CHINA SKY ONE MEDICAL, INC.
Form 10-K
April 15, 2009

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: December 31, 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: 000-26059

CHINA SKY ONE MEDICAL, INC.
(Exact name of registrant as specified in its charter)

Nevada	87-0430322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Room 1706, Di Wang Building, No. 30 Gan Shui Road, Nangang District, Harbin, People's Republic of China (Address of principal executive offices)	150001 (Zip Code)

Registrant's telephone number, including area code: 86-451-53994069 (China)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	Not Applicable

Securities registered pursuant to Section 12(g) of the Act:

Common Stock
(Title of Class)

Indicate by check mark if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company:

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	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

As of June 30, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $62,853,570, based on the last closing price of $11.13 per share, as quoted on the American Stock Exchange.

As of March 31, 2009, the registrant had 16,446,467 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

A description of "Documents Incorporated by Reference" is contained in Item 15 of this report.

CHINA SKY ONE MEDICAL, INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, together with other statements and information we publicly disseminate, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and include this statement for purposes of complying with these safe harbor provisions.

Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performances or achievements.

Factors that may cause actual results to differ materially from current expectations include, but are not limited to the “Risk Factors” discussed in Part 1, Item 1A of this Annual Report on Form 10-K. Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change our expectations with regard thereto, or any change in events, conditions or circumstances on which any such statement is based.

The terms “the Company,” “we,” “us” and “our” refer to China Sky One Medical, Inc., together with our consolidated subsidiaries.

PART I

Item 1. Business.

General

We are engaged, through our China based indirect subsidiaries described below, in the development, manufacture, marketing and sale of over-the-counter, branded nutritional supplements and over-the-counter plant and herb based pharmaceutical and medicinal products. Our principal products are external use Traditional Chinese Herbal Remedies/Medicines commonly referred to in the industry as "TCM." We have evolved into an integrated manufacturer, marketer and distributor of external use Chinese medicine products sold primarily in China and through Chinese domestic pharmaceutical chains and have been expanding our worldwide sales effort as well. We sell both our own manufactured products, as well as medicinal and pharmaceutical products manufactured by others in China.

Corporate History

China Sky One Medical, Inc. ("China Sky One"), is a Nevada corporation formed on February 7, 1986, formerly known as Comet Technologies, Inc. On July 26, 2006, after our acquisition of a China based nutritional supplements business, we changed our name to "China Sky One Medical, Inc."

ACPG, our non-operating United States holding company subsidiary, was incorporated on December 16, 2003, in the State of California, under the name "QQ Group, Inc." It changed its name to "American California Pharmaceutical Group, Inc." in anticipation of the Stock Exchange Agreement with China Sky One (then known as "Comet Technologies, Inc.") and TDR, described herein. On December 8, 2005, ACPG completed a stock exchange transaction with TDR an operating company based in the People's Republic of China ("PRC") and TDR's subsidiaries, each of which were fully operating companies in the PRC. Under the terms of the agreement, ACPG exchanged 100% of its issued and outstanding common stock for 100% of the capital stock of TDR and its subsidiaries, described below.

Thereafter, on May 11, 2006, ACPG entered into a Stock Exchange Agreement (the "Exchange Agreement") with the shareholders of China Sky One. The terms of the Exchange Agreement were consummated and the acquisition was completed on May 30, 2006. As a result of the transaction, we issued a total of 10,193,377 shares of our common voting stock to the stockholders of ACPG, in exchange for 100% of the capital stock of ACPG, resulting in ACPG becoming our wholly-owned subsidiary.

TDR, formerly known as "Harbin City Tian Di Ren Medical Co.," was originally formed in 1994 and maintained its principal executive office in Harbin City of Heilongjiang Province, in the PRC. TDR was reorganized and incorporated as a limited liability company on December 29, 2000, under the "Corporation Laws and Regulations" of the PRC. At the time of the TDR Acquisition by ACPG in December of 2005, TDR had two wholly-owned subsidiaries, Harbin First Bio-Engineering Company Limited and Kangxi Medical Care Product Factory, until July, 2006, when the two were merged, with Harbin First Bio-Engineering Company Limited as the surviving subsidiary of TDR.

As of October 16, 2006, we organized Harbin Tian Qing Biotech Application Company as a wholly-owned PRC subsidiary of TDR, to conduct research and development in the areas of tissue and stem cell banks, which is described in more detail below.

On April 3, 2008, TDR completed its acquisition of Heilongjiang Tianlong Pharmaceutical, Inc., a corporation with a variety of SFDA approved medicines and new medicine applications, organized under the laws of the PRC

("Tianlong"), which is in the business of manufacturing external-use pharmaceuticals. TDR previously acquired the Beijing sales office of Tianlong in mid-2006. TDR acquired 100% of the issued and outstanding capital stock of Tianlong from its sole stockholder, in consideration for an aggregate purchase price of approximately $8,300,000, consisting of (i) $8,000,000 in cash, and (ii) 23,850 shares of our common stock.

On April 18, 2008, TDR consummated its acquisition of Heilongjiang Haina Pharmaceutical Inc., a recently formed corporation organized under the laws of the PRC ("Haina") licensed as a wholesaler of TCD, bio-medicines, bio-products, medicinal devices, antibiotics and chemical medicines. Haina did not have an established sales network and was acquired for its primary asset, a Good Supply Practice (GSP) license (License No. A-HLJ03-010), issued by the Heilongjiang province office of the SFDA. The SFDA recently started issuing such licenses to resellers of medicines that maintain certain quality controls. The GSP license was issued as of December 21, 2006 and will expire on January 29, 2012 and will enable us to expand its sales of medicinal products without having to go through a lengthy license application process. TDR acquired 100% of the issued and outstanding capital stock of Haina from its three stockholders in consideration for payment of approximately $437,375. TDR had been overseeing the operations of Haina Pharmaceutical since January of 2008, as part of our due diligence prior to closing of this acquisition.

On September 5, 2008, TDR acquired Peng Lai Jin Chuang Pharmaceutical Company ("Jin Chuang"), a corporation organized under the laws of the PRC, from Peng Lai Jin Chuang Group Corporation (the "Seller"). Jin Chuang, which has received Good Manufacturing Practice certification from the SFDA, was organized to develop, manufacture and distribute pharmaceutical, medicinal and diagnostic products in the PRC. In connection with the acquisition of Jin Chuang, TDR acquired all of Jin Chuang's assets, including, without limitation, franchise, production and operating rights to a portfolio of twenty (20) medicines approved by the SFDA, for an aggregate purchase price of approximately $7.1 million, consisting of (i) approximately $2.5 million in cash, and (ii) 381,606 shares of our common stock.

Principal Products and Markets

We are engaged, through TDR and its respective subsidiaries in the PRC, in the development, manufacture, marketing and sale of over-the-counter, branded nutritional supplements and over-the-counter plant and herb based pharmaceutical and medicinal products. We have evolved into an integrated manufacturer, marketer and distributor of external use Chinese medicine products sold primarily to and through China domestic pharmaceutical chains. The Company sells both its own manufactured products, and medicinal and pharmaceutical products manufactured by others in the PRC.

With the exception of Jin Chuang, which is located in Shan Dong Province, PRC, all of our manufacturing facilities are located in Heilongjiang Province, PRC. In addition, we have sales offices located in 22 provinces across China.

Our principal products are external use Traditional Chinese Herbal Remedies/Medicines ("TCM"). Using various formulas, we produce a number of TCM products with several forms of delivery including creams and ointments, powders, sprays, various medicated skin patch products, and herbs believed to have complimentary effects. We intend to concentrate many of our efforts during the next several years on development, production and sales of TCM products and biological test kits and in particular, tissue and our stem cell research as described more fully below.

Our principal operations are in China, where TDR and its subsidiaries have manufacturing facilities and sales distribution covering most of China and the Hong Kong Special Administration Region. Our overall revenues were $91,816,183 in 2008, of which, export sales for our main countries of export (in order of revenues during the year ended 2008) were as follows:

Export Country		2008 Revenues
Malaysia	$	8,821,616
Germany	$	23,445
Russia	$	2,897
Taiwan	$	6,087
TOTAL:	$	8,859,191

TDR has also established several long-term relationships with well-known universities and enterprises in the PRC, as described below under "- Current Research and Development." Through these relationships, we hope to develop a number of additional products that we will be able to manufacture and market both in the PRC and in other countries.

Below is a chart depicting our corporate organization:

SFDA Licenses

The State Food and Drug Administration of the government of Heilongjiang Province, PRC ("SFDA") issues the licenses and petitions for permission to manufacture and market pharmaceutical products in the PRC. Our licenses relate primarily to medical machine producing licenses which are needed mainly for topical products, ointments and external test kits. TCM products also require a permit for sales, which permits are generally granted on a non-exclusive basis for four to five years depending on the TCM. TDR has been granted 29 product licenses and permits, inclusive of our recently approved Cardiac Arrest Early Examination, Micro-Albuminuria Diagnostic Kit, and Early Pregnancy Test Kit, which have allowed TDR to commercialize a total of 29 products. TDR is undertaking efforts to develop a series of 25 new products, and is planning to register these products with the SFDA over the next 5 years. TDR has also registered 7 patents with the State Intellectual Property Rights Bureau of the PRC, which includes packing design patents as well as product ingredients patents. TDR plans to continue registering patents resulting from its ongoing product research and development.

In addition to the above:

- as a result of TDR's acquisition of Tianlong in April 2008, TDR acquired all of Tianