

Jiangbo Pharmaceuticals, Inc.
Form 10-Q/A
May 14, 2010

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

Amendment No. 1
FORM 10-Q/A
(Mark One)

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

For the quarterly period ended: September 30, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 000-53037

JIANGBO PHARMACEUTICALS, INC.
(Exact name of small business issuer as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

65-1130026
(IRS Employer Identification No.)

25 Haihe Road, Laiyang Economic Development
Laiyang City, Yantai, Shandong Province, People's Republic of China 265200
(Address of principal executive offices)

(0086) 535-7282997
(issuer's telephone number)

Genesis Pharmaceuticals Enterprises, Inc.
(Former name, former address and former fiscal year, if changed since last report)

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

Yes 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 smaller reporting company)
Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The total shares outstanding at May 13, 2010 was 12,078,552.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Explanatory Note:

This Quarterly Report on Form 10-Q/A is being filed as Amendment No. 1 to our Quarterly Report on Form 10-Q (the "Amendment") for the period ended September 30, 2009, which was originally filed with the Securities Exchange Commission on November 16, 2009, to restate the diluted earnings (loss) per share included in the consolidated Statements of Income. This Amendment is filed solely to include revision in Part I, Item 1 in the "Financial Statements" to revise and update diluted earnings (loss) per share calculation on page F-4 and certain disclosure in paragraph 1 of Note 2- Summary of significant accounting policies and Note 3 – "Earnings (loss) per share". In addition, new officer certifications are filed as exhibits to this Amendment. Except as specifically referenced herein, this Amendment does not reflect any event occurring subsequent to November 16, 2009 the filing date of the original report.

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JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS GENESIS PHARMACEUTICAL ENTERPRISES, INC.)
CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (Unaudited)	June 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash	\$ 122,865,467	\$ 104,366,117
Restricted cash	14,552,640	7,325,000
Investments	758,238	879,228
Accounts receivable, net of allowance for doubtful accounts of \$822,469 and \$694,370 as of September 30, 2009 and June 30, 2009, respectively	12,138,964	19,222,707
Other receivable - related parties	80,685	-
Inventories	2,762,438	3,277,194
Other receivables	299,998	167,012
Advances to suppliers	370,424	236,496
Financing costs - current	669,692	680,303
Total current assets	154,498,546	136,154,057
PLANT AND EQUIPMENT, net	13,817,279	13,957,397
OTHER ASSETS:		
Restricted investments	902,623	1,033,463
Financing costs, net	379,191	556,365
Intangible assets, net	16,662,666	17,041,181
Total other assets	17,944,480	18,631,009
Total assets	\$ 186,260,305	\$ 168,742,463
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,902,884	\$ 6,146,497
Short term bank loans	2,200,500	2,197,500
Notes payable	14,552,640	7,325,000
Other payables	2,678,757	2,152,063
Refundable security deposits due to distributors	4,107,600	4,102,000
Other payables - related parties	284,501	238,956
Accrued liabilities	342,719	1,356,898
Liabilities assumed from reorganization	1,609,208	1,565,036
Derivative liabilities	44,369,176	-
Taxes payable	14,126,847	11,248,226
Total current liabilities	88,174,832	36,332,176
CONVERTIBLE DEBT, net of discount \$26,412,221 and \$28,493,089 as of September 30, 2009 and June 30, respectively	7,927,779	6,346,911

Total liabilities	96,102,611	42,679,087
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COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Convertible preferred stock Series A (\$0.001 par value; 0 shares issued and outstanding as of September 30, 2009 and June 30, 2009)	-	-
Common stock (\$0.001 par value, 22,500,000 and 15,000,000 shares authorized, 10,582,046 and 10,435,099 shares issued and outstanding as of September 30, 2009 and June 30, 2009, respectively)	10,582	10,435
Paid-in-capital	15,285,350	48,397,794
Capital contribution receivable	(11,000)	(11,000)
Retained earnings	64,919,558	67,888,667
Statutory reserves	3,253,878	3,253,878
Accumulated other comprehensive income	6,699,326	6,523,602
Total shareholders' equity	90,157,694	126,063,376
Total liabilities and shareholders' equity	\$ 186,260,305	\$ 168,742,463

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

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS GENESIS PHARMACEUTICAL ENTERPRISES, INC.)
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)

	2009 RESTATED	2008 RESTATED
REVENUES:		
Sales	\$ 24,384,054	\$ 27,320,750
Sales - related parties	-	243,843
Total revenues	24,384,054	27,564,593
COST OF SALES		
Cost of sales	6,260,399	5,713,059
Cost of sales - related parties	-	54,478
Total cost of sales	6,260,399	5,767,537
GROSS PROFIT	18,123,655	21,797,056
RESEARCH AND DEVELOPMENT EXPENSE	1,099,575	1,097,925
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,341,806	13,351,975
INCOME FROM OPERATIONS	12,682,274	7,347,156
OTHER (INCOME) EXPENSE:		
Change in fair value of derivative liabilities	4,821,093	-
Other (income) expense, net	-	914,970
Other income - related parties	(80,636)	(143,950)
Non-operating (income) expense	(152,414)	74,621
Interest expense, net	2,757,178	1,352,794
Loss from discontinued operations	77,208	45,216
Total other expense, net	7,422,429	2,243,651
INCOME BEFORE PROVISION FOR INCOME TAXES	5,259,845	5,103,505
PROVISION FOR INCOME TAXES	3,287,791	1,970,021
NET INCOME	1,972,054	3,133,484
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment	152,180	330,641
Unrealized holding gain (loss)	23,544	(1,562,967)
COMPREHENSIVE INCOME	\$ 2,147,778	\$ 1,901,158
BASIC WEIGHTED AVERAGE NUMBER OF SHARES	10,502,527	9,769,329

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BASIC EARNINGS PER SHARE	\$	0.19	\$	0.32
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES		14,837,527		14,144,329
DILUTED LOSS PER SHARE	\$	(1.68)	\$	(2.11)

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

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS GENESIS PHARMACEUTICAL ENTERPRISES, INC.)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Par Value \$0.001		Paid-in capital	Capital contribution receivable	Retained Earnings Statutory reserves	Unrestricted earnings	Accumulated other comprehensive income	Totals
	Number of shares	Amount						
BALANCE, June 30, 2008	9,767,844	\$ 9,770	\$ 45,554,513	\$ (11,000)	\$ 3,253,878	\$ 39,008,403	\$ 7,700,905	\$ 95,516,469
Shares issued for adjustments for 1:40 reverse split	1,104	-						-
Cancellation of common stock for settlement @ \$8 per share	(2,500)	(2)	(19,998)					(20,000)
Common stock issued for service @ \$8 per share	2,500	2	19,998					20,000
Common stock issued for service @ \$9 per share	2,500	2	22,498					22,500
Common stock issued to Hongrui @ \$4.035 per share	643,651	644	2,596,488					2,597,132
Conversion of convertible debt to stock	20,000	20	159,980					160,000
Stock based compensation			64,314					64,314
Net income						28,880,264		28,880,264
Adjustment to statutory reserve								-
Change in fair value on restricted marketable equity securities							(1,514,230)	(1,514,230)
Foreign currency							336,927	336,927

translation gain								
BALANCE, June 30, 2009	10,435,099	\$ 10,435	\$ 48,397,794	\$(11,000)	\$ 3,253,878	\$ 67,888,667	\$ 6,523,602	\$ 126,063,376
Cumulative effect of reclassification of warrants			(34,971,570)			(4,941,163)		(39,912,733)
BALANCE, July 1, 2009 as adjusted	10,435,099	10,435	13,426,224	(11,000)	3,253,878	62,947,504	6,523,602	86,150,643
Common stock issued for services @ \$9.91 per share	1,009	1	9,999					10,000
Common stock issued for interest payment @ \$8 per share	83,438	84	984,540					984,624
Conversion of convertible notes	62,500	62	499,937					499,999
Reclassification of derivative liabilities to APIC due to conversion of convertible debt			364,650					364,650
Net income						1,972,054		1,972,054
Change in fair value on restricted marketable equity securities							23,544	23,544
Foreign currency translation gain							152,180	152,180
BALANCE, June 30, 2009 (Unaudited)	10,582,046	\$ 10,582	\$ 15,285,350	\$(11,000)	\$ 3,253,878	\$ 64,919,558	\$ 6,699,326	\$ 90,157,694

