingencies in a business combination. The Company adopted this new guidance on January 1, 2009. There was no significant impact upon adoption, and its effects on future periods will depend on the nature and significance of business combinations subject to this guidance.

In April 2009, the FASB issued new guidance regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This new guidance provides additional guidance for estimating fair value when the volume and level of market activity for an asset or liability have significantly decreased when compared with normal market activity for the asset or liability. If there is a significant decrease in the volume and activity for the asset or liability, transactions or quoted prices may not be determinative of fair value in an orderly transaction and further analysis and adjustment of the transactions or quoted prices may be necessary. This new guidance was applied prospectively and was effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The

adoption of this new guidance did not have a material effect on the Company's financial position and results of operations.

In April 2009, the FASB issued new guidance regarding recognition and presentation of other-than-temporary impairments. This new guidance amends the method for determining whether an other-than-temporary impairment exists and the classification of the impairment charge for debt securities and the related disclosures. This new guidance was applied prospectively and was effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15,

2009. The adoption of this new guidance did not have a material effect on the Company's financial position and results of operations.

In December 2007, the FASB amended its guidance on accounting for business combinations. The new accounting guidance is being applied prospectively to all business combinations subsequent to the effective date. Among other things, the new guidance amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. It also establishes new disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The Company adopted this new guidance on January 1, 2009. There was no material impact on the Company's financial position and results of operations upon adoption, and their effects on future periods will depend on the nature and significance of business combinations subject to this guidance.

In December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries (previously referred to as minority interests), which resulted in a change in our accounting policy effective January 1, 2009. Among other things, the new guidance requires that a noncontrolling interest in a subsidiary be accounted for as a component of equity separate from the parent's equity, rather than as a liability. The new guidance is being applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued new accounting guidance that defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. It also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to those arrangements. This new accounting guidance was effective for our Company on January 1, 2009, and its adoption did not have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued new accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. However, in February 2008, the FASB delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The adoption of this new accounting guidance for our nonfinancial assets and nonfinancial liabilities did not have a significant impact on our consolidated financial statements.

#### **Note 5- ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Accounts receivable	\$ 6,827,966	\$ 4,867,649
Less: Allowance for doubtful accounts	(1,606,475)	(1,572,308)
Accounts receivable, net	\$ 5,221,491	\$ 3,295,341

Bad debt expense charged to operations was \$38,297 and \$43,761 for the nine months ended September 30,

2009 and 2008, respectively.

**Note 6- DUE FROM UNAFFILIATED SUPPLIERS**

Due from unaffiliated suppliers consist of following:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Fengcheng Yingbo Food Co., Ltd.	\$ 292,500	\$ 291,800
Shangdong Ashide Chemicals Co., Ltd.	73,125	-
Other companies	163,304	55,176
	\$ 528,929	\$ 346,976

**Note 7- PREPAID EXPENSES**

Prepaid expenses consist of following:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Machinery and parts	\$ 127,518	\$ 308,325
Raw materials and supplies	2,667,635	1,811,725
Packing and supply materials	8,362	1,610
Freight-out	3,334	1,268
Consultancy fees	207,888	207,123
Office expenses	26,886	847
	\$ 3,041,623	\$ 2,330,898

**Note 8- INVENTORIES**

Inventories consist of following:



	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Finished goods	\$ 3,859,438	\$ 5,492,366
Work-in-progress	976,166	1,044,048
Raw materials	1,535,058	1,576,534
Supplies and packing materials	308,126	44,644
	\$ 6,678,788	\$ 8,157,592

**Note 9- PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of property, plant and equipment:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Building and warehouses	\$ 7,919,848	\$ 7,835,356
Machinery and equipment	9,571,560	8,743,251
Office equipment and furniture	74,673	63,597
Motor vehicles	465,044	463,928
	18,031,125	17,106,132
Less: Accumulated depreciation	(5,292,777)	(4,315,364)
Add: Construction in progress	545,589	145,900
Total	\$ 13,283,937	\$ 12,936,668

Depreciation expense charged to operations was \$967,838 and \$778,021 for the nine months ended September 30, 2009 and 2008, respectively.

**Note 10- LAND USE RIGHT**

The following is a summary of land use right, less amortization:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Land use right	\$ 5,409,636	\$ 5,396,684
Less: Amortization	(394,064)	(312,169)
Land use right, net	\$ 5,015,572	\$ 5,084,515

Amortization expense charged to operations was \$80,328 and \$77,957 for the nine months ended September 30, 2009 and 2008, respectively.

**Note 11- RESTRICTED CASH**

Restricted cash consists of following:

<u>Financial Institutions</u>	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Jinan Branch of Shanghai Pudong Development Bank	\$ -	\$ 4,377,000
Feicheng Branch of Bank of China	3,071,253	1,459,000
Wenyang Branch of Agriculture Bank	1,755,002	1,750,800
Wenyang Credit Bank	3,510,004	3,501,600
Feicheng Branch of Transportation Bank	2,193,752	2,188,500
Jinan Wendong Branch of Shenzhen Development Bank	8,775,009	5,836,000
Jinan Branch of Bank of Qingdao	5,850,006	-
	\$ 25,155,026	\$ 19,112,900

**Note 12- BANK CHECKS PAYABLE**

Bank checks payable consists of following:

<u>Financial Institutions</u>	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Feicheng Branch of Bank of China	\$ 6,581,257	\$ 2,918,000
Feicheng Branch of Transportation Bank	3,656,254	4,377,000
Wenyang Credit Bank	5,850,006	5,836,000
Jinan Branch of Shanghai Pudong Development Bank	-	4,377,000
Wenyang Branch of Agriculture Bank	2,925,003	2,918,000
Jinan Wendong Branch of Shenzhen Development Bank	13,162,513	8,754,000
Jinan Branch of Bank of Qingdao	8,775,009	-
	\$ 40,950,042	\$ 29,180,000

**Note 13- INTEREST INCOME**

Interest income consists of following:

	For the Nine Months Ended	
	September 30, <u>2009</u> <u>(unaudited)</u>	September 30, <u>2008</u> <u>(unaudited)</u>
Imputed interest income from loans to Shangdong Ruitai	\$ 1,183,144	\$ 813,657
Interest income from deposits in banks	493,755	368,513
	\$ 1,676,899	\$ 1,182,170

**Note 14- INTEREST EXPENSES**

Interest expenses consist of following:

	For the Nine Months Ended	
	September 30, <u>2009</u> <u>(unaudited)</u>	September 30, <u>2008</u> <u>(unaudited)</u>
Interest expenses for bank loans	\$ 1,149,496	\$ 1,343,908
Interest expenses for discount on bank checks	787,017	778,315
Interest expenses for due to employees	95,897	112,272
	\$ 2,032,410	\$ 2,234,495

**Note 15- RELATED PARTY TRANSACTIONS****Purchase from a related party**

TaiAn purchases hot steam from Shandong Ruitai' power plant. Hot steam is one of the major raw material for TaiAn's production and TaiAn records the costs of hot steam into its manufacturing costs. The Management believes the transaction is on terms no less favorable to the Company than those reasonably obtainable from third parties.

TaiAn purchase hot steam of \$2,417,037 and \$1,295,104 from Shandong Ruitai in the nine months ended September 30, 2009 and 2008, respectively.

**Due to employees**

Due to Employees represents loans from employees to finance the Company's operations due to a lack of cash resources. There are no formal loan agreements for these loans, therefore, these loans were unsecured, and have no fixed terms of repayment. The employees can inject or withdraw funds as they wish. The Company pays 6% interest on

these loans monthly for the period July 1, 2007 through March 31, 2009. Beginning from April 1, 2009, the Company pays 5% interest on these loans monthly. Cash flows from these activities are classified as cash flows from financing activities. The Company paid interest of \$95,897 and \$112,272 for the nine months ended September 30, 2009 and 2008, respectively.

#### **Advance to employees**

Advance to employee are advances to employees who are working on projects on behalf of the Company. After the work is finished, they will submit expense reports with supporting documents to the accounting department. Then, the expenses are debited into the relevant accounts and the advances are credited out. Cash flows from these activities are classified as cash flows from operating activities.

#### **Due from a related party**

Due from a related party" represents loans to Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"), the former majority owner of TaiAn. Shandong Ruitai had owned 75% equity ownership interest of TaiAn January 2000 through February 2007. On March 20, 2007, Shandong Ruitai sold 74% equity ownership interest of TaiAn to Pacific Capital Group Co., Ltd. Mr. Xingfu Lu, our President, and Mr. Dianmin Ma, our CEO, collectively own 100% of equity ownership interest in Shandong Ruitai.

TaiAn has been extending loans to Shangdong Ruitai and the balance amounted to \$31,123,213 as of September 30, 2009. These loans were unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. Cash flows from due from a shareholder are classified as cash flows from investing activities.

The Managements evaluates the financial resources of the borrower on a regular basis, to make sure Shangdong Ruitai has the capability to pay back these loans.

As TaiAn became the only operating subsidiary of a public company, TaiAn signed loan agreement with Shangdong Ruitai in December 2007. Pursuant to the loan agreement, Shangdong Ruitai will pay 7% interest on the outstanding balance monthly. The Management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans. Shangdong Ruitai pledges its power plant as collateral for the loans and Mr. Lu and Mr. Ma guarantee the loans. Also, Shangdong Ruitai will gradually pay off these loans in a three-year period ended December 31, 2010, with 30% in 2008, 30% in 2009, and the rest of 40% in 2010. However, Shangdong Ruitai did not meet its payment obligations under the loan agreement and as a result, Shangdong Ruitai is in default under the terms of the loan agreement. The Management of the Company is negotiating with Shangdong Ruitai regarding the restructuring of the debt, as more fully disclosed in Note 24.

The following is a summary of due from Shangdong Ruitai:

	September 30, <u>2009</u> <u>(unaudited)</u>	December 31, <u>2008</u>
Due from Shangdong Ruitai-current portion	\$ 25,191,376	\$ 10,321,711
Due from Shangdong Ruitai-long-term portion	5,931,837	5,931,837
Total due from Shangdong Ruitai	\$ 31,123,213	\$ 16,253,548

Imputed interest income recognized from due from Shangdong Ruitai amounted to \$1,183,144 and \$813,657 for the nine months ended September 30, 2009 and 2008.

#### Note 16- BANK LOANS

Bank loans consist of the following as of September 30, 2009:

<u>Financial Institutions</u>	<u>Loan Amount</u>	<u>Duration</u>	<u>Monthly Interest Rate</u>	<u>Guaranteed By</u>
Feicheng Branch of Bank of China	\$ 438,750	02/04/2009-01/28/2010	4.868	Shangdong
Feicheng Branch of Bank of China	1,462,501	02/27/2009-02/26/2010	4.368	Ashide



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Feicheng Branch of Bank of China	702,001	03/18/2009-03/17/2010	4.868	Chemicals Co., Ltd.
Feicheng Branch of Bank of China	614,251	03/18/2009-03/17/2010	4.868	
Feicheng Branch of Bank of China	877,501	03/25/2009-03/24/2010	4.868	
Feicheng Branch of Bank of China	1,462,501	04/23/2009-04/22/2010	6.848	
Feicheng Branch of Bank of China	1,023,751	05/26/2009-05/25/2010	4.425	
Feicheng Branch of Bank of China	1,316,251	06/02/2009-06/01/2010	4.425	
Feicheng Branch of Bank of China	1,462,501	10/24/2008-10/23/2009	6.3525	
Feicheng Branch of Transportation Bank	1,462,501	01/13/2009-10/11/2009	4.8667	

Wenyang Branch of Feicheng Credit Bank	877,501	05/28/2009-05/28/2010	4.4250	Shandong Ashide Chemicals Co., Ltd.
Wenyang Branch of Feicheng Credit Bank	1,213,876	01/24/2009-01/24/2010	4.4250	Shandong Zhuiyuan Mining Group Co., Ltd
Wenyang Branch of Feicheng Credit Bank	1,117,351	01/24/2009-01/24/2010	4.4250	
Wenyang Branch of Feicheng Credit Bank	1,462,501	01/17/2009-01/17/2010	4.4250	
Jinan Branch of Shanghai Pudong Bank	2,925,003	08/20/2009-08/20/2010	5.310%	Feicheng Ashide Chemicals Co., Ltd.
Jinan Branch of Shanghai Pudong Bank	2,925,003	08/20/2009-08/20/2010	5.310%	
Wenyang Branch of Agriculture Bank	1,462,501	05/31/2009-05/28/2010	5.800%	Shandong Zhuiyuan Mining Group Co., Ltd
Wenyang Branch of Agriculture Bank	1,462,501	05/31/2009-05/28/2010	5.800%	
Jinan Branch of Bank of Qingdao	2,925,003	09/21/2009-09/21/2010	5.841%	
Total	\$ 27,193,749			

Interest expense charged to operations for these bank loans was \$1,149,496 for the nine months ended September 30, 2009. The weighted-average outstanding bank loan balance is \$22,696,662, and the weighted-average monthly interest rate is 5.48 .

**Bank loans consist of the following as of December 31, 2008:**

<u>Financial Institutions</u>	<u>Loan Amount</u>	<u>Duration</u>	<u>Monthly Interest Rate</u>	<u>Guaranteed By</u>
Feicheng Branch of Bank of China	\$ 437,700	02/28/2008-1/27/2009	7.47	
Feicheng Branch of Bank of China	1,459,000	02/28/2008-2/27/2009	7.47	
Feicheng Branch of Bank of China	700,320	03/19/2008-3/18/2009	7.47	
Feicheng Branch of Bank of China	612,780	03/19/2008-3/18/2009	7.47	Shandong Ashide Chemicals Co., Ltd.
Feicheng Branch of Bank of China	875,400	03/26/2008-3/25/2009	6.8475	
Feicheng Branch of Bank of China	1,459,000	04/24/2008-4/23/2009	6.8475	
Feicheng Branch of Bank of China	1,021,300	05/26/2008-5/25/2009	6.8475	

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Feicheng Branch of Bank of China	1,313,100	06/03/2008-6/02/2009	6.8475	
Feicheng Branch of Bank of China	1,459,000	10/24/2008-0/23/2009	6.3525	
Taian Branch of Transportation Bank	729,500	07/28/2008-1/28/2009	6.0225	
Wenyang Branch of Feicheng Credit Bank	875,400	05/28/2008-5/28/2009	6.225	Shangdong Ashide Chemicals Co., Ltd.
Wenyang Branch of Feicheng Credit Bank	1,210,970	01/31/2008-1/31/2009	6.225	Shandong Zhuiyuan Mining Group Co., Ltd
Wenyang Branch of Feicheng Credit Bank	1,114,676	01/30/2008-1/30/2009	6.225	

Wenyang Branch of Feicheng Credit Bank	1,459,000	01/29/2008-1/29/2009	6.225	
Jinan Branch of Shanghai Pudong Bank	2,918,000	08/12/2008-8/12/2009	6.8475	Feicheng Ashide Chemicals Co., Ltd.
Jinan Branch of Shanghai Pudong Bank	1,459,000	08/01/2008-8/01/2009	6.8475	Shandong Suolide Welding Materials Co., Ltd
Wenyang Branch of Agriculture Bank	1,459,000	11/28/2007-5/24/2009	5.460	Shandong Ashide Chemicals Co., Ltd.
Wenyang Branch of Agriculture Bank	1,459,000	01/24/2008-1/22/2009	8.0925	
Total	\$ 22,022,146			

Interest expense charged to operations for these bank loans was \$1,804,733 for the year ended December 31, 2008. The weighted-average outstanding bank loan balance is \$22,390,850; and the weighted-average monthly interest rate is 6.78 .

#### Note 17- EARNINGS PER SHARE

The following is information of net income per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	<u>2009</u> <u>(unaudited)</u>	<u>2008</u> <u>(unaudited)</u>	<u>2009</u> <u>(unaudited)</u>	<u>2008</u> <u>(unaudited)</u>
Net income attributable to China Ruitai International Holdings Co., Ltd. Shareholders	\$ 1,805,714	\$ 1,657,847	\$ 4,394,220	\$ 3,908,463
Weighted average shares used in basic computation	26,000,000	26,000,000	26,000,000	26,000,000

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Effect of dilutive securities:

Warrants	350,000	275,815	350,000	199,650
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Weighted average shares

used in diluted computation	26,350,000	26,275,815	26,350,000	26,199,650
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Earnings per share:

Basic	\$ 0.07	\$ 0.06	\$ 0.17	\$ 0.15
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<u>Stock Price</u>	<u>Price</u>	<u>Warrant Life</u>	<u>Interest Rate</u>	<u>Volatility</u>
\$2.90	\$4.00	4.0 years	2.00%	51%

Risk free interest rate: Current interest rate of short-dated government bonds such as discount rate on U.S. Government Treasury Bills with 30 days left until maturity.

Volatility: 51% is the volatility of our common stock price October 9, 2007 through March 3, 2008, which is the only available period for our common stocks price quoted in the OTCBB at the time when we valued the cost of the warrant.

Warrant costs charged to operation as consultant fees for the nine months ended September 30, 2009 and 2008 were \$29,000 and \$101,500, respectively.

On May 19, 2008, the Company engaged a consultant to as its exclusive investment banker and agent for a

one-year period ended May 19, 2009, and subject to cancellation by thirty (30) days written notice by certified mail. One of the compensation to the consultant is to issue the consultant a warrant to purchase 200,000 shares of the Company's common stock at a price of \$4.00 per share. The warrant has a term of five (5) years and was issued on May 19, 2008. The Management valued the warrant at \$1.84 per share using the Black-Schole pricing model with assumptions summarized below, for a total of \$368,000, which will be amortized over the prospective beneficial period. The parties terminated the service contract after its first one-year period on May 19, 2009.

<u>Grant Date</u> <u>Stock Price</u>	<u>Exercise</u> <u>Price</u>	<u>Warrant Life</u>	<u>Risk Free</u> <u>Interest Rate</u>	<u>Expected</u> <u>Volatility</u>
\$4.00	\$4.00	5.0 years	2.00%	51%

Risk free interest rate: Current interest rate of short-dated government bonds such as discount rate on U.S. Government Treasury Bills with 30 days left until maturity.

Volatility: 51% is the volatility of our common stock price October 9, 2007 through May 19, 2008, which is the only available period for our common stocks price quoted in the OTCBB at the time when we valued the cost of the warrant.

Warrant costs charged to operation as consultant fees for the nine months ended September 30, 2009 and 2008 were \$136,978 and \$136,978, respectively.

## Note 20- SEGMENT REPORTING

The major products consist of following

<b>Revenue</b>	For the Nine Months Ended September 30,	
	<u>2009</u> <u>(unaudited)</u>	<u>2008</u> <u>(unaudited)</u>
1 Methyl Cellulose (MC)	1,528,794	3,009,463
2 Hydroxypropyl Methyl Cellulose (HPMC)	19,925,497	24,889,163
3 Hydroxypropyl Cellulose (HPC)	1,030,605	246,612
4 Ethyl Cellulose (EC)	1,484,186	1,594,100
5 Hydroxyethyl Cellulose (HEC)	766,734	885,181
6 HEMC	225,344	208,662



7 Hydroxypropyl Cellulose (HPC)	1,649	5,052
8 HP	245,802	193,049
9 Microcrystalline Cellulose (MCC)	236,810	41,160
10 CMC	20,934	100,497
11 Film Coating Pre-Mixed Reagent.	534,253	510,406
12 Raw materials	875,510	279,392

**Cost of Sales**

1 Methyl Cellulose (MC)	1,264,839	2,457,155
2 Hydroxypropyl Methyl Cellulose (HPMC)	12,485,029	16,914,451
3 Hydroxypropyl Cellulose (HPC)	639,341	113,001
4 Ethyl Cellulose (EC)	773,590	1,062,007
5 Hydroxyethyl Cellulose (HEC)	659,578	775,107
6 HEMC	203,976	171,241
7 Hydroxypropyl Cellulose (HPC)	1,383	5,330
8 HP	70,840	72,968
9 Microcrystalline Cellulose (MCC)	163,808	32,750
10 CMC	23,327	141,899
11 Film Coating Pre-Mixed Reagent.	144,702	140,511
12 Raw materials	916,646	288,336

### Gross Profit

1 Methyl Cellulose (MC)	263,955	552,308
2 Hydroxypropyl Methyl Cellulose (HPMC)	7,440,468	7,974,712
3 Hydroxypropyl Cellulose (HPC)	391,264	133,611
4 Ethyl Cellulose (EC)	710,596	532,093
5 Hydroxyethyl Cellulose (HEC)	107,156	110,074
6 HEMC	21,368	37,421
7 Hydroxypropyl Cellulose (HPC)	266	(278)
8 HP	174,962	120,081
9 Microcrystalline Cellulose (MCC)	73,002	8,410
10 CMC	(2,393)	(41,402)
11 Film Coating Pre-Mixed Reagent.	389,551	369,895
12 Raw materials	(41,136)	(8,944)

### Geographic Areas Information

While all of the Company's assets and production are located in the PRC, the Company sales products to customers located in the South Korea, UAE, United States, Finland, and other countries, as summarized in the following:

For the Nine Months Ended September 30,

Geographic <u>Areas</u>	<u>2009</u>		<u>2008</u>	
	<u>Revenue</u> <u>(unaudited)</u>	<u>Percentage of</u> <u>Total Revenue</u> <u>(unaudited)</u>	<u>Revenue</u> <u>(unaudited)</u>	<u>Percentage of</u> <u>Total Revenue</u> <u>(unaudited)</u>
PRC	\$ 17,215,821	64.06%	\$ 22,518,582	70.45%
South Korea	3,554,579	13.23%	530,568	1.66%
UAE	1,577,526	5.87%	1,293,676	4.05%

Finland	1,350,425	5.02%	2,027,325	6.34%
Germany	867,195	3.23%	1,342,156	4.20%
U.S.A.	868,714	3.23%	1,980,271	6.20%
Spain	186,552	0.69%	712,395	2.23%
Other Countries	1,255,307	4.67%	1,557,765	4.87%
Total	\$ 26,876,118	100.00%	\$ 31,962,737	100.00%

### Major Customers

The Company has a diversified customer base. There were four major customers who made sales approximately 5% or more of the Company's total sales as summarized in the following:

Major Customer	For the Nine Months Ended September 30,			
	<u>2009</u>		<u>2008</u>	
	<u>Revenue</u> (unaudited)	<u>Percentage of</u> <u>Total Revenue</u> (unaudited)	<u>Revenue</u> (unaudited)	<u>Percentage of</u> <u>Total Revenue</u> (unaudited)
Shiang Tai Chem & Pharmacy., Ltd.	\$ 3,554,579	13.04%	\$ -	-
Viscochem Research & Development Co., Ltd.	1,577,526	5.79%	-	-
Zao Bang and Bonsomer Group Co., Ltd.	1,350,425	4.96%	2,027,325	6.34%
ChangSha XiangTai Science and Technology Developing Co., Ltd.	-	-	3,409,959	10.67%
Total	\$ 6,482,530	24.12%	\$ 5,437,284	17.01%

### Major Suppliers

The Company has a diversified Supplier base. There were eight major customers who made sales approximately 5% or more of the Company's total sales as summarized in the following:

For the Nine Months Ended September 30,  
2009 2008

Major <u>Suppliers</u>	<u>Purchase</u> (unaudited)	Percentage of <u>Total</u> <u>Purchase</u> (unaudited)	<u>Purchase</u> (unaudited)	Percentage of <u>Total</u> <u>Purchase</u> (unaudited)
Tianjun Changda Technology Co., Ltd.	\$ 2,720,356	18.49%	\$ 3,205,268	12.15%
Nantong Jiangshan Pesticide Chemical Co., Ltd.	1,992,764	13.55%	1,919,015	7.27%
Nantong (Xinyi) Chemical Transportation Co., Ltd.	1,443,649	9.81%	1,568,730	5.95%
Zhongyang Jinhanjiang Cellulose Co., Ltd.	1,419,713	9.65%	-	-
JiNing XingChi Chemical Company	1,216,199	8.27%	-	-
Dongaxian Tianyuan Cellulose Co., Ltd.	1,156,975	7.87%	-	-
ZiBo HuiLi Cellulose Co., Ltd.	-	-	6,862,945	26.02%
ChangSha XiangTai Science and Technology Developing Co., Ltd.	-	-	3,355,196	12.72%

Total	\$ 9,949,656	67.64%	\$ 16,911,154	64.11%
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**Note 21- LOSS ON PHYSICAL INVENTORY COUNT**

During the period June 1, 2009 though June 8, 2009, TaiAn temporary stopped its manufacturing process to make repair and maintenance to its production equipments. At the meantime, TaiAn also physically counted its entire inventories, including finished goods, work-in-progress, and raw materials. While the variance of the total quantity was immaterial, there were quantity variances among major products. Ruitai made adjustments to these variances and recorded a loss of \$146,200, which was primarily attributable to the difference of the costs of major products.

**Note 22- ASSET RETIREMENT OBLIGATIONS**

The Company operates within the requirements of numerous regulations at the local, province, and national levels regarding issues such as the handling and disposal of hazardous chemicals, waste-water treatment and effluent and emissions limitations among others. From a practical standpoint, certain environmental contamination cannot be reasonably determined until a facility or asset is retired or an event occurs that otherwise requires the facility to be tested and monitored. In the absence of such requirements to test for environmental contamination prior to an asset or facility retirement, the Company has concluded that it cannot reasonably estimate the cost associated with such environmental-related asset retirement obligations ( ARO ).

In addition, the Company anticipates operating its manufacturing facilities indefinitely into the future thereby rendering the potential range of settlement dates as indeterminate. Therefore, the Company has not recorded any AROs to recognize legal obligations associated with the retirement of tangible long-lived assets, as contemplated by FASB guidance.

**Note 23- COMMITMENTS AND CONTINGENCIES**

**PRC's political and economic system**

The Company faces a number of risks and challenges not typically associated with companies in North America and Western Europe, since its assets exist solely in the PRC, and its revenues are derived from its operations therein. The PRC is a developing country with an early stage market economic system, overshadowed by the state. Its political and

economic systems are very different from the more developed countries and are in a state of change. The PRC also faces many social, economic and political challenges that may produce major shocks and instabilities and even crises, in both its domestic arena and in its relationships with other countries, including the United States. Such shocks, instabilities and crises may in turn significantly and negatively affect the Company's performance.

## **Environmental**

In the ordinary course of its business, the Company is subject to numerous environmental laws and regulations covering compliance matters or imposing liability for the costs of, and damages resulting from, cleaning up sites, past spills, disposals and other releases of hazardous substances. Currently, our environmental compliance costs principally include the costs to run our waste water treatment facility and inspection fees paid to the local environmental department. The amount is immaterial to our operating costs. However, changes in these laws and regulations may significantly increase our environmental compliance costs and therefore have a material adverse effect on the Company's financial position and results of operations. Also, any failure by the Company to adequately comply with such laws and regulations could

subject the Company to significant future liabilities.

### **Governmental control of currency conversion**

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Company receives most of its revenues in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict the Company's ability to remit sufficient foreign currency to satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currency to satisfy its currency demands, the Company may not be able to pay certain of its expenses as they come due.

### **Contingent liabilities**

Prior to the merger with Pacific Capital Group on November 8, 2007, the Company has not been active since discontinuing its real estate operations in 1981. Management believes that there are no valid outstanding liabilities from prior operations. If a creditor were to come forward and claim a liability, the Company has committed to contest such claim to the fullest extent of the law. No amount has been accrued in the financial statements for this contingent liability.

### **Bank loans**

As of September 30, 2009, the Company has outstanding bank loans of \$27,193,749, which is approximately 66% of its gross revenue in 2008. In addition, these bank loans had a duration of one year and concentrated on certain financial institutions. If these financial institutions stop extending loans to the Company when these loans are mature, the Company may have difficulty to meet its payment obligations under the loan agreements. This may significantly and negatively affect the Company's performance.



## **Guaranteed Bank Loans**

The Company has guaranteed certain loans for third-party enterprises, which, in turn, have guaranteed loans for the Company. These guarantees require payment from the Company in the event of default on payment by the respective debtor and, if the debtor defaults, the Company may be required to pay amounts outstanding under the related agreements in addition to the principal amount guaranteed, including accrued interest and related fees.

The Company and these third-party enterprises have been guaranteeing loans for each other in the day-to-day operation, and none of the enterprises, for which the Company have guaranteed loans, have defaulted on any loan repayments, and accordingly, the Company has not recorded any liabilities or losses on such guarantees.

Bank loans that the Company has guaranteed for third-party enterprises consist of the following as of September 30, 2009:

<u>Borrower</u>	<u>Financial Institutions</u>	<u>Loan Amount</u>	<u>Duration</u>	<u>Monthly Interest Rate</u>	<u>Guaranteed By</u>
Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	\$ 1,169,039	09/18/2009-09/17/2010	7.2	
Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	1,169,039	10/01/2009-09/30/2010	6.93	
Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	350,712	05/14/2009-05/13/2010	7.47	
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	1,500,000	01/12/2007-01/08/2012	8.34	TaiAn RuiTai Cellulose Co., Ltd.
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	800,000	02/02/2007-01/08/2011	8.41	
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	890,000	12/30/2006-01/08/2010	8.32938	
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	700,000	12/30/2006-01/08/2011	8.32938	
Shandong Taipeng Co., Ltd.	Feicheng Branch of Agriculture Bank	2,338,077	04/10/2009-04/10/2010	4.425	
Shandong Lulong Co., Ltd.	Jinan Branch Shenzhen Development Bank	1,461,298	08/10/2009-08/09/2010	5.531	
	Total	\$ 10,378,164			

Bank loans that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2008:

<u>Borrower</u>	<u>Financial Institutions</u>	<u>Loan Amount</u>	<u>Duration</u>	<u>Monthly Interest Rate</u>	<u>Guaranteed By</u>
Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	\$ 1,093,760	09/18/2008-09/17/2009	7.2	

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Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	1,093,760	10/20/2008- 09/30/2009	6.93
Shangdong Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	328,128	05/14/2008- 05/13/2009	7.47
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	1,500,000	01/12/2007- 01/08/2012	8.34
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	800,000	02/02/2007- 01/08/2011	8.41
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	890,000	12/30/2006- 01/08/2010	8.32938
Fei Cheng Ashide Chemical Co., Ltd.	Feicheng Branch of Bank of China	700,000	12/30/2006- 01/08/2011	8.32938

Shandong Lulong Co., Ltd.	Jinan Branch Shenzhen Development Bank	1,459,000	08/10/2008-08/09/2009	5.531
	Total	\$ 7,864,648		

### Guaranteed Bank Checks

The Company has guaranteed bank checks for third-party enterprises. Generally, these companies deposit 40% to 100% of the bank check amount into a restricted bank account, the bank then issues a bank check to these companies or their assignees. The Company guaranteed on the balance of the bank check amounts. These guarantees require payment from the Company in the event of default on payment by the respective debtor and, if the debtor defaults, the Company may be required to pay amounts outstanding under the related agreements in addition to the amount guaranteed, including accrued interest and related fees.

Both these enterprises and the Company are considered good reputation debtors by local banks. None of the enterprises, for which the Company has guaranteed bank checks, has defaulted on any bank check repayments, and accordingly, the Company has not recorded any liabilities or losses on such guarantees.

Bank checks that the Company has guaranteed for third-party enterprises consist of the following as of September 30, 2009:

<u>Borrower</u>	<u>Financial Institutions</u>	<u>Bank Check Amount</u>	<u>Duration</u>	<u>Amount in Restricted Bank Account</u>	<u>Amount Guaranteed By the Company</u>
Shangdong Yinbao Food Co., Ltd.	Jinan Branch of Shenzhen Development Bank	2,925,002	01/10/2009-07/10/2010	1,462,501	1,462,501
Shangdong Taipeng Shiye Co., Ltd.	Jinan Branch of Shenzhen Development Bank	2,340,002	01/10/2009-07/10/2010	1,170,001	1,170,001

Total           \$   5,265,004

Bank checks that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2008:

<u>Borrower</u>	<u>Financial Institutions</u>	<u>Bank Check Amount</u>	<u>Duration</u>	<u>Amount in Restricted Bank Account</u>	<u>Amount Guaranteed By the Company</u>
Shangdong Yinbao Food Co., Ltd.	Jinan Branch of Shenzhen Development Bank	2,917,536	07/10/2008-01/10/2009	1,458,768	1,458,768
Shangdong Taipeng Shiye Co., Ltd.	Jinan Branch of Shenzhen Development Bank	2,334,029	07/10/2008-01/10/2009	1,167,014	1,167,014

**Note 24- SUBSEQUENT EVENT**

On November 15, 2009, TaiAn executed an agreement with Shandong Ruitai, pursuant to which, the parties agreed that Shandong Ruitai will transfer 16 apartments in a residential building located in Beijing City, PRC, totalling approximately 44,600 square feet, to TaiAn to partially offset the amount of money due and owing as a result of TaiAn's loans to Shandong Ruitai. While the balance of the loans as of September 30, 2009 was \$31,123,213, the value of the apartments appraised on November 10, 2009 by an independent appraiser certificated by the local government was \$14,083,543 (RMB 96,156,800 the exchange rate is 6.8276 RMB to \$1.00 USD on November 15, 2009). The parties anticipate that the transaction relating to the 16 apartments will be closed in December 2009.

## ITEM 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

#### SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS REPORT, INCLUDING STATEMENTS IN THE FOLLOWING DISCUSSION, ARE WHAT ARE KNOWN AS "FORWARD LOOKING STATEMENTS", WHICH ARE BASICALLY STATEMENTS ABOUT THE FUTURE. FOR THAT REASON, THESE STATEMENTS INVOLVE RISK AND UNCERTAINTY SINCE NO ONE CAN ACCURATELY PREDICT THE FUTURE. WORDS SUCH AS "PLANS," "INTENDS," "WILL," "HOPES," "SEEKS," "ANTICIPATES," "EXPECTS "AND THE LIKE OFTEN IDENTIFY SUCH FORWARD LOOKING STATEMENTS, BUT ARE NOT THE ONLY INDICATION THAT A STATEMENT IS A FORWARD LOOKING STATEMENT. SUCH FORWARD LOOKING STATEMENTS INCLUDE STATEMENTS CONCERNING OUR PLANS AND OBJECTIVES WITH RESPECT TO THE PRESENT AND FUTURE OPERATIONS OF THE COMPANY, AND STATEMENTS WHICH EXPRESS OR IMPLY THAT SUCH PRESENT AND FUTURE OPERATIONS WILL OR MAY PRODUCE REVENUES, INCOME OR PROFITS. NUMEROUS FACTORS AND FUTURE EVENTS COULD CAUSE THE COMPANY TO CHANGE SUCH PLANS AND OBJECTIVES OR FAIL TO SUCCESSFULLY IMPLEMENT SUCH PLANS OR ACHIEVE SUCH OBJECTIVES, OR CAUSE SUCH PRESENT AND FUTURE OPERATIONS TO FAIL TO PRODUCE REVENUES, INCOME OR PROFITS. THEREFORE, THE READER IS ADVISED THAT THE FOLLOWING DISCUSSION SHOULD BE CONSIDERED IN LIGHT OF THE DISCUSSION OF RISKS AND OTHER FACTORS CONTAINED IN THIS REPORT ON FORM 10-Q AND IN THE COMPANY'S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION. NO STATEMENTS CONTAINED IN THE FOLLOWING DISCUSSION SHOULD BE CONSTRUED AS A GUARANTEE OR ASSURANCE OF FUTURE PERFORMANCE OR FUTURE RESULTS.

#### Overview

China RuiTai International Holdings Co., Ltd. (hereinafter referred to as we , us , our , the Company , or the Registrant) was organized under the laws of the State of Delaware on November 15, 1955, under the name "Inland Mineral Resources Corp." We were formed for the purpose of engaging in all lawful businesses. On March 12, 2007, the Company changed its name to China RuiTai International Holdings Co., Ltd. Currently, the Registrant, through its wholly-owned subsidiary, Pacific Capital Group Co., Ltd., ( Pacific Capital Group ) a corporation incorporated under the laws of the Republic of Vanuatu and its majority-owned subsidiary, TaiAn RuiTai Cellulose Co., Ltd., ( TaiAn ) a Chinese limited liability company, is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products in the Peoples Republic of China ( PRC ).

Cellulose ether is an organic chemical that dissolves in water and other organic solvents. Due to the surface-active properties of cellulose ether, it acts as a thickener and stabilizer in aqueous solutions, making it a beneficial additive in a wide variety of commercial industries and products, including, but not limited to the pharmaceutical industry, the

construction industry, PVC products, food and beverage products, petroleum, and cosmetics. Specific examples of applications in which cellulose ether products are used include: as a stabilizer and thickener in latex paint; in mortar dry mix for building materials; to improve the performance of resin in PVC production; as a membrane reagent, stabilizer, and thickener in pharmaceuticals; and to improve jam, ice cream, toothpaste and lipsticks in the food and cosmetic industries. TaiAn is one of the largest non-ionic cellulose ether producers and exporters in the PRC.

The Chart below depicts the corporate structure of the Registrant. As depicted below, the Registrant owns 100% of the capital stock of Pacific Capital Group and has no other subsidiaries. Pacific Capital Group owns



99% of the capital stock of TaiAn and has no other subsidiaries. TaiAn has no subsidiaries.

## **Results of Operations**

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operation and financial condition for the three and nine months ended September 30, 2009. The following discussion should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Form 10-Q.

### ***Results of Operations for the Three Month Period Ended September 30, 2009 Compared to the Three Month Period Ended September 30, 2008***

#### **Revenue**

**Sales.** During the three month period ended September 30, 2009, the Company had sales of \$10,181,155 as compared to sales of \$12,716,798 during the three month period ended September 30, 2008, a decrease of \$2,535,643, or approximately 20%. The decrease in sales experienced by the Company was primarily attributable to: (i) the fact that the Company experienced a decrease of 287 tons in total units sold as a result of the general global economic slow-down; and (ii) the fact that the Company reduced the prices of its products to keep its prices in line with those of our competitors. The average selling price decreased \$776 per ton, or approximately 12.4%, in the three month period ended September 30, 2009 as compared to the same period in 2008. In an effort to combat declining sales, the

Company has strengthened its marketing activities in an effort to promote and increase sales. The Company anticipates that its sales volume will return to previous levels within the first half of the fiscal year ended December 31, 2010.

The following chart illustrates the changes in our revenue generated by sales of our products for the three month period ended September 30, 2009, as compared to the three month period ended September 30, 2008:

Products	Three Month Period ended September 30,			
		<u>2009</u>	<u>2008</u>	<u>% Change</u>
Methyl Cellulose (MC)	\$	393,558	\$ 835,137	- 53.0%
Hydroxypropyl Methyl Cellulose (HPMC)		7,331,671	10,532,714	- 30.4%
Hydroxypropyl Cellulose (HPC)		638,863	136,635	+ 368%
Ethyl Cellulose (EC)		479,900	612,211	-21.6%
Hydroxyethyl Cellulose (HEC)		304,510	315,870	- 3.6%
HEMC		87,956	21,114	+317%
Hydroxypropyl Cellulose (HPC)		895	710	+26%
HP		86,224	71,839	+ 20.0%
Microcrystalline Cellulose (MCC)		153,611	12,244	+ 1,155%
CMC		2	30,836	- 100%
Film Coating Pre-Mixed Reagent		172,467	144,575	+19.3%
Raw materials		531,498	2,913	+18,146%
<b>Total Sales</b>		<b>\$10,181,155</b>	<b>\$12,716,798</b>	<b>- 20.0%</b>

**Cost of Sales.** During the three month period ended September 30, 2009 the Company's cost of sales was \$6,864,455, as compared to costs of sales of \$8,678,426 for the three month period ended September 30, 2008, a decrease of \$1,813,971 or approximately 21%. This decrease in cost of sales experienced by the Company was primarily attributable to: i) a decrease in sales experienced by the Company; and ii) an overall decrease in the costs of raw materials utilized by the Company. The average cost of goods sold decreased \$590 per ton, or approximately 14.4%, in the three months ended September 30, 2009 as compared to the same period in 2008.

**Gross Profit.** During the three month period ended September 30, 2009 the Company's gross profit was \$3,316,700, as compared to gross profit of \$4,038,372 for the three month period ended September 30, 2008, a decrease of \$721,672, or approximately 17.9%. This decrease in gross profit experienced by the Company was primarily attributable to the fact that the Company experienced a decrease in the amount of goods sold in the three months ended September 30, 2009 as compared to the same period in 2008.

### Operating Expenses

The operating expenses for the Company are divided into Selling Expenses and General and Administrative Expenses, both of which are discussed below:

**Selling Expenses.** Selling expenses which consist of sales commission, freight charges, travel and other selling expenses totaled \$317,260 for the three months ended September 30, 2009, as compared to \$503,468 for the three

month period ended September 30, 2008, a decrease of \$186,208 or approximately 37%. This decrease is primarily attributable to a decrease of \$49,724 in selling commissions and a decrease of \$118,997 in freight out.

The following chart illustrates the changes in our Selling Expenses for the three month period ended September 30, 2009, as compared to the three month period ended September 30, 2008:

	<b>Three Months Ended September 30,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b>% Change</b>
<b>Selling expenses</b>			
Sales commission	\$ 99,769	\$ 149,493	-33%
Freight-out	170,768	289,765	-41%
Advertising	-	16,262	-100%
Travel and entertainment	21,210	23,618	-10%
Office expenses	16,267	15,096	-8%
Other selling expenses	9,246	9,234	-1%
Total selling expenses	317,260	503,468	-37%

General and Administrative Expenses. General and administrative expenses totaled \$515,882 for the three month period ended September 30, 2009, as compared to \$716,383 for the three month period ended September 30, 2008, a decrease of \$200,501 or approximately 28%. This decrease is primarily attributable to a decrease of \$112,348 in Consultant Fees, a decrease of \$38,965 in taxes, and a decrease of \$81,647 in office expenses.

The following chart illustrates the changes in our General and Administrative Expenses for the three month period ended September 30, 2009, as compared to the three month period ended September 30, 2008:

	<b>Three Months Ended September 30,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b>% Change</b>
<b>General and administrative expenses</b>			
Payroll and employees benefits	\$ 179,463	\$ 119,775	+50%
Insurance	37	7,937	-99.5%
Consultant fees	55,050	167,398	-67%
Professional fees	9,453	6,899	-37%
		-	
Research and development expenses	2,205		+2,205%
Depreciation and amortization expenses	37,162	27,755	+34%
Taxes	32,293	71,258	-55%
Office expenses	105,660	187,307	-44%
Travel and entertainment	75,903	50,303	+51%
Other general and administrative	18,656	77,751	-76%
Total general and administrative expenses	515,882	716,383	-28%

## **Income From Operations**

For the three month period ended September 30, 2009, the Company had income from operations in the amount of \$2,483,558, as compared to income from operations of \$2,818,521 for the three month period ended September 30, 2008, a decrease of \$334,963 or approximately 11.9%. This decrease is primarily attributable to the fact that the Company experienced a decrease in the amount of goods sold and reduced operating expenses.

### **Interest Expense**

For the three month period ended September 30, 2009, the Company incurred interest expense in the amount

of \$783,328, as compared to interest expense of \$1,009,475 for the three month period ended September 30, 2008, a decrease of \$226,147, or approximately 22.4%. This decrease is primarily attributable to the decrease of interest rates experienced by the Company; the monthly weighted-average interest rate decreased from 6.66 to 5.48, a decrease of 1.18, or approximately 17.7%.

## Net Income

The Company had a net income of \$1,823,953 for the three month period ended September 30, 2009 as compared to \$1,674,593 for the three month period ended September 30, 2008, an increase of \$149,360 or approximately 9%. The increase in net income is primarily attributable to: i) the fact that the Company experienced an increase in imputed interest income from loans to Shandong Ruitai due to the increased average outstanding balance of the loans; and ii) the fact that the Company experienced a significant decrease in the reduced operating expenses and reduced Interest Expense.

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## *Results of Operations for the Nine Month Period Ended September 30, 2009 Compared to the Nine Month Period Ended September 30, 2008*

## Revenue

Sales. During the nine month period ended September 30, 2009, the Company had sales of \$26,876,118 as compared to sales of \$31,962,737 during the nine month period ended September 30, 2008, a decrease of \$5,086,619, or approximately 15.9%. The decrease in sales experienced by the Company was primarily attributable to: (i) the fact that the Company experienced a decrease of 538 tons, or approximately 10.5%, in total units sold as a result of the general global economic slow-down; and (ii) the fact that the Company reduced the prices of its products to keep its prices in line with those of our competitors. The average selling price decreased \$655 per ton, or approximately 10.3%, in the nine months ended September 30, 2009 as compared to the same period in 2008. In an effort to combat declining sales, the Company has strengthened its marketing activities in an effort to promote and increase sales. The Company anticipates that its sales volume will return to previous levels within the first half of the fiscal year ended December 31, 2010.

The following chart illustrates the changes in our revenue generated by sales of our products for the nine month period ended September 30, 2009, as compared to the nine month period ended September 30, 2008:

Products	Nine Month Period ended September 30,		
	2009	2008	% Change
Methyl Cellulose (MC)	\$ 1,528,794	\$ 3,009,463	- 49.2%

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Hydroxypropyl Methyl Cellulose (HPMC)	19,925,497	24,889,163	- 19.9%
Hydroxypropyl Cellulose (HPC)	1,030,605	246,612	+ 318%
Ethyl Cellulose (EC)	1,484,186	1,594,100	-6.9%
Hydroxyethyl Cellulose (HEC)	766,734	885,181	- 13.4%
HEMC	225,344	208,662	+8.0%
Hydroxypropyl Cellulose (HPC)	1,649	5,052	- 67.4%
HP	245,802	193,049	+27.3%
Microcrystalline Cellulose (MCC)	236,810	41,160	+ 475.0%
CMC	20,934	100,497	- 79.2%
Film Coating Pre-Mixed Reagent	534,253	510,406	+4.7.%
Raw materials	875,510	279,392	+213.4%
<b>Total Sales</b>	<b>\$26,876,118</b>	<b>\$31,962,737</b>	<b>- 15.9%</b>

Cost of Sales. During the nine month period ended September 30, 2009 the Company's cost of sales was



\$17,347,059, as compared to Costs of Sales of \$22,174,756 for the nine month period ended September 30, 2008, a decrease of \$4,827,697, or approximately --22%. This decrease in cost of sales experienced by the Company was primarily attributable to: i) a decrease in sales experienced by the Company; and ii) an overall decrease in the costs of raw materials utilized by the Company. The average cost of goods sold decreased \$678 per ton, or approximately 15.8%, in the nine months ended September 30, 2009 as compared to the same period in 2008.

Gross Profit. During the nine month period ended September 30, 2009 the Company's gross profit was \$9,529,059, as compared to gross profit of \$9,787,981 for the nine month period ended September 30, 2008, an decrease of \$258,922 or approximately 2.6%. This decrease in gross profit experienced by the Company was primarily attributable to the fact that the Company experienced a decrease in the amount of goods sold in the nine months ended September 30, 2009 as compared to the same period in 2008.

### Operating Expenses

The operating expenses for the Company are divided into Selling Expenses and General and Administrative Expenses, both of which are discussed below:

Selling Expenses. Selling expenses which consist of sales commission, freight charges, travel and other selling expenses totaled \$1,051,231 for the nine months ended September 30, 2009 as compared to \$1,367,280 for the nine month period ended September 30, 2008, a decrease of \$316,049, or approximately 23%. This decrease is primarily attributable to a decrease of \$88,191 in selling commissions, a decrease of \$176,139 in freight out, and a decrease of \$33,984 in other office expenses.

The following chart illustrates the changes in our Selling Expenses for the nine month period ended September 30, 2009, as compared to the nine month period ended September 30, 2008:

Selling Expenses	Nine Months Ended September 30,		% Change
	<u>2009</u>	<u>2008</u>	
Sales commission	\$ 386,216	\$ 474,407	-19%
Freight-out	494,549	670,688	-26%
Advertising	26,019	33,695	-23%
Travel and entertainment	90,200	86,704	-4%
Office expenses	32,875	66,859	-51%
Other selling expenses	21,372	34,927	39%
Total selling expenses	1,051,231	1,367,280	-23%

General and Administrative Expenses. General and administrative expenses totaled \$2,014,852 for the nine month period ended September 30, 2009, as compared to \$2,083,067 for the nine month period ended September 30, 2008, a decrease of \$68,215, or approximately 3.3%. This slight decrease is primarily attributable to a decrease of \$196,884 in Consultant Fees, which was offset by increases of \$289,580 in research and development expenses and \$25,713 in professional fees during the nine month period ended September 30, 2009 as compared to the same period in 2008.

The following chart illustrates the changes in our General and Administrative Expenses for the nine month period ended September 30, 2009, as compared to the nine month period ended September 30, 2008:

<b>General and administrative expenses</b>	<b>Nine Months Ended September 30,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	
Payroll and employees benefits	\$ 394,643	\$ 392,549	-0.5%
Insurance	187,847	171,765	+9%
Consultant fees	258,238	455,122	-43%
Professional fees	49,472	23,759	+108%
Research and development expenses	289,580	-	+289,508%
Depreciation and amortization expenses	107,852	81,059	33%
Taxes	119,553	175,017	-32%
Office expenses	342,034	448,322	-24%
Travel and entertainment	198,464	202,985	-2%
Other general and administrative	67,169	132,489	49%
Total general and administrative expenses	2,014,852	2,083,067	3.3%

### **Income From Operations**

For the nine month period ended September 30, 2009, the Company had income from operations in the amount of \$6,462,976, as compared to income from operations of \$6,337,634 for the nine month period ended September 30, 2008, an increase of \$125,342, or approximately 2%. The increase in income from operations experienced by the Company was primarily attributable to the fact that the Company experienced a significant decrease in the reduced operating expenses.

### **Net Income**

The Company had a net income of 4,438,606 for the nine month period ended September 30, 2009 as compared to \$3,947,942 for the nine month period ended September 30, 2008, an increase of \$490,664 or approximately 12%. The increase in net income is primarily attributable to: i) the fact that the Company experienced an increase in imputed interest income from loans to Shandong Ruitai due to the increased average outstanding balance of the loans; and ii) the fact that the Company experienced a significant decrease in the cost of goods sold as a result of a decrease in the cost of raw materials.

### **Liquidity and Capital Resources**

The Company anticipates that the existing cash and cash equivalents on hand, together with the net cash flows generated from its business activities will be sufficient to meet the working capital requirements for its on-going projects and to sustain the business operations for the next twelve months.

### **Total Current Assets & Total Assets**

As of September 30, 2009, our unaudited balance sheet reflects that we have: i) total current assets of \$79,676,142, as compared to total current assets of \$57,279,375 at December 31, 2008, an increase of \$22,396,767, or approximately 39%; and ii) total assets of \$104,796,396 as of September 30, 2009, compared to \$82,119,175 as of December 31, 2008, an increase of \$22,677,221, or approximately 27.6%. The Company's total assets increased due to changes that the Company experienced in cash and cash equivalents, restricted cash, and amounts due from a related party, all of which are discussed below.

Cash and Cash Equivalents. As of September 30, 2009, our unaudited balance sheet reflects that we have cash and cash equivalents of \$10,315,910, as compared to \$5,319,456, at December 31, 2008 an increase of 4,996,454, or approximately 94%. The increase is primarily attributable to the fact that we discounted bank checks that we newly took out from banks.

Restricted Cash. As of September 30, 2009, our unaudited balance sheet reflects that we have restricted cash of \$25,155,026, as compared to restricted cash of \$19,112,900, at December 31, 2008, an increase of \$6,042,126, or approximately 31.6%. The increase in restricted cash was primarily attributable to an increase of \$5,850,000 in compensation balance to secure the bank checks payable.

Due From Related Party. Due from a related party represents loans to Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"), a former majority owner of TaiAn. Shandong Ruitai had owned 75% equity ownership interest of TaiAn from January 2000 through February 2007. On March 20, 2007, Shandong sold a 74% equity ownership interest of TaiAn to Pacific Capital Group Co., Ltd. Mr. Xingfu Lu, our President, and Mr. Dianmin Ma, our CEO, collectively own 100% of equity ownership interest in Shandong Ruitai.

As TaiAn became the only operating subsidiary of a public company, subsequent to the closing of the Share Exchange, on December 31, 2007, Shandong Ruitai entered into a Loan Contract with TaiAn for the repayment of the outstanding balance of the loans. Pursuant to the terms of the Loan Contract, Shandong Ruitai will repay the principal outstanding balance of the loan and interest which is accruing monthly at 7% over a three-year period ending December 31, 2010, with 30% of the principal and interest due as of the fiscal year ending 2008, 30% of the principal and interest due as of the fiscal year ending 2009, and 40% of the principal and interest due as of the fiscal year ending 2010. The repayment obligations of Shandong Ruitai under the Loan Contract are secured by a thermal power plant owned by Shandong Ruitai. Additionally, Shandong Ruitai's repayment obligations are personally guaranteed by Shandong Ruitai's principals, Mr. Dian Min Ma and Mr. Xingfu Lu. The foregoing description of the loan contract is qualified in its entirety by reference to the Loan Contract which was filed as Exhibit 10.7 to the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2008, and is hereby incorporated by reference.

As of September 30, 2009, our unaudited balance sheet reflects that we have an amount due from related party of \$25,191,376, as compared to an amount due from related party of \$10,321,711 at December 31, 2008, an increase of \$14,869,665. The increase in the amount due from related party from December 2008 to September 2009 was primarily attributable to: i) the fact that the Company advanced additional funds to Shandong Ruitai; and ii) the fact that Shandong Ruitai did not meet its payment obligations under the Loan Contract and as a result, Shandong Ruitai is in default under the terms of the Loan Contract, a copy of which was filed as Exhibit 10.7 to the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2008, and is hereby incorporated by reference. Currently, Shandong Ruitai is in default under the Loan Agreement. The Management of the Company is negotiating with Shandong Ruitai regarding the restructuring of the debt.

On November 15, 2009, TaiAn executed an agreement with Shandong Ruitai, pursuant to which, the parties agreed that Shandong Ruitai will transfer 16 apartments in a residential building located in Beijing City, PRC, totalling

approximately 44,600 square feet, to TaiAn to partially offset the amount of money due and owing as a result of TaiAn's loans to Shandong Ruitai. While the balance of the loans as of September 30, 2009 was \$31,123,213, the value of the apartments appraised on November 10, 2009 by an independent appraiser certificated by the local government was \$14,083,543 (RMB 96,156,800 the exchange rate is 6.8276 RMB to \$1.00 USD on November 15, 2009). The parties anticipate that the transaction relating to the 16 apartments will be closed in December 2009. In addition to the foregoing transaction, the Company anticipates that Shandong Ruitai will make a partial repayment of the outstanding balance due on loan on or before December 31, 2009, and further anticipates that Shandong Ruitai will repay the entire loan by the

fiscal year ended December 31, 2010.

### **Total Current Liabilities**

As of September 30, 2009, our unaudited balance sheet reflects that we have total current liabilities of \$83,988,925, as compared to total current liabilities of \$65,958,991 at December 31, 2008, an increase of \$18,029,934, or approximately 27%. The increase in the Company's total current liabilities was primarily attributable to increases in bank loans and bank checks payable.

Bank Loans. As of September 30, 2009, our unaudited balance sheet reflects that we have Bank Loans of \$27,193,749, as compared to bank loans of \$22,022,146 as of December 31, 2008, an increase of \$5,171,603, or approximately 23.5%. The increase in our Bank Loans was primarily attributable to an increase in loans to a related-party.

Bank Checks Payable. As of September 30, 2009, our unaudited balance sheet reflects that we have Bank Checks Payable of \$40,950,042, as compared to bank checks payable of \$29,180,000 as of December 31, 2008, an increase of \$11,770,042, or approximately 40%. The increase in our Bank Checks Payable was primarily attributable to an increase in loans to a related-party and pay back of bank loans which were mature.

### **Operating Activities**

Our unaudited balance sheet reflects that net cash of \$22,229,148 was provided by operating activities during the nine month period ended September 30, 2009, compared to net cash provided by operating activities of \$10,936,740 during the nine month period September 30, 2008, representing a change of \$11,292,408. The increase in net cash provided by our operating activities was primarily attributable to increases in bank checks payables, accounts payable and accrued expenses, and a decrease in inventory.

### **Investing Activities**

During the nine month period ended September 30, 2009, the net cash used in investing activities was \$16,283,364, as compared to net cash used by investing activities of \$7,375,677 for the nine month period ended September 30, 2008, a change of \$8,907,687 in the cash used in investing activities. The change in net cash used in investing activities was primarily attributable to an increase in loans to a related party.

### **Financing Activities**

During the nine month period ended September 30, 2009, the net cash used by financing activities was \$965,569, as compared to net cash used by financing activities of \$3,650,126 for the nine month period ended September 30, 2008. The change in net cash used by financing activities was primarily attributable to an increase in restricted cash needed to secure the bank checks payable.

### **Off Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

### **ITEM 3.**

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable.



**ITEM 4T.**

**CONTROLS AND PROCEDURES.**

**Disclosure Controls and Procedures**

The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean the company's controls and other procedures of an issuer that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company maintains such a system of controls and procedures in an effort to ensure that all information which it is required to disclose in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified under the SEC's rules and forms and that information required to be disclosed is accumulated and communicated to principal executive and principal financial officers to allow timely decisions regarding disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed to provide reasonable assurance of achieving the objectives of timely alerting them to material information required to be included in our periodic SEC reports and of ensuring that such information is recorded, processed, summarized and reported with the time periods specified. Our chief executive officer and chief financial officer also concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance of the achievement of these objectives.

**Changes in Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting during the period ended September 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II-OTHER INFORMATION**

**ITEM 1.**

**LEGAL PROCEEDINGS.**

The Company is not a party to any pending legal proceedings, and no such proceedings are known to be contemplated. No director, officer or affiliate of the Company, and no owner of record or beneficial owner of more than 5.0% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

**ITEM 1A.**

**RISK FACTORS.**

Not Applicable.

**ITEM 2.**

**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3.**

**DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

**ITEM 5.**

**OTHER INFORMATION.**

None.

**ITEM 6.**

**EXHIBITS.**

(a)

The following exhibits are filed herewith:

31.1

Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2

Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1

Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32,2

Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.**

By: /s/ Dian Min Ma, Chief Executive Officer

Date: November 18, 2009

By: /s/ Gang Ma, Chief Financial Officer

Date: November 18, 2009