China Botanic Pharmaceutical
Form 10-K/A
March 10, 2011

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

Form 10-K/A
(Amendment No. 1)

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

For the fiscal year ended October 31, 2010

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

For the transition period from ______ to____________

Commission File Number: 001-34808

CHINA BOTANIC PHARMACEUTICAL INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
¨ Yes xNo

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

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

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

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

No documents are incorporated into the text by reference.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to our Annual Report on Form 10-K for the year ended October 31, 2010, filed with the U.S. Securities and Exchange Commission (the "SEC") on January 24, 2011 (the "Original Filing"), for the purpose of correcting an error in the calculation of diluted earnings per share and to Note 12, Notes to the Consolidated Financial Statements, to correct an error in calculating the tax savings amount and the diluted per share calculations for the year ended October 31, 2010 included in Item 15 of Part IV, and correction certain information required by Item 11 of Part III of the Original Filing related to Compensation of Directors. As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our Principal Executive Officer and Principal Financial Officer are being filed as exhibits to this Amendment under Item 15 of Part IV. We are also making conforming changes to the Notes to the financial statements and the cover page and the Exhibit Index to this Amendment.

Except as described above, no other changes have been made to the Original Filing, and all other Items of the Original Filing have been omitted from this Amendment. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing other than as expressly indicated in this Amendment. Accordingly, this Amendment should be read in conjunction with the Original Filing and our other filings made with the SEC on or subsequent to January 24, 2011.

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PART III

Item 11. Executive Compensation

Compensation of Directors

The following table sets forth compensation paid to our non-executive directors for the fiscal year ended October 31, 2010.

Name (a)	Fees Paid in Cash ($) (b)(1)	Stock Awards ($) (c)(2)	Option Awards ($) (d)(2)		Non-Equity Incentive Plan Compensation ($) (e)	Nonqualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($)
Xiaoheng Shao	14,862	-0-	70,000	(3)	-0-	-0-	-0-	-0-
Bingchun Wu	2,703	-0-	-0-		-0-	-0-	-0-	-0-
Changxiong Sun	2,703	-0-	-0-		-0-	-0-	-0-	-0-
Dianjun Pi	-0-	-0-	-0-		-0-	-0-	-0-	-0-

(1) The dollar value reflected is based on a conversion ratio of 1 RMB to every 0.1502 US dollars as of December 1, 2010.
(2) Reflects the grant date fair value of the awards calculated in accordance with FASB ASC Topic 718 – Stock Compensation.
(3) We entered into a independent director agreement with Mr. Shao dated April 13, 2010, pursuant to which we granted Mr. Shao an option to purchase a total amount of 70,000 shares of our common stock under the 2003 Plan at a purchase price of $2.57 per share. The option will vest on a quarterly basis such that, for the first 11 quarter anniversaries, Mr. Shao will be entitled to purchase 5,833 shares of our common stock and, for the 12th quarter anniversary of the grant, he will be entitled to purchase 5,837 shares of our common stock. As of October 31, 2010, Mr. Shao was entitled to purchase 17,499 shares of our common stock under the option grant. Note that, the dollar amount disclosed in this table relates to a different number of acquirable shares than that in the beneficial ownership table below since the beneficial ownership table reflects that number of shares which are acquirable within 60 days of October 31, 2010. Accordingly, for purposes of the beneficial ownership table, the 5,833 shares that become acquirable on December 13, 2010 are reflected.

Independent Director Agreements

We currently have agreements with our independent directors.

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

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

On April 13, 2010, we entered into an independent director agreement with Mr. Shao, who became a director on April 15, 2010. The agreement provides that Mr. Shao, the Chair of our Audit Committee, will receive a base salary of approximately $3,000 per month for board meeting attendance as well as expense reimbursement which is paid in Renminbi. Additionally, Mr. Shao was granted an option to purchase up to 70,000 shares of our common stock under the 2003 Plan, at an exercise price of $2.57 per share. The option will vest on a quarterly basis such that Mr. Shao will be entitled to purchase 5,833 shares of our common stock on the first 11 quarter anniversaries of the grant date (April 15, 2010) and 5,837 shares of our common stock on the twelfth quarter anniversary of the grant date. The option has a term of 3 years, starting from the date of grant. The Agreement expires on the earlier of (i) the date Mr. Shao ceases to be a member of the board, or (ii) the date of termination of the Agreement.