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

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS GENESIS PHARMACEUTICAL ENTERPRISES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(Unaudited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,972,054	\$ 3,133,484
Loss from discontinued operations	77,208	45,216
Income from continuing operations	2,049,262	3,178,700
Adjustments to reconcile net income to net cash, net of acquisition, provided by operating activities:		
Depreciation	196,353	146,694
Amortization of intangible assets	401,533	73,540
Amortization of deferred debt issuance costs	187,785	170,076
Amortization of debt discount	2,080,868	662,551
Loss from issuance of shares in lieu of interest	317,124	-
Bad debt expense	127,073	63,350
Realized gain on marketable securities	(19,065)	(124,523)
Unrealized (gain) loss on marketable securities	(251,004)	1,044,083
Other non-cash settlement	-	(20,000)
Change in fair value of derivative liabilities	4,821,093	-
Stock-based compensation	87,400	23,854
Changes in operating assets and liabilities		
Accounts receivable	6,978,550	(1,039,428)
Other receivable - related parties	(80,636)	488,446
Inventories	518,912	851,126
Other receivables	(133,676)	(48,205)
Other receivables - related parties	-	(378,174)
Advances to suppliers and other assets	(132,555)	839,097
Accounts payable	(2,250,601)	188,211
Accrued liabilities	(410,403)	138,310
Other payables	523,435	901,863
Other payables - related parties	45,400	227,135
Liabilities assumed from reorganization	(33,036)	-
Taxes payable	2,861,529	6,289,257
Net cash provided by operating activities	17,885,341	13,675,963
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	498,353	88,743
Purchase of equipment	(37,280)	(19,877)
Net cash provided by investing activities	461,073	68,866
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(7,213,212)	(39,795)
Principal payments on short term bank loans	-	(2,781,410)
Proceeds from notes payable	7,653,042	2,036,285
Principal payments on notes payable	(439,830)	-

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Net cash used in financing activities	-	(784,920)
EFFECTS OF EXCHANGE RATE CHANGE IN CASH	152,936	114,229
INCREASE IN CASH	18,499,350	13,074,138
CASH, beginning	104,366,117	48,195,798
CASH, ending	\$ 122,865,467	\$ 61,269,936

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for Interest	\$ 390,861	\$ 58,650
Cash paid for Income taxes	\$ 1,289,849	\$ 62,943

Non-cash investing and financing activities:

Common stock issued for interest payment	\$ 667,500	\$ -
Common stock issued for convertible notes conversion	\$ 500,000	\$ -
Derivative liability reclassified to equity upon conversion	\$ 369,324	\$ -

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

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS GENESIS PHARMACEUTICALS ENTERPRISES, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(UNAUDITED)

Note 1 – Organization and business

Jiangbo Pharmaceuticals, Inc. (the “Company” or “Jiangbo”) was originally incorporated in the state of Florida on August 15, 2001, under the name Genesis Technology Group, Inc.

Pursuant to a Certificate of Amendment to the Amended and Restated Articles of Incorporation filed with the state of Florida which took effect as of April 16, 2009, the Company's name was changed from "Genesis Pharmaceuticals Enterprises, Inc." to "Jiangbo Pharmaceuticals, Inc." (the "Corporate Name Change"). The Corporate Name Change was approved and authorized by the Board of Directors of the Company as well as the holders of a majority of the outstanding shares of the Company’s voting stock by written consent. As a result of the Corporate Name Change, the stock symbol changed to "JGBO" with the opening of trading on May 12, 2009, on the OTCBB.

Our primary operations consist of the business and operations of our direct and indirect subsidiaries and Variable Interest Entity (“VIE”), which produce and sell western pharmaceutical products in China and focuses on developing innovative medicines to address various medical needs for patients worldwide.

Note 2 - Summary of significant accounting policies

Restatement

The Company previously excluded the dilutive effect of its November 2007 and May 2008 convertible debentures from the diluted earnings per share calculation for the periods ended September 30, 2009 and 2008. The Company has revised its accounting to include the dilutive effect of November 2007 and May 2008 convertible debentures in its diluted earnings per share calculation. The interest expense and amortization expenses on the financing costs and note discounts were added back and all the unamortized financing costs and debt discounts at beginning of the periods were subtracted from the September 30, 2009 and 2008 diluted earnings per shares calculation.

The restatement had no effect on the Company’s consolidated balance sheet, consolidated statement of cash flow, and consolidated statements of shareholders’ equity as of and for the periods September 30, 2009 and 2008. The Company’s consolidated statement of income and other comprehensive income for the periods ended September 30, 2009 and 2008 have been restated as follows:

Diluted (loss) per share

	Original	Increase (Decrease)	Restated
For the three months ended September 30, 2009:			
Net income for basic earnings per share	\$ 1,972,054	\$ -	\$ 1,972,054
Add: interest expense	-	515,546	515,546
Add: financing cost amortization	-	187,786	187,786
Add: note discount amortization	-	2,080,869	2,080,869
Subtract: unamortized financing cost at beginning of the period	-	(1,236,669)	(1,236,669)
Subtract: unamortized debt discount at beginning of the period	-	(28,493,090)	(28,493,090)
Net income (loss) for diluted earnings per share	1,972,054	(26,945,558)	(24,973,504)

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Weighted average shares used in basic computation	10,502,527	-	10,502,527
Diluted effect of stock options and warrants	383,008	(383,008)	-
Diluted effect of convertible notes	-	4,335,000	4,335,000
Weighted average shares used in diluted computation	10,885,535	3,951,992	14,837,527
Earnings (loss) per share:			
Basic	\$ 0.19	\$ -	\$ 0.19
Diluted	\$ 0.18	\$ (1.86)	\$ (1.68)

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	Original	Increase (Decrease)	Restated
For the three months ended September 30,2008:			
Net income for basic earnings per share	\$ 3,133,484	\$ -	\$ 3,133,484
Add: interest expense	-	536,666	536,666
Add: financing cost amortization	-	170,076	170,076
Add: note discount amortization	-	662,551	662,551
Subtract: unamortized financing cost at beginning of the period	-	(1,916,944)	(1,916,944)
Subtract: unamortized debt discount at beginning of the period	-	(32,499,957)	(32,499,957)
Net income (loss) for diluted earnings per share	3,133,484	(33,047,608)	(29,914,124)
Weighted average shares used in basic computation	9,769,329	-	9,769,329
Diluted effect of stock options and warrants	92,342	(92,342)	-
Diluted effect of convertible notes	-	4,375,000	4,375,000
Weighted average shares used in diluted computation	9,861,671	4,282,658	14,144,329
Earnings (loss) per share:			
Basic	\$ 0.32	\$ -	\$ 0.32
Diluted	\$ 0.32	\$ (2.43)	\$ (2.11)

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by US Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, the accompanying consolidated balance sheets, and related interim consolidated statements of income and other comprehensive income, shareholders' equity, and cash flows, include all adjustments, consisting only of normal recurring items. However, these consolidated financial statements are not indicative of a full year of operations. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended June 30, 2009 included in the Company's Annual Report on Form 10-K.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the following entities, and all significant intercompany transactions and balances have been eliminated in consolidation:

Consolidated entity name:	Percentage of ownership
Karmoya International Ltd.	100%
Union Well International Limited	100%
Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd.	100%
Laiyang Jiangbo Pharmaceuticals Co., Ltd.	Variable Interest Entity

The Financial Accounting Standards Board's ("FASB") accounting standards address whether certain types of entities, referred to as variable interest entities ("VIEs"), should be consolidated in a company's consolidated financial statements. In accordance with the provisions of the accounting standard, the Company has determined that Laiyang Jiangbo is a VIE and that the Company is the primary beneficiary, and accordingly, the financial statements of Laiyang Jiangbo are consolidated into the financial statements of the Company.

Reverse stock split

In July 2008, the board of directors of the Company approved a 40-to-1 reverse stock split, effective September 4, 2008, and a new trading symbol “GNPH” also became effective on that day. The accompanying consolidated financial statements have been retroactively adjusted to reflect the reverse stock split. All share representations are on a post-split basis. In April, 2009, in connection with the Company's name change, the Company's trading symbol changed to “JGBO.”

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company is the local currency, the Chinese Renminbi (“RMB”). In accordance with the FASB’s accounting standard governing foreign currency translation, results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rates as quoted by the People’s Bank of China at the end of the period, and equity is translated at historical exchange rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Asset and liability accounts at September 30, 2009, were translated at 6.82 RMB to \$1.00 as compared to 6.83 RMB to \$1.00 at June 30, 2009. Equity accounts were stated at their historical rates. The average translation rates applied to statements of income for the three months ended September 30, 2009 and 2008 were 6.82 RMB and 6.83 RMB to \$1.00, respectively.

