

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.  
Form 10-Q  
November 14, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-04494

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

30-0411233  
(I.R.S. Employer Identification No.)

Wenyang Town, Feicheng City, ShanDong, China  
(Address of principal executive offices)

271603  
(Zip Code)

(86) 538 3850 703  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  Smaller reporting company

(Do not check if a  
smaller reporting  
company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 11, 2011, there were outstanding 26,000,000 shares of the registrant's common stock, par value \$0.001 per share.

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China Ruitai International Holdings Co., Ltd.

FORM 10-Q

INDEX

PART I—FINANCIAL INFORMATION

Item 1.	Financial Statements	4
	Consolidated Balance Sheets	4
	Consolidated Statements of Income and Comprehensive Income	5
	Consolidated Statements of Cash Flows	6
	Notes to Unaudited Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27

PART II—OTHER INFORMATION

Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	(Removed and Reserved)	28
Item 5.	Other Information	28
Item 6.	Exhibits	28
	Signatures	29

## PART I—FINANCIAL INFORMATION

The statements contained in this quarterly report on Form 10-Q, including under the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our or our management’s expectations, hopes, beliefs, intentions or strategies regarding the future. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this quarterly report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Unless the content otherwise requires, all references to “we,” “us,” the “Company” or “China Ruitai” in this Quarterly Report on Form 10-Q refers to China Ruitai International Holdings Co., Ltd.

## ITEM 1.

## Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	(Unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,816,329	\$ 25,286,619
Restricted cash	25,274,142	10,254,394
Accounts receivable, net	9,699,960	4,896,665
Notes receivable	3,084,732	2,736,496
Advances to suppliers, net	2,270,509	1,171,477
Inventories	11,337,856	9,468,211
Other receivables, net	5,210,959	1,023,337
Due from related party	9,600,829	-
Total current assets	73,295,316	54,837,199
Property and equipment, net	14,287,803	14,014,923
Commercial leasing assets, net	37,612,060	37,079,584
Advance payment for equipment purchase	54,049	-
Land use rights, net	5,126,356	5,045,883
<b>TOTAL ASSETS</b>	<b>\$ 130,375,584</b>	<b>\$ 110,977,589</b>
<b>LIABILITIES AND EQUITY</b>		

## Current liabilities:

Short-term bank loans	\$ 37,480,084	\$ 42,339,454
Long-term loan, current portion	1,171,546	-
Accounts payable	7,167,471	7,691,017
Notes payable	4,373,770	15,124,474
Notes payable- related party	34,677,747	3,024,895
Advances from customers	1,134,199	687,408
Due to related party	-	2,526,474
Income tax payable	1,258,466	4,336,457
Other payables	3,360,023	3,872,549
Loan from employees	2,025,823	1,470,138
Total current liabilities	92,649,129	81,072,866

Long-term loan	3,514,636	-
Total Liabilities	96,163,765	81,072,866

## Commitments and contingencies

## Equity

## Shareholders' equity:

Common stock (\$.001 par value; 50,000,000 shares authorized authorized shares issued and outstanding 26,000,000 as of September 30, 2011 and December 31, 2010)	26,000	26,000
Additional paid-in capital	2,945,195	2,908,171
Statutory reserve	1,369,652	1,369,652
Retained earnings	26,255,116	23,043,387
Accumulated other comprehensive income	3,278,887	2,264,049
Total China Ruitai Shareholders' Equity	33,874,850	29,611,259
Non-controlling interest	336,969	293,464
Total Equity	34,211,819	29,904,723
TOTAL LIABILITIES AND EQUITY	\$ 130,375,584	\$ 110,977,589

See notes to unaudited consolidated financial statements.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Income and Comprehensive Income  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Sales	\$ 10,955,475	\$ 11,180,701	\$ 32,264,476	\$ 32,590,132
Cost of sales (See note below)	8,693,366	7,590,381	23,479,317	22,742,820
Gross margin	2,262,109	3,590,320	8,785,159	9,847,312
<b>Operating expenses:</b>				
General and administrative expenses	648,200	436,218	2,029,978	936,328
Selling expenses	515,979	432,914	1,649,357	1,322,299
Total operating expense	1,164,179	869,132	3,679,335	2,258,627
Income from operations	1,097,930	2,721,188	5,105,824	7,588,685
<b>Other income/(expense)</b>				
Interest income	1,027,060	267,465	1,205,441	834,077
Interest expense	(752,579 )	(536,097 )	(2,289,361 )	(1,665,194 )
Commercial leasing income	377,871	305,767	1,120,486	920,724
Cost of commercial leasing	(227,200 )	(215,831 )	(673,433 )	(643,961 )
Other income/(expense)	(3,754 )	(9,812 )	7,239	11,875
Total other income/(expense), net	421,398	(188,508 )	(629,628 )	(542,479 )
Income before income tax expense	1,519,328	2,532,680	4,476,196	7,046,206
Income tax expense	401,816	633,170	1,231,651	1,756,548
Net income before allocation to non-controlling interests	1,117,512	1,899,510	3,244,545	5,289,658
Less: Net income attributable to non-controlling interests	11,545	18,995	32,816	52,696
Net income attributable to China Ruitai	1,105,967	1,880,515	3,211,729	5,236,962
<b>Comprehensive income</b>				
Net Income before allocation to non-controlling interest	1,117,512	1,899,510	3,244,545	5,289,658
Foreign Currency Translation Adjustment	316,636	440,007	1,025,527	610,963
Comprehensive Income	\$ 1,434,148	\$ 2,339,517	\$ 4,270,072	\$ 5,900,621
Less: Comprehensive income attributable to non-controlling interests	14,898	23,395	43,505	58,826
Comprehensive Income Attributable to China Ruitai	\$ 1,419,250	\$ 2,316,122	\$ 4,226,567	\$ 5,841,795
Earnings per share - Basic and diluted	\$ 0.04	\$ 0.07	\$ 0.12	\$ 0.20

Weighted average number of common shares outstanding-Basic and diluted	26,000,000	26,000,000	26,000,000	26,000,000
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(Note: The cost of sales includes hot steam purchased from a related party, but the precise amount could not reasonably be determined, see note 13)

See notes to unaudited consolidated financial statements.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

