

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.
Form 10-Q
May 20, 2008

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 March 31, 2008

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 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 May 15, 2008 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. (the "Company"), 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 the Company in the Company's Form 10-KSB for the fiscal year ended December 31, 2007.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

FINANCIAL STATEMENTS

PERIOD ENDED MARCH 31, 2008

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

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|--|--|-----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 8,600,109 | \$ 4,166,713 |
| Bank checks and commercial paper | 734,361 | 621,204 |
| Accounts receivable, net (Note 5) | 4,614,989 | 3,053,295 |
| Due from unaffiliated suppliers (Note 6) | 1,751,946 | 1,112,948 |
| Prepaid expenses (Note 7) | 2,483,545 | 2,876,820 |
| Inventory (Note 8) | 9,520,267 | 6,656,028 |
| Advance to employees (Note 14) | 158,045 | 113,297 |
| Restricted cash (Note 11) | 16,601,911 | 14,738,564 |
| Due from a related party-current portion (Note 14) | 179,185 | 4,448,878 |
| Total current assets | 44,644,358 | 37,787,747 |
| | | |
| Property and Equipment, net (Note 9) | 11,919,130 | 11,306,271 |
| | | |
| Land use right, net (Note 10) | 5,056,662 | 4,859,620 |
| | | |
| Long-term investment | 867,938 | 830,984 |
| | | |
| Due from a related party (Note 14) | 10,380,715 | 10,380,715 |
| | | |
| Total Assets | \$ 72,868,803 | \$ 65,165,337 |
| LIABILITIES AND OWNERS' EQUITY | | |
| Current Liabilities: | | |
| Bank loan (Note 13) | \$ 21,554,232 | \$ 19,269,317 |
| Bank checks payable (Note 12) | 25,704,000 | 22,059,772 |
| Accounts payable and accrued expenses | 7,489,203 | 7,657,437 |

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| | | |
|----------------------------|------------|------------|
| Taxes payable | 3,861,542 | 3,560,918 |
| Deferred revenue | 274,471 | 737,027 |
| Due to employees (Note 14) | 1,596,098 | 1,265,898 |
| Employee security deposit | 894,263 | 810,802 |
| Total Current Liabilities | 61,373,809 | 55,361,171 |

| | | |
|--|---------------|---------------|
| Minority Interest | 114,815 | 98,053 |
| Shareholders' Equity: | | |
| Preferred stock, par value \$0.001, 10,000,000 shares authorized | | |
| authorized, no shares outstanding | - | - |
| Common stock, par value \$0.001, 50,000,000 shares authorized, | | |
| 26,000,000 shares issued and outstanding as of | | |
| March 31, 2008 and December 31, 2007 | 26,000 | 26,000 |
| Additional paid-in capital | 2,540,171 | 2,366,171 |
| Unamortized contractual services costs | (159,500) | - |
| Statutory Reserves | 1,042,355 | 1,042,355 |
| Retained earnings | 6,902,660 | 5,700,875 |
| Accumulated other comprehensive income | 1,028,493 | 570,712 |
| Shareholders' Equity | 11,380,179 | 9,706,113 |
| Total Liabilities and Shareholder' Equity | \$ 72,868,803 | \$ 65,165,337 |

See Notes to Consolidated Financial Statements

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

| | For the Three Months Ended March 31, | |
|--|---|--------------------|
| | <u>2008</u> | <u>2007</u> |
| | <u>(unaudited)</u> | <u>(unaudited)</u> |
| Revenues | | |
| Sales | \$ 9,421,991 | \$ 6,970,875 |
| Costs of Sales | 6,411,784 | 4,420,724 |
| Gross Profit | 3,010,207 | 2,550,151 |
| Operating Expenses | | |
| Selling expenses | | |
| Sales commission | 211,725 | 147,967 |
| Freight-out | 186,457 | 259,989 |
| Adverting | 685 | 8,338 |
| Travel and entertainment | 31,575 | 85,394 |
| Other selling expenses | 44,448 | 28,752 |
| Total selling expenses | 474,890 | 530,440 |
| General and administrative expenses | | |
| Payroll and employees benefits | 126,764 | 23,678 |
| Insurance | 91,646 | 86,295 |
| Consultant fees | 160,814 | - |
| Office expenses | 156,892 | 10,429 |
| Travel and entertainment | 33,985 | 53,627 |
| Other general and administrative | 119,233 | 76,768 |
| | 689,334 | 250,797 |

Total Operating
Expenses

| | | |
|------------------------------|-----------|-----------|
| Total Operating Expenses | 1,164,224 | 781,237 |
| Income (Loss) from Operation | 1,845,983 | 1,768,914 |

| | | |
|--|--------------|--------------|
| Other Income (Expense) | | |
| Interest income | 401,977 | 21,506 |
| Interest expense | (627,226) | (291,776) |
| Other income (expense) | (2,169) | 99,278 |
| Total other income (expense) | (227,418) | (170,992) |
| Income (Loss) before Provision | | |
| Income Tax and Minority Interest | 1,618,565 | 1,597,922 |
| Provision for Income Tax | 404,641 | 479,376 |
| Income before Minority Interest | 1,213,924 | 1,118,546 |
| Minority Interest | (12,139) | (11,185) |
| Net Income | 1,201,785 | 1,107,361 |
| Other Comprehensive Income (Loss) | | |
| Effects of Foreign Currency Conversion | 457,781 | 37,548 |
| Comprehensive Income (Loss) | \$ 1,659,566 | \$ 1,144,909 |

See Notes to Consolidated Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Three Months Ended March 31, | |
|---|---|--------------------|
| | <u>2008</u> | <u>2007</u> |
| | <u>(unaudited)</u> | <u>(unaudited)</u> |
| <u>Operating Activities</u> | | |
| Net income (loss) | \$ 1,201,785 | \$ 1,107,361 |
| Adjustments to reconcile net income (loss) to | | |
| net cash provided (used) by operating activities: | | |
| Minority interest | 12,139 | 11,185 |
| Depreciation | 241,628 | 165,192 |
| Amortization of land use rights | 25,449 | 23,510 |
| Amortization of contractual service costs | 14,500 | |
| Changes in operating assets and liabilities: | | |
| (Increase)/Decrease in bank checks and commercial paper | (83,717) | 846,149 |
| (Increase)/Decrease in accounts receivable | (1,395,657) | (193,786) |
| (Increase)/Decrease in prepaid expenses | 510,149 | (619,650) |
| (Increase)/Decrease in inventory | (2,513,748) | (757,627) |
| (Increase)/Decrease in advance to employees | (38,867) | (53,651) |
| Increase/(Decrease) in accounts payable | | |
| and accrued expenses | (497,968) | 738,238 |
| Increase/(Decrease) in bank checks payable | 2,606,711 | 5,814,577 |
| Increase/(Decrease) in taxes payable | 139,250 | 537,314 |
| Increase/(Decrease) in deferred revenue | (484,822) | 115,187 |
| Increase/(Decrease) in employee security deposit | 46,398 | 33,007 |

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| | | |
|--|-----------|-----------|
| Net cash provided (used) by operating activities | (216,770) | 7,767,006 |
|--|-----------|-----------|

Investing Activities

| | | |
|--------------------------|-----------|-----------|
| Purchase of fixed assets | (331,493) | (434,989) |
|--------------------------|-----------|-----------|

| | | |
|-----------------------------|---------|---|
| Purchase of land use rights | (6,989) | - |
|-----------------------------|---------|---|

| | | |
|---------------------------------|-----------|-----------|
| Loans to unaffiliated suppliers | (576,996) | (262,697) |
|---------------------------------|-----------|-----------|

| | | |
|--------------------------|---|-------------|
| Loans to a related party | - | (5,270,503) |
|--------------------------|---|-------------|

| | | |
|-------------------------------------|-----------|---|
| Payback of loans to a related party | 4,824,582 | - |
|-------------------------------------|-----------|---|

| | | |
|---|-----------|-------------|
| Net cash (used) by investing activities | 3,909,104 | (5,968,189) |
|---|-----------|-------------|

Financing Activities

| | | |
|------------|-----------|---|
| Bank loans | 1,397,700 | - |
|------------|-----------|---|

| | | |
|-----------------------|---|-----------|
| Payback of bank loans | - | (586,102) |
|-----------------------|---|-----------|

| | | |
|--|-------------|-----------|
| Decrease (Increase) in restricted cash to secure bank checks | (1,182,286) | (910,486) |
|--|-------------|-----------|

| | | |
|----------------------|---------|---|
| Loans from employees | 268,093 | - |
|----------------------|---------|---|

| | | |
|---------------------------------|---|----------|
| Payback of loans from employees | - | (60,227) |
|---------------------------------|---|----------|

| | | |
|--|---------|-------------|
| Net cash provided (used) by financing activities | 483,507 | (1,556,815) |
|--|---------|-------------|

| | | |
|-----------------------------|-----------|---------|
| Increase (decrease) in cash | 4,175,840 | 242,002 |
|-----------------------------|-----------|---------|

| | | |
|-----------------------------------|---------|----------|
| Effects of exchange rates on cash | 257,556 | (58,704) |
|-----------------------------------|---------|----------|

| | | |
|-----------------------------|-----------|-----------|
| Cash at beginning of period | 4,166,713 | 6,286,289 |
|-----------------------------|-----------|-----------|

| | | |
|-----------------------|--------------|--------------|
| Cash at end of period | \$ 8,600,109 | \$ 6,469,587 |
|-----------------------|--------------|--------------|

Supplemental Disclosures of Cash Flow Information:

Cash paid (received) during year for:

| | | |
|----------|------------|------------|
| Interest | \$ 570,827 | \$ 192,624 |
|----------|------------|------------|

| | | |
|--------------|------------|------------|
| Income taxes | \$ 185,246 | \$ 104,321 |
|--------------|------------|------------|

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 March 31, 2008 and for the three months ended March 31, 2008 and 2007 have been prepared in accordance with accounting principles generally accepted in the United States of America (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 months ended March 31, 2008 and 2007 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, 2007.

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 Ruitain 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-sub-subsidiaries, 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.

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 \$1,028,493 as of March 31, 2008, and \$570,712 as of December 31, 2007. The balance sheet amounts with the exception of equity at March 31, 2008 were translated at 7.00 RMB to \$1.00 USD as compared to 7.31 RMB at December 31, 2007. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the three months ended March 31, 2008 and 2007 were 7.15 RMB and 7.77 RMB, respectively.

Statement of Cash Flows

In accordance with SFAS No. 95, Statement of Cash Flows, 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 statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

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, collectibility 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.

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. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness, and the economic environment. When a specific accounts receivable balance is deemed uncollectible, a charge is taken to this reserve. Recoveries of balances previously written off are also reflected in this reserve.

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 these suppliers run their business, and in turn these suppliers can provide raw materials and services to the Company in a stable price.

When TaiAn became a subsidiary of a public company, the Management will stop extending loans to the supplies and gradually collect these loans back.

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 three months ended March 31, 2008 and 2006, respectively. Dividend income on these investment is recorded when received. There were no dividend received in the three months ended March 31, 2008 and 2007, respectively. The Company may sell these investments back to the bank at the book value.

Impairment of Long-life 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.

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:

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 did not recognize government subsidy revenue for the three months ended March 31, 2008 and 2007, 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 for the Company in the three months ended March 31, 2008 and 2007, respectively, and was included into general and administration expenses.

Advertising Costs

Advertising costs are expensed as incurred and included as part of selling and marketing expenses in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 93-7, "Reporting for Advertising Costs". Advertising costs was \$685 and \$8,338 for the three months ended December 31, 2007 and 2006, 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

Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, 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

SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information 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.

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 \$35,892, and \$24,015 for the three months ended March 31, 2008 and 2007, 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 makes appropriations to these three reserve funds at the fiscal year end pursuant to PRC GAAP. Accordingly, the Company made no appropriations for the three months ended March 31, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income tax using SFAS No. 109 *Accounting for Income Taxes*, which requires 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 as required by Accounting Principles Board Opinion No. 28 "Interim Financial Reporting" and as interpreted by FASB Interpretation No. 18, "Accounting for Income Taxes in Interim Periods". 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.

Earnings (Loss) Per Share

The Company reports earnings per share in accordance with the provisions of SFAS No. 128, Earnings Per

Share. SFAS No. 128 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 no potentially dilutive securities outstanding (options and warrants) for in the three months ended March 31, 2007. However, there are 75,000 shares of warrants issued and outstanding as of March 31, 2008, as more fully disclosed in Note 16.

Recent Accounting Pronouncements

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Hedging Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161, which is effective January 1, 2009, requires enhanced qualitative and quantitative disclosures with respect to derivatives and hedging activities. The Management does not expect that the adoption of SFAS No. 161 would have a material effect on the Company's financial position and results of operations.

