KIWA BIO-TECH PRODUCTS GROUP CORP
Form 10-Q
November 12, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2008

o 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: 000-33167

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**77-0632186** (I.R.S. Employer Identification No.)
310 N. Indian Hill Blvd., #702 Claremont, California (Address of principal executive offices)	**91711** (Zip Code)

(626) 715-5855
(Registrant’s telephone number, including area code)

415 West Foothill Blvd, Suite 206
Claremont, California 91711-2766
(Former address)

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 x No o

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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 12, 2008
Common Stock, $0.001 par value per share	105,063,107 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

Item	September 30, 2008 (UNAUDITED)	December 31, 2007 (AUDITED)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 43,161**	$ 61,073
Accounts receivable, net of allowance for doubtful accounts of $339,365 and $277,140, respectively	**747,754**	470,298
Inventories	**645,281**	818,329
Prepaid expenses	**17,959**	70,460
Other current assets	**133,235**	67,372
Total current assets	**1,587,390**	1,487,532
Property, Plant and Equipment		
Buildings	**1,244,940**	1,162,060
Machinery and equipment	**707,367**	660,273
Automobiles	**81,586**	76,154
Office equipment	**109,025**	93,231
Computer software	**10,582**	9,877
Property, plant and equipment - total	**2,153,500**	2,001,595
Less: accumulated depreciation	**(562,056)**	(433,690)
Property, plant and equipment - net	**1,591,444**	1,567,905
Construction in progress	**72,059**	67,262
Intangible asset - net	**265,918**	296,245
Deferred financing costs	**68,293**	129,793
Deposit to purchase proprietary technology	**126,443**	126,443
Total assets	$ **3,711,547**	$ 3,675,180
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable	**$ 2,052,608**	$ 1,635,490
Advances from customers	**286,444**	169,553
Construction costs payable	**299,904**	316,902
Due to related parties - trade	**271,328**	177,970
Due to related parties - non-trade	**557,497**	551,654
Current portion of long-term liabilities	**1,072,489**	2,889
Total current liabilities	**4,540,270**	2,854,458
Long-term liabilities, less current portion		
Unsecured loans payable	**1,686,637**	1,574,350
Bank notes payable	**12,904**	17,988
Long-term convertible notes payable	**798,303**	2,058,625
Less: discount relating to long-term convertible notes payable	**(504,180)**	(856,308)

Long-term convertible notes payable - net		**294,123**		1,202,317
Total long-term liabilities		**1,993,664**		2,794,655
Minority interest in a subsidiary		**85,931**		110,838
Shareholders' equity (deficiency)				
Common stock - $0.001 par value Authorized 200,000,000 shares. Issued and outstanding 95,331,706 and 81,519,676 shares at September 30, 2008 and December 31, 2007		**95,332**		81,520
Preferred stock - $0.001 par value Authorized 20,000,000 shares, none issued		**-**		-
Additional paid-in capital		**10,182,144**		9,217,876
Stock-based compensation reserve		**(183,619)**		(307,053)
Deficit accumulated		**(12,959,508)**		(11,074,522)
Accumulated other comprehensive income		**(42,667)**		(2,592)
Total shareholders' equity (deficiency)		**(2,908,318)**		(2,084,771)
Total liabilities and stockholders' equity	$	**3,711,547**	$	3,675,180

SEE ACCOMPANYING NOTES

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KIWA BIO-TECH PRODUCTS GROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)

Item	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Net sales	**$ 2,327,315**	$ 2,957,972	**$ 7,539,083**	$ 6,214,712
Cost of sales	**2,271,772**	2,718,712	**7,353,634**	5,763,387
Gross profit	**55,543**	239,260	**185,449**	451,325
Operating expenses				
Consulting and professional fees	**54,980**	161,241	**243,757**	618,380
Officers' compensation	**59,690**	58,811	**178,153**	213,280
General and administrative	**211,493**	275,532	**686,010**	651,055
Selling expenses	**41,051**	77,650	**155,632**	284,916
Research and development	**42,922**	41,931	**144,054**	134,730
Depreciation and amortization	**33,930**	35,234	**86,748**	96,098
Allowance and provision	**42,367**	(60)	**42,309**	604
Total operating expenses	**486,433**	650,339	**1,536,663**	1,999,063
Operating loss	**(430,890)**	(411,079)	**(1,351,214)**	(1,547,738)
Interest expenses	**(142,868)**	(171,743)	**(565,728)**	(573,647)
Loss before minority interest in a subsidiary's deficit	**(573,758)**	(582,822)	**(1,916,942)**	(2,121,385)
Minority interest in a subsidiary's deficit (profit)	**5,988**	(15,699)	**31,956**	(8,778)
Loss from continuing operations	**(567,770)**	(598,521)	**(1,884,986)**	(2,130,163)
Loss on discontinued operations:				
Discountinued urea entrepot trade - Commission paid to a related party	-	-	-	(414,509)
Net loss	**$ (567,770)**	$ (598,521)	**$ (1,884,986)**	$ (2,544,672)
Other comprehensive loss				
Translation adjustment	**(3,834)**	(7,653)	**(40,075)**	(34,234)
Comprehensive loss	**$ (571,604)**	$ (606,174)	**$ (1,925,061)**	$ (2,578,906)
Net (loss) from continuing operations per common share - basic and diluted	**$ (0.006)**	$ (0.008)	**$ (0.022)**	$ (0.029)
Net loss on discontinued operations per common share - basic and diluted	**$ -**	$ -	**$ -**	$ (0.006)
Weighted average number of common shares outstanding-basic and diluted	**93,551,551**	76,122,358	**87,788,767**	74,033,591

SEE ACCOMPANYING NOTES

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KIWA BIO-TECH PRODUCTS GROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Item	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities:		
Net loss	$ **(1,884,986)**	$ (2,544,672)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**241,230**	212,001
Amortization of detachable warrants, options and stocks as compensation	**641,045**	966,950
Provision for doubtful debt	**42,367**	10,879
(Gain)/Loss on disposal of fixed assets	**-**	2,033
Minority interest in a subsidiary	**(31,956)**	8,778
Changes in operating assets and liabilities:		
Accounts receivable	**(319,823)**	476,984
Inventories	**173,048**	(154,927)
Prepaid expenses	**(5,188)**	(8,947)
Other current assets	**(65,863)**	(8,833)
Accounts payable	**480,765**	656,468
Advances from customers	**116,891**	34,891
Due to related parties-trade	**107,048**	70,000
Net cash provided by (used in) operating activities	**(505,422)**	(278,395)
Cash flows from investing activities:		
Purchase of property and equipment	**(87,677)**	(203,768)
Net cash used in investing activities	**(87,677)**	(203,768)
Cash flows from financing activities:		
Proceeds from issuance of common stock	**650,000**	-
Proceeds from related parties	**428,763**	436,119
Repayment to related parties	**(511,115)**	(417,932)
Repayment of long-term borrowings	**(5,606)**	(4,627)
Net cash provided by financing activities	**562,042**	13,560
Effect of exchange rate changes on cash and cash equivalents	**13,145**	20,252
Cash and cash equivalents:		
Net increase (decrease)	**(17,912)**	(448,351)
Balance at beginning of period	**61,073**	498,103
Balance at end of period	$ **43,161**	$ 49,752
Supplemental Disclosures of Cash flow Information:		
Cash paid for interest	$ **1,433**	$ 302
Cash paid for taxes	$ **-**	$ -
Non-cash investing and financing activities:		
Issuance of detachable warrants in conjunction with loans	-	75,914
Issuance of detachable warrants as compensation to	-	44,414

consultants		
Issuance of common stock for conversion of long-term convertible notes payable and interest	**308,480**	293,209
Issuance of stock as compensation to consultants	**19,600**	126,000
Issuance of stock for cashless exercise of warrants	-	1,707
Conversion of accrued interests into principal	**112,917**	-

SEE ACCOMPANYING NOTES

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KIWA BIO-TECH PRODUCTS GROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)
(UNAUDITED)

Item	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock-based Compensation Reserve	Accumulated Deficits	Other Comprehensive Income	Total Stockholders' Deficiency
Balance, December 31, 2007	**81,519,676**	**81,520**	**9,217,876**	**(307,053)**	**(11,074,522)**	**(2,592)**	**(2,084,771)**
Issuance of 140,000 shares of common stock to an Investor Relations consultant on February 27, 2008	140,000	140	19,460	-	-	-	19,600
Issuance of 5,000,000 shares of common stock to an investor for the consideration of $650,000 on March 14, 2008	5,000,000	5,000	645,000	-	-	-	650,000
Issuance of common stock for conversion of principal and interest of 6% Notes during nine months ended September 30, 2008	8,672,030	8,672	299,808	-	-	-	308,480
Amortizaton of fair value of warrants issued to a financing consultant during nine months ended September 30, 2008	-	-	-	57,886	-	-	57,886
Amortization of fari value of employee stock options granted in 2006	-	-	-	65,548	-	-	65,548
Net loss for the nine months ended September 30, 2008	-	-	-	-	(1,884,986)	-	(1,884,986)
Other comprehensive income for the nine months ended September 30, 2008	-	-	-	-	-	(40,075)	(40,075)
Balance, September 30, 2008	**95,331,706**	**95,332**	**10,182,144**	**(183,619)**	**(12,959,508)**	**(42,667)**	**(2,908,318)**

SEE ACCOMPANYING

NOTES

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KIWA BIO-TECH PRODUCTS GROUP CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Notes to Condensed Consolidated Financial Statements

References herein to “we,” “us,” “our” or “the Company” refer to Kiwa Bio-Tech Products Group Corporation and its wholly-owned and majority-owned subsidiaries unless the context specifically states or implies otherwise.