	Nine months ended September 30, 2011	2010
<b>Cash flows from operating activities:</b>		
Net income before allocation to non-controlling interests	\$ 3,244,545	\$ 5,289,658
Adjustments to reconcile net income before non-controlling interests to net cash used in operation activities		
Depreciation	1,872,051	1,777,706
Amortization of land use rights	83,686	84,395
Bad debt provision	1,316,363	(239,125 )
Loss on disposal of equipment	3,518	-
Stock based compensation	37,024	-
<b>Changes in operating assets and liabilities:</b>		
Restricted cash	(14,448,202 )	16,769,400
Accounts receivable	(4,712,792 )	(3,659,692 )
Notes receivable	(254,330 )	5,696,019
Advances to suppliers	(2,250,276 )	461,144
Inventories	(1,534,086 )	757,691
Other receivables	(4,197,290 )	(1,127,529 )
Accounts payable	(763,410 )	1,081,040
Notes payable	(11,066,708 )	(25,007,000 )
Other payables	(629,316 )	1,212,374
Advances from customers	417,447	1,198,451
Income taxes payable	(3,168,666 )	953,241
<b>Net cash (used in)/provided by operating activities</b>	<b>(36,050,442 )</b>	<b>5,247,773</b>
<b>Cash flows from investing activities:</b>		
Advanced payment to purchase equipment	(1,018,803 )	(1,593,008 )
Purchase of property and equipment	91,364	-
<b>Net cash used in investing activities</b>	<b>(927,439 )</b>	<b>(1,593,008 )</b>
<b>Cash flows from financing activities:</b>		
Proceeds from bank loans	33,190,901	37,648,774
Repayment of bank loans	(34,727,943 )	(25,880,774 )
Proceeds from loan from a related party	31,048,263	-
Repayment of loan from a related party	(12,014,621 )	(4,046,323 )
Repayment of loan from employee	499,331	28,215
<b>Net cash provided by financing activities</b>	<b>17,995,931</b>	<b>7,749,892</b>
Effect of foreign exchange rate fluctuation on cash and cash equivalents	511,660	439,890
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(18,470,290 )</b>	<b>11,404,657</b>

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Cash and cash equivalents- beginning of period	25,286,619	10,174,528
Cash and cash equivalents-end of period	\$ 6,816,329	\$ 22,019,075
Supplementary disclosure of cash flow information:		
Cash paid for interest expense	\$ 2,289,361	\$ 1,665,194
Cash paid for income tax	\$ 4,397,898	\$ 803,069

See notes to unaudited consolidated financial statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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

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

Pacific Capital Group was incorporated on November 23, 2006 under the laws of the Republic of Vanuatu as a holding company, for the purposes of seeking and consummating a merger or acquisition with a business entity. On April 26, 2007, following the approval by the relevant governmental authorities in the People’s Republic of China (the “PRC”), Pacific Capital Group acquired a 99% ownership interest in TaiAn Ruitai, which was formed in the PRC on November 10, 1999 with registered capital of \$2,391,840. As a result of the transaction, TaiAn Ruitai became a 99% majority-owned subsidiary of Pacific Capital Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

In addition, the Company’s unaudited consolidated financial statements have been prepared on a going-concern basis which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As of September 30, 2011 and December 31, 2010, the Company had significant negative working capital \$19,353,813 and \$26,235,667, respectively, which raises substantial doubt about the Company’s ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the Company obtaining necessary financing or achieving a consistently profitable level of operations. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The accompanying unaudited consolidated financial statements as of September 30, 2011, and for the three months and nine months ended September 30, 2011 and 2010 have been prepared in accordance with United States GAAP for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X applicable to smaller reporting companies. In the opinion of management, all adjustments necessary for a fair statement of the results for the interim periods have been made, and all adjustments are of a normal recurring nature (or a description of the nature and amount of any adjustments other than normal recurring adjustments). The unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 that are included in the Company's 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission and the interim financial statements are not indicative of the results for the year.

#### Principle of consolidation

The consolidated financial statements include China Ruitai, Pacific Capital Group and TaiAn RuiTai. All inter-company transactions and balances have been eliminated in consolidation.

Non-controlling interest represents the ownership interests in the subsidiary that are held by owners other than the parent. In December 2007, the Financial Account Standards Board ("FASB") issued "Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51", ASC Topic 810-10. ASC 810-10 requires that the non-controlling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity and that net income or loss and comprehensive income or loss are attributed to the parent and the non-controlling interest. If losses attributable to the parent and the non-controlling interest in a subsidiary exceed their interests in the subsidiary's equity, the excess, and any further losses attributable to the parent and the non-controlling interest, is attributed to those interests.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. Management evaluates the estimates on an ongoing basis, including those related to accounts receivable and useful lives of property and equipment, fair values of warrant to purchase our common stock, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

#### Accounts Receivable

Accounts receivable represent amounts earned and are collectible from customers. Accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and uses the specific identification method to record such allowances. Management of the Company considers the following factors when determining

the collectability of accounts receivable: a customer's credit-worthiness, past collection history, and changes in a customer's payment terms. Allowance for doubtful accounts is made based on any specifically identified accounts receivable that may become uncollectible.

## Inventory

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

## Revenue Recognition

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

The Company does not provide an unconditional right of return, price protection or any other concessions to its customers. Sales returns and other allowances have been immaterial in our operation.

Commercial leasing income is recognized ratably over the period of the commercial leasing asset rent contract. The commercial leasing asset is Taishan Building, which is located in Beijing and is entirely rented to Beijing Shengmei Hotel Management Company.

## Impairment of long-lived assets

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of ASC Subtopic 360-10, Property, Plant, and Equipment - Overall, long-lived assets, such as property, plant and equipment, and purchased intangible asset subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment of long-lived assets was recognized for the three months and nine months ended September 30, 2011 and 2010.

## Recently issued accounting pronouncements

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", which is not expected to have a material impact on the consolidated financial statements upon adoption.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income". Under the amendments in this ASU, an entity has two options for presenting its total comprehensive income: to present total comprehensive income and its components along with the components of net income in a single continuous statement, or in two separate but consecutive statements. The amendments in this ASU are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company intends to conform to the new presentation required in this ASU beginning with its Form 10-Q for the three months ended March 31, 2012. This pronouncement is not expected to have a material impact on the consolidated financial statements upon adoption.

## 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable are recognized and carried at original sales amounts less an allowance for uncollectible accounts, as needed. Accounts receivable as of September 30, 2011 and December 31, 2010 were:

	September 30, 2011 (Unaudited)	December 31, 2010
Accounts receivable	\$ 11,354,209	\$ 6,356,204
Less: Allowance for doubtful accounts	(1,654,249 )	(1,459,539 )
	\$ 9,699,960	\$ 4,896,665

Allowance for doubtful accounts movement for the nine months ended September 30, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	September 30, 2011
Allowance for doubtful accounts	\$ (1,459,539)	\$ (343,794)	\$ 149,084	\$ -	\$ (1,654,249)

Allowance for doubtful accounts movement for the nine months ended September 30, 2010 was:

	December 31, 2009	Provision	Reverse	Write- off	September 30, 2010
Allowance for doubtful accounts	\$ (1,606,569)	\$ (143,458)	\$ 139,709	\$ -	\$ (1,610,318)

#### 4. NOTES RECEIVABLE

Notes receivables of \$3,084,732 as of September 30, 2011 and \$2,736,496 as of December 31, 2010 represents bank acceptance notes the Company received from customers for sales of products. The notes are with maturity duration of 3 to 6 months, and are accepted by banks.