In December 2007, the FASB issued Statements of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141R) and No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment to ARB No. 51 (SFAS 160). Both SFAS 141R and SFAS 160 are to be adopted effective January 1, 2009. SFAS 141R requires the application of several new or modified accounting concepts that, due to their complexity, could introduce a degree of volatility in periods subsequent to a material business combination. SFAS 141R requires that all business combinations result in assets and liabilities acquired being recorded at their fair value, with limited exceptions. Other areas related to business combinations that will require changes from current GAAP include: contingent consideration, acquisition costs, contingencies, restructuring costs, in process research and development and income taxes, among others. SFAS 160 will primarily impact the presentation of minority or noncontrolling interests within the Balance Sheet and Statement of Operations as well as the accounting for transactions with noncontrolling interest holders. Management does not expect that the adoption of SFAS No. 141 (revised 2007) and SFAS No. 160 would have a material effect on the Company's financial position and results of operations.

Note 5- ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|---------------------------------------|--|-----------------------------|
| Accounts receivable | \$ 6,011,861 | \$ 4,397,598 |
| Less: Allowance for doubtful accounts | (1,396,872) | (1,344,303) |
| Accounts receivable, net | \$ 4,614,989 | \$ 3,053,295 |

Bad debt expense charged to operations was \$0 and \$0 for the three months ended March 31, 2008 and 2007, respectively.

Note 6- DUE FROM UNAFFILIATED SUPPLIERS

Due from unaffiliated suppliers consist of following:

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|---|--|-----------------------------|
| Feicheng Kaiyuan Chemicals Co., Ltd. | \$ 1,105,272 | \$ 169,533 |
| Fencheng Sanying Spin and Weave Co., Ltd. | 157,080 | 150,392 |
| Shangdong Taipeng Shiye Co., Ltd. | - | 273,440 |
| Shangdong Jinzhengyuan Co., Ltd. | - | 66,993 |
| Fengcheng Yingbo Food Co., Ltd. | 285,600 | 273,440 |
| Taian Dongyue Co., Ltd. | 142,800 | 136,720 |
| Other companies | 61,194 | 42,430 |
| | \$ 1,751,946 | \$ 1,112,948 |

Note 7- PREPAID EXPENSES

Prepaid expenses consist of following:

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|------------------------------|--|-----------------------------|
| Machinery and parts | \$ 505,114 | \$ 366,753 |
| Raw materials and supplies | 1,478,891 | 2,146,958 |
| Packing and supply materials | 342,554 | 300,665 |
| Freight-out | 6,631 | 5,196 |
| Adverting | - | 6,457 |
| Consultancy fees | 50,361 | 205 |
| Office expenses | 75,718 | 27,344 |
| Utility | 24,276 | 23,242 |

\$ 2,483,545 \$ 2,876,820

Note 8- INVENTORIES

Inventories consist of following:

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|----------------|--|-----------------------------|
| Finished goods | \$ 6,785,634 | \$ 4,414,633 |

| | | |
|--------------------------------|--------------|--------------|
| Raw materials | 2,585,977 | 2,157,685 |
| Supplies and packing materials | 148,656 | 83,710 |
| | \$ 9,520,267 | \$ 6,656,028 |

Note 9- PROPERTY, PLANT AND EQUIPMENT

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

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|--------------------------------|--|-----------------------------|
| Building and warehouses | \$ 4,397,173 | \$ 4,209,954 |
| Machinery and equipment | 7,213,658 | 6,699,636 |
| Office equipment and furniture | 56,044 | 53,175 |
| Motor vehicles | 444,073 | 425,169 |
| | 12,110,948 | 11,387,934 |
| Less: Accumulated depreciation | (3,350,641) | (2,989,099) |
| Add: Construction in progress | 3,158,823 | 2,907,436 |
| Total | \$ 11,919,130 | \$ 11,306,271 |

Depreciation expense charged to operations was \$241,628 and \$165,192 for the three months ended March 31, 2008 and 2007, respectively.

Note 10- LAND USE RIGHT

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

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|---------------------|--|-----------------------------|
| Land use right | \$ 5,282,019 | \$ 5,050,290 |
| Less: Amortization | (225,357) | (190,670) |
| Land use right, net | \$ 5,056,662 | \$ 4,859,620 |

Amortization expense charged to operations was \$25,449 and \$23,510 for the three months ended March 31, 2008 and 2007, respectively.