Use of estimates

The preparation of financial statements in conformity with US GAAP 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 revenues and expenses during the reporting period. The significant estimates made in the preparation of the Company’s consolidated financial statements relate to the assessment of the carrying values of accounts receivable and related allowance for doubtful accounts, allowance for obsolete inventory, sales returns, accrual for estimated advertising costs, fair value of warrants and beneficial conversion features related to the convertible notes, fair value of derivative liability and fair value of options granted to employees. Actual results could be materially different from these estimates upon which the carrying values were based.

Revenue recognition

Product sales are generally recognized when title to the product has transferred to customers in accordance with the terms of the sale. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

The Company is generally not contractually obligated to accept returns. However, on a case by case negotiated basis, the Company permits customers to return their products. Therefore, revenue is recorded net of an allowance for estimated returns. Such reserves are based upon management's evaluation of historical experience and estimated costs. The amount of the reserves ultimately required could differ materially in the near term from amounts included in the accompanying consolidated statements of income.

Financial instruments

The accounting standard governing financial instruments adopted on July 1, 2008, defines financial instruments and requires fair value disclosures about those instruments. It defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. Investments, receivables, payables, short term loans and convertible debt all qualify as financial instruments. Management concluded the receivables, payables and short term loans approximate their fair values

because of the short period of time between the origination of such instruments and their expected realization and, if applicable, their stated rates of interest are equivalent to rates currently available.

The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under the FASB's accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair value of notes payable and derivative liabilities were modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes option-pricing model.

Effective July 1, 2009, as a new accounting standard took effect, the Company's two convertible notes with principal amounts totaling \$34,840,000 and 2,275,000 warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency, the Chinese Renminbi. As a result, those financial instruments are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these convertible notes and warrants will be recognized currently in earnings until such time as the convertible notes and warrants are converted, exercised or expired.

As such, effective July 1, 2009, the Company reclassified the fair value of the conversion features on the convertible notes and warrants from equity to liability, as if these conversion features on the convertible notes and warrants were treated as a derivative liability since their initial issuance dates. On July 1, 2009, the Company reclassified approximately \$35 million from additional paid-in capital and approximately \$4.9 million from beginning retained earnings to warrant liabilities, as a cumulative effect adjustment, to recognize the fair value of the conversion features on the convertible notes and warrants. In September 2009, \$500,000 convertible notes were converted. As of September 30, 2009, the Company has \$34,340,000 convertible notes and 2,275,000 warrants outstanding. The fair value of the conversion features on the convertible notes was approximately \$27.4 million and the fair value of the warrants was approximately \$17 million. The Company recognized \$4.8 million loss from the change in fair value of the conversion features on the convertible notes and warrants for the three months ended September 30, 2009.

These common stock purchase warrants do not trade in an active securities market, and as such, the Company estimates the fair value of the fair value of the conversion features on the convertible notes and warrants using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2009				July 1, 2009			
	Annual dividend yield	Expected term (years)	Risk-free interest rate	Expected volatility	Annual dividend yield	Expected term (years)	Risk-free interest rate	Expected volatility
Conversion feature on the \$5 million convertible notes	-	1.10	0.95%	97.00%	-	1.35	1.11%	95.8%
Conversion feature on the \$30 million convertible notes	-	1.67	0.95%	89.73%	-	1.92	1.11%	102%
400,000 warrants issued in November 2007	-	1.10	0.95%	97.0%	-	1.35	1.11%	95.8%
	-	3.67	2.31%	90.5%	-	3.92	2.54%	97.51%

1,875,000 warrants issued in
May 2008

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Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods that correspond to the term of the warrants. The Company's management believes this method produces an estimate that is representative of the expectations of future volatility over the expected term of these warrants. The Company has no reason to believe future volatility over the expected remaining life of these warrants will likely differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the financial instruments.

The following table sets forth by level within the fair value hierarchy the financial assets and liabilities that were accounted for at fair value on a recurring basis.

	Carrying Value at September 30, 2009	Fair Value Measurements at September 30, 2009, Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Investments	\$ 758,238	\$ 758,238	\$ -	\$ -
Investments, restricted	902,623	902,623	-	-
\$5M Convertible Debt (November 2007)	3,744,655	-	-	3,744,655
\$29.3M Convertible Debt (May 2008)	23,682,874	-	-	23,682,874
400,000 warrants issued in November 2007	2,396,579	-	-	2,396,579
1,875,000 warrants issued in May 2008	14,545,067	-	-	14,545,068
Total	\$ 46,030,036	\$ 1,660,861	\$ -	\$ 44,369,176

The Company did not identify any other non-recurring assets and liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the relevant accounting standards.

An accounting standard became effective for the Company on July 1, 2008 which provides the Company with the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. The Company chose not to elect the fair value option.

Stock-based compensation

The Company records stock-based compensation expense pursuant to the governing accounting standard which requires companies to measure compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company estimates the fair value of the awards using the Black-Scholes option pricing model. Under this accounting standard, the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation expense is recognized based on awards expected to vest, and there were no estimated forfeitures as the Company has a short history of issuing options.

The Company uses the Black-Scholes option-pricing model which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected

life of options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with the accounting standards using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Comprehensive income

FASB's accounting standard regarding comprehensive income establishes standards for reporting and display of comprehensive income and its components in financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The accompanying consolidated financial statements include the provisions of this accounting standard.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in accounts maintained with state-owned banks within the PRC. The Company considers all highly liquid instruments with original maturities of three months or less, and money market accounts to be cash and cash equivalents.

The Company maintains cash deposits in financial institutions that exceed the amounts insured by the U.S. government. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. Non-performance by these institutions could expose the Company to losses for amounts in excess of insured balances. As of September 30, 2009 and June 30, 2009, the Company's bank balances, including restricted cash balances, exceeded government-insured limits by approximately \$137,318,000 and \$111,684,000, respectively.

Restricted cash

Restricted cash represent amounts set aside by the Company in accordance with the Company's debt agreements with certain financial institutions. These cash amounts are designated for the purpose of paying down the principal amounts owed to the financial institutions, and these amounts are held at the same financial institutions with which the Company has debt agreements. Due to the short-term nature of the Company's debt obligations to these banks, the corresponding restricted cash balances have been classified as current in the consolidated balance sheets.

Investment and restricted investments

Investments are comprised of marketable equity securities of publicly traded companies and are stated at fair value based on the quoted price of these securities. These investments are classified as trading securities based on the Company's intent to sell them within the year. Restricted investments are marketable equity securities of publicly traded companies that were acquired through the reverse merger and contained certain SEC Rule 144 restrictions on the securities. These securities are classified as available-for-sale and are reflected as restricted and noncurrent, as the Company intends to hold them beyond one year. Restricted investments are carried at fair value based on the trade price of these securities.

The following is a summary of the components of the gain/loss on investments and restricted investments for the three months and nine months ended September 30, 2009 and 2008:

	For the Three Months Ended September,	
	2009	2008
Investments - trading securities		
Realized loss	\$ (19,065)	\$ (124,523)
Unrealized (gain) loss	(251,004)	1,044,083
Restricted investments – available-for-sale securities		

Unrealized (gain) loss	(23,544)	1,562,967
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All unrealized gains and losses related to available-for-sale securities have been properly reflected as a component of accumulated other comprehensive income.

Accounts receivable

During the normal course of business, the Company extends credit to its customers without requiring collateral or other security interests. Management reviews its accounts receivables at each reporting period to provide for an allowance against accounts receivable for an amount that could become uncollectible. This review process may involve the identification of payment problems with specific customers. The Company estimates this allowance based on the aging of the accounts receivable, historical collection experience, and other relevant factors, such as changes in the economy and the imposition of regulatory requirements that can have an impact on the industry. These factors continuously change, and can have an impact on collections and the Company's estimation process. These impacts may be material.

Certain accounts receivable amounts are charged off against allowances after unsuccessful collection efforts. Subsequent cash recoveries are recognized as income in the period when they occur.

The activities in the allowance for doubtful accounts are as follows for the periods ended September 30, 2009 and June 30, 2009:

	September 30, 2009 (Unaudited)	June 30, 2009
Beginning allowance for doubtful accounts	\$ 694,370	\$ 155,662
Bad debt additions	127,073	538,068
Foreign currency translation adjustments	1,026	640
Ending allowance for doubtful accounts	\$ 822,469	\$ 694,370

Inventories

Inventories, consisting of raw materials and finished goods related to the Company's products, are stated at the lower of cost or market utilizing the weighted average method. The Company reviews its inventory periodically for possible obsolete goods or to determine if any reserves are necessary. As of September 30, 2009 and June 30, 2009, the Company determined that no reserves were necessary.