#### 5. OTHER RECEIVABLES, NET

Other receivables mainly represent advances to salesman and outside supplier agents for business and are recognized and carried at original amounts less an allowance for uncollectible accounts, as needed. Other receivables as of September 30, 2011 and December 31, 2010 were:

	September 30, 2011 (Unaudited)	December 31, 2010
Other receivables	\$ 6,431,899	\$ 2,106,923
Less: Allowance for doubtful accounts	(1,220,940 )	(1,083,586 )
	\$ 5,210,959	\$ 1,023,337

Allowance for doubtful accounts movement for the nine months ended September 30, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	September 30, 2011
Allowance for doubtful accounts	\$ (1,083,586)	\$ (201,752)	\$ 64,398	\$ -	\$ (1,220,940)

Allowance for doubtful accounts movement for the nine months ended September 30, 2010 was:

	December 31, 2009	Provision	Reverse	Write- off	September 30, 2010
Allowance for doubtful accounts	\$ (1,164,413)	\$ (83,206)	\$ 162,191	\$ -	\$ (1,085,428)

#### 6. ADVANCES PAYMENT, NET

Advances payment are recognized and carried at original amounts less an allowance for uncollectible accounts, as needed. Advances payment as of September 30, 2011 and December 31, 2010 were:

10

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(1)	Short term		September 30, 2011 (Unaudited)	December 31, 2010
	Advances payment to suppliers		\$ 6,291,031	\$ 4,770,170
	Less: Allowance for doubtful accounts		(4,020,522 )	(3,598,693 )
			\$ 2,270,509	\$ 1,171,477

Allowance for doubtful accounts movement for the nine months ended September 30, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	September 30, 2011
Allowance for doubtful accounts	\$ (3,598,693)	\$ (510,631)	\$ 88,802	\$ -	\$ (4,020,522)

Allowance for doubtful accounts movement for the nine months ended September 30, 2010 was:

	December 31, 2009	Provision	Reverse	Write- off	September 30, 2010
Allowance for doubtful accounts	\$ (3,579,949)	\$ (243,506)	\$ 257,406	\$ -	\$ (3,566,049)

(2)	Long term		September 30, 2011 (Unaudited)	December 31, 2010
	Advances payment for equipment purchase		\$ 1,021,598	\$ 1,079,052
	Less: Allowance for doubtful accounts		(967,549 )	(1,079,052 )
			\$ 54,049	\$ -

Allowance for doubtful accounts movement for the nine months ended September 30, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	September 30, 2011
Allowance for doubtful accounts	\$ (1,079,052)	\$ -	\$ 111,503	\$ -	\$ (967,549)

Allowance for doubtful accounts movement for the nine months ended September 30, 2010 was:

	December 31, 2009	Provision	Reverse	Write- off	September 30, 2010
Allowance for doubtful accounts	\$ (1,165,915)	\$ -	\$ 149,989	\$ -	\$ (1,015,926)

## 7. INVENTORIES

Inventories as of September 30, 2011 and December 31, 2010 consisted of the following:

11

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	September 30, 2011 (Unaudited)	December 31, 2010
Raw materials	\$ 3,436,184	\$ 3,791,070
Work in progress	1,526,049	977,302
Finished goods	6,375,623	4,699,839
	\$ 11,337,856	\$ 9,468,211

8. **PROPERTY AND EQUIPMENT, NET**

Property and equipment as of September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Buildings	\$ 9,494,323	\$ 9,109,630
Machinery and equipment	12,539,411	11,565,294
Office equipment and furniture	181,194	85,364
Motor vehicles	607,996	557,167
	22,822,924	21,317,455
Less: Accumulated depreciation	(8,748,668 )	(7,305,224 )
	14,074,256	14,012,231
Construction in progress	213,547	2,692
	\$ 14,287,803	\$ 14,014,923

The depreciation expenses were \$406,074 and \$391,065 for the three months ended September 30, 2011 and 2010, respectively; and \$1,198,618 and \$1,133,745 the nine months ended September 30, 2011 and 2010, respectively.

9. **LAND USE RIGHTS, NET**

Land use rights as of September 30, 2011 and December 31, 2010 consist of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Land use right	\$ 5,777,895	\$ 5,594,381
Less: Accumulated amortization	(651,539 )	(548,498 )
	\$ 5,126,356	\$ 5,045,883

Amortization expenses were \$27,055 and \$30,151 for the three months ended September 30, 2011 and 2010, respectively; and \$83,686 and \$84,395 for the nine months ended September 30, 2011 and 2010, respectively.

10. **COMMERCIAL LEASING ASSETS, NET**

On December 31, 2009, Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai") (a related party) and TaiAn Ruitai entered into a Set-Off Agreement to settle the outstanding balance Shandong Ruitai owed to TaiAn Ruitai. Pursuant to the terms of the Set-Off Agreement, TaiAn Ruitai agreed to permit Shandong Ruitai to repay a total of \$31,745,649 by transferring 100% of Shandong Ruitai's ownership interest in real estate property located in Beijing, China, commonly

known as Taishan Building, or Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China (“Taishan Building” or the “Property”). In conjunction with the Set-Off Agreement, the parties engaged an appraisal firm certified by local government to perform an independent appraisal of the Property. The firm appraised the fair market value of the Property as of December 31, 2009 to be \$36,710,934.

Taishan Building is a residential building with 47 apartments and is entirely rented to Beijing Shengmei Hotel Management Company, operated as a budget hotel, for a period ending March 31, 2028. The Company treats Taishan Building as commercial leasing assets and provides depreciation over 43 years. The lease may be terminated at any time by any party.

Commercial lease assets as of September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Buildings	\$ 39,207,723	\$ 37,940,688
Less: Accumulated depreciation	(1,595,663 )	(861,104 )
	\$ 37,612,060	\$ 37,079,584

The depreciation expenses were \$227,200 and \$215,831 for the three months ended September 30, 2011 and 2010, respectively; and \$673,433 and \$643,961 for the nine months ended September 30, 2011 and 2010, respectively.