Note 11- RESTRICTED CASH

Restricted cash consists of following:

| <u>Financial Institutions</u> | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|--|--|-----------------------------|
| Jinan Branch of Shanghai Pudong Development Bank | \$ 2,856,000 | \$ 2,734,400 |
| Feicheng Branch of Bank of China | 2,998,800 | 1,503,920 |
| Wenyang Branch of Agriculture Bank | 2,492,314 | 1,640,788 |
| Wenyang Credit Bank | 4,969,440 | 4,757,856 |
| Feicheng Branch of Construction Bank | 492,357 | 1,367,200 |
| Feicheng Branch of Transportation Bank | 2,856,000 | 2,734,400 |
| | \$ 16,601,911 | \$ 14,738,564 |

Note 12- BANK CHECKS PAYABLE

Bank checks payable consists of following:

| <u>Financial Institutions</u> | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|--|--|-----------------------------|
| Feicheng Branch of Bank of China | \$ 5,997,600 | \$ 3,007,840 |
| Feicheng Branch of Transportation Bank | 4,998,000 | 4,101,600 |
| Wenyang Credit Bank | 8,282,400 | 7,929,760 |
| Jinan Branch of Shanghai Pudong Development Bank | 2,856,000 | 2,734,400 |
| Feicheng Branch of Construction Bank | - | 1,551,772 |
| Wenyang Branch of Agriculture Bank | 3,570,000 | 2,734,400 |
| | \$ 25,704,000 | \$ 22,059,772 |

Note 13- BANK LOANS

Bank loans consist of the following as of March 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 | \$ 428,400 | 02/28/2008-01/27/2009 | 7.47 | |
| Feicheng Branch of Bank of China | 1,428,000 | 02/28/2008-02/27/2009 | 7.47 | Shangdong |
| Feicheng Branch of Bank of China | 685,440 | 03/19/2008-03/18/2009 | 7.47 | Ashide Chemicals Co., Ltd. |

| | | | | |
|--|---------------|-----------------------|--------|---|
| Feicheng Branch of Bank of China | 599,760 | 03/19/2008-03/18/2009 | 7.47 | |
| Feicheng Branch of Bank of China | 856,800 | 03/26/2008-03/25/2009 | 6.8475 | |
| Feicheng Branch of Bank of China | 1,428,000 | 04/25/2007-04/24/2008 | 7.668 | |
| Feicheng Branch of Bank of China | 999,600 | 06/15/2007-06/14/2008 | 7.227 | |
| Feicheng Branch of Bank of China | 1,285,200 | 6/26/2007-06/25/2008 | 7.227 | |
| Feicheng Branch of Bank of China | 1,428,000 | 12/20/2007-11/19/2008 | 8.019 | |
| Taian Branch of Transportation Bank | 714,000 | 08/22/2007-08/22/2008 | 7.722 | |
| Wenyang Branch of Feicheng Credit Bank | 856,800 | 05/24/2007-05/24/2008 | 6.57 | Shandong Ruifu Chemiclas Co., Ltd. |
| Wenyang Branch of Feicheng Credit Bank | 1,185,240 | 01/31/2008-01/31/2009 | 6.225 | |
| Wenyang Branch of Feicheng Credit Bank | 1,090,992 | 01/30/2008-01/30/2009 | 6.225 | Shandong Zhuiyuan Mining Group Co., Ltd |
| Wenyang Branch of Feicheng Credit Bank | 1,428,000 | 01/29/2008-01/29/2009 | 6.225 | |
| Jinan Branch of Shanghai Pudong Bank | 2,856,000 | 08/28/2007-08/28/2008 | 6.435 | Shangdong Ashide Chemicals Co., Ltd. |
| Wenyang Branch of Agriculture Bank | 1,428,000 | 11/23/2007-11/23/2008 | 8.748 | |
| Wenyang Branch of Agriculture Bank | 1,428,000 | 12/23/2007-11/24/2008 | 8.964 | |
| Total | \$ 21,554,232 | | | |

Interest expense charged to operations for these bank loans was \$383,721 for the three months ended March 31, 2008.

Note 14- RELATED PARTY TRANSACTIONS

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"), then a majority owner of TaiAn. Shandong Ruitia had owned 75% equity ownership interest of TaiAn January 2000 through February 2007. On March 20, 2007, Shandong sold 74% equity ownership interest of TaiAn to

Pacific Capital Group Co., Ltd. Mr. Xingfu Lv, our President, and Mr. Dianming 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 \$14,829,593 as of December 31, 2007. 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.

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 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. Shandong Ruitain pledges its electricity generation plant as collateral for the loans and Mr. Lv and Mr. Ma guarantee the loans. Also, Shandong Ruitain 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. 2010, with 30% in 2008, 30% in 2009, and the rest of 40% in 2010.

The following is a summary of due from Shandong Ruitain:

| | March 31, <u>2008</u> <u>(unaudited)</u> | December 31, <u>2007</u> |
|---|--|-----------------------------|
| Due from Shangdong Ruitai-current portion | \$ 179,185 | \$ 4,448,878 |
| Due from Shangdong Ruitai-long-term portion | 10,380,715 | 10,380,715 |
| Total due from Shandong Ruitai | \$ 10,559,900 | \$ 4,829,593 |

Imputed interest income recognized from due from Shangdong Ruitai amounted to \$264,846 and \$0 for the three months ended March 31, 2008 and 2007.

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 beginning from July 1, 2007. Cash flows from these activities are classified as cash flows from financing activities. The Company paid interest of \$44,877 and \$0 for the three months ended March 31, 2008 and 2007, respectively.

Land use right transaction

On October 25, 2006, the Company purchase the use right of a piece of land, approximately 36 acre, located in Wenyang County, Shandong Province, from its majority shareholder, Shandong Ruitai, for \$3,352,840. The local government approved the transaction and certified that the purchase price is at the fair market value. The consideration has been paid to the seller, and the title transferal is under going. The Management believes the transaction is on terms no less favorable to the Company than those reasonably obtainable from third parties.

Note 15- PRC INCOME TAX

The Company's operating subsidiary, TaiAn, is governed by the Income Tax Law of PRC concerning Foreign

Investment Enterprises and Foreign Enterprises and various local income tax laws ("the Income Tax Laws").

Beginning January 1, 2008, the new Enterprise Income Tax (EIT) law has replaced the old laws for Domestic Enterprises (DES) and Foreign Invested Enterprises (FIEs).

The key changes are:

a.

The new standard EIT rate of 25% replaces the 33% rate applicable to both DES and FIEs, except for High Tech companies that pay a reduced rate of 15%;

b.

Companies established before March 16, 2007 continue to enjoy tax holiday treatment approved by local government for a grace period of either for the next 5 years or until the tax holiday term is completed, whichever is sooner.

In addition, the new EIT also grants tax holidays to entities operating in certain beneficial industries, such as the agriculture, fishing, and environmental protection. Entities in beneficial industries enjoy a three-year period tax exempt and a three-year period with 50% reduction in the income tax rates.

The Company's operating subsidiary, TaiAn, is subject to effective income tax rate of 25% beginning from January 1, 2008.

Note 16- WARRANT

During March 2008 the Company engaged a consultant for a primary period of twelve months ended February 28, 2009, and continue on a month-to-month basis thereafter upon mutual consent. The terms of the agreement are for the consultant to receive a cash payment per month plus a warrant to purchase the Company's restricted common stock at a price of \$3.05 per share. The warrant has a term of four (4) years and is vested 50% on March 1, 2008 and 50% on September 30, 2008. The Management valued the warrant at \$1.16 per share using the Black-Schole pricing model with assumptions summarized below, for a total of \$174,000, which will be amortized over the prospective beneficial period.

| | | | |
|--------------------|---------------------|----------------------|-------------------|
| Grant Date | | Risk Free | Expected |
| <u>Stock Price</u> | <u>Warrant Life</u> | <u>Interest Rate</u> | <u>Volatility</u> |
| \$2.90 | 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 October 9, 2007 through March 3, 2008, which is the only available period for our common stocks quoted in the OTCBB.

Note 17- EARNINGS PER SHARE

The following is information of net income per share:

| | |
|----------------------------|--------------------|
| For the Three Months Ended | |
| March 31, | |
| <u>2008</u> | <u>2007</u> |
| <u>(unaudited)</u> | <u>(unaudited)</u> |

| | | | |
|---|----|------------|--------------|
| Comprehensive Income | | | |
| for basic and diluted earnings per share | \$ | 1,659,566 | \$ 1,144,909 |
| Weighted average shares used in basic computation | | 26,000,000 | 22,645,348 |
| Effect of dilutive securities: | | | |
| Warrants | | 25,000 | - |
| Weighted average shares used in diluted computation | | 26,025,000 | 22,645,348 |
| Earnings per share: | | | |
| Basic | \$ | 0.06 | \$ 0.05 |
| Diluted | \$ | 0.06 | \$ 0.05 |

Note 18- 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 the Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS 143) and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143 (FIN 47).

Note 19- 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.

Guaranteed 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 March 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 Lulong Group Co., Ltd. | Feicheng Branch of Agriculture Bank | \$ 1,367,200 | 11/23/2007-11/23/2008 | 10.026 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 328,128 | 06/26/2007-06/25/2008 | 7.884 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 1,093,760 | 09/19/2007-9/18/2008 | 8.748 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 1,093,760 | 10/19/2007-10/18/2008 | 8.748 | The Company |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 1,500,000 | 01/12/2007-01/08/2012 | 8.34 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 800,000 | 02/02/2007-01/08/2011 | 8.41 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 890,000 | 12/30/2006-01/08/2011 | 8.32938 | |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China | 700,000 | 12/30/2006-01/08/2011 | 8.32938 | |
| | Total | \$ 7,772,848 | | | |

ITEM 2.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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 was originally incorporated in Delaware on November 15, 1955, under the name "Inland Mineral Resources Corp." and was 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 Company, through its wholly-owned subsidiary, Pacific Capital Group and its majority-owned subsidiary, TaiAn, is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. 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 in China.

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 period ended March 31, 2008. The following discussion should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Form 10-Q.

Consolidated Results of Operation for China RuiTai International Holdings Co., Ltd. and Subsidiaries for the Period Ended March 31, 2008 Compared to the Period Ended March 31, 2007.

Revenues

During the period ended March 31, 2008, the Company had revenues of \$9,421,991 as compared to revenues of \$6,970,875 during the period ended March 31, 2007, an increase of approximately 35.2%. The increase in revenue experienced by the Company was primarily attributable to an increase in sales volume of the Company's products due to greater demand for cellulose ether.

Costs of Sales

During the period ended March 31, 2008, the Company's Cost of Sales was \$6,411,784, as compared to Costs of Sales of \$4,420,724 for the period ended March 31, 2007, an increase of approximately 45%. This increase in Cost of Sales experienced by the Company was primarily attributable to increase in the volume of products sold.

Gross Profit

During the period ended March 31, 2008, the Company had gross profit of \$3,010,207, as compared to gross profit of \$2,550,151 for the period ended March 31, 2007. The increase in gross profit is attributable to an increase in sales by the Company during the period ended March 31, 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, advertising and promotion expenses totaled \$ 474,890 for the period ended March 31, 2008 as compared to \$530,440 for the period ended March 31, 2007, an decrease of approximately 10.47%. This minor decrease was primarily attributable to reduced freight charges experienced by the Company and a reduced amount of travel and entertainment expenses.

General and Administrative Expenses.

General and administrative expenses totaled \$689,334 for the period ended March 31, 2008, as compared to \$250,797 for the period ended March 31, 2007, an increase of approximately 175%. This increase is primarily attributable to an increase in consultant fees, and office expenses for the period ended March 31, 2008.

Net Income

The Company had a net income of \$1,201,785 for the period ended March 31, 2008 as compared to \$1,107,361 for the period ended March 31, 2007. The increase in net income is attributable to an increase in sales during the period March 31, 2007. TaiAn's management believes that net income will continue to increase as TaiAn introduces new products, increases sales, and expands its production capacity.

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 the on-going projects and to sustain the business operations for the next twelve months.

As of March 31, 2008, our unaudited balance sheet reflects that we have cash and cash equivalents of \$8,600,109, as compared to cash and cash equivalents of \$4,166,713 for the fiscal year ended December 31, 2007. As of March 31, 2008, our unaudited balance sheet reflects that we have total current assets of \$44,644,358 and total assets of \$72,868,803, as compared to total current assets of \$37,787,747 and total assets of \$65,165,337 for the fiscal year ended December 31, 2007. Additionally, as of March 31, 2008 our unaudited balance sheet reflects that we have total current liabilities of \$61,373,809, and total stockholders' equity of \$11,380,179, as compared to total current liabilities of \$55,361,171 and stockholders' equity of \$9,706,113 for the fiscal year ended December 31, 2007. The net cash used by operating activities for the period ended March 31, 2008 was \$216,770.

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 a 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 March 31, 2008, 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: May 20, 2008

By: /s/ Gang Ma, Chief Financial Officer

Date: May 20, 2008