Advance to suppliers

Advances to suppliers represent partial payments or deposits for future inventory and equipment purchases. These advances to suppliers are non-interest bearing and unsecured. From time to time, vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive their purchase on a timely basis.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Additions and improvements to plant and equipment accounts are recorded at cost. 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 the results of operations in the year of disposition. Maintenance, repairs, and minor renewals are charged directly to expense as incurred. Major additions and betterments to plant and equipment accounts are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

	Useful Life
Building and building improvements	5 – 40 Years
Manufacturing equipment	5 – 20 Years
Office equipment and furniture	5 – 10 Years
Vehicle	5 Years

Intangible assets

All land in the PRC is owned by the PRC government and cannot be sold to any individual or company. The Company has recorded the amounts paid to the PRC government to acquire long-term interests to utilize land underlying the Company's facilities as land use rights. This type of arrangement is common for the use of land in the PRC. Land use rights are amortized on the straight-line method over the terms of the land use rights, which range from 20 to 50 years. The Company acquired land use rights in August 2004 and October 2007 in the amounts of approximately \$879,000 and \$8,871,000, respectively, which are included in intangible assets.

Patents and licenses include purchased technological know-how, secret formulas, manufacturing processes, technical and procedural manuals, and the certificate of drugs production and is amortized using the straight-line method over the expected useful economic life of 5 years, which reflects the period over which those formulas, manufacturing processes, technical and procedural manuals are kept secret to the Company as agreed between the Company and the selling parties.

The estimated useful lives of intangible assets are as follows:

	Useful Life
Land use rights	50 Years
Patents	5 Years
Licenses	5 Years
Customer list and customer relationships	3 Years
Trade secrets - formulas and know how technology	5 Years

Impairment of long-lived assets

Long-lived assets of the Company are reviewed periodically or more often if circumstances dictate, to determine whether their carrying values have become impaired. The Company considers assets to be impaired if the carrying values exceed the future projected cash flows from related operations. The Company also re-evaluates the periods of depreciation to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of September 30, 2009, the Company expects these assets to be fully recoverable.

Beneficial conversion feature of convertible notes

In accordance with accounting standards governing the beneficial conversion feature of convertible notes, the Company has determined that the convertible notes contained a beneficial conversion feature because on November 6, 2007, the effective conversion price of the \$5,000,000 convertible note was \$5.81 when the market value per share was \$16.00, and on May 30, 2008, the effective conversion price of the \$30,000,000 convertible note was \$5.1 when the market value per share was \$12.00. Total value of beneficial conversion feature of \$2,904,092 for the November 6, 2007 convertible note and \$19,111,323 for the May 30, 2008 convertible debt was discounted from the carrying value of the convertible notes. The beneficial conversation feature is amortized using the effective interest method over the term of the note. As of September 30, 2009 and June 30, 2009, total of \$16,641,148 and \$17,955,637, respectively, remained unamortized for the beneficial conversion feature.

Income taxes

The Company accounts for income taxes in accordance with the FASB's accounting standard for income taxes. Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized. As of September 30, 2009 and June 30, 2009, the Company did not have any net deferred tax assets or liabilities.

The FASB's accounting standards clarify the accounting and disclosure for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under this accounting standard, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

The Company's operations are subject to income and transaction taxes in the United States and in the PRC jurisdictions. Significant estimates and judgments are required in determining the Company's worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations, and as a result the ultimate amount of tax liability may be uncertain. However, the Company does not anticipate any events that would lead to changes to these uncertainties.

Value added tax

The Company is subject to value added tax ("VAT") for manufacturing products and business tax for services provided. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty, which can range from zero to five times the amount of the taxes which are determined to be late or deficient, and will be charged to operations in the period if and when a determination is made by the taxing authorities that a penalty is due.

VAT on sales and VAT on purchases amounted to \$4,145,289 and \$844,035 for the three months ended September 30, 2009, respectively, and \$4,683,100 and \$374,264 for the three months ended September 30, 2008, respectively. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Shipping and handling

Shipping and handling costs related to costs of goods sold are included in selling, general and administrative expenses. Shipping and handling costs amounted to \$151,062 and \$121,864, respectively, for the three months ended September 30, 2009, and 2008, respectively.

Advertising

Expenses incurred in the advertising of the Company and the Company's products are charged to operations. Advertising expenses amounted to \$1,067,007 and \$904,444 for the three months ended September 30, 2009 and

2008, respectively.

Research and development

Research and development costs are expensed as incurred. These costs primarily consist of cost of materials used and salaries paid for the development of the Company's products, and fees paid to third parties to assist in such efforts.

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Recent accounting pronouncements

In April 2009, the FASB issued an accounting standard for accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. It amends and clarifies a previously issued accounting standard in regards to the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. The accounting standard applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies. The accounting standard will be effective for the first annual reporting period beginning on or after December 15, 2008. The accounting standard will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008. The adoption of the accounting standard will not have a material impact on the Company's results of operations or financial condition.

In April 2009, the FASB issued an accounting standard to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This standard provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this standard does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This standard became effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this accounting standard, fair values for these assets and liabilities were only disclosed annually. This standard applies to all financial instruments within its scope and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This standard does not require disclosures for earlier periods presented for comparative purposes at initial adoption, but in periods after the initial adoption, this standard requires comparative disclosures only for periods ending after initial adoption. The adoption of this standard did not have a material impact on the disclosures related to its consolidated financial statements.

In May 2009, the FASB issued an accounting standard which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The standard is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this Standard during the second quarter of 2009. The standard requires that public entities evaluate subsequent events through the date that the financial statements are issued.

In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity ("QSPE"). This accounting standard is effective for financial statements issued for fiscal years beginning after November 15,

2009. The Company has not completed the assessment of the impact this new standard will have on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB also issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities ("VIEs"). The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this accounting standard. Further, this accounting standard requires a company to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires a company to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about a company's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the company's financial statements. Finally, a company will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has not completed their assessment of the impact that this pronouncement will have on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB issued an accounting standard which establishes the FASB Accounting Standards Codification™ (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents were superseded. Pursuant to the provisions of the Codification, the Company updated references to GAAP in the Company’s consolidated financial statements. The Codification did not change GAAP and therefore did not impact the Company’s consolidated financial statements other than the change in references.

In August 2009, the FASB issued an Accounting Standards Update (“ASU”) regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. This ASU is effective for the first reporting period, including interim periods, beginning after the issuance of this ASU. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

Note 3 – Earnings (Loss) per share

The FASB’s accounting standard for earnings per share 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 per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

All shares and per share amounts used in the Company’s financial statements and notes thereto have been retroactively restated to reflect the 40-to-1 reverse stock split, which occurred on September 4, 2008.

The following is a reconciliation of the basic and diluted earnings per share computations for the three months ended September 30, 2009 and 2008:

	2009	2008
Net income for basic and diluted earnings per share	\$ 1,972,054	\$ 3,133,484
Weighted average shares used in basic computation	10,502,527	9,769,329
Earnings per share:		
Basic	\$ 0.19	\$ 0.32

Diluted loss per share

	2009 Restated	2008 Restated
For the three months ended September 30, 2009 and 2008		
Net income for basic earnings per share	\$ 1,972,054	\$ 3,133,484
Add: interest expense	515,546	536,666
Add: financing cost amortization	187,786	170,076
Add: note discount amortization	2,080,869	662,551
Subtract: unamortized financing cost at beginning of the period	(1,236,669)	(1,916,944)
Subtract: unamortized debt discount at beginning of the period	(28,493,090)	(32,499,957)
Net loss for diluted loss per share	(24,973,504)	(29,914,124)
Weighted average shares used in basic computation	10,502,527	9,769,329
Diluted effect of convertible notes	4,335,000	4,375,000
Weighted average shares used in diluted computation	14,837,527	14,144,329
Loss per share-Diluted	\$ (1.68)	\$ (2.11)

For the three months ended September 30, 2009, 140,900 vested stock options with an average exercise price of \$4.93 and 2,315,000 warrants with an average exercise price of \$9.65 were not included in the diluted earnings per share calculation because of the anti-dilutive effect. For the three months ended September 30, 2008, 140,900 vested stock options and 2,349,085 warrants with an average exercise price of \$4.93 and \$9.60, respectively, were not included in the diluted earnings per share calculation because of the anti-dilutive effect.

Note 4 - Inventories

Inventories consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Raw materials	\$ 1,152,742	\$ 1,539,602
Work-in-process	-	55,992
Packing materials	597,429	483,297
Finished goods	1,012,267	1,198,303
Total	\$ 2,762,438	\$ 3,277,194

Note 5 - Plant and equipment

Plant and equipment consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Buildings and building improvements	\$ 12,815,847	\$ 12,798,375
Manufacturing equipment	2,755,292	2,603,114
Office equipment and furniture	221,165	291,061
Vehicles	478,044	477,396
Total	16,270,348	16,169,946
Less: accumulated depreciation	(2,453,069)	(2,212,549)
Total	\$ 13,817,279	\$ 13,957,397

For the three months ended September 30, 2009 and 2008, depreciation expense amounted to approximately \$196,000 and \$147,000, respectively.

Note 6 - Intangible assets

Intangible assets consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Land use rights	\$ 11,261,292	\$ 11,245,938
Patents	4,943,791	4,937,050
Customer lists and customer relationships	1,125,114	1,123,580
Trade secrets, formulas and manufacturing process know-how	1,026,900	1,025,500
Licenses	23,398	23,368
Total	18,380,495	18,355,436
Less: accumulated amortization	(1,717,829)	(1,314,255)
Total	\$ 16,662,666	\$ 17,041,181

Amortization expense for the three months ended September 30, 2009, and 2008 amounted to approximately \$402,000, and \$74,000, respectively.

Note 7 - Debt

Short term bank loan

Short term bank loan represents an amount due to a bank that is due within one year. This loan can be renewed with the bank upon maturity. The Company's short term bank loan consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Loan from Communication Bank; due December 2009; interest rate of 6.37% per annum; monthly interest payment; guaranteed by related party, Jiangbo Chinese-Western Pharmacy.	\$ 2,200,500	\$ 2,197,500
Total	\$ 2,200,500	\$ 2,197,500

Interest expense related to the short term bank loan amounted to \$35,811 and \$58,650 for three months ended September 30, 2009 and 2008, respectively.

Notes Payable

Notes payable represent amounts due to a bank which are secured and typically renewed. All notes payable are secured by the Company's restricted cash. The Company's notes payables consist of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Commercial Bank, various amounts, non-interest bearing, due from October 2009 to March 2010; 100% of restricted cash deposited	\$ 14,552,640	\$ 7,325,000
Total	\$ 14,552,640	\$ 7,325,000

Note 8 - Related party transactions

Other receivable - related parties

The Company leases two of its buildings to Jiangbo Chinese-Western Pharmacy, a company owned by the Company's Chief Executive Officer and other majority shareholders. For the three months ended September 30, 2009 and 2008, the Company recorded other income of approximately \$81,000 and \$144,000 from leasing the two buildings to this related party. As of September 30, 2009 and June 30, 2009, amount due from this related party was \$80,685 and \$0, respectively.

Other payable - related parties

Other payable-related parties primarily consist of accrued salary payable to the Company's officers and directors, and advances from the Company's Chief Executive Officer. These advances are short-term in nature and bear no interest. The amounts are expected to be repaid in the form of cash.

Other payable - related parties consisted of the following:

	September 30, 2009 (Unaudited)	June 30, 2009
Payable to Cao Wubo, Chief Executive Officer and Chairman of the Board	\$ 223,581	\$ 184,435
Payable to Haibo Xu, Chief Operating Officer and Director	33,688	33,688
Payable to Elsa Sung, Chief Financial Officer	24,732	18,333
Payable to John Wang, Director	2,500	2,500
Total other payable - related parties	\$ 284,501	\$ 238,956

Note 9 – Concentration of major customers, suppliers, and products

For the three months ended September 30, 2009, three products accounted for 36%, 24%, and 26% of the Company's total sales. For the three months ended September 30, 2008, three products accounted for 36%, 35%, and 27% of the Company's total sales.

For the three months ended September 30, 2009 and 2008, five customers accounted for approximately 37% and 17%, respectively, of the Company's sales. These five customers represented 28% and 31% of the Company's total accounts receivable as of September 30, 2009 and June 30, 2009, respectively.

For the three months ended September 30, 2009 and 2008, five suppliers accounted for approximately 73% and 77%, respectively, of the Company's purchases. These five suppliers represented 76% and 82% of the Company's total accounts payable as of September 30, 2009 and June 30, 2009, respectively.

Note 10 - Taxes payable

The Company is subject to the United States federal income tax at a tax rate of 34%. No provision for U.S. income taxes has been made as the Company had no U.S. taxable income during the three months ended September 30, 2009 and 2008.

The Company's wholly owned subsidiaries Karmoya International Ltd. ("Karmoya") and Union Well International Ltd. ("Union Well") were incorporated in the British Virgin Island ("BVI") and the Cayman Islands, respectively. Under the current laws of the BVI and Cayman Islands, the two entities are not subject to income taxes.

On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law ("EIT Law"), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which became effective on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT rate of 25.0% on all domestic-invested enterprises and FIEs, unless they qualify under certain limited exceptions. Therefore, nearly all FIEs are subject to the new tax rate alongside other domestic businesses rather than benefiting from the EIT Law and its associated preferential tax treatments, beginning January 1, 2008.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise." If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, then the organization's global income will be subject to PRC income tax of 25.0%. Laiyang Jiangbo and GJBT were subject to 25% income tax rate since January 1, 2008 and 33% income tax rate prior to January 1, 2008.

The table below summarizes the differences between the U.S. statutory federal rate and the Company's effective tax rate for the three months ended September 30, 2009 and 2008:

	2009 (Unaudited)	2008 (Unaudited)
U.S. Statutory rates	34.0%	34.0%
Foreign income not recognized in the U.S	(34.0)%	(34.0)%
China income taxes	25.0%	25.0%
China income tax exemptions	-	-
Other items(a)	37.5%	13.6%
Total provision for income taxes	62.5%	38.6%

(a) The 37.5% and 13.6% represent the expenses incurred by the Company that are not deductible for PRC income tax purpose for the three months ended September 30, 2009 and 2008, respectively.

Taxes payable

	September 30, 2009 (Unaudited)	June 30, 2009
Value added taxes	\$ 4,874,242	\$ 4,090,492
Income taxes	8,703,503	6,689,199
Other taxes	549,102	468,535

Total	\$ 14,126,847	\$ 11,248,226
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Note 11 - Convertible Debt

November 2007 Convertible Debentures

On November 7, 2007, the Company entered into a Securities Purchase Agreement (the “November 2007 Purchase Agreement”) with Pope Investments, LLC (“Pope”) (the “November 2007 Investor”). Pursuant to the November 2007 Purchase Agreement, the Company issued and sold to the November 2007 Investor, \$5,000,000 principal amount of 6% convertible subordinated debentures due November 30, 2010 (the “November 2007 Debenture”) and a three-year warrant to purchase 250,000 shares of the Company’s common stock, par value \$0.001 per share, exercisable at \$12.80 per share, subject to adjustment as provided therein. The November 2007 Debenture bears interest at the rate of 6% per annum and the initial conversion price of the debentures is \$10 per share. In connection with the offering, the Company placed in escrow 500,000 shares of its common stock. In connection with the May 2008 financing, the November 2007 Debenture conversion price was subsequently adjusted to \$8 per share (Post 40-to-1 reverse split).

The Company evaluated the FASB’s accounting standard regarding convertible debentures and concluded that the convertible debenture has a beneficial conversion feature. The Company estimated the intrinsic value of the beneficial conversion feature of the November 2007 Debenture at \$2,904,093. The fair value of the warrants was estimated at \$2,095,907. The two amounts are recorded together as debt discount and amortized using the effective interest method over the three-year term of debentures.

The fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends. The total estimated fair value of the warrants granted and beneficial conversion feature of the November 2007 Debenture should not exceed the \$5,000,000 November 2007 Debenture, and the calculated warrant value was used to determine the allocation between the fair value of the beneficial conversion feature of the November 2007 Debenture and the fair value of the warrants.

In connection with the private placement, the Company paid the placement agents a fee of \$250,000 and incurred other expenses of \$104,408, which were capitalized as deferred debt issuance costs and are being amortized to interest expense over the life of the debentures. For the three months ended September 30, 2009 and 2008, amortization of debt issuance costs related to the November 2007 Purchase Agreement was \$29,534 and \$29,534, respectively, which has been included in interest expense. The remaining balance of unamortized debt issuance costs of the November 2007 Purchase Agreement at September 30, 2009 and June 30, 2009 was \$129,621 and \$159,155. The amortization of debt discounts was \$353,829 and \$141,580, respectively, for the three months ended September 30, 2009 and 2008, which has been included in interest expense on the accompanying consolidated statements of income. The balance of the debt discount was \$3,283,248 and \$3,637,077 at September 30, 2009 and June 30, 2009, respectively.

The November 2007 Debenture bears interest at the rate of 6% per annum, payable in semi-annual installments on May 31 and November 30 of each year, with the first interest payment due on May 31, 2008. The initial conversion price (“November 2007 Conversion Price”) of the November 2007 Debentures is \$10 per share. If the Company issues common stock at a price that is less than the effective November 2007 Conversion Price, or common stock equivalents with an exercise or conversion price less than the then effective November 2007 Conversion Price, the November 2007 Conversion Price of the November 2007 Debenture and the exercise price of the warrants will be reduced to such price. The November 2007 Debenture may not be prepaid without the prior written consent of the Holder, as defined. In connection with the Offering, the Company placed in escrow 500,000 shares of common stock issued by the Company in the name of the escrow agent. In the event the Company’s consolidated Net Income Per Share (as defined in the November 2007 Purchase Agreement), for the year ended June 30, 2008, is less than \$1.52, the escrow agent shall deliver the 500,000 shares to the November 2007 Investor. The Company determined that its fiscal 2008

Net Income Per Share met the required amount and no shares were delivered to the November 2007 Investor.

Pursuant to the November 2007 Purchase Agreement, the Company entered into a Registration Rights Agreement. In accordance with the Registration Rights Agreement, the Company must file on each Filing Date (as defined in the Registration Rights Agreement) a registration statement to register the portion of the Registerable Securities (as defined therein) as permitted by the Securities and Exchange Commission's guidance. The initial registration statement must be filed within 90 days of the closing date and declared effective within 180 days following such closing date. Any subsequent registration statements that are required to be filed on the earliest practical date on which the Company is permitted by the Securities and Exchange Commission's guidance to file such additional registration statements, these statements must be effective 90 days following the date on which it is required to be filed. In the event that the registration statement is not timely filed or declared effective, the Company will be required to pay liquidated damages. Such liquidated damages shall be, at the investor's option, either \$1,643.83 or 164 shares of common stock per day that the registration statement is not timely filed or declared effective as required pursuant to the Registration Rights Agreement, subject to an amount of liquidated damages not exceeding either \$600,000, and 60,000 shares of common stock, or a combination thereof based upon 12% liquidated damages in the aggregate. The accounting standards require potential registration payment arrangements be treated as a contingency rather than at fair value. The November 2007 Investor has subsequently agreed to allow the Company to file the November 2007 registration statement in conjunction with the Company's financing in May 2008 and, as such, no liquidated damages were incurred for the year ended June 30, 2008.

May 2008 Convertible Debentures

On May 30, 2008, the Company entered into a Securities Purchase Agreement (the "May 2008 Securities Purchase Agreement") with certain investors (the "May 2008 Investors"), pursuant to which, on May 30, 2008, the Company sold to the May 2008 Investors 6% convertible debentures (the "May 2008 Notes") and warrants to purchase 1,875,000 shares of the Company's common stock ("May 2008 Warrants"), for an aggregate amount of \$30,000,000 (the "May 2008 Purchase Price"), in transactions exempt from registration under the Securities Act (the "May 2008 Financing"). Pursuant to the terms of the May 2008 Securities Purchase Agreement, the Company will use the net proceeds from the financing for working capital purposes. Also pursuant to the terms of the May 2008 Securities Purchase Agreement, the Company must, among other things, increase the number of its authorized shares of common stock to 22,500,000 by August 31, 2008, and is prohibited from issuing any "Future Priced Securities" as such term is described by NASD IM-4350-1 for one year following the closing of the May 2008 Financing. The Company has satisfied the increase in the number of its authorized shares of common stock in August 2008 (post 40-to-1 reverse split).

The May 2008 Notes are due May 30, 2011, and are convertible into shares of the Company's common stock at a conversion price equal to \$8 per share, subject to adjustment pursuant to customary anti-dilution provisions and automatic downward adjustments in the event of certain sales or issuances by the Company of common stock at a price per share less than \$8. Interest on the outstanding principal balance of the May 2008 Notes is payable at a rate of 6% per annum, in semi-annual installments payable on November 30 and May 30 of each year, with the first interest payment due on November 30, 2008. At any time after the issuance of the May 2008 Note, any May 2008 Investor may convert its May 2008 Note, in whole or in part, into shares of the Company's common stock, provided that such May 2008 Investor shall not effect any conversion if immediately after such conversion, such May 2008 Investor and its affiliates would, in the aggregate, beneficially own more than 9.99% of the Company's outstanding common stock. The May 2008 Notes are convertible at the option of the Company if the following four conditions are met: (i) effectiveness of a registration statement with respect to the shares of the Company's common stock underlying the May 2008 Notes and the Warrants; (ii) the Volume Weighted Average Price ("VWAP" of the common stock has been equal to or greater than 250% of the conversion price, as adjusted, for 20 consecutive trading days on its principal trading market; (iii) the average dollar trading volume of the common stock exceeds \$500,000 on its principal trading market for the same 20 days; and (iv) the Company achieves 2008 Guaranteed EBT (as hereinafter defined) and 2009 Guaranteed EBT (as hereinafter defined). A holder of a May 2008 Note may require the Company to redeem all or a portion of such May 2008 Note for cash at a redemption price as set forth in the May 2008 Notes, in the event of a

change in control of the Company, an event of default or if any governmental agency in the PRC challenges or takes action that would adversely affect the transactions contemplated by the Securities Purchase Agreement. The May 2008 Warrants are exercisable for a five-year period beginning on May 30, 2008, at an initial exercise price of \$10 per share.

The Company estimated the intrinsic value of the beneficial conversion feature of the May 2008 Note at \$19,111,323. The fair value of the warrants was estimated at \$10,888,677. The two amounts are recorded together as debt discount and amortized using the effective interest method over the three-year term of the debentures.

The fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.2%), (2) expected warrant life of 5 years, (3) expected volatility of 95%, and (4) zero expected dividends. The total estimated fair value of the warrants granted and beneficial conversion feature of the May 2008 Note should not exceed the \$30,000,000 debenture, and the calculated warrant value was used to determine the allocation between the fair value of the beneficial conversion feature of the May 2008 debenture and the fair value of the warrants.

In connection with the private placement, the Company paid the placement agents a fee of \$1,500,000 and incurred other expenses of \$186,500, which were capitalized as deferred debt issuance costs and are being amortized to interest expense over the life of the debenture. During the three months ended September 30, 2009 and 2008, amortization of debt issuance costs related to the May 2008 Purchase Agreement was \$158,251 and \$140,542, respectively. The remaining balance of unamortized debt issuance costs of the May 2008 Purchase Agreement at September 30, 2009 and June 30, 2009 was \$919,262 and \$1,077,513, respectively. The amortization of debt discounts was \$1,727,040 and \$520,971 for the three months ended September 30, 2009 and 2008 respectively, which has been included in interest expense on the accompanying consolidated statements of income. The balance of the unamortized debt discount was \$23,128,973 and \$24,856,012 at September 30, 2009 and June 30, 2009, respectively.

In connection with the May 2008 Financing, the Company entered into a holdback escrow agreement (the "Holdback Escrow Agreement") dated May 30, 2008, with the May 2008 Investors and Loeb & Loeb LLP, as Escrow Agent, pursuant to which \$4,000,000 of the May 2008 Purchase Price was deposited into an escrow account with the Escrow Agent at the closing of the Financing. Pursuant to the terms of the Holdback Escrow Agreement, (i) \$2,000,000 of the escrowed funds will be released to the Company upon the Company's satisfaction no later than 120 days following the closing of the Financing of an obligation that the board of directors be comprised of at least five members (at least two of whom are to be fluent English speakers who possess necessary experience to serve as a director of a public company), a majority of whom will be independent directors acceptable to Pope and (ii) \$2,000,000 of the escrowed funds will be released to the Company upon the Company's satisfaction no later than six months following the closing of the Financing of an obligation to hire a qualified full-time chief financial officer (as defined in the May 2008 Securities Purchase Agreement). In the event that either or both of these obligations are not so satisfied, the applicable portion of the escrowed funds will be released pro rata to the Investors. The Company has satisfied both requirements and the holdback money was released to the Company in July 2008.