#### 11. SHORT-TERM BANK LOANS

Short-term bank loans at September 30, 2011 and December 31, 2010 consist of the following:

	September 30, 2011 (unaudited)	December 31, 2010
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 19, 2011	\$ -	\$ 1,155,510
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 19, 2011.	-	1,255,331
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 18, 2011.	-	1,512,447
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on May 28, 2011.	-	1,058,713
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on May 1, 2011.	-	1,361,203
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on April 14, 2011.	-	1,512,447



Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on March 9, 2011.	-	2,268,671
Loan from Feicheng Rural Credit Union with interest rate of 6.67%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on June 18, 2011.	-	1,512,447
Loan from Weihai Commercial Bank with interest rate of 6.06%, guaranteed by Shandong RunYin Biological Co., Ltd., Matured on June 8, 2011.	-	3,024,896
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 6.06%, guaranteed by Feicheng Golden Dragon Co., Ltd., Matured on May 16, 2011.	-	3,024,895
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Acid Chemicals Co., Ltd. & Mr. Lu Xingfu. Matured on May 17, 2011.	-	907,468
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. maturing on October 14, 2011.	1,562,061	1,512,447
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on September 18, 2011.	-	1,966,182
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 6.67%, guaranteed by Feicheng Golden Dragon Co., Ltd., Maturing on October 19, 2011.	1,562,061	1,512,448
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 0%, guaranteed by Feicheng Golden Dragon Co., Ltd., Maturing on December 28, 2011.	624,824	604,979
Loan from Shanghai Pudong Development Bank Jinan Branch with interest rate of 6.06%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Matured on September 2, 2011.	-	6,049,790
Loan from Citic Bank Qingdao Branch with interest rate of 6.67%, guaranteed by Mr. Lu Xingfu., Matured on September 28, 2011.	-	3,024,896
Loan from Shenzhen Development Bank Jinan Branch with interest rate of 6.06%, guaranteed by Shangdong Ruitai Cellulose Co., Ltd., Maturing on November 26, 2011.	4,686,182	4,537,342



Loan from Qingdao Bank Jinan Branch with interest rate of 6.67%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Matured on August 27, 2011.	-	4,537,342
Loan from China Communication Bank Tai'an Branch with interest rate of 6.44%, guaranteed by Shandong Acid Chemicals Co., Ltd. Maturing on November 18, 2011.	1,562,061	-
Loan from Feicheng Rural Credit Union with interest rate of 6.06%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 21, 2012.	1,193,414	-
Loan from Feicheng Rural Credit Union with interest rate of 6.06%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 21, 2012.	1,296,510	-
Loan from Feicheng Rural Credit Union with interest rate of 7.27%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 29, 2012.	1,562,061	-
Loan from Bank of China Taian Branch with interest rate of 6.06%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on February 15, 2012.	4,998,594	-
Loan from Bank of China Taian Branch with interest rate of 6.06%, guaranteed by Shandong Acid Chemicals Co. Ltd. Maturing on February 16, 2012.	1,405,855	-
Loan from Feicheng Rural Credit Union with interest rate of 6.31%, guaranteed by Shandong Acid Chemicals Co., Ltd. & Mr. Lu Xingfu. Maturing on May 16, 2012.	937,236	-
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 7.57%, guaranteed by Shandong Acid Chemicals Co., Ltd., Maturing on May 19, 2012.	3,124,121	-
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on September 15, 2012.	2,030,679	-
Loan from Qingdao Bank Jinan Branch with interest rate of 7.54%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Maturing on August 30, 2012.	4,686,182	-
Loan from Shanghai Pudong Development Bank Jinan Branch with interest rate of 7.22%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Maturing on September 2, 2012.	6,248,243	-

\$37,480,084

\$42,339,454

The interest expenses for the bank loans were \$717,607 and \$536,097 for the three months ended September 30, 2011 and 2010, respectively, and \$2,024,362 and \$1,665,194 for the nine months ended September 30, 2011 and 2010, respectively. The weighted average interest rates for bank loans were 6.44% and 5.38% at September 30, 2011 and 2010, respectively. The Company paid off all matured short-term bank loans before the date the financial statements have been issued.

## 12.LONG-TERM LOANS

In July 2011, the Company borrowed \$4,686,182 from The Bank of China Feicheng Branch, with an interest rate equal to the floating rate, guaranteed by Shandong Yinbao Food Co. Ltd. The interest rate shall be adjusted every 3 months, the first payment term executive interest rate is based on the 1-3 year bank loan interest rate (6.65%) with 20% up stream floating. As of September 30, 2011, \$1,171,546 was due within one year.

## 13. RELATED PARTY BALANCE TRANSACTIONS AND BALANCES

### Purchase

The Company purchases hot steam from Shandong Ruitai, which is owned by Mr. Xingfu Lu, the President, and Mr. Dian Min Ma, the CEO of the Company. The Company purchased hot steam from Shandong Ruitai aggregating \$693,954 and \$886,860 for the three months ended September 30, 2011 and 2010, and \$2,138,530 and \$3,064,093 for the nine months ended September 30, 2011 and 2010, respectively. The cost of sales includes steam purchased from a related party but the precise amount could not reasonably be determined.

### Land use right transaction

On October 25, 2006, the Company purchased the use right of a piece of land, approximately 36 acres, located in Wenyang County, Shandong Province, from Shandong Ruitai, for the original cost of \$3,920,264. The local government approved the transaction and certified that the purchase price is at the fair market value. The consideration has been paid to the seller, and the title transfer is ongoing. Management believes the transaction is on terms no less favorable to the Company than those reasonably obtainable from third parties. The Company's headquarters building and a production facility are located on this piece of land.

### Due from related party

As of September 30, 2011, the Company had a balance due from Shandongs Ruitai of \$9,600,829 which was non-interest bearing and due upon the Company's demand for Shandong Ruitai's business development needs. As of December 31, 2010, the Company had a balance due to Shandong Ruitai of \$2,526,474 which included the payable to purchase hot steam.

### Notes payable to related party

As of September 30, 2011, the balance of notes payable to Shandong Ruitai was \$34,677,747. The loans were non-interest bearing for the purpose of financing the Company's operations due to a lack of working capital, and have no fixed terms of repayment.

## 14. NOTES PAYABLE

The Company issues notes to certain suppliers which are guaranteed by the Company's banks in lieu of payment of accounts payable. Terms of these notes payable vary depending on the negotiations with individual suppliers. Typical terms are six months. On the maturity dates, the note holders present these notes to the banks to draw cash based on the notes amounts. The Company is subject to a bank fee of 0.05% on the outstanding notes.

The Company is required to make a restricted security deposit between 50% and 100% of the face amount of the notes in the banks until the notes are settled. Restricted cash for this purpose amounted to \$25,274,142 and \$10,254,394 as of September 30, 2011 and December 31, 2010, respectively.