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

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PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

The following documents are filed as part of this Amendment:

(a) Financial Statements:

Exhibits
The following exhibits are filed as a part of this his Amendment:

Exhibit No.	Description
3.1	Restated Articles of Incorporation(1)
3.2	Second Restated Bylaws(1)
3.3	Certificate of Amendment to Articles of Incorporation(2)
3.4	Certificate of Amendment to Articles of Incorporation reflecting change of name to China Botanic Pharmaceutical Inc. (3)
10.1	2007 Non-Qualified Company Stock Grant and Option Plan(4)
10.2	2003 Omnibus Securities Plan (5)
10.3	Loan Conversion Agreement among the Company, Allied Merit International Inc. and Griffin Ventures Ltd. dated May 15, 2009(6)
10.4	Employment Agreements with Weiqiu Dong(3)
10.5	English translation of Purchase Agreement for Patents dated September 1, 2009(7)
10.6	English translation of Purchase Agreement for Ah City Natural and Biopharmaceutical Plant dated October 12, 2009(7)
10.7	English translation of Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company dated April 10, 2010(8)
10.8	Independent Director Agreement with Mr. Xiaoheng (Sean) Shao, dated April 13, 2010(8)
10.9	Independent Director Agreement with Mr. Bingchun Wu, dated April 19, 2010(8)
10.10	Independent Director Agreement with Mr. Changxiong Sun, dated April 19, 2010(8)
10.11	Exclusive Purchase Agreement, with Yichun Red Star Forest Bureau, of Acanthopanax Resources(9)
21.1	Subsidiaries of the registrant(2)
23.2	Consent Of Windes & McClaughry Accountancy Corporation*
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

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* Filed herewith.
(1) Incorporated by reference from Form 8-K filed with the SEC on April 22, 2003.
(2) Incorporated by reference from Form 10-K filed with the SEC on February 13, 2007.
(3) Incorporated by reference from Form 10-K filed with the SEC on January 24, 2011.
(4) Incorporated by reference from Form S-8 filed with the SEC on May 2, 2007.
(5) Incorporated by reference from Form 8-K filed with the SEC on April 22, 2003.

(6) Incorporated by reference from Form 10-Q filed with the SEC on September 21, 2009.
(7) Incorporated by reference from Form 10-K filed with the SEC on January 29, 2010.
(8) Incorporated by reference from Form 10-Q filed with the SEC on June 7, 2010.
(9) Incorporated by reference from Form 8-K filed with the SEC on July 14, 2010.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized.

Date: March 10, 2011	CHINA BOTANIC PHARMACEUTICAL INC.	
	By:	/s/ Shaoming Li Shaoming Li, Chief Executive Officer and President (Principal Executive Officer)
Date: March 10, 2011	By:	/s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer (Principal Accounting and Financial Officer)

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

Date: March 10, 2011	/s/ Shaoming Li Shaoming Li, Chief Executive Officer, President, Chairman of the Board
Date: March 10, 2011	/s/ Xiaoheng Shao Xiaoheng Shao, Director
Date: March 10, 2011	/s/ Changxiong Sun Changxiong Sun, Director
Date: March 10, 2011	/s/ Bingchun Wu Bingchun Wu, Director
Date: March 10, 2011	/s/ Dianjun Pi Dianjun Pi, Director
Date: March 10, 2011	/s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of China Botanic Pharmaceutical Inc.

We have audited the accompanying consolidated balance sheets of China Botanic Pharmaceutical Inc. as of October 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended October 31, 2010. China Botanic Pharmaceutical Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Botanic Pharmaceutical Inc. as of October 31, 2010 and 2009, and the results of their operations and their cash flows for the years in the two-year period ended October 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the consolidated financial statements, the 2010 consolidated financial statements have been restated to correct a misstatement.

/s/ Windes & McClaughry Accountancy Corporation
Windes & McClaughry Accountancy Corporation
Long Beach, California
March 8, 2011

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIAIRES
CONSOLIDATED BALANCE SHEETS

	Note	As of October 31, 2010		2009
ASSETS				
Current assets:				
Cash and cash equivalents		$	27,826,142	$	8,111,514
Trade receivables, net	5		19,814,438		23,203,410
Due from related parties	10		28,877		130,199
Inventory, net	7		2,645,616		3,024,016
Prepayments			-		89,281
Other receivables, net	6		200,994		102,613
Total current assets			50,516,067		34,661,033
Property and equipment, net	8		2,069,460		2,352,163
Intangible assets , net	9		1,953,617		
Deposits for properties	10, 11		18,605,935		16,137,000
Total assets		$	73,145,079	$	53,150,196
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Accounts payable		$	333,555	$	369,329
Value added tax payable			1,064,066		1,186,642
Accrued employee benefits	14		1,645,192		1,136,267
Warrant liabilities	15		342,770		-
Total liabilities		$	3,385,583	$	2,692,238
Shareholders' equity					
Preferred stock (no par value, 1,000,000 shares authorized; none issued and outstanding as of October 31, 2010 and 2009)	16		-		-
Common stock ($0.001 par value, 100,000,000 shares, authorized; 37,239,536 issued and outstanding as of October 31, 2010 and 2009, respectively)	16		37,240		37,240
Additional paid-in capital			7,627,987		7,596,525
Common stock warrants	17		496,732		496,732
Reserves	18		3,372,697		3,372,697
Accumulated other comprehensive income			4,768,793		3,367,659
Retained earnings			53,456,047		35,587,105
Total shareholders' equity			69,759,496		50,457,958
Total liabilities and shareholders' equity		$	73,145,079	$	53,150,196

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

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

	Note	For the year ended October 31* 2010 US$	2009 US$
Sales, net		$ 55,183,941	$ 43,411,562
Cost of goods sold		25,765,835	20,311,410
Gross profit		29,418,106	23,100,152
Operating and administrative expenses:			
Sales and distribution		4,966,062	3,649,820
General and administrative		3,614,809	2,117,114
Research and development		3,042,815	2,529,085
Total operating expenses		11,623,686	8,296,019
Income from operations		17,794,420	14,804,133
Other income:			
Interest income		74,522	42,724
Income from operations before income tax expenses		17,868,942	14,846,857
Income tax expenses	12	-	-
Net income		$ 17,868,942	$ 14,846,857
Other comprehensive income:			
Cumulative currency translation adjustments		1,401,134	66,345
Total comprehensive income		19,270,076	14,913,202
Earnings per common stock- Basic	13	$ 0.48	$ 0.41
Earnings per common stock – Diluted (Restated, see Note 21)		$ 0.47	$ 0.41
Weighted average common stock outstanding	13		
Basic		37,239,536	36,088,853
Diluted (Restated, see Note 21)		37,778,028	36,088,853

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

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CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common stock ($0.001 par value) Number of Shares	Par Value US$	Additional Paid-in Capital US$	Common Stock Warrants US$	Reserves US$	Accumulated Other Comprehensive Income US$	Retained Earnings US$	Total Shareholders' Equity US$
Balance as of October 31, 2008 (Restated)	35,096,680	35,097	6,595,400	-	2,867,674	3,301,314	21,245,271	34,044,756
Common stock issued	2,142,856	2,143	1,001,125	-	-	-	-	1,003,268
Warrants issued	-	-	-	496,732	-	-	-	496,732
Net income	-	-	-	-	-	-	14,846,857	14,846,857
Appropriation to statutory reserves	-	-	-	-	505,023	-	(505,023)	-
Currency translation adjustments	-	-	-	-	-	66,345	-	66,345
Balance as of October 31, 2009	37,239,536	37,240	7,596,525	496,732	3,372,697	3,367,659	35,587,105	50,457,958
Net income	-	-	-	-	-	-	17,868,942	17,868,942
Appropriation to statutory reserves	-	-	-	-	-	-	-	-
Option Granted			31,462					31,462
Currency translation adjustments	-	-	-	-	-	1,401,134	-	1,401,134
Balance as of October 31, 2010	37,239,536	37,240	7,627,987	496,732	3,372,697	4,768,793	53,456,047	69,759,496

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

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

	For the years ended October 31,	
	2010	2009
	US$	US$
Cash flows from operating activities:		
Net income	17,868,942	14,846,857
Adjustments to reconcile net income to operating activities:		
Depreciation	363,567	356,440
Amortization	435,653	-
Warrants issued for service	342,770	-
Option granted to directors	31,462	-
Forgiven rent	367,224	-
Changes in assets and liabilities:		
Increase in trade receivables	3,814,889	(2,328,833)
Decrease in due from related parties	(28,300)	(275,476)
Decrease (Increase) in inventory, net	423,480	(394,750)
Decrease (Increase) in prepayments	89,397	(55,491)
Decrease in other receivables, net	(94,232)	31,180
Increase in accounts payable	(44,546)	174,979
Increase in value added tax payable	(145,371)	491,666
Increase in accrued employee benefits	442,040	414,433
(Decrease) increase in other payable	(31,413)	(193,472)
Net cash provided by (used in) operating activities	23,835,562	13,067,533
Cash flows from investing activities:		
Deposits for land use right and properties	(3,944,749)	(14,670,000)
Deposits for patents	(717,926)	(1,467,000)
Purchase of property and equipment	(36,473)	(84,371)
Net cash used in investing activities	(4,699,148)	(16,221,371)
Cash flows from financing activities:		
Proceeds from share issues	-	1,500,000
Net cash provided by financing activities	-	1,500,000
Effect of exchange rate changes on cash	578,214	17,659
Net decrease in cash and cash equivalents	19,714,628	(1,636,179)
Cash and cash equivalents, beginning of year	8,111,514	9,747,693
Cash and cash equivalents, end of year	27,826,142	8,111,514
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	-	-
Interest paid during the year	-	-

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

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CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATION

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

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

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

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

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

The core activities of subsidiaries included in the consolidated financial statements are as follow:
- Harbin Renhuang Pharmaceutical Company Limited – Investment holding.
- CBP China – Development, manufacturing and distribution of pharmaceutical products.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of financial statements

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

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. This statement modifies the Generally Accepted Accounting

Principles (“GAAP”) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (“ASC”), also known collectively as the “Codification,” is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applies beginning in third quarter 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

b. Principles of consolidation

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

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

Effective beginning third quarter 2009, the FASB Topic 810, “Consolidation Topic,” revised the accounting treatment for noncontrolling minority interests of partially-owned subsidiaries. Noncontrolling minority interests represent the portion of earnings that is not within the parent company’s control. These amounts are now required to be reported as equity instead of as a liability on the balance sheet. In addition this statement requires net income from noncontrolling minority interest to be shown separately on the consolidated statements of operations and comprehensive income. As the Company has no noncontrolling interest at October 31, 2010, this change did not have an impact on the Company’s condensed consolidated financial statements.

c. Use of estimates

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

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

d. Foreign currency translation

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

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

As of October 31, 2010 and 2009, the exchange rate was RMB 6.67 and RMB 6.82, respectively. Translation adjustments totaled $1,401,134 and $66,345 for the year ended October 31, 2010 and 2009, respectively.

e. Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits placed with banks or other financial institutions, which have original maturities less than three months. There are no restriction to cash at October 31, 2010 and 2009. Substantially all of the Company's cash is held in bank accounts in the PRC and is not protected by the Federal Deposit Insurance Corporation ("FDIC") insurance or any other similar insurance. Given the current economic environment and risks in the banking industry, there is a risk that deposits may not be readily available.

CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f. Trade receivables, net

Trade receivables are recorded at the invoiced amount and do not bear interest. Trade receivable payment terms vary and amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts and sales rebates. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its trade receivables. Trade receivables outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time the trade receivable is past due, the Company's previous loss history, the counter party's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off receivables when they are deemed uncollectible, and payments subsequently received on such trade receivables are credited to the allowance for doubtful accounts. There were no write offs for the years ended October 31, 2010 and 2009. The Company does not have any off-balance sheet credit exposure related to its customers.

g. Inventory, net

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

The Company estimates an inventory allowance for excessive, slow moving and obsolete inventories as well as inventory whose carrying value is in excess of net realizable value. Inventory amounts are reported net of such allowances. There were no inventory write offs for the years ended October 31, 2010 and 2009.

h. Property and equipment, net

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

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

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

i. Intangible assets, net

Intangible assets consist of purchased patents. Intangible assets are carried at cost less accumulated amortization and any impairment. Intangible assets with a finite useful life are amortized using the straight-line method over valid periods varied from 10 to 20 years, which is the estimated economic life of the intangible assets.

j. Accounting for the impairment of long-lived assets

The Company’s long-lived assets and other assets (consisting of property and equipment) are reviewed for impairment in accordance with the guidance of the FASB Topic ASC 360, “Property, Plant, and Equipment,” FASB Topic ASC 360, "Intangibles - Goodwill and Others," and FASB ASC Topic 205 “Presentation of Financial Statements.” The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Impairment evaluations involve management’s estimates on asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Through the years ended October 31, 2010 and 2009, the Company had not experienced impairment losses on its long-lived assets. However, there can be no assurances that demand for the Company’s products or services will continue, which could result in an impairment of long-lived assets in the future.

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k. Fair value of financial instruments

The Company applies the provisions of accounting guidance, FASB Topic ASC 825 that requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of October 31, 2010 and 2009 the carrying value of cash, trade receivables, other receivables, accounts payable, approximated their fair value. All derivatives are recorded at fair value evaluated based on Black-Scholes option model.

l. Fair value measurements

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

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

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

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

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

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

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

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

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

m. Revenue recognition

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

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

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As of October 31, 2010, the Company has no sales or contracts that included multiple deliverables that would fall under the scope of FASB Topic ASC 605, "Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force."

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

As of October 31, 2010 and, 2009, the Company has accrued $2,141,055 and $3,020,898, respectively, for sales rebates, which offset the balance of account receivables. For the years ended October 31, 2010 and 2009, the Company has deducted sales rebates in the amount of $7,516,231 and $8,848,658, respectively, from sales. Sales rebates are calculated based on terms specified in contracts with individual distributors.

n. Sales returns and allowances

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

o. Cost of goods sold

Cost of goods sold primarily consists of direct and indirect manufacturing costs, including production overhead costs, shipping and handling costs for the products sold.

p. Sales and marketing

Sales and marketing costs consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the Company's sales and marketing personnel. Advertising expenses are expensed as incurred and amounted to $4,803,286 and $3,590,965 during the years ended October 31, 2010 and 2009 respectively.

q. Research and development

Research and development ("R&D") consists primarily of cost of materials and overhead expenses r by research and development staff. Research and development costs are expensed as incurred. Research and development expenses amounted to $3,042,815 and $2,529,085 during the years ended October 31, 2010 and 2009 respectively.

r. Employee benefit costs

According to the PRC regulations on pension, a company contributes to a defined contribution retirement plan organized by municipal government in the province in which the CBP China was registered and all qualified employees are eligible to participate in the plan. Contributions to the plan are calculated at 20% of the employees' salaries above a fixed threshold amount, employees contribute 4% and the CBP China contributes the balance of 16%.

s. Share-based compensation

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

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t. Taxation

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

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

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

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

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

Enterprise income tax

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

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

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

A provision has not been made at October 31, 2010 for U.S. or additional foreign withholding taxes on approximately $53,456,047 of undistributed earnings of foreign subsidiaries because it is the present intention of management to reinvest the undistributed earnings indefinitely in foreign operations. Generally, such earnings become subject to U.S. tax upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability on such undistributed earnings.

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

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Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of October 31, 2010, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax benefits as of October 31, 2009, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition or cash flows.

Value added tax

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

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

u. Comprehensive Income

Total comprehensive income is defined as all changes in shareholders' equity during a period, other than those resulting from investments by and distributions to shareholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income equals net income plus or minus adjustments for currency translation. Total comprehensive income represents the activity for a period net of related tax and was $19,270,076 and $14,913,202 for the years ended October 31, 2010 and 2009, respectively.

While total comprehensive income is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss ("AOCI") represents the cumulative balance of other comprehensive income as of the balance sheet date. For the Company, AOCI is primarily the cumulative balance related to the currency adjustments and increased overall equity by $1,401,134 and $66,345 as of October 31, 2010 and 2009 respectively.

v. Earnings per share

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

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