1. Background and Basis of Presentation

Organization - We are the result of a share exchange transaction accomplished on March 12, 2004 between the shareholders of Kiwa Bio-Tech Products Group Ltd. (“Kiwa BVI”), a company originally organized under the laws of the British Virgin Islands on June 5, 2002 and Tintic Gold Mining Company (“Tintic”), a corporation originally incorporated in the state of Utah on June 14, 1933 to perform mining operations in Utah. The share exchange resulted in a change of control of Tintic, with former Kiwa BVI stockholders owning approximately 89% of Tintic on a fully diluted basis and Kiwa BVI surviving as a wholly-owned subsidiary of Tintic. Subsequent to the share exchange transaction, Tintic changed its name to Kiwa Bio-Tech Products Group Corporation. On July 21, 2004, we completed our reincorporation in the State of Delaware.

We have established two subsidiaries in China: (1) Kiwa Bio-Tech Products (Shandong) Co., Ltd. (“Kiwa Shandong”) in 2002 and (2) Tianjin Kiwa Feed Co., Ltd. (“Kiwa Tianjin”) in July 2006. The following chart summarizes our organizational and ownership structure.

Business - Our business plan is to develop, manufacture, distribute and market innovative, cost-effective and environmentally safe bio-technological products for agriculture markets located primarily in China. We have acquired technologies to produce and market bio-fertilizer and bio-enhanced feed products, and also are developing a veterinary drug based on AF-01 anti-viral aerosol technology.

Basis of Presentation - The condensed consolidated financial statements include the operations of the Company and its wholly-owned subsidiaries, Kiwa BVI and Kiwa Shandong, and also its majority-owned subsidiary, Kiwa Tianjin. These condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (“US GAAP”). All significant intercompany balances and transactions have been eliminated in consolidation.

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, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates include bad debt provision, impairment of inventory and long-lived assets, depreciation and amortization and fair value of warrants and options.

Country Risk - As the Company’s principal operations are conducted in China, the Company is subject to special considerations and significant risks not typically associated with companies operating in North America and Western Europe. These risks include, among others, risks associated with the political, economic and legal environments and foreign currency exchange limitations encountered in China. The Company’s results of operations may be adversely affected by changes in the political and social conditions in China, and by changes in governmental policies with respect to laws and regulations, among other things.

In addition, all of the Company's transactions undertaken in China are denominated in China Renminbi ("RMB"), which must be converted into other currencies before remittance out of China may be made. Both the conversion of RMB into foreign currencies and the remittance of foreign currencies out of China require the approval from the Chinese government. In recent years, the Chinese government has gradually loosened its control over foreign exchange, especially with respect to current foreign exchange accounts, for instance, by removing the requirement for advance examination and approval to open a current foreign exchange account and by increasing the quota for foreign exchange accounts.

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Credit Risk - The Company performs ongoing credit evaluations of its customers and intends to establish an allowance for doubtful accounts when amounts are not considered fully collectable. According to the Company's credit policy, the Company generally provides 100% bad debt provision for the amounts outstanding over 365 days after the deduction of the amount subsequently settled after the balance sheet date, which management believes is consistent with industry practice in China region.

As of September 30, 2008, there was $339,365 in accounts receivable aged over 365 days old, with respect to which we have established a corresponding allowance for doubtful accounts in the same amount.

Going Concern - The condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the condensed consolidated financial statements do not purport to represent the realizable or settlement values.

As of September 30, 2008, the Company had cash of $43,161, its current ratio was 0.35 and its quick ratio was 0.21. We had an accumulated deficit of $12,959,508, and we incurred net losses of $567,770 during the three months ended September 30, 2008. This trend is expected to continue. Our remaining capital resources are insufficient to allow the Company to execute its business plan in the near future. To the extent that we are unable to successfully raise the capital necessary to fund our future cash requirements on a timely basis and under acceptable terms and conditions, we will not have sufficient cash resources to maintain operations, and may have to curtail operations and consider a formal or informal restructuring or reorganization. These factors create substantial doubt about our ability to continue as a going concern.

The Company's registered independent public accounting firm, in their report on the consolidated financial statements as of and for the year ended December 31, 2007 and 2006 contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, have included an explanatory paragraph in their report indicating that there is substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Foreign Currency Translation - The functional currency of the Company is RMB, which is the primary medium of exchange where Kiwa Shandong and Kiwa Tianjin operate. The Company reports its financial results in United States dollars ("U.S. dollars" or "US$").

The Company translates its China subsidiaries' assets and liabilities into U.S. dollars using the rate of exchange prevailing at the balance sheet date (on September 30, 2008, the prevailing exchange rate of the U.S. dollar against the RMB was US$1.00 = RMB6.8183), and the statement of operations is translated at the average rates over each month during the reporting period. Equity items are translated at historical exchange rates. Adjustments resulting from the translation from RMB into U.S. dollars are recorded in shareholders' equity as part of accumulated other comprehensive income (loss). Gains or losses resulting from transactions in currencies other than RMB are reflected in the results of operations as incurred.

Revenue Recognition - The Company recognizes sales of its products in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition." Sales represent the invoiced value of goods, net of value added tax ("VAT"), if any, and are recognized upon delivery of goods and passage of title.

Pursuant to China’s value-added tax (“VAT”) rules and regulations, Kiwa Shandong as an ordinary VAT taxpayer is subject to a tax rate of 13% (“output VAT”). Such output VAT is payable after offsetting VAT paid by Kiwa Shandong on purchases (“input VAT”).However, in accordance with a notice issued on May 16, 2008 by relevant China tax authorities, one of Kiwa Shandong’s products under our Organic Fertilizer Registration Certificate is exempt from VAT from June 1, 2008.

The VAT rate applied for Kiwa Tianjin, as a small-scale VAT taxpayer, is 6%. However as a livestock feed producer, it is exempted from VAT if the exemption is approved by the local tax authority each year. On April 30, 2008, the local tax authority approved Kiwa Tianjin’s exemption from VAT for 2008 revenues.

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Advertising - The Company charges all advertising costs to expense when incurred.

Research and development - Research and development costs are charged to expense when incurred.

Operating Leases - Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to expense on the straight-line basis over the period of the relevant lease contracts.

Net Loss Per Common Share - Basic loss per common share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per common share includes dilutive effect of dilutive securities (stock options, warrants, convertible debt, stock subscription and other stock commitments issuable). These potentially dilutive securities were not included in the calculation of loss per share for the periods presented because the Company incurred a loss during such periods and thus the effect would have been anti-dilutive. Accordingly, basic and diluted loss per common share is the same for all periods presented. As of September 30, 2008, potentially dilutive securities aggregated 116,964,330 shares of common stock.

Comprehensive Income (Loss) - The Company has adopted the SFAS No. 130, “Reporting Comprehensive Income,” which establishes standards for reporting and presentation of comprehensive income (loss) and its components in a full set of general-purpose financial statements. The Company has chosen to report comprehensive income (loss) in the statements of operations and comprehensive income.

Income Taxes - The Company accounts for income taxes under the provisions of SFAS No. 109, “Accounting for Income Taxes.” We adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48).

Cash and Cash Equivalents - Highly liquid investments with a maturity period of three months or less at the time of acquisition are considered to be cash equivalents. The Company did not have any cash equivalent as of September 30, 2008.

Inventories - Inventories are stated at the lower of cost, determined on a weighted-average basis, and net realizable value. Work in progress and finished goods are composed of direct material, direct labor and a portion of manufacturing overhead. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose.

Property, Plant and Equipment - Property, plant and equipment are stated at cost. Major expenditures for betterments and renewals are capitalized while ordinary repairs and maintenance costs are expensed as incurred. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets after taking into account the estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20-35 years
Machinery and equipment	4-12 years
Automobiles	8 years
Office equipments	5 years
Computer software	3 years

Construction in progress represents factory and office buildings under construction. The Company capitalizes interest during the construction phase of qualifying assets in accordance with SFAS No. 34, “Capitalization of Interest Cost.” No interest was capitalized during the nine months ended September 30, 2008 and 2007, respectively.

Depreciation costs were charged into costs of production or periodic expenses in accordance with the utilization of related property, plant and equipment. However, due to the abnormally low production capacity in Kiwa Shandong in the three months ended September 30, 2008, we charged, on a pro rata basis, part of the depreciation of production facilities to production cost in accordance with the proportion of actual capacity to normal capacity, and the rest to operating expenses.

We periodically evaluate our investment in long-lived assets, including property and equipment, for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. Our judgments regarding potential impairment are based on legal factors, market conditions and operational performance indicators, among others. In assessing the impairment of property and equipment, we make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we may be required to record impairment charges for these assets. The Company has determined that there was no impairment of long-lived assets as of September 30, 2008.

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Derivative Instruments - The Company accounts for financial instruments under the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” which requires that all derivative financial instruments be recognized in the consolidated financial statements and maintained at fair value regardless of the purpose or intent for holding them. Changes in fair value of derivative financial instruments are either recognized periodically in income or stockholders’ equity (as a component of comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows.