## 15. OTHER PAYABLES

Other payables as of September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011 (Unaudited)	December 31, 2010
Other taxes payable	\$ 1,106,163	\$ 1,458,147
Payroll	186,021	149,210
Employee security deposit	24,579	28,638
Loan from third party	523,549	540,473
Sales commission payable	1,305,517	1,260,692
Accrued expenses	91,960	317,037
Others	122,234	118,352
	\$ 3,360,023	\$ 3,872,549

Other taxes payable include VAT payable, real estate tax payable, individual income tax payable and other tax payables. Loans from third parties were non-interest bearing loans for the purpose of working capital, payable upon the Company's discretion.

## 16. LOAN FROM EMPLOYEES

Loan from employee represents loans from employees to finance the Company's operations due to a lack of working capital. The Company paid 0.6% interest on these loans monthly for the period July 1, 2007 through March 31, 2009. Beginning from April 1, 2009, the Company pays 0.5% interest on these loans monthly. Cash flows from these activities are classified as cash flows from financing activities. Loan from employee was \$2,025,823 as of September 30, 2011 and \$1,470,138 as of December 31, 2010. The Company paid interest of \$34,972 and \$18,895 for the three months ended September 30, 2011 and 2010, respectively, and \$81,745 and \$61,450 for nine months ended September 30, 2011 and 2010, respectively.

## 17. INCOME TAXES

The tax payables balance of \$1,258,466 and \$4,336,457 as of September 30, 2011 and December 31, 2010 represents the income tax accrual of TaiAn Ruitai. TaiAn Ruitai is subject to PRC income tax at a rate of 25%.

Income tax expenses were \$401,816 and \$633,170 for the three months ended September 30, 2011 and 2010, respectively, which represents PRC current income taxes. Income tax expenses were \$1,231,651 and \$1,756,548 for the nine months ended September 30, 2011 and 2010, respectively, which represents PRC current income taxes.

The Company has not recorded tax provision for U.S. and Vanuatu tax purposes as it has no assessable profits arising in or derived from the United States or Vanuatu and intends to permanently reinvest accumulated earnings in the PRC operations.

The Company has a deferred tax asset on net operating losses of \$221,304 and \$184,280 as of September 30, 2011 and December 31, 2010, respectively. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those net operating losses are available. The Company considers projected future taxable income and tax planning strategies in making its assessment. At present, the Company does not have sufficient operations in the United States to conclude that it is more-likely-than-not that the Company will be able to realize all of its tax benefits in the near future and therefore a valuation allowance of \$221,304 was established for the

full value of the deferred tax asset.

17

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A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance. Should the Company start operations in the United States in future periods with a supportable trend, the valuation allowance will be reversed accordingly.

18. STATUTORY RESERVES

Under PRC law, TaiAn Ruitai is required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The entity is required to allocate at least 10% of its after tax profits on an individual company basis as determined under PRC GAAP to the general reserve and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the entity. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

Both of the balances of statutory reserves as of September 30, 2011 and December 31, 2010 were \$1,369,652, and for the nine months ended September 30, 2011 and 2010, the Company did not make appropriation in its statutory reserves since such reserve had reached 50% of registered capital.

19. CONCENTRATIONS AND CREDIT RISKS

At September 30, 2011 and December 31, 2010, the Company had a credit risk exposure of cash in banks of \$6,816,329 and \$25,286,619, respectively, that is uninsured by the government authority. To limit exposure to credit risk relating to deposits, the Company primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings.

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 environment in the PRC as well as by the general state of the PRC's economy. The business may be influenced by, among other things, changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

Major Customers

During the three months ended September 30, 2011, no single customer accounted for 10% or more of the company's net revenue. During the three months ended September 30, 2010, the Company's largest customer accounted for 14% of the Company's net revenue.

During the nine months ended September 30, 2011, the Company's largest customer accounted 13% of the Company's net revenue. The outstanding account receivable balance for this customer was \$91,518 as of September 30, 2011. No single customer accounted for 10% or more of the Company's net revenue for the nine months ended September, 30, 2010.

Major Suppliers

During the three months ended September 30, 2011, two major suppliers accounted for 41% of the Company's total purchase. The account payable balances for the two largest suppliers were \$1,416,789 as of September 30, 2011. During the three months ended September 30, 2010, three major suppliers accounted for 39% of the Company's total purchase. The account payable balances for the four largest suppliers were \$627,306 as of September 30, 2010. During the nine months ended September 30, 2011, no single supplier accounted for 10% or more of the Company's

total purchase. During the nine months ended September 30, 2010, two major suppliers accounted for 25% of the Company's total purchase.

20.

## WARRANT

During March 2008, the Company engaged a consultant to conduct a program of investor relations activities, for an initial period of twelve months ended February 28, 2009, and continuing on a month-to-month basis thereafter upon mutual consent. The terms of the agreement are for the consultant to receive a cash payment per month plus a warrant to purchase 150,000 shares of the Company's restricted common stock at a exercise price of \$3.05 per share. The warrant has a term of four (4) years and is vested 50% on March 1, 2008 and 50% on September 30, 2008. Management valued the warrant at \$1.16 per share using the Black-Scholes pricing model with assumptions summarized below, for a total of \$174,000, which is being amortized over the prospective beneficial period.

Grant Date Stock Price	Exercise Price	Warrant Life	Risk Free Interest Rate	Expected Volatility
\$ 2.90	\$ 3.05	4 years	2.00 %	51 %

As all the warrants were vested in 2008, there was no warrant cost charged during the periods presented. There were no warrants exercised as of September 30, 2011 and December 31, 2010.

On May 19, 2008, the Company engaged a consultant as its exclusive investment banker and agent for a one-year period ended May 19, 2009, and subject to cancellation by thirty (30) days written notice. As part of compensation to the consultant, the Company issued the consultant a warrant to purchase 200,000 shares of the Company's common stock at a price of \$4.00 per share. The warrant has a term of five (5) years and was issued on May 19, 2008. Management valued the warrant at \$1.84 per share using the Black-Scholes pricing model with assumptions summarized below, for a total of \$368,000, which will be amortized over the prospective beneficial period.

Grant Date Stock Price	Exercise Price	Warrant Life	Risk Free Interest Rate	Expected Volatility
\$ 4.00	\$ 4.00	5 years	2.00 %	51 %

As all the warrants were vested in 2009, there was no warrant cost charged during the periods presented.. There were no warrants exercised as of September 30, 2011 and December 31,2010.

The warrant agreements contained cash settlement and down round protection clauses. Accordingly, the warrants should be accounted for as liability from its issuance date at its fair value with changes in value included in earnings each reporting period. The Company treated it as equity due to an immaterial difference.

