

China Botanic Pharmaceutical
Form 10-Q
June 19, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended April 30, 2012

**..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 (I.R.S. Employer
incorporation or organization) Identification No.)*

Level 11, Changjiang International Building

**No. 28, Changjiang Road, Nangang District,
Harbin**

Heilongjiang Province, China 150090

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PART I

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

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

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

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

PART I**Item 1. Financial Statements.****CHINA BOTANIC PHARMACEUTICAL INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	Note	April 30,2012 (Unaudited)	October 31,2011 (Audited)
ASSETS			
Current assets			
Cash		\$ 32,114,449	\$ 15,283,583
Trade receivables, net	5	26,763,505	21,548,325
Inventory, net	7	14,692,087	7,416,720
Other receivables, net	6	159,276	6,823,410
Total current assets		73,729,317	51,072,038
Property and equipment, net	8	1,593,137	1,778,984
Intangible assets, net	9	16,899,401	17,146,700
Construction-in-progress	10	1,949,949	1,937,103
Deposits for properties	12	35,017,176	37,822,113
Deferred tax assets	13	140,149	139,226
Total assets		\$ 129,329,129	\$ 109,896,164
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable		\$ 1,842,795	\$ 2,098,256
Tax payable		4,499,250	5,976,417
Accrued employee benefits	16	2,434,074	2,131,565
Warrant Liabilities	17	4,912	23,443
Total liabilities		8,781,031	10,229,681
Shareholders' equity			
Preferred stock (no par value, 1,000,000 shares authorized; none issued and outstanding as of April 30, 2012 and October 31, 2011, respectively)	18	-	-
Common stock (\$0.001 par value, 100,000,000 shares authorized; 37,239,536 issued and outstanding as of April 30, 2012 and October 31, 2011, respectively)	18	37,240	37,240
Additional paid-in capital		7,812,603	7,763,987
Common stock warrants	19	496,732	496,732
Reserves	20	3,372,697	3,372,697
Accumulated other comprehensive income		9,296,341	8,620,695

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Retained earnings	99,532,485	79,375,132
Total shareholders' equity	120,548,098	99,666,483
Total liabilities and shareholders' equity	\$ 129,329,129	\$ 109,896,164

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

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

	Note	For the three months ended April 30,		For the six months ended April 30,	
		2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Sales, net		\$23,022,385	18,873,689	51,162,476	41,498,749
Cost of goods sold		10,393,388	7,733,630	21,208,891	16,541,417
Gross profit		12,628,997	11,140,059	29,953,585	24,957,332
Operating and administrative expenses:					
Sales and marketing		1,823,881	1,541,011	3,414,771	2,870,190
General and administrative		808,754	851,762	1,855,387	1,511,644
Research and development		792,097	718,512	1,028,512	899,186
Total operating expenses		3,424,732	3,111,285	6,298,670	5,281,020
Income from operations		9,204,265	8,028,774	23,654,915	19,676,312
Other income:					
Interest income, net		32,819	22,953	64,926	47,142
Income before income tax expenses		9,237,084	8,051,727	23,719,841	19,723,454
Income tax expenses	14	1,386,963	970,671	3,562,488	1,694,103
Net income		\$7,850,121	7,081,056	20,157,353	18,029,351
Other comprehensive income:					
Cumulative currency translation adjustments		(810,353)	1,511,453	675,646	2,175,874
Total comprehensive income		7,039,768	8,592,509	20,832,999	20,205,225
Earnings per common stock- Basic	15	\$0.21	0.19	0.54	0.48
Earnings per common stock - Diluted		\$0.21	0.19	0.54	0.48
Weighted average common stock outstanding	15				
Basic		37,239,536	37,239,536	37,239,536	37,239,536
Diluted		37,239,536	37,759,494	37,241,343	37,827,717

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

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

	For the six months ended April 30,	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income	\$ 20,157,353	\$ 18,029,351
Adjustments to reconcile net income to operating activities:		
Depreciation	197,504	189,667
Amortization	360,749	201,006
Share compensation	48,616	60,799
Noncash rental expenses	529,344	379,029
Warrants liability reevaluation	(18,531)	(277,922)
Deferred tax assets	-	(134,576)
Changes in assets and liabilities:		
(Increase) in trade receivables, net	(5,068,683)	(192,743)
(Increase) in due from related parties	-	(38,455)
(Increase) in inventory, net	(7,221,052)	(3,319,538)
Decrease (Increase) in other receivables, net	6,704,620	(60,925)
(Decrease) in accounts payable	(269,184)	(176,136)
(Decrease) Increase in tax payable	(1,515,721)	1,157,489
Increase in accrued employee benefits	288,168	283,444
Net cash provided by operating activities	14,193,182	16,100,490
Cash flows from investing activities:		
Deposits for land use right, property and patents	-	(15,161,164)
Refunds from patents deposit	2,524,456	-
Increase in construction-in-progress	-	(1,872,404)
Purchase of property and equipment	-	(5,826)
Net cash provided by (used in) investing activities	2,524,456	(17,039,394)
Effect of exchange rate changes on cash	113,228	739,905
Net increase (decrease) in cash	16,830,866	(198,999)
Cash, beginning of year	15,283,583	27,826,142
Cash, end of year	\$ 32,114,449	\$ 27,627,143
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 condensed consolidated financial statements.

CHINA BOTANIC PHARMACEUTICAL INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2012

1. ORGANIZATION AND NATURE OF OPERATION

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has included all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the result of operations for the three and six months ended April 30, 2012 and 2011. The condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes for the year ended October 31, 2011 included in the Company's Annual Report on Form 10-K. Interim results are not necessarily indicative of results for the full year due to seasonal and other factors.

This summary of significant accounting policies of the Company is presented to assist in understanding the Company's condensed consolidated financial statements. The condensed consolidated financial statements and notes are representation of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements for April 30, 2012 and October 31, 2011.

a. Basis of presentation of financial statements

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

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

b. Principles of consolidation

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

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

FASB ASC Topic 810, "*Consolidation*", requires noncontrolling minority interests to represent the portion of earnings that is not within the parent company's control. The noncontrolling minority interests are required to be reported as equity instead of as a liability on the balance sheet. In addition this statement requires net income from noncontrolling minority interest to be shown separately on the condensed consolidated statements of operations and comprehensive income. The Company has no noncontrolling interest as of April 30, 2012 and October 31, 2011.

c. Use of estimates

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

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

d. Foreign currency translation

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

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

As of April 30, 2012 and October 31, 2011, the exchange rates were RMB 6.33 and RMB 6.38, respectively. For the three months ended April 30, 2012 and 2011, the average exchange rates were RMB 6.32 and RMB 6.56 and the translation adjustments totaled (\$810,353) and \$1,511,453, respectively. For the six months ended April 30, 2012 and 2011, the average exchange rates were RMB 6.34 and RMB 6.60, and the translation adjustments totaled \$675,646 and \$2,175,874, respectively.

e. Cash

There are no restriction to cash at April 30, 2012 and October 31, 2011. Substantially all of the Company's cash is held in bank accounts in the PRC and is not protected by the Federal Deposit Insurance Corporation ("FDIC") insurance or any other similar insurance. Given the current economic environment and risks in the banking industry, there is a risk that deposits may not be readily available.

f. Trade receivables, net

Trade receivables are recorded at the invoiced amount and do not bear interest. Trade receivable payment terms vary and amounts due from customers are stated in the condensed consolidated financial statements net of an allowance for doubtful accounts and sales rebates. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its trade receivables. Trade receivables outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time the trade receivable is past due, the Company's previous loss history, the counter party's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off receivables when they are deemed uncollectible, and payments subsequently received on such trade receivables are credited to the allowance for doubtful accounts. There were no trade receivables write offs for the three and six months ended April 30, 2012 and 2011. The Company does not have any off-balance sheet credit exposure related to its customers.

g. Inventory, net

Inventory consists of raw materials, packaging materials, work-in-progr