Financial Instruments and Fair Value - SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” requires that the Company disclose estimated fair values of financial instruments.

The carrying amounts for cash and cash equivalents, accounts receivable, other receivables, deposits and prepayments, short-term borrowings, accounts payable, other payables and accruals approximate their fair values because of the short maturity period of those instruments.

Equity Instruments Issued for Compensation - Effective January 1, 2006, the Company adopted SFAS No. 123(R) (revised 2004), “Share Based Payment,” which revises SFAS No. 123 and supersedes APB 25. SFAS No. 123(R) requires a public reporting company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period).

Related Parties - Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Reclassification from Prior Period Financial Statements - Certain prior period comparative figures have been reclassified to conform to the current year presentation.

2. Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133.” SFAS No. 161 gives financial statement users better information about the reporting entity's hedges by providing for qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those years. The Company does not expect the adoption of SFAS No. 161 to have a material effect on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. SFAS No. 162 is not expected to have an impact on the Company's financial statements.

In May 2008, the FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60”. SFAS No. 163 is primarily geared towards financial guarantee insurance contracts by insurance enterprises. It is not expected to have any material effect on the reporting of the Company’s results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

3. Accounts Receivable

The following table sets forth gross amount, bad-debt allowance and net amount of accounts receivable as of September 30, 2008 and December 31, 2007.

Item	September 30, 2008	December 31, 2007
Accounts receivables - gross	$ 1,087,119	$ 747,438
Allowance for doubtful accounts	(339,365)	(277,140)
Accounts receivables - net	$ 747,754	$ 470,298

4. Inventories

The following table summarizes the Company's inventories as of September 30, 2008 and December 31, 2007.

Item	September 30, 2008	December 31, 2007
Raw materials	$ 523,991	$ 686,290
Finished goods	121,290	132,039
Total	$ 645,281	$ 818,329

5. Property, Plant and Equipment

The following table illustrates gross amount, accumulated depreciation and net amount of property, plant and equipment on September 30, 2008 and December 31, 2007.

Item	September 30, 2008	December 31, 2007
Property plant and equipment:		
Buildings	$ 1,244,940	$ 1,162,060
Machinery and equipment	707,367	660,273
Automobiles	81,586	76,154
Office equipment	109,025	93,231
Computer software	10,582	9,877
Property plant and equipment - total	$ 2,153,500	$ 2,001,595
Less: Accumulated depreciation	(562,056)	(433,690)
Property plant and equipment - net	$ 1,591,444	$ 1,567,905

All of our property, plant and equipment has been used as collateral to secure the 6% Notes (See Note 14 below).

6. Intangible Assets

The Company's intangible asset as of September 30, 2008 and December 31, 2007 is a single patent, amortized as follows:

Amortization Year	Gross carrying value	Accumulated amount of amortization	Net Value at September 30, 2008	Net value at December 31, 2007
8.5	$ 480,411	$ 214,493	$ 265,918	$ 296,245

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KIWA BIO-TECH PRODUCTS GROUP CORPORATION
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(UNAUDITED)

The following table presents future expected amortization expense related to the patent:

Future expected amortization		Amount
2008	$	14,130
2009		56,519
2010		56,519
2011		56,519
Thereafter	$	82,231

This patent has been used as collateral to secure the 6% Notes (See Note 14 below).

7. Deferred Financing Costs

The financing costs relating to 6% Notes (See Note 14 below) were $68,293 and $129,793 as of September 30, 2008 and December 31, 2007, respectively. These costs consist of financing commission paid to an investment bank, legal service fees, insurance premium and other relevant costs. The costs are being amortized over the three-year term of the 6% Notes, starting at various dates of each tranche of 6% Notes in 2006.

8. Deposit to Purchase the Proprietary Technology

The balance of $126,443 as of September 30, 2008 and December 31, 2007 is partial payment of the first installment of the transfer fee for the Anti-viral Aerosol technology pursuant to a Technology Transfer Agreement dated May 8, 2006.

9. Accounts Payable

The following table details accounts payable outstanding as of September 30, 2008 and December 31, 2007:

Item		September 30, 2008		December 31, 2007
Consulting and professional payables	$	369,010	$	436,381
Payables to material suppliers		826,313		425,306
Interest payable		180,252		192,275
Salary payable		295,038		212,219
Insurance payable		104,911		95,247
Office rental payable		86,735		80,960
Credit card balance		80,350		84,042
Others		109,999		109,060
Total	$	2,052,608	$	1,635,490

10. Advances from Customers

The balance of advances from customers as of September 30, 2008 and December 31, 2007 was $286,444 and $169,553, respectively, representing payments by customers prior to delivery of goods.

11. Construction Costs Payable

Construction costs payable represents remaining amounts to be paid for the first phase of construction of our bio-fertilizer facility in Shandong.

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12. Related Party Transactions

Amounts due to related parties consisted of the following as of September 30, 2008 and December 31, 2007:

Item	Nature	Notes		September 30, 2008		December 31, 2007
Mr. Wei Li ("Mr. Li")	Non-trade	(1)	$	510,774	$	377,218
Discount of loans due to Mr. Li with detachable warrants	Non-trade			-		(88,195)
Kangtai International Logistics (Beijing) Co., Ltd. ("Kangtai")	Non-trade	(2)		(57,277)		205,631
Ms. Yvonne Wang ("Ms. Wang")	Non-trade	(3)		104,000		57,000
Subtotal			*$*	*557,497*	*$*	*551,654*
Kiwa-CAU R&D Center	Trade	(4)		256,662		164,280
Tianjin Challenge Feed Co., Ltd. ("Challenge Feed")	Trade	(5)		14,666		13,690
Subtotal			*$*	*271,328*	*$*	*177,970*
Total			$	828,824	$	729,624

(1) Mr. Li

Mr. Li is the Chairman of the Board and the Chief Executive Officer of the Company.

Advances and Loans

As of December 31, 2007, the remaining balance due to Mr. Li was $377,218. During the nine months ended September 30, 2008, Mr. Li advanced $309,035 to the Company and was repaid $175,479. As of September 30, 2008, the balance due to Mr. Li was $510,774. Mr. Li has agreed that the Company may repay the balance when its cash flow circumstance allows.

Motor Vehicle Lease

In December 2004, we entered into an agreement with Mr. Li, pursuant to which Mr. Li leases to the Company a motor vehicle. The monthly rental payment is RMB15,000 (approximately $2,200). We have extended this lease agreement with Mr. Li to the end of fiscal 2008.

Guarantees for the Company

Mr. Li has pledged without any compensation from the Company, all of his common stock of the Company as collateral security for the Company’s obligations under the 6% Notes. (See Note 14 below).

(2) Kangtai

Kangtai, formerly named China Star Investment Management Co., Ltd., is a private company, 28% owned by Mr. Li. Mr. Li is the Chairman of Kantai.

On December 31, 2007, the amount due to China Star was $205,631. During the nine months ended September 30, 2008, China Star advanced $72,728 and was repaid $335,636. The balance due from China Star on September 30, 2008 was $57,277.

(3) Ms. Wang

Ms. Wang is the Secretary of the Company.

On December 31, 2007, the amount due to Ms. Wang was $57,000. During the nine months ended September 30, 2008, Ms. Wang advanced $47,000 to the Company. As of September 30, 2008, the amount due to Ms. Wang was $104,000. Ms. Wang has agreed that the Company may repay the balance when its cash flow circumstance allows.

(4) Kiwa-CAU R&D Center

Pursuant to the agreement with China Agricultual Universtiy (“CAU”), we agree to invest RMB 1 million (approximately $146,700) each year to fund research at Kiwa-CAU R&D Center. Prof. Qi Wang, one of our directors, is also the director of Kiwa-CAU R&D Center.

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On December 31, 2007, the amount due to Kiwa-CAU R&D Center was $164,280. During the nine months ended September 30, 2008, we paid $29,158 to Kiwa-CAU R&D Center. As of September 30, 2008, the outstanding balance due to Kiwa-CAU R&D Center was $256,662.

(5) Challenge Feed

Challenge Feed owns 20% of Kiwa Tianjin's equity, and Mr. Wenbin Li, one of Challenge Feed's shareholders, is also in charge of daily operations of Kiwa Tianjin. As of September 30, 2008, the outstanding balance due to Challenge Feed was $14,666, which was unpaid rental from operating lease.

Lease Agreement

The Company has entered into an agreement with Challenge Feed to lease the following facilities for three years commencing on August 1, 2006: (1) an office building with floor area of approximately 800 square meters; (2) storehouses with floor area of approximately 2,500 square meters; (3) a concentrated feed production line for fowl and livestock; and (4) two workshops with floor area of approximately 1,200 square meters. The total monthly rent is RMB50,000 (approximately $7,333). During the nine months ended September 30, 2008, all scheduled rent payments were paid. There remains an outstanding balance of past due rent to Challenge Feed of $14,666.