On July 1, 2011, the Company granted warrants to purchase 30,000 shares to its consultant, Lamnia International, and 90,000 shares to another consultant, Matthew Hayden, at an exercise price of \$1.15 per share. The warrants vest and become exercisable on July 1, 2011 and expire on July 1, 2015. Management valued the warrant at \$0.03 per share using the Binomial model with assumptions summarized below, for a total of \$37,024, which will be amortized over the prospective beneficial period.

Grant Date Stock Price	Exercise Price	Warrant Life	Risk Free Interest Rate	Expected Volatility
\$ 0.25	\$ 1.15	4 years	2.22 %	60 %

As all the warrants were vested in the nine months ended September 30, 2011, there is \$37,024 warrant cost charged as of September 30, 2011.

21.

## EARNINGS PER SHARE

	Three Months Ended September 30,	
	2011 (unaudited)	2010 (unaudited)
<b>Numerator used in basic net income per share:</b>		
Net income attributable to China Ruitai Shares	\$ 1,105,967	\$ 1,880,515
Weighted average common shares outstanding	26,000,000	26,000,000
Weighted average common shares outstanding used in computing diluted earnings per ordinary share	26,000,000	26,000,000
Earnings per common share-basic and diluted	\$ 0.04	\$ 0.07

	Nine Months Ended September 30,	
	2011	2010
	(unaudited)	(unaudited)
<b>Numerator used in basic net income per share:</b>		
Net income attributable to China Ruitai Shares	\$ 3,211,729	\$ 5,236,962
Weighted average common shares outstanding	26,000,000	26,000,000
Weighted average common shares outstanding used in computing diluted earnings per ordinary share	26,000,000	26,000,000
Earnings per common share-basic and diluted	\$ 0.12	\$ 0.20

As of September 30, 2011 and 2010, the Company had 470,000 outstanding warrants that could potentially dilute basic income per share in the future, but which were excluded in the computation of diluted income per share in the periods presented, as their effect would have been anti-dilutive since the exercise price of these warrants was higher than the average market price during the period presented.

## 22. COMMITMENTS AND CONTINGENCIES

### Governmental control of currency conversion

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

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

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

### Guaranteed Bank Loans

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

The Company and these third-party enterprises have been guaranteeing loans for each other in their day-to-day operations. Both of these enterprises and the Company are considered good reputation debtors by local banks. The banks allow these companies to guarantee loans for each other instead of requiring the loans be secured by collateral. None of the enterprises for which the Company has guaranteed loans has defaulted on any loan repayments, and accordingly, the Company has not recorded any liabilities or losses on such guarantees.

Bank loans that the Company has guaranteed for third-party enterprises consist of the following as of September 30, 2011:

Bank loans:

Financial institutions	Amount	Duration	Borrower
Agriculture development bank of China Feicheng branch	\$ 4,061,358	May 11, 2010 to May 10, 2012	Taipeng Group
Bank of China Feicheng branch	1,468,337	October 21, 2010 to October 8, 2011	Shandong Acid Chemicals Ltd., Co.
Bank of China Feicheng branch	890,000	October 23, 2010 to October 23, 2011	Feicheng Acid Chemicals Ltd., Co.
Bank of China Feicheng branch	2,655,503	October 13, 2011 to September 13, 2012	Taipeng Household Items Ltd., Co.
Bank of China Feicheng branch	1,046,581	October 13, 2011 to September 13, 2012	Taipeng Nonwoven Ltd., Co.
Bank of China Feicheng branch	468,618	October 13, 2011 to September 13, 2012	Taipeng new material Ltd., Co.
Bank of China Feicheng branch	2,821,082	October 13, 2011 to September 13, 2012	Feicheng Jinlong Textile Ltd., Co.
Bank of China Feicheng branch	2,655,503	November 12, 2010 to November 12, 2011	Shandong Yinbao Food Ltd., Co.
Bank of China Feicheng branch	2,343,091	January 20, 2011 to January 20, 2012	Shandong Yinbao Food Ltd., Co.
Shenzhen development bank Jinan branch	1,562,060	June 2, 2011 to June 2, 2012	Shandong RunYin Biological Chemicals Co., Ltd.
Shenzhen development bank Jinan branch	3,905,151	May 20, 2011 to May 20, 2012	Shandong Yinbao Food Ltd., Co.
Bank of Communication Taian Branch	4,061,358	September 15, 2011 to September 15, 2012	Shandong Yinbao Food Ltd., Co.

Agriculture bank of China Feicheng branch	3,592,739	October 27, 2010 to October 26, 2011	Shandong Yinbao Food Ltd., Co.
Bank of Communication Taian Branch	3,748,946	September 15, 2011 to September 15, 2012	Feicheng Jinlong Textile Ltd., Co..
	\$ 35,280,327		

## Bank acceptable notes:

Financial institutions	Amount	Duration	Borrower
Shenzhen development bank		September 14, 2011 to September 14, 2012	Taipeng Nonwoven Ltd., Co.
	\$ 4,686,182		
Industry bank		March 20, 2011 to September 20, 2011	Feicheng Acid Chemicals Ltd., Co.
	6,248,243		
Shenzhen development bank		October 26, 2010 to October 26, 2011	Shandong Lulong Group Ltd., Co.
	3,124,121		
	\$ 14,058,546		

## 23. SUBSEQUENT EVENT

Management has considered all events occurring through the date the financial statements have been issued, and has determined that there are no such events that are material to the financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Results of Operations

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition for the nine months ended September 30, 2011. The following discussion should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Form 10-Q.

## Results of Operations for the Nine Month Period Ended September 30, 2011 Compared to the Nine Month Period Ended September 30, 2010

## Revenue

**Revenue.** During the nine month period ended September 30, 2011, we had revenues of \$32,264,476 as compared to revenues of \$32,590,132 during the nine month period ended September 30, 2010, a slight decrease of 1%. The decrease in revenue was primarily attributable to the sales strategy change since the last quarter. Our sales are now focusing more on high-end pharmaceutical products and the Polyvinyl chloride ("PVC") products sector.

**Cost of Sales.** During the nine month period ended September 30, 2011, our cost of sales was \$23,479,317 as compared to costs of sales of \$22,742,820 for the nine month period ended September 30, 2010, an increase of 3.24%. This increase in cost of sales resulted primarily from an increase in the price of raw materials and energy usage.

## Operating Expenses

Our operating expenses are divided into selling expenses and general and administrative expenses, both of which are discussed below:



**Selling Expenses.** Selling expenses, which consist of sales commissions, freight charges, travel and other selling expenses, totaled \$1,649,357 for the nine month period ended September 30, 2011 as compared to \$1,322,299 for the nine month period ended September 30, 2010, an increase of 24.73%. This increase results primarily from: (i) an increase in the freight charge for pharmaceutical and PVC products; and (ii) an increase of products packaging.