In connection with the May 2008 Financing, Mr. Cao, the Company's Chief Executive Officer and Chairman of the Board, placed 3,750,000 shares of common stock of the Company owned by him into an escrow account pursuant to a make good escrow agreement, dated May 30, 2008 (the "Make Good Escrow Agreement"). In the event that either (i) the Company's adjusted 2008 earnings before taxes is less than \$26,700,000 ("2008 Guaranteed EBT") or (ii) the Company's 2008 adjusted fully diluted earnings before taxes per share is less than \$1.60 ("2008 Guaranteed Diluted EBT"), 1,500,000 of such shares (the "2008 Make Good Shares") are to be released pro rata to the May 2008 Investors. In the event that either (i) the Company's adjusted 2009 earnings before taxes is less than \$38,400,000 ("2009 Guaranteed EBT") or (ii) the Company's adjusted fully diluted earnings before taxes per share is less than \$2.32 (or \$2.24 if the 500,000 shares of common stock held in escrow in connection with the November 2007 private placement have been released from escrow) ("2009 Guaranteed Diluted EBT"), 2,250,000 of such shares (the "2009 Make Good Shares") are to be released pro rata to the May 2008 Investors. Should the Company successfully satisfy these respective financial milestones, the 2008 Make Good Shares and 2009 Make Good Shares will be returned to Mr. Cao. In addition, Mr. Cao is required to deliver shares of common stock owned by him to the Investors on a pro rata basis equal to the number of shares (the "Settlement Shares") required to satisfy all costs and expenses associated with the settlement of all legal and other matters pertaining to the Company prior to or in connection with the completion of the Company's October 2007 share exchange in accordance with formulas set forth in the May 2008 Securities Purchase Agreement (post 40-to-1 reverse split). The Company has determined that both thresholds for the years ended June 30, 2009 and June 30, 2008 have been met. The make good shares have yet to be returned to Mr. Cao.

The security purchase agreement set forth permitted indebtedness which the Company's lease obligations and purchase money indebtedness is limited up to \$1,500,000 per year in connection with new acquisition of capital assets and lease obligations. Permitted investment set forth with the security purchase agreement limits capital expenditure of the Company not to exceed \$5,000,000 in any rolling 12 months.

Pursuant to a Registration Rights Agreement, the Company agreed to file a registration statement covering the resale of the shares of common stock underlying the May 2008 Notes and Warrants, (ii) the 2008 Make Good Shares, (iii) the 2009 Make Good Shares, and (iv) the Settlement Shares. The Company must file an initial registration statement covering the shares of common stock underlying the Notes and Warrants no later than 45 days from the closing of the Financing and to have such registration statement declared effective no later than 180 days from the closing of the Financing. If the Company does not timely file such registration statement or cause it to be declared effective by the required dates, then the Company will be required to pay liquidated damages to the Investors equal to 1.0% of the aggregate May 2008 Purchase Price paid by such Investors for each month that the Company does not file the registration statement or cause it to be declared effective. Notwithstanding the foregoing, in no event shall liquidated damages exceed 10% of the aggregate amount of the May 2008 Purchase Price. The Company satisfied its obligations under the Registration Rights Agreement by filing the required registration statement and causing it to be declared effective within the time periods set forth in the Registration Rights Agreement.

During the period ended September 30, 2009, the Company issued 62,500 shares of its common stock upon conversion of \$500,000 convertible debt. As of September 30, 2009, a total of \$660,000 May 2008 convertible debt has been converted into common shares.

The above two convertible debenture liabilities are as follows:

	September 30, 2009	June 30, 2009
November 2007 convertible debenture note payable	\$ 5,000,000	\$ 5,000,000
May 2008 convertible debenture note payable	29,340,000	29,840,000
Total convertible debenture note payable	34,340,000	34,840,000
Less: Unamortized discount on November 2007 convertible debenture note payable	(3,283,248)	(3,637,077)
Less: Unamortized discount on May 2008 convertible debenture note payable	(23,128,973)	(24,856,012)
Convertible debentures, net	\$ 7,927,779	\$ 6,346,911

Note 12 - Shareholders' equity

Common Stock

In July 2009, the Company issued 1,009 shares of common stock to a Company's current director as part of his compensation for services. The Company valued these shares at the fair market value on the date of grant of \$9.91 per share, or \$10,000 in total, based on the trading price of common stock. For the three months ended September 30, 2009, the Company recorded stock based compensation expense of \$10,000 accordingly.

In August 2009, the Company issued 82,500 shares to Pope Investments LLC ("Pope") as interest payment for the interest due on May 30, 2009 on the November 2007 Debentures and the May 2008 Notes. The Company valued these shares at the fair market value on the date of grant of \$11.81 per share based on the trading price of common stock, or \$974,325 in total, of which \$660,000 was recorded as interest expense at June 30, 2009 and \$314,325 was recorded as additional interest expense in the three months ended September 30, 2009. For the three months ended September 30, 2009, the Company recorded stock based compensation of \$10,000 accordingly.

As a result of the delay in its ability to transfer cash out of PRC (partially due to the stricter foreign exchange restrictions and regulations imposed in the PRC starting in December 2008), the Company became delinquent on the payment of interests under the November 2007 Debentures and May 2008 Notes in June 2008. On August 10, 2009, the Company and Pope Investments LLC ("Pope") entered into a Letter Agreement (the "Letter Agreement"), whereby Pope agreed (i) to waive certain provisions set forth in the November 2007 Purchase Agreement, by and between the

Company and Pope with respect to the November 2007 Debentures of the Company issued to Pope, and (ii) to waive certain provisions set forth in the May 2008 Securities Purchase Agreement, by and between the Company and the investors who are parties thereto (collectively, the “Investors”) with respect to the May 2008 Notes issued to the Investors. Pope is the holder of \$5,000,000 principal amount of the November 2007 Debentures and the holder of \$17,000,000 aggregate principal amount of the May 2008 Notes (collectively, the “Pope Notes”). Pursuant to the Letter Agreement, Pope (i) agreed to waive until August 17, 2009 the Events of Default (as defined in the November 2007 Debentures and May 2008 Notes) that have occurred as a result of the Company’s failure to timely make interest payments on the November 2007 Debentures and May 2008 Notes that were due and payable on May 30, 2009, and agreed not to provide written notice to the Company with respect to the occurrence of either of such Events of Default provided that the Company has made such interest payment to the holders of the November 2007 Debentures and the holders of the May 2008 Notes on or prior to August 17, 2009, (ii) agreed that in lieu of payment of the \$660,000 in cash interest with respect to the Pope Notes that was due and payable to Pope on May 30, 2009, that the Company shall issue to Pope on or prior to August 17, 2009, 82,500 shares (the “Shares”) of its Common Stock (such payment shall be referred to herein as the “Special Interest Payment”), and (iii) waived each and every applicable provision of the 2007 Purchase Agreement, the 2008 Securities Purchase Agreement (including, without limitation Section 4.17 (Right of First Refusal) and 4.21(c) (Additional Negative Covenants of the Company)), the November 2007 Debentures and the May 2008 Notes, each to the extent necessary in order to permit the Company to make the Special Interest Payment. As of September 30, 2009, the Company fully satisfied its interest payment obligations related to the Letter Agreement.

In September 2009, the Company issued 62,500 shares of its common stock in connection with the conversion of \$500,000 of convertible debt. In connection with the conversion, the Company recorded \$402,112 interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted debt. In connection with the conversion, the Company issued 938 shares of its common stock for the final interest payment. The Company valued the 938 shares at the fair market value on the date of issuance of \$11 per share and recorded \$10,300 interest expense in total.

Registered capital contribution receivable

At inception, Karmoya issued 1,000 shares of common stock to its founder. The shares were valued at par value. On September 20, 2007, the Company issued 9,000 shares of common stock to nine individuals at par value. The balance of \$10,000 is shown in capital contribution receivable on the accompanying consolidated financial statements. As part of its agreements with shareholders, the Company was to receive the entire \$10,000 in October 2007. As of September 30, 2009, the Company has not received the \$10,000.

Union Well was established on May 9, 2007, with a registered capital of \$1,000. In connection with Karmoya's acquisition of Union Well, the registered capital of \$1,000 is reflected as capital contribution receivable on the accompanying consolidated financial statements. The \$1,000 was due in October 2007, however, as of September 30, 2009, the Company has not received the \$1,000.

Note 13 - Warrants

In connection with the \$5,000,000 November 2007 Convertible Debenture, 6% convertible subordinated debentures note, the Company issued a three-year warrant to purchase 250,000 shares of common stock, at an exercise price of \$12.80 per share. The calculated fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends. In connection with the May 2008 financing, the exercise price of outstanding warrants issued in November 2007 was reduced to \$8 per share and the total number of warrants to purchase common stock was increased to 400,000.

In connection with the \$30,000,000 May 2008 Convertible Debenture, 6% convertible subordinated debentures note, the Company issued a five-year warrant to purchase 1,875,000 shares of common stock, at an exercise price of \$10 per share. The calculated fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 5 years, (3) expected volatility of 95%, and (4) zero expected dividends.