13. Unsecured Loans Payable

The balance of unsecured loans payable was $1,686,637 and $1,574,350 as of September 30, 2008 and December 31, 2007, respectively. The difference of $112,287 was due to the different exchange rates prevailing at the two dates. Unsecured loans payable consisted of the following at September 30, 2008 and December 31, 2007:

Item	September 30, 2008		December 31, 2007	
Unsecured loan payable to Zoucheng Municipal Government, non-interest bearing, becoming due within three years from Kiwa Shandong's first profitable year on a formula basis, interest has not been imputed due to the undeterminable repayment date	$	1,319,977	$	1,232,100
Unsecured loan payable to Zoucheng Science & Technology Bureau, non-interest bearing, it is due in Kiwa Shandong's first profitable year, interest has not been imputed due to the undeterminable repayment date		366,660		342,250
Total	$	1,686,637	$	1,574,350

The Company qualifies for non-interest bearing loans under a Chinese government sponsored program to encourage economic development in certain industries and locations in China. To qualify for the favorable loan terms, a company must meet the following criteria: (1) be a technology company with innovative technology or product (as determined by the Science Bureau of the central Chinese government); (2) operate in specific industries that the Chinese government has determined are important to encourage development, such as agriculture, environmental, education, and others; and (3) be located in an undeveloped area such as Zoucheng, Shandong Province, where the manufacturing facility of the Company is located.

According to our project agreement, Zoucheng Municipal Government granted the Company use of at least 15.7 acres in Shandong Province, China at no cost for 10 years to construct a manufacturing facility. Under the agreement, the Company has the option to pay a fee of RMB480,000 ($70,400) per acre for the land use right after the 10-year period. The Company may not transfer or pledge the temporary land use right. The Company also committed to invest approximately $18 million to $24 million for developing the manufacturing and research facilities in Zoucheng, Shandong Province. As of September 30, 2008, the Company invested approximately $2.86 million for the property, plant and equipment of the project. Management believes that neither the Company nor management will be liable for compensation or penalty if such commitment is not fulfilled.

14. Long-Term Convertible Notes Payable

On June 29, 2006, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with six institutional investors (collectively, the “Purchasers”) for the issuance and sale of (1) 6% secured convertible notes, due three years from the date of issuance, in the aggregate principal amount of $2,450,000 (the “6% Notes”), convertible into shares of the Company’s common stock, and (2) warrants (the “Warrants”) to purchase 12,250,000 shares of the Company’s common stock.

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In conjunction with the sale and issuance of the 6% Notes, the Company entered into a Registration Rights Agreement, amended in October 2006, the requirements of which the Company met by filing its registration statement on Form SB-2 on August 11, 2006 and subsequently amended on October 20, 2006 and June 29, 2007.

Closings for the sale of the 6% Notes occurred on June 29, August 15 and October 31, 2006 for $857,500, $735,000 and $857,500 principal amount, respectively. The Company received $2,450,000 in aggregate from the three sales of the 6% Notes.

The conversion price of the 6% Notes is based on a 40% discount to the average of the trading price of the Company’s common stock on the OTC Bulletin Board over a 20-day trading period. The conversion price is also adjusted for certain subsequent issuances of equity securities of the Company at prices below the conversion price then in effect. The 6% Notes contain a volume limitation that prohibits the holder from converting further 6% Notes if doing so would cause the holder and its affiliates to hold more than 4.99% of the Company’s outstanding common stock. In addition, each holder of 6% Notes agrees that they may not convert more than their pro-rata share (based on original principal amount) of the greater of $120,000 principal amount of 6% Notes per calendar month or the average daily dollar volume calculated during the 10 business days prior to a conversion, per conversion. This conversion limit has since been eliminated pursuant to an agreement by the Company and the Purchasers (see discussion below).

The exercise price of the Warrants is $0.45 per share, subject to anti-dilution adjustments pursuant to a broad-based weighted average formula for subsequent issues of equity securities by the Company below the trading price of the shares. The Purchase Agreement requires the Company to maintain a reserve of authorized common stock equal to 110% of the number of shares issuable upon full conversion of the 6% Notes and exercise of the Warrants. The Purchase Agreement imposes financial penalties in cash (equal to 2% of the number of shares that the Purchaser is entitled to multiplied by the market price for each day) if the authorized number of shares of common stock is insufficient to satisfy the reserve requirements. The 6% Notes and the Warrants also impose financial penalties on the Company if it fails to timely deliver common stock upon conversion of the 6% Notes and exercise of the Warrants, respectively.

To enable reservation of a sufficient amount of authorized shares that may be issued pursuant to conversion of the 6% Notes and exercise of the Warrants, the Purchase Agreement required the Company to amend its Certificate of Incorporation to increase the number of authorized shares of common stock. At our annual meeting held on September 12, 2006, a proposal to amend our Certificate of Incorporation to increase the number of authorized shares of common stock, from 100,000,000 shares to 200,000,000 shares was approved by the required vote of our stockholders. The Company incurs a financial penalty in cash or shares at the option of the Company (equal to 2% of the outstanding amount of the Notes per months plus accrued and unpaid interest on the Notes, prorated for partial months) if it breaches this or other affirmative covenants in the Purchase Agreement, including a covenant to maintain a sufficient number of authorized shares under its Certificate of Incorporation to cover at least 110% of the stock issuable upon full conversion of the Notes and the Warrants.

The 6% Notes require the Company to procure the Purchaser’s consent to take certain actions including to pay dividends, repurchase stock, incur debt, guaranty obligations, merge or restructure the Company, or sell significant assets.

The Company’s obligations under the 6% Notes and the Warrants are secured by a first priority security interest in the Company’s intellectual property pursuant to an Intellectual Property Security Agreement with the Purchasers, and by a first priority security interest in all of the Company's other assets pursuant to a Security Agreement with the Purchasers. In addition, the Company's Chief Executive Officer has pledged all of his common stock of the Company as collateral security for the Company's obligations under the 6% Notes and the Warrants. The Purchasers are accredited investors as defined under the Securities Act and the 6% Notes and the Warrants and the underlying common stock upon conversion and exercise will be issued without registration under the Securities Act in reliance on the exemption provided by Rule 506 under Regulation D under the Securities Act.

The fair value of the Warrants underlying the three sales of the 6% Notes (amounting to 4,287,500 shares, 3,675,000 shares and 4,287,500 shares respectively) at the time of their issuance was determined to be $545,477, $416,976 and $505,503 calculated pursuant to the Black-Scholes option pricing model. The fair value was recorded as a reduction to 6% Notes payable and was charged to operations as interest expense in accordance with effective interest method within the period of the 6% Notes.

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The Purchasers of the 6% Notes and Warrants were introduced to the Company by an investment bank pursuant to an engagement letter agreement with the Company. Pursuant to the engagement, the investment bank received a cash fee equal to 8% of the aggregate proceeds raised in the financing and to warrants in the quantity equal to 8% of the securities issued in the financing. The Company recorded the cash fee and other direct costs incurred for the issuance of the convertible loan in aggregate of $30,000 as deferred debt issuance costs. Debt issuance costs were amortized on the straight-line method over the term of the 6% Notes, with the amounts amortized being recognized as interest expense.

The warrants issued to the investment bank in connection with each tranche of 6% Notes (amounting to 343,000 shares, 294,000 shares and 343,000 shares) are exercisable for three years and have an exercise price equal to $0.2598. The fair value of these warrants at the time of their issuance was determined to be $94,005, $60,324 and $77,214 calculated pursuant to the Black-Scholes option pricing mode.

In July and August of 2008, the Purchasers converted $195,922 principal and nil interest into 6,543,461 shares, with the average conversion price $0.03 per share. As of September 30, 2008, 15,187,470 shares of our common stock were issued in total pursuant to conversions of 6% Notes. As of September 30, 2008, the outstanding principal balance of the 6% Notes was $1,754,100, of which $1,068,715 is presented under the caption of current portion of long-term liabilities on our balance sheets.

On January 31, 2008, we entered into three Callable Secured Convertible Notes Agreements (“2% Notes”) with four of our 6% Notes purchasers converting their unpaid interest of $112,917 in total, into principal with an interest rate of 2% per annum, which will be due on January 31, 2011. Other terms of the 2% Notes are similar to the 6% Notes. No principal of the 2% Notes has been converted so far. As of September 30, 2008, the outstanding principal balance on the 2% Notes was $112,917.

On September 25 and October 7, 2008, we entered into an agreement with the Purchasers to redeem all of the 6% Notes and 2% Notes. Under the redemption agreement, the Purchasers agreed to waive their participation right with respect to any new financing that closes before October 31, 2008, and suspend conversions of principal and interest under the 6% Notes and 2% Notes from September 25 to October 31, 2008. The Company agreed to redeem the notes for a specified price if a new financing was completed before October 31, 2008. Under the redemption agreement, if the Company failed to redeem the notes by October 31, 2008, the 6% Notes and 2% Notes would be automatically amended to remove limitations on the Purchasers’ right to convert under the 6% Notes and 2% Notes no more than (1) $120,000 per calendar month; and (2) the average daily dollar volume calculated during the ten (10) business days prior to a conversion, per conversion.

On October 27, 2008, we had informed the Purchasers that the Company would not be able to redeem the 6% Notes and the 2% Notes due to failure to close an anticipated new financing. Therefore, the amendment to 6% Notes and 2% Notes took effective and the Purchasers resumed conversion.

15. <u>Equity-Based Transactions</u>

As of September 30, 2008 and December 31, 2007, the Company had 95,331,706 and 81,519,676 shares of common stock outstanding, respectively. From January 1, 2008 to September 30, 2008, the Company has engaged in the following equity-based transactions:

On February 27, 2008, we issued 140,000 shares of common stock as partial compensation to an investor relation consultant for consulting services.

On March 14, 2008, the Company issued 5,000,000 shares of common stock to an investor for consideration of $650,000 cash pursuant to a stock purchase agreement dated February 19, 2008.

During the nine months ended September 30, 2008, the Company issued 8,672,030 shares of common stock for conversions of principal and interest under our 6% Notes.

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16. Stock-based Compensation

On December 12, 2006, we granted options for 2,000,000 shares of our common stock under our 2004 Stock Incentive Plan. During fiscal 2007, 362,100 stock options were returned to the Company when the holders separated from the Company without exercising the options. As of September 30, 2008, 1,637,900 options were outstanding.

The exercise price of all of our outstanding options was $0.175 per share, equal to the closing price of our common stock on December 12, 2006. On each of the first and second anniversaries of the grant date, 33% percent of the options will become exercisable. On the third anniversary of the grant date, 34% of the options will become exercisable.

The Company has adopted SFAS 123(R) effective as of January 1, 2006. The fair value of the options granted at the grant date was determined to be $320,154 (approximately $0.16 per share), calculated pursuant to the Black-Scholes option pricing model. The calculated fair value is recognized as expense over the applicable vesting periods, using the straight-line attribution method. Unamortized fair value of stock options granted to those who separated from the Company has been charged to expense, while the options returned to the Company. During the three months ended September 30, 2008 and 2007, respectively, we charged $21,849 to expense.

17. Segment Reporting

The Company's business includes two segments, bio-fertilizer and livestock feed. As all of the Company's customers are located in China, no geographical segment information is presented.

Item	Bio-fertilizer	Livestock Feed	Corporate [1]	Total
Three months ended September 30, 2008				
Net sales	$ 36,413	$ 2,290,902	$ -	$ 2,327,315
Gross profit	5,988	49,555	-	55,543
Operating expenses	122,140	79,463	284,830	486,433
Operating profit (loss)	(116,152)	(29,908)	(284,830)	(430,890)
Interest income (expense)	(55)	(29)	(142,784)	(142,868)
Minority interest in subsidiary	-	5,988	-	5,988
Net income (loss)	$ (116,207)	$ (23,949)	$ (427,614)	$ (567,770)
Total assets as of September 30, 2008	$ 2,151,965	$ 1,184,187	$ 375,395	$ 3,711,547
Three months ended September 30, 2007				
Net sales	$ 106,538	$ 2,851,434	$ -	$ 2,957,972
Gross profit	63,552	175,708	-	239,260
Operating expenses	104,725	97,221	448,393	650,339
Operating profit (loss)	(41,173)	78,487	(448,393)	(411,079)

Interest income (expense)		(8,886)		7		(162,864)		(171,743)
Minority interest in subsidiary		-		(15,699)		-		(15,699)
(Loss) from discontinued operations		-		-		-		-
Net income (loss)	$	(50,059)	$	62,795	$	(611,257)	$	(598,521)
Total assets as of September 30, 2007	$	2,277,332	$	905,593	$	375,607	$	3,558,532

(1) Beijing Representative Office of Kiwa Shandong fulfills part of corporate managerial function. Most of its expenses relating to this function were categorized into corporate segment.

18. Commitments and Contingencies

The Company has the following material contractual obligations:

Operating lease commitments

The Company leased an office in Beijing under an operating lease since May 2005 with an aggregate monthly lease payment of approximately RMB 40,767 ($5,943) and the lease was terminated with the consent of both the lessor and the Company on July 14, 2007. The Company leased a new office in Beijing on July 15, 2007. The operating lease agreement will expire at January 14, 2009. The monthly rental payment for the new office is RMB 82,322 (approximately $12,000). Rent expense under the operating leases for the three months ended September 30, 2008 and 2007 was $36,000 and $20,800, respectively.

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The Company has entered into an agreement with Challenge Feed, its joint venture partner in Kiwa Tianjin, to lease several facilities for three years commencing on August 1, 2006. The total monthly rental is RMB50,000 (approximately $7,300). Pursuant to the lease agreement, rent expense for the three months ended September 30, 2008 and 2007 was both $21,900 (See Note 12 above).

Lease commitments under the foregoing lease agreements are as follows:

Fiscal year		Amount
2008	$	57,900
2009		56,700
Total	$	164,800

Technology acquisition

On May 8, 2006 the Company entered into a Technology Transfer Agreement with Jinan Kelongboao Bio-Tech Co. Ltd. (“JKB”). Pursuant to the agreement, JKB agreed to transfer its AF-01 Anti-viral Aerosol technology for veterinary medicines to the Company. Pursuant to the agreement the Company will pay JKB a transfer fee of RMB10 million (approximately $1.47 million), of which RMB6 million is to be paid in cash and RMB4 million is to be paid in stock. The cash portion is to be paid in installments, the first installment RMB3 million was set for May 23, 2006 initially, of which RMB1 million has been paid and both parties have agreed to extend the remaining RMB2 million to the date when the application for new veterinary drug certificate is accepted. Three other installments of RMB1 million are due upon the achievement of certain milestones, the last milestone being the issuance by the PRC Ministry of Agriculture of a new medicine certificate in respect of the technology. The RMB4 million stock payment will be due 90 days after the AF-01 technology is approved by the appropriate PRC department for use as a livestock disinfector for preventing bird flu. The agreement will become effective when the first installment has been fully paid.

Operation of Kiwa-CAU R&D Center

Pursuant to the agreement on joint incorporation of the research and development center between CAU and Kiwa Shandong dated November 14, 2006, Kiwa Shandong agreed to invest RMB1 million (approximately $146,700) each year to fund research at the R&D Center. The term of this Agreement is ten years starting July 1, 2006. Prof. Qi Wang, one of our directors, is also the Director of Kiwa-CAU R&D Center.

Investment in manufacturing and research facilities in Zoucheng, Shandong Province in China

According to the Project Agreement with Zoucheng Municipal Government in 2002, the Company committed to invest approximately $18 million to $24 million for developing the manufacturing and research facilities in Zoucheng, Shandong Province. As of November 13, 2006, the Company had invested approximately $1.79 million for the project. Management believes that neither the Company nor management will be liable for compensation or penalty if the commitment is not fulfilled.

Investment commitment under the joint venture agreement entered into in May

In May 2008, the Company entered into a joint venture agreement with Hebei Huaxing Pharmaceuticals Co., Ltd. (“Huaxing”), which committed us to invest $1,534,000 in cash for 70% of the equity of a new joint venture (“Kiwa

Hebei"). Under the joint venture agreement, the Company is required to complete its capital contribution within one year after the date Kiwa Hebei receives its business license from Chinese government authorities, with the first installment payment of 25% of the investment due at the end of the first month after the license is received and an installment of another 25% due at the end of second month. The agreement will take effect at the date of approval of local bureau of commerce.

19. Subsequent Event

On October 27, 2008, we informed the Purchasers of our 6% Notes and 2% Notes that we would not be able to redeem their notes pursuant to the redemption agreements dated September 25, 2008 and October 7, 2008 (See Note 14 above) due to failure to close an anticipated financing. Consequently, the amendment removing conversion limitations under the 6% Notes and the 2% Notes went into effect pursuant to the redemption agreement and the Purchasers resumed conversions under the notes.

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

This Quarterly Report on Form 10-Q for the three months ended September 30, 2008 contains "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, including statements that include the words "believes," "expects," "anticipates," or similar expressions. These forward-looking statements include, among others, statements concerning our expectations regarding our working capital requirements, financing requirements, business, growth prospects, competition and results of operations, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-Q for the three months ended September 30, 2008 involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements contained herein.

Overview

The Company took its present corporate form in March 2004 when shareholders of Kiwa Bio-Tech Products Group Ltd. ("Kiwa BVI"), a company originally organized under the laws of the British Virgin Islands on June 5, 2002 and Tintic Gold Mining Company ("Tintic"), a corporation originally incorporated in the state of Utah on June 14, 1933 to perform mining operations in Utah, entered into a share exchange transaction. The share exchange transaction left the shareholders of Kiwa BVI owning a majority of Tintic and Kiwa BVI a wholly-owned subsidiary of Tintic. For accounting purposes this transaction was treated as an acquisition of Tintic by Kiwa BVI in the form of a reverse triangular merger and a recapitalization of Kiwa BVI and its wholly owned subsidiary, Kiwa Bio-Tech Products (Shandong) Co., Ltd. ("Kiwa Shandong"). On July 21, 2004, we completed our reincorporation in the State of Delaware.

We have established two subsidiaries in China: (1) Kiwa Shandong in 2002, a wholly-owned subsidiary, engaging in bio-fertilizer business, and (2) Tianjin Kiwa Feed Co., Ltd. ("Kiwa Tianjin") in July 2006, engaging in bio-enhanced feed business, of which we hold 80% equity.

In May 2008, we entered into a joint venture agreement with Hebei Huaxing Pharmaceuticals Co., Ltd. ("Huaxing"), which will take effect when it is approved by the local bureau of commerce in Hebei. Our application is still being processed by the bureau of commerce. Pursuant to the joint venture agreement, the new joint venture ("Kiwa Hebei") will engage in the developing, manufacturing and marketing of animal drugs and disinfectants, including applying for relevant certificates of AF-01 anti-viral aerosol technology-based products.

In June 2008, Kiwa Shandong received approval documents from the Ministry of Commerce of the PRC, authorizing Kiwa Shandong to wholesale fertilizer products of other manufacturers, including chemical fertilizers, complex fertilizers and compound fertilizers. Based on applicable tax laws in China, Kiwa Shandong's new business items will be exempt from value-added tax. Kiwa Shandong is expected to engage in the new business activities after obtaining further approvals from other relevant authorities. Management believes such operations will also enlarge the sales volume of our bio-fertilizer products.

We generated approximately $2.3 million and $3.0 million in revenue in the three months ended September 30, 2008 and 2007, respectively, reflecting a decrease of approximately $0.7 million or 21.3%. We incurred a net loss of $567,770 (including non-cash expenses of $214,793) and $598,521(including non-cash expense of $322,023) for the three months ended September 30, 2008 and 2007, respectively.

Due to our limited revenues from sales and continuing losses, we have relied on the proceeds from the sale of our equity securities and loans from both unrelated and related parties to provide the resources necessary to fund the development of our business plan and operations. During the nine months ended September 30, 2008, we entered into a stock purchase agreement with an investor. Pursuant to this agreement, we issued 5,000,000 shares of our common stock for $650,000 cash. In addition related parties advanced $428,763 in total to the Company. These funds are insufficient to execute our business plan as currently contemplated. Management is currently looking for alternative sources of capital to fund our operations.

Going Concern

Our condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The carrying amounts of assets and liabilities presented in the consolidated financial statements do not purport to represent the realizable or settlement values.

As of September 30, 2008, we had an accumulated deficit of $12,959,508, of which $567,770 (including non-cash expenses of $214,793) and $1,884,986 (including non-cash expense of $742,182) was incurred during the three and nine months ended September 30, 2008, respectively. Revenue from both bio-fertilizer and bio-enhanced feed business was lower during the third quarter of 2008 as compared with the same period of 2007. At the same time, gross profit margin of bio-fertilizer business and bio-enhanced feed business both reduced. We currently do not have sufficient revenues to support our business activities and we expect operating losses to continue. We will require additional capital to fund our operations.

As of September 30, 2008, our current liabilities were $4,540,270, which exceeded current assets by $2,952,880, representing a current ratio of 0.35 and a quick ratio 0.21; comparably, on December 31, 2007, our current liabilities exceeded current assets by $1,366,926, resulting in a current ratio of 0.52 and a quick ratio of 0.23. The downturn of short-term liquidity is mainly due to the first and second tranche of 6% Notes becoming current liabilities, which becomes due on June 29 and August 15, 2009. If we can achieve the necessary financing to increase our working capital, we believe the Company will be well-positioned to further increase sales of our products and to generate more revenues in the future. There can be no assurances that we will be successful in obtaining this financing or in increasing our sales revenue if we do obtain the financing.

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with our financial statements for the latest five years, which states that the financial statements raise substantial doubt as to our ability to continue as a going concern. Our ability to make operations profitable or obtain additional funding will determine our ability to continue as a going concern.

Trends and Uncertainties in Regulation and Government Policy in China

Agricultural Policy Changes in China

Economic growth in China has averaged 9.5% over the past two decades and seems likely to continue at that pace for some time. Per the China Statistics Bureau, gross domestic product in 2007 increased 11.4% over levels in 2006. However, China now faces an imbalance between urban and rural environments as well as the manufacturing and agricultural industries. Since 2004, the Chinese central government has consecutively announced a so-called No. 1 Document each year concerning the countryside. The latest No.1 document unveiled on January 30, 2008 contains a wide range of policies aimed at promoting sustainable development of agriculture, for example, by promoting the income level of eight-hundred million Chinese farmers, strengthening supervision of farm inputs and actively developing green-food and organic food. In October 2008, the Communist Party of China Central Committee approved the Decision on Major Issues Concerning the Advancement of Rural Reform and Development, which promises to strengthen the position of agriculture and double farmers' income in 12 years. We should benefit from these favorable policies as farmers will retain more of their income and will most likely spend some of that income on our products, resulting in greater sales. In addition, we anticipate receiving additional governmental support in marketing our products to farmers due to additional procedural changes included with the new policy.

Foreign Investment Policy Change in China

On March 16, 2007, China's parliament, the National People's Congress, adopted the Enterprise Income Tax Law, which took effective on January 1, 2008. The new income tax law sets unified income tax rate for domestic and foreign companies at 25% and abolishes the favorable policy for foreign invested enterprises. As a result subsidiaries established in China in the future will not enjoy the original favorable policy unless they are certified as qualified high and new technology enterprises.

According to the enterprise income tax law previously in effect, our PRC subsidiaries, Kiwa Shandong and Kiwa Tianjin, were exempt from corporate income taxes for their first two profitable years and were entitled to a 50% tax reduction for the succeeding three years. Now that the new income tax law is in effect, fiscal year 2008 is regarded as the first profitable year even if Kiwa Shandong or Kiwa Tianjin are not profitable that year; thereby narrowing the time period when the favorable tax treatment may be available to us.

Inflation Trend in China

China has experienced inflation starting about the second half of 2007. During the nine months ended September 30, 2008, the Consumer Price Index ("CPI") increased 7.0%, 2.9 % higher than that in the same period of 2007; the purchase prices of raw material, fuel and power increased 12.4%, 8.6% higher as compared to the same period of 2007.

RMB Value Appreciation Trend in China

RMB continues its trend of appreciation against U.S. Dollars that began in 2005. The exchange rate of U.S. Dollar against RMB on September 30, 2008 was 1:6.8183, as compared to 1:7.3046 as of December 31, 2007.

Critical Accounting Policies and Estimates

We prepared our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under current circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. In addition, you should refer to our accompanying financial statements and the related notes thereto, for further discussion of our accounting policies.

Accounts Receivables

The Company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts when amounts are not considered fully collectable. Generally speaking, the Company's credit policy is to provide 100% bad debt provision for the amounts outstanding over 365 days after the deduction of the amount subsequently settled after the balance sheet date, which management believes is consistent with industry practice in the China region. We also provide 100% bad debt provision to those accounts receivable being outstanding for less than 365 days but specifically identified as uncollectable.

As of September 30, 2008, there was $339,365 in accounts receivable over 365 days old. We established a doubtful accounts reserve for the full amount based on our policy of recording a provision for total accounts receivable over one year.

Terms of our sales vary from cash on delivery to a credit term up to three to twelve months. Depending on the results of our credit investigations, we require our customers to pay between 20% and 60% of the purchase price of an order placed prior to shipment, depending on the results of our credit investigations, prior to shipment. The remaining balance is due within twelve months, unless other terms are approved by management. The agriculture-biotechnology market in China is in the early stages of development and we are still in the process of exploring the new market. We may also distribute our bio-products to special wholesalers with favorable payment terms with a focus on the future. We maintain a policy that all sales are final and we do not allow returns. However, in the event of defective products, we may allow customers to exchange the defective products for new products within the quality guarantee period. In the event of any exchange, the customers pay all transportation expenses.

Inventories

Inventories are stated at the lower of cost, determined on the weighted average method, and net realizable value. Work in progress and finished goods are composed of direct material, direct labor and a portion of manufacturing overhead. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and dispose.

Impairment of Long-Lived Assets

Our long-lived assets consist of property, equipment and intangible assets. As of September 30, 2008, the net value of property and equipment and of intangible assets was $1,591,444 and $265,918, respectively, which represented approximately 42.9% and 7.2% of our total assets, respectively.

We periodically evaluate our investment in long-lived assets, including property and equipment, for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. Our judgments regarding potential impairment are based on legal factors, market conditions and operational performance indicators, among others. In assessing the impairment of property and equipment, we make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions change in the future, we may be required to record impairment charges for these assets.

The actual production capacity of Kiwa Shandong at the present is still significantly lower than its normal capacity because the upgrade in our fermentation facility is not yet fully complete. Management hopes to accomplish the fermentation facilities together with planned bio-compound fertilizer production line in the second half of 2008. Based on our analysis, we have determined that there was no impairment to our current production facilities and intangible assets as of September 30, 2008.

Fair Value of Warrants and Options

We have adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" to recognize warrants relating to loans and warrants issued to consultants as compensation as derivative instruments in our consolidated financial statements.

We also adopt SFAS No. 123(R) "Share Based Payment" to recognize options granted to employees as derivative instruments in our consolidated financial statements.

We calculate fair value of the warrants and options with Black-Schole Model.

Revenue Recognition

We recognize revenue for our products in accordance with Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition." Sales represent the invoiced value of goods, net of value added tax, supplied to customers, and are recognized upon delivery of goods and passage of title.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation when it is more likely than not that the assets will not be recovered.

Major Customers and Suppliers

Bio-fertilizer Products

We had a total of 24 customers as of September 30, 2008, of which three customers accounted for 39.3%, 36.5% and 15.1% of our net sales for the three months ended September 30, 2008, respectively. Three customers accounted for 38.5%, 14.8% and 14.8% of our net sales for the three months ended September 30, 2007, respectively. No other single customer accounted for more than 5.5% of our revenues.

Three suppliers accounted for 61.6%, 23.7% and 9.6% of our net purchases during the three months ended September 30, 2008. Three suppliers accounted for 43.6%, 28.1% and 9.0% of our net purchases for the three months ended September 30, 2007, respectively. Historically our existing suppliers have met our needs. In addition, the raw materials used in our bio-fertilizer products are widely available from a variety of alternative sources.

Bio-enhanced Feed

As of September 30, 2008, we had 90 customers in total. Our three largest customers accounted for 11.6%, 8.0% and 6.4% of our net sales, respectively. Five customers accounted for 6.9%, 6.9%, 6.3%, 6.3% and 6.3% of our net sales for the three months ended September 30, 2007. No other single customer accounted for more than 6% of our net sales.

Our three largest suppliers accounted for 22.9%, 11.8% and 11.6% of our net purchases for the three months ended September 30, 2008. No other individual supplier account for more than 10.0% of our net purchases. Three suppliers accounted for 10.7%, 10.0% and 7.5% of our net purchases for the three months ended September 30, 2007, respectively. No other single supplier accounted for more than 6% for both periods. Raw materials used in our production of bio-enhanced feed products are available from a wide variety of alternative sources.

Results of Operations

Results of Operations for Three Months Ended September 30, 2008

Net Sales

Net sales were $2,327,315 and $2,957,972 for the three months ended September 30, 2008 and 2007, respectively, representing a decrease of $630,657 or 21.3%. The reduction is mainly due to the decrease in net sales of our principal operations, including our bio-fertilizer business and bio-enhanced feed business.

	Three months ended September 30,		Change	
Item	**2008**	2007	Amount	Percentage
Bio-fertilizer:				
Net sales	**$ 36,413**	$ 106,538	$ (70,125)	-65.8%
Quantity (Tons)	**32**	91	(59)	-64.9%
Average price	***$ 1,138***	*$ 1,168*	$ (30)	-2.6%
Bio-enhanced feed:				
Net sales	**$ 2,290,902**	$ 2,851,434	$ (560,532)	-19.7%
Quantity (Tons)	**5,444**	7,550	(2,106)	-27.9%
Average price	***$ 421***	*$ 378*	$ 43	11.4%
Total net sales	**$ 2,327,315**	$ 2,957,972	$ (630,657)	-21.3%

As to our bio-fertilizer business, in the three months ended September 30, 2008, organic matter-decomposing inoculants, a new product registered in February 2008, contributed sales of approximately $14,300. Sales from water-run fertilizer, leaf fertilizer and microorganism microbial inoculum fertilizer decreased approximately $24,400, $13,900 and $11,200, respectively, as compared to the same period of 2007. In addition, we had sold semi-finished bacteria powder, which contributed $45,300 or 38.5% of total sales for the third quarter of 2007. There was no transaction of the same kind in 2008.

The decrease of net sales in our bio-enhanced feed business resulted from two main elements: (1) the adjustment of our product mix by reducing the amount of production of fowl feeds, which has a lower profit margin and from which sales decreased $400,000, as compared to the same period of 2007; and (2) the traffic control during Olympic Game held in August 2008, for which we were not able to deliver products to some of our customers in the controlled area.

Cost of Sales

Cost of sales was $2,271,772 and $2,718,712 for the three months ended September 30, 2008 and 2007, respectively. The decrease of $446,940 or 16.4% in cost of sales was primarily due to the rapid decrease of sales.

Gross Profit

Gross profit was $55,543 and $239,260, respectively, in the three months ended September 30, 2008 and 2007.

	Bio-fertilizer		*Changes*		Bio-enhanced feed		*Changes*	
	2008 Q3	2007 Q3	*Amount*	*Percentage*	**2008 Q3**	2007 Q3	*Amount*	*Percentage*
Net Sales	**$ 36,413**	$ 106,538	$ (70,125)	-65.8%	**$ 2,290,902**	$ 2,851,434	$ (560,532)	-19.7%
Cost of Sales	**30,425**	42,986	(12,561)	-29.2%	**2,241,347**	2,675,725	(434,378)	-16.2%
Gross Profit	**$ 5,988**	$ 63,552	$ (57,564)	-90.6%	**$ 49,555**	$ 175,709	$ (126,154)	-71.8%
Gross Profit Margin	**16.4%**	59.7%			**2.2%**	6.2%		

This decrease of $183,717 or 76.8% in gross profit was mainly caused by the decrease in gross profit margin for our bio-enhanced feed business from 6.2% to 2.2%. The significant decrease in gross profit margin in the bio-enhanced feed business was due to an increase in our purchasing prices of raw materials. Although we adjusted the prices of our products in response, materials prices rose faster than we could adjust product prices. As a small-scale feed business, we did not have redundant funds to avoid raw material price fluctuation risk, in addition, the animal feed industry is highly competitive, our customers are extremely price-sensitive. Increasing selling price will inevitably result in loss of existing customers. Management has been gradually adjusting our product mix and cutting down production of low-margin products, such as fowl feed, and developing bio-additive products.

Excluding sales from disposal of certain products that had exceeded their quality guarantee period for which we had accrued impairment provisions during the third quarter of 2006, the gross profit margin for bio-fertilizer for the third quarter of 2007 was 34.4%. In comparison, in the third quarter of 2008, the gross profit margin of our bio-fertilizer business decreased to 16.4%. This decrease is mainly related to both the difference mix products sold and rise of raw material price during the respective quarters.

Consulting and Professional Fees

Consulting and professional fees incurred were $54,980 and $161,241 for the third quarter of 2008 and 2007, respectively, representing a decrease of $106,261 or 65.9%. The high consulting and professional fees in the same period of 2007 was mainly due to amortization of stock-based compensation to two investor relation consultants.

Most of these fees in the third quarter of 2008 are related to fundraising commission amortization, investor relations and public company operations.

Officers' Compensation

Officers' compensation was $59,690 and $58,811 for the three months ended September 30, 2008 and 2007, respectively. This represents an $879 or 1.5% reduction in officers' compensation.

General and Administrative

General and administrative expenses were $211,493 and $275,532 for the three months ended September 30, 2008 and 2007, respectively, a decrease of $64,039 or 23.2%. A one-time television interview fee in the third quarter of 2007 caused the decrease.

General and administrative expenses include salaries, travel and entertainment, rent, office expense, telephone expense and insurance costs. The increase was primarily due to the expansion of our operating activities, which led to increased rental, salary, travel and office expenses.

Selling Expenses

During third quarter 2008, selling expenses were $41,051, a decrease of $36,599 or 47.1% from $77,650, our selling expenses in the comparable period of 2007.

Research and Development

Research and development expenses increased by $991 or 2.4% to $42,922, for the three months ended September 30, 2008, as compared to $41,931 for the three months ended September 30, 2007.

Depreciation and Amortization

Depreciation and amortization, excluding depreciation charged to cost of production and deprecation of research equipment, decreased $1,304 or 3.7% to $33,930, for the three months ended September 30, 2008, as compared to $35,234 for the same period of 2007.

Net Interest Expense

Net interest expense was $142,868 in the third quarter of 2008 and $171,743 in the same period of 2007, representing a $28,875 or 16.8% decrease. This decrease was mainly due to the gradual reduction of 6% Note principal pursuant to conversions, and amortization of warrants relating to loans due to related parties with detachable warrants, which has been charged to interest expense in 2007.

Net Loss

Our net loss for the third quarter of 2008 was $567,770 (including non-cash expenses of $214,793), a decrease of $30,751 or 5.1% as compared to net loss in the same period of 2007, which was $598,521. This decrease resulted from the following factors: (1) decrease in gross profit of $183,717 or 76.8%; (2) decrease in operating expenses of $163,906 or 25.2%; (3) decrease in interest expenses of $28,875 or 16.8%; and (4) minority interest in subsidiary in the third quarter of 2008 was $5,988 and negative $15,699 for the same period of 2007.

Comprehensive Loss

Comprehensive loss decreased by $34,570 to $571,604 for the three months ended September 30, 2008, as compared to $606,174 for the comparable period of 2007. The decrease in comprehensive loss in the current period as compared to the comparable period in 2007 is due to a decrease of $30,571 in net loss and a decrease of $3,819 in other comprehensive loss.

Results of Operations for Nine Months Ended September 30, 2008

Net Sales

Net sales were $7,539,083 and $6,214,712 for the nine months ended September 30, 2008 and 2007, respectively, representing an increase of $1,324,371 or 21.3%. The increase is mainly due to expansion in net sales of our principal operations, including our bio-fertilizer business and bio-enhanced feed business in the first half of 2008.

Nine months ended September 30,		Change	
2008	2007	Amount	Percentage
$ 219,933	$ 135,712	$ 84,221	62.1%
648	133	515	387.2%
$ 339	*$ 1,019*	$ (680)	-66.7%
$ 7,319,150	$ 6,079,000	$ 1,240,150	20.4%
17,001	20,561	(3,560)	-17.3%
$ 431	*$ 296*	$ 135	45.8%
$ 7,539,083	$ 6,214,712	$ 1,324,371	21.3%

As above mentioned in the section subtitled "Results of Operations for Three Months Ended September 30, 2008," net sales from bio-fertilizer and bio-enhanced feed for the third quarter of 2008 decreased $70,125 and $560,532, respectively. Therefore the increase of net sales in our two segments for the nine months ended September 30, 2008 is attributed primarily to increases realized in the first half of 2008.

In the nine months ended September 30, 2008, organic matter-decomposing inoculants, a new fertilizer registered in February 2008, contributed sales of approximately $14,300. Sales from organic fertilizer, microorganism microbial inoculum fertilizer and leaf fertilizer increased approximately $97,400, $29,700 and $10,200, respectively, and net sales from water-run fertilizer decreased 32,400, as compared to the same period of 2007. In addition, we had sold semi-finished bacteria powder, which contributed $45,300 or 38.5% of total sales for the third quarter of 2007. There was no transaction of the same kind in 2008.

Cost of Sales

During the nine months ended September 30, 2008, cost of sales was $7,353,634, representing an increase of $1,590,247 or 27.6%, compared with $5,763,387 for the same period of 2007.

Gross Profit

Gross profit for the nine months ended September 30, 2008 was $185,449. In comparison, gross profit for the same period in 2007 was $451,325, representing a decrease of 265,876 or 58.9%.

	Bio-fertilizer		*Changes*		**Bio-enhanced feed**		*Changes*	
	2008 Q1-Q3	2007 Q1-Q3	*Amount*	*Percentage*	**2008 Q1-Q3**	2007 Q1-Q3	*Amount*	*Percentage*
Net Sales	**$ 219,933**	$ 135,712	$ 84,221	62.1%	**$ 7,319,150**	$ 6,079,000	$ 1,240,150	20.4%
Cost of Sales	**160,254**	66,038	94,216	142.7%	**7,193,380**	5,697,349	1,496,031	26.3%
Gross Profit	**$ 59,679**	$ 69,674	$ (9,995)	-14.3%	**$ 125,770**	$ 381,651	$ (255,881)	-67.0%
Gross Profit Margin	***27.1%***	*51.3%*			***1.7%***	*6.3%*		

The gross profit margin for our bio-enhanced feed business decreased from 6.3% to 1.7%. The significant decrease in gross profit margin in the bio-enhanced feed business was due to an increase in our purchasing prices of raw materials. Although we adjusted the prices of our products in response, materials prices rose faster than we could adjust product prices. As a small-scale feed business, we did not have redundant fund to avoid raw material price fluctuation risk, in addition, the animal feed industry is highly competitive, our customers are extremely price-sensitive. Increasing selling prices will inevitably result in loss of existing customers.

The gross profit margin of our bio-fertilizer business decreased 24.2% to 27.1%, which is mainly related to both the difference mix of products sold and rise of raw material price during the respective quarters. Gross profit margin for bio-fertilizer for the third quarter of 2007 was 34.4% excluding sales from disposal of certain products that had exceeded their quality guarantee period. These products were sold for an aggregate price of $41,033, which is lower than our cost ($50,575), and for which we had accrued impairment provisions during the third quarter of 2006. Therefore, gross profit margin for the same period of 2008 decreased.

Consulting and Professional Fees

Consulting and professional fees was $243,757 for the nine months ended September 30, 2008. During the comparable period of 2007, consulting and professional fees was $618,380. The high consulting and professional fees in the same period of 2007 was mainly due to amortization of stock-based compensation to two investor relation consultants.

Officers' Compensation

Officers' compensation for the nine months ended September 30, 2008 and 2007 was $178,153 and $213,280, respectively, representing a $35,127 or 16.5% decrease.

General and Administration

General and administration expenses for nine months ended September 30, 2008 and 2007 were $686,010 and $651,055, respectively, representing $34,955 or 5.4% increase. General and administrative expenses include salaries, travel and entertainment, rent, office expense, telephone expense and insurance costs.

Selling Expenses

Selling expenses for the nine months ended September 30, 2008 decreased $129,284 or 45.4% from $284,916 in 2007 to $155,632 in 2008. Selling expenses include salary and travel expenses of salesmen, delivery expenses and advertising, etc.

Research and Development

Research and development expense for the nine months ended September 30, 2008 increased $9,324 or 6.9% from $134,730 in 2007 to $144,054 in 2008.

Depreciation and Amortization

Depreciation and amortization, excluding depreciation charged to cost of production and deprecation of research equipment, decreased $9,350 or 9.7% to $86,748 for the nine months ended September 30, 2008, as compared to $96,098 for the same period of 2007.

Interest expenses

Net interest expense was $565,728 in the nine months ended September 30, 2008 and $573,647 in the same period of 2007, representing a $7,919 or 1.4% decrease.

Net Loss

During the nine months ended September 30, 2008, net loss was $1,884,986, representing a decrease of $659,686 or 25.9%, comparing with $2,544,672 for the same period of 2007. This decrease resulted from the following factors: (1) decrease in gross profit of $265,876 or 58.9%; (2) decrease in operating expenses of $462,400 or 23.1%; (3) decrease in interest expenses of $7,919 or 1.4%; (4) minority interest in subsidiary in the nine months ended September 30, 2008 was $31,956 and negative $8,778 for the same period of 2007; and (5) during the second quarter of 2007, we recognized a $414,509 loss from the discontinuation of our urea entrepot trade business.

Comprehensive Loss

Comprehensive loss decreased by $653,845 to $1,925,061 for the nine months ended September 30, 2008, as compared to $2,578,906 for the comparable period of 2007. The decrease in comprehensive loss in the current period as compared to the comparable period in 2007 is due to a decrease of $659,686 in net loss and an increase of $5,841 in other comprehensive loss.

Liquidity and Capital Resources

Since inception of our ag-biotech business in 2002, we have relied on the proceeds from the sale of our equity securities and loans from both unrelated and related parties to provide the resources necessary to fund our operations and the execution of our business plan. During the nine months ended September 30, 2008, we raised $650,000 from sales of equity. In addition, related parties advanced $428,763 in total to the Company. As of September 30, 2008, our current liabilities exceeded current assets by $2,952,880, reflecting a current ratio of 0.35:1 and a quick ratio of 0.21:1. Comparably, as of December 31, 2007, our current liabilities exceeded current assets by $1,366,926, denoting current ratio of 0.52:1 and quick ratio of 0.23:1.

As of September 30, 2008 and December 31, 2007, we had cash of $43,161 and $61,073, respectively. Changes in cash balances are outlined as follows:

During the nine months ended September 30, 2008, our operations utilized cash of $505,422 as compared with $278,395 in the same period of 2007. Cash was mainly used for working capital for our bio-fertilizer and bio-enhanced feed businesses and public company operation.

During the nine months ended September 30, 2008, we utilized $87,677 for purchase of property and equipment. In the same period of 2007, we spent $203,768 for the same purpose.

During the nine months ended September 30, 2008, we generated $562,042 from financing activities, consisting of proceeds from issuance of common stock of $650,000 and loans from related parties of $428,763, which was offset by repayment of $511,115 to related parties and long-term borrowings of $5,606. During the same period of 2007, our financing activities incurred net cash inflow of $13,560, consisting of the proceeds of $436,119 from advances or loans from related parties, which was offset by the repayments to related parties of $417,932 and long-term borrowings of $4,627.

Currently, we have insufficient cash resources to accomplish our objectives and also do not anticipate generating sufficient positive operating cash inflow in the rest of 2008 to fund our planned operations. We are actively looking for new sources of capital. To the extent that we are unable to successfully raise the capital necessary to fund our future cash requirements on a timely basis and under acceptable terms and conditions, we will not have sufficient cash resources to maintain operations, and may have to curtail operations and consider a formal or informal restructuring or reorganization.

Commitments and Contingencies

See Note 18 to the Consolidated Financial Statements under Item 1 in Part I.

Off-Balance Sheet Arrangements

At September 30, 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

All of our revenues and the majority of our expenses and liabilities incurred are in RMB. Thus, our revenues and operating results may be impacted by exchange rate fluctuations of RMB. Up to now we have not reduced our exposure to exchange rate fluctuations by using hedging transactions or any other measures to avoid our exchange rate risks. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. For the third quarter of 2008, foreign currency translation adjustments to our comprehensive income were $3,834, primarily as a result of RMB appreciating against the U.S. dollar.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls. As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision of, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective and designed to ensure that all material information relating to the Company required to be included in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There were no changes in the Company’s internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently involved in any material pending legal proceedings.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description	Incorporated by Reference in Document	Exhibit No. in Incorporated Document
3.1	Certificate of Incorporation, effective as of July 21, 2004.	Form 8-K filed on July 23, 2004	3.1
3.2	Bylaws, effective as of July 22, 2004.	Form 8-K Filed on July 23, 2004	3.2
3.3	Certificate of Amendment to Certificate of Incorporation, effective as of September 27, 2006.	Form 10-QSB filed on November 15, 2006	3.3
10.1	Consulting Agreement between the Company and Robert Schechter dated January 10, 2008	Form 10-Q filed on August 11, 2008	
10.2	Contract for Joint Venture between the Company and Hebei Huaxing Pharmaceuticals Co., Ltd. dated May 22, 2008	Form 8-K filed on May 27, 2008	10.1
10.3	Term Sheet for Redemption Convertible Notes dated September 25, 2008 between the Company and AJW Offshore Ltd., AJW Qualified Partners LLC, AJW Partners LLC, and New Millennium Capital Partners II LLC	Filed herewith.	
10.4	Term Sheet for Redemption Convertible Notes dated September 25, 2008 between the Company and FirsTrust	Filed herewith.	

	Group, Inc. dated October 7, 2008		
21	List of Subsidiaries	Form 10-KSB filed on April 2, 2007	21
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.	
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.	
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.	
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.	

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.

KIWA BIO-TECH PRODUCTS GROUP CORPORATION
(Registrant)

/s/ Wei Li	November 12, 2008 Chief Executive Officer and Chairman of the Board of Directors
Wei Li	(Principal Executive Officer)
/s/ Lianjun Luo	November 12, 2008 Chief Financial Officer and Director
Lianjun Luo	(Principal Financial Officer and Principal Accounting Officer)