**General and Administrative Expenses.** General and administrative expenses totaled \$2,029,978 for the nine month period ended September 30, 2011 as compared to \$936,328 for the nine month period ended September 30, 2010, an increase of 116.80%. This increase was due to an increase in the bad debt expense.

#### Income from Operations

For the nine month period ended September 30, 2011, our income from operations was \$5,105,824 as compared to income from operations of \$7,588,685 for the nine month period ended September 30, 2010, a decrease of 32.72%. This decrease was primarily attributable to a dramatic increase in selling, marketing expenses and general and administrative expenses.

#### Commercial Leasing Income and Cost

For the nine month period ended September 30, 2011, our commercial leasing income was \$1,120,486 as compared to \$920,724 for the nine month period ended September 30, 2010, an increase of 21.70%. The increase was due to an annual rental increase as agreed in the contract, as well as the appreciation of RMB. Rental income was from an acquired commercial property in Beijing. On December 31, 2009, we entered into a Set-Off Agreement with our related party, Shandong Ruitai Chemicals Co., Ltd. (“Shandong Ruitai”). TaiAn, our subsidiary, agreed to permit Shandong Ruitai to satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in exchange for Shandong Ruitai’s transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Taishan Building, or Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China (the “Taishan Building”).

#### Interest Income

For the nine month period ended September 30, 2011, our interest income was \$1,205,441 as compared to \$834,077 for the nine month period ended September 30, 2010, an increase of \$371,364, or 44.52%. The increase of interest income resulted primarily from an increase of the restricted cash deposited for notes payables.

#### Interest Expense

For the nine month period ended September 30, 2011, we incurred interest expense in the amount of \$2,289,361 as compared to \$1,665,194 for the nine month period ended September 30, 2010, an increase of 37.48%. The increase in interest expense resulted primarily from an increase of the weighted-average interest rate for our bank loans in China, as well as the large increase in the amount of the interest paid for discounted notes receivable.

#### Income Tax Expense

Our income tax expense was \$1,231,651 for the nine month period ended September 30, 2011 as compared to \$1,756,548 for the nine month period ended September 30, 2010, a decrease of \$524,897, or 29.88%. This decrease is primarily attributable to a decrease in profits before income taxes.

#### Net Income attributable to China RuiTai

We had net income attributable to China RuiTai of \$3,211,729 for the nine month period ended September 30, 2011 as compared to \$5,236,962 for the nine month period ended September 30, 2010, a decrease of \$2,025,233, or 38.67%. This decrease is primarily attributable to an increase in cost of goods sold and general administrative expenses.

## Liquidity and Capital Resources

The Company anticipates obtaining additional financing to meet the working capital requirements for its on-going projects and to sustain the business operations for the next twelve months. The Company is exposed to certain risks for significant negative working capital as indicated on the balance sheet, which increases the concern for management's ability to fulfill the Company's working capital requirements as well as the ability to continue as a going concern. The risk is mainly the result of a high level of short-term bank borrowings pursuant to which China RuiTai has a proven record of excellent credit history with the local bank for the past ten years. We do not believe additional debt financing from the bank to fulfill the working capital requirements will be an issue due to the track record of the Company's credit history and the solid relationship with the local bank. In the event of a default under the bank borrowings, the Company has a \$37,612,060 commercial leasing asset, "Taishan Building", located at Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, which can be sold in the open market.

## Results of Operations for the Three Month Period Ended September 30, 2011 Compared to the Three Month Period Ended September 30, 2010

### Revenue

Revenue. During the three month period ended September 30, 2011, we had revenues of \$10,955,475 compared to revenues of \$11,180,701 during the three month period ended September 30, 2010, a decrease of 2.01%. The decrease in revenue was primarily attributable to: (i) the decrease in the product sales; and (ii) the change in our sales strategy. In April 2011, we started to evolve into high-end pharmaceutical products and the PVC sector, focusing on the Hydroxyethyl Cellulose ("HEC") market.

Cost of Sales. During the three month period ended September 30, 2011, our cost of sales was \$8,693,366 compared to costs of sales of \$7,590,381 for the three month period ended September 30, 2010, an increase of 14.53%. This increase in cost of sales resulted in the increase in the price of raw materials and energy usage.

### Operating Expenses

Our operating expenses are divided into selling expenses and general and administrative expenses, both of which are discussed below:

Selling Expenses. Selling expenses, which consist of sales commissions, freight charges, travel and other selling expenses, totaled \$515,979 for the three month period ended September 30, 2011, compared to selling expenses of \$432,914 for the three month period ended September 30, 2010, an increase of 19.19%. This increase results primarily from an increase of freight charges.

General and Administrative Expenses. General and administrative expenses totaled \$648,200 for the three month period ended September 30, 2011 compared to \$436,218 for the three month period ended September 30, 2010, an increase of 48.60%. The main reason for the increase can be attributed to the increase in bank charge.

### Income from Operations

For the three month period ended September 30, 2011, our income from operations was \$1,097,930 compared to income from operations of \$2,721,188 for the three month period ended September 30, 2010, a decrease of 59.65%. This decrease was primarily attributable to lower sales, higher cost of sales, and increased expenses.

### Commercial Leasing Income and Costs

For the three month period ended September 30, 2011, our commercial leasing income was \$377,871 as compared to \$305,767 for the three month period ended September 30, 2010, an increase of 23.58%. The increase was due to an annual rental increase as agreed in the contract, as well as the appreciation of RMB. Rental income was from an acquired commercial property in Beijing. On December 31, 2009, we entered into a Set-Off Agreement with our related party, Shandong Ruitai. TaiAn, our subsidiary, agreed to allow Shandong Ruitai to satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in return for Shandong Ruitai's transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Taishan Building. As a result, starting in the first quarter of 2010, the Taishan Building has generated rental income of \$377,871 for the three month period ended September 30, 2011.

### Interest Income

For the three month period ended September 30, 2011, our interest income was \$1,027,060 compared to interest income of \$267,465 for the three month period ended September 30, 2010, an increase of \$759,595, or 284.00%. The increase of interest income resulted primarily from an increase of the restricted cash deposited for notes payables.

### Interest Expense

For the three month period ended September 30, 2011, we incurred interest expense in the amount of \$752,579 compared to interest expense of \$536,097 for the three month period ended September 30, 2010, an increase of 40.38%. The increase in interest expense resulted primarily from an increase of the weighted-average interest rate for the bank loan in China, as well as the large increase of the interest paid for discounted notes receivable.

### Income Tax Expense

Our income tax expense was \$401,816 for the three month period ended September 30, 2011 compared to \$633,170 for the three month period ended September 30, 2010, a decrease of \$231,354, or 36.54%. This decrease is primarily attributed to a decrease in profits before income taxes.

### Net Income attributable to China RuiTai

We had net income of \$1,105,967 for the three month period ended September 30, 2011 compared to \$1,880,515 for the three month period ended September 30, 2010, a decrease of \$774,548, or 41.19%. This decrease is primarily attributable to a decrease in sales and an increase in cost of sales.

### Total Current Assets and Total Assets

As of September 30, 2011: (i) our total current assets were \$73,295,316 as compared to total current assets of \$54,837,199 at December 31, 2010, an increase of \$18,458,117, or 33.66%; and (ii) our total assets were \$130,375,584 as of September 30, 2011 compared to \$110,977,589 as of December 31, 2010, an increase of \$19,397,995, or 17.48%. Our total assets increased due to changes that we experienced in cash and cash equivalents, restricted cash, accounts receivable, and notes receivable, all of which are discussed below.

**Cash and Cash Equivalents.** As of September 30, 2011, our cash and cash equivalents were \$6,816,329 as compared to \$25,286,619 at December 31, 2010, a decrease of \$18,470,290, or 73.04%. This decrease was primarily attributable to the additional cash required to be deposited as restricted in the bank to serve as collateral for increased notes payable.

**Restricted Cash.** As of September 30, 2011, our restricted cash was \$25,274,142 as compared to \$10,254,394 at December 31, 2010, an increase of \$15,019,748, or 146.47%. The Company is required to make restricted security deposits between 50% and 100% of the face amount of the notes with the banks until the notes are settled. This increase was primarily attributable to an overall increase in notes payable.

**Accounts Receivable.** As of September 30, 2011, our accounts receivable were \$9,699,960 as compared to \$4,896,665 at December 31, 2010, an increase of \$4,803,295, or 98.09%. This increase was primarily attributable to the effort in developing our marketing strategy to strengthen our sales by extending the accounts receivables payback period to attract our customers.

Advance to suppliers. As of September 30, 2011, we have an advance to suppliers of \$2,270,509 as compared to \$1,171,477 at December 31, 2010, an increase of \$1,099,032, or 93.82%. This increase was primarily attributable to the corresponding increase attributable to our prepayments to our suppliers to secure favorable raw material prices.

Inventories. As of September 30, 2011, we had inventories of \$11,337,856 as compared to \$9,468,211 as of December 31, 2010, an increase of \$1,869,645, or 19.75%. The increase in inventories from 2011 to 2010 was the result of the increase the price of products.

#### Total Current Liabilities

As of September 30, 2011, our total current liabilities were \$92,649,129 as compared to \$81,072,866 at December 31, 2010, an increase of \$11,576,263, or 14.28%. This increase was primarily attributable to changes in notes payable, and due to related parties as discussed below.

Notes Payable. As of September 30, 2011, our notes payable were \$39,051,517 as compared to \$18,149,369 as of December 31, 2010, an increase of \$20,902,148, or 115.17%. This increase was attributable to the increase in the notes payable to related party.

Due to related parties. As of September 30, 2011, due to related parties were nil as compared to \$2,526,474 as of December 31, 2010, a decrease of \$2,526,474, or 100%. The decrease in due to related parties was attributable to continued repayment of the money owed to the related parties to lower interest expense.

#### Operating Activities

Net cash of \$36,050,442 was used in operating activities during the nine month period ended September 30, 2011 compared to net cash generated in operating activities of \$5,247,773 during the nine month period ended September 30, 2010, representing a difference of \$ 41,298,215. The increase in net cash used by our operating activities was primarily attributable to the following five reasons: (i) a \$14,448,202 increase in restricted cash for the nine month period ended September 30, 2011 and a \$16,769,400 decrease in restricted cash for the nine month period ended September 30, 2010, a net change of \$31,217,602. The increase in restricted cash is in proportion to the increase in notes payable; (ii) there was a \$1,534,086 increase in inventories for the nine month period ended September 30, 2011 and a \$757,691 decrease in inventories for the nine month period ended September 30, 2010, a net change of \$2,291,777. The increase of inventories is a result of an increase in the price of raw materials; (iii) there was a \$2,250,276 increase in advance to suppliers for the nine month period ended September 30, 2011 and a \$461,144 decrease in advance to suppliers for the nine month period ended September 30, 2010, a net change of \$2,711,420; (iv) there was a \$763,410 decrease in accounts payable for the nine month period ended September 30, 2011 and a \$1,081,040 increase in accounts payable for the nine month period ended September 30, 2010, a net change of \$1,844,450, which was due to our prompt payment to our supplier to secure favorable raw material prices in 2011; and (v) there was a \$11,066,708 decrease in the notes payables for the nine month period ended September 30, 2011 and a \$ 25,007,000 decrease in notes payables for the nine month period ended September 30, 2010, a net change of \$13,940,292, which reflects the Company's flexibility in choosing the payment method to our suppliers which will be most favorable to the Company.

#### Investing Activities

During the nine month period ended September 30, 2011, the net cash used in investing activities was \$927,439 as compared to net cash used in investing activities of \$1,593,008 for the nine month period ended September 30, 2010, a decrease of \$665,569. This decrease was primarily attributable to the decrease in the purchase of equipment.

#### Financing Activities

During the nine month period ended September 30, 2011, the net cash provided by financing activities was \$17,995,931 as compared to net cash provided in financing activities of \$7,749,892 for the nine month period ended

September 30, 2010, an increase of \$10,246,039. This change in financing activities was primarily attributable to increasing approximately \$31 million of loans by utilizing a note payable from the related party and increase of due from related party of \$12 million, as a result of increased net cash for financing activities.

#### Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

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

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

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the three months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings, and no such proceedings are known to be contemplated. None of our directors, officers or affiliates, and no owner of record or beneficial owner of more than 5.0% of our securities, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

ITEM 1A. RISK FACTORS

Not Applicable.

27

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial statements from China Ruitai International Holdings Co., Ltd.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets (unaudited); (ii) the Consolidated Statements of Income and Comprehensive Income (unaudited); (iii) the Consolidated Statements of Cash Flows (unaudited); and (iv) the Notes to Unaudited Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

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

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

Date: November 14, 2011

By:

/s/ Dian Min Ma  
Dian Min Ma, Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2011

By:

/s/ Gang Ma  
Gang Ma, Chief Financial Officer  
(Principal Financial Officer and Chief Accounting  
Officer)