On February 15, 2009, the Company granted 40,000 stock warrants to a consultant at an exercise price of \$6.00 per share exercisable for a period of three years. The warrants fully vest on July 15, 2009. The fair value of this warrant grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (1) risk-free interest rate at the date of grant (1.83%), (2) expected warrant life of three years, (3) expected volatility of 106%, and (4) zero expected dividends. In connection with these warrants, the Company recorded stock-based compensation expense of \$77,400 for the period ended September 30, 2009.

A summary of the warrants as of September 30, 2009, and changes during the period are presented below:

	Number of warrants
Outstanding as of June 30, 2008	2,349,085
Granted	40,000
Forfeited	(74,085)
Exercised	-
Outstanding as of June 30, 2009	2,315,000
Granted	-
Forfeited	-
Exercised	-
Outstanding as of September 30, 2009 (unaudited)	2,315,000

The following is a summary of the status of warrants outstanding at September 30, 2009:

Outstanding Warrants				Exercisable Warrants		
Exercise Price	Number	Average Remaining Contractual Life (Years)	Average Exercise Price	Number	Average Remaining Contractual Life (Years)	
\$ 6.00	40,000	2.38	\$ 6.00	40,000	2.38	
\$ 8.00	400,000	1.08	\$ 8.00	400,000	1.08	
\$ 10.00	1,875,000	3.67	\$ 10.00	1,875,000	3.67	
Total	2,315,000			2,315,000		

The Company has 2,315,000 warrants outstanding and exercisable at an average exercise price of \$9.58 per share as of September 30, 2009.

Note 14 - Stock options

On July 1, 2007, 133,400 options were granted and the fair value of these options was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value
Former officers	3.50 years	195%	0%	4.50%	\$ 5.20

On June 10, 2008, 7,500 options were granted and the fair value of these options was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Average Fair Value
Current officer	5 years	95%	0%	2.51%	\$ 8.00

As of September 2009, of the 7,500 options held by the Company's executives, directors, and employees, 5,625 were vested.

The following is a summary of the option activity:

	Number of options
Outstanding as of June 30, 2008	140,900
Granted	-
Forfeited	-
Exercised	-
Outstanding as of June 30, 2009	140,900
Granted	-
Forfeited	-
Exercised	-
Outstanding as of September 30, 2009 (unaudited)	140,900

Following is a summary of the status of options outstanding at September 30, 2009:

Outstanding options			Exercisable options		
Average Exercise Price	Number	Average Remaining Contractual Life (years)	Average Exercise Price	Number	Average Remaining Contractual Life (years)
\$ 4.20	133,400	1.0	\$ 4.20	133,400	1.0
\$ 12.00	2,000	3.45	\$ 12.00	2,000	3.45
\$ 16.00	1,750	3.45	\$ 16.00	1,750	3.45
\$ 20.00	1,875	3.45	\$ 20.00	1,875	3.45
\$ 24.00	1,875	3.45	\$ 24.00	-	-
\$ 4.93	140,900	1.13	\$ 4.67	139,025	1.13

For the period ended September 30, 2009 and 2008, the company did not record any stock-based compensation expense related to those options granted as there were no options vested during the periods. At September 30, 2009 and June 30, 2009, there was \$8,488 total unrecognized compensation expense related to non vested share-based compensation arrangements for these options. The cost is expected to be recognized over a weighted-average period of three months.

Note 15 - Employee pension

The employee pension in the Company generally includes two parts: the first part to be paid by the Company is 30.6% of \$128 for each qualified employee each month. The other part, paid by the employees, is 11% of \$128 each month. For the three months ended September 30, 2009 and 2008, the Company made pension contributions in the amount of \$13,364 and \$9,661, respectively.

Note 16 - Statutory reserves

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China ("PRC GAAP"). Appropriations to the statutory surplus reserve is required to be at least 10% of the after tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The statutory surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The discretionary surplus fund may be used to acquire fixed assets or to increase the working capital to expend on production and operation of the business. The Company's Board of Directors decided not to make an appropriation to this reserve for 2008.

Pursuant to the Company's articles of incorporation, the Company is required to appropriate 10% of the net profit as statutory surplus reserve up to 50% of the Company's registered capital. During the year ended June 30, 2008, the Company's statutory surplus reserve reached 50% of its registered capital.

Note 17 - Accumulated other comprehensive income

The components of accumulated other comprehensive income is as follows:

Balance, June 30, 2008	\$ 7,700,905
Foreign currency translation gain	336,927
Unrealized loss on marketable securities	(1,514,230)
Balance, June 30, 2009	\$ 6,523,602
Foreign currency translation gain	152,180
Unrealized gain on marketable securities	23,544
Balance, September 30, 2009 (unaudited)	\$ 6,699,326

Note 18 - Commitments and Contingencies

Operations based in PRC

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, and by the general state of PRC's economy.

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic, and legal environments, and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among others.

R&D Agreement

In September 2007, the Company entered into a three year Cooperative Research and Development Agreement (“CRADA”) with a provincial university. Under the CRADA, the university is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the university will also provide technical services and trainings to the Company. As part of the CRADA, the Company will pay approximately \$3.5 million (RMB 24,000,000) plus out-of-pocket expenses to the university annually and provide internship opportunities for students of the university. The Company will have the primary ownership of the designated research and development project results.

In November 2007, the Company entered into a five year CRADA with a research institute. Under this CRADA, the institute is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the university will also provide technical services and trainings to the Company. As part of the CRADA, the Company will pay approximately \$880,000 (RMB 6,000,000) to the institute annually. The Company will have the primary ownership of the designated research and development project results. As of September 30, 2009, the Company’s future estimated payments to CRADA amounted to \$8,929,790.

For the three months ended September 30, 2009 and 2008, approximately \$1,100,000 and \$1,098,000, respectively was incurred as research and development expense. As of September 30, 2009, the Company’s future estimated payments to those two CRADAs amounted to approximately \$3.0 million.

Legal proceedings

The Company is involved in various legal matters arising in the ordinary course of business. The following summarizes the Company’s pending and settled legal proceedings as of September 30, 2009:

CRG Partners, Inc. and Capital Research Group, Inc. and Genesis Technology Group, Inc., n/k/a Genesis Pharmaceuticals Enterprises, Inc. (Arbitration) - Case No. 32 145 Y 00976 07, American Arbitration Association, Southeast Case Management Center

On December 4, 2007, CRG Partners, Inc. (“CRGP”), a former consultant of the Company, filed a demand for arbitration against the Company alleging breach of contract and seeking damages of approximately \$10 million as compensation for consulting services rendered to the Company. The amount of damages sought by the claimant was equal to the dollar value of 29,978,900 shares of the Company’s common stock (Pre 40-to-1 reverse split) in November 2007, in which the claimant alleged were due and owing to CRGP. On December 5, 2007, the Company gave notice of termination of the relationship with CRG under the consulting agreement. CRGP subsequently filed an amendment to the demand for arbitration to include Capital Research Group, Inc. (“CRG”) as an added claimant and increased the damage amount sought under this matter to approximately \$13.8 million. The Company subsequently filed counter claims in reference to the aforementioned allegations of breach of contract.

In February 2009, the Company was notified by the arbitration panel of American Arbitration Association (the “Panel”) that the Panel awarded CRG and CRGP jointly, a net total of \$980,070 (the “Award”) to be paid by the Company on or before February 27, 2009. Once the Award is satisfied, CRG and CRGP would have no further claims against the Company’s common stock or other property that were the subject of the arbitration. The amount has been charged to operations for year ended June 30, 2009, and is included in liabilities assumed from during the reorganization as of June 30, 2009.

On March 6, 2009, CRG Partners, Inc. (“CRGP”) and Capital Research Group, Inc. (“CRG”), former consultants of the Company, filed a motion to confirm the arbitration award conferred by a panel of arbitrators of the American

Arbitration Association on February 2, 2009. On July 15, 2009, the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County confirmed the arbitration award and entered judgment against Genesis Technology Group, Inc. At September 30, 2009, the award has not been paid and the Company is currently in the process of settling the arbitration award with CRGP and CRG.

Note 19- Subsequent events

In October 2009, the Company issued 462,500 shares of its common stock in connection with the conversion of \$3,700,000 of May 2008 Convertible Debentures.

The Company has performed an evaluation of subsequent events through November 16, 2009, the date these consolidated financial statements were issued.

Item 6. Exhibits

No.	Description
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JIANGBO PHARMACEUTICALS, INC.

Date: May 14, 2010

By:

/s/ Cao Wubo

Cao Wubo

Chief Executive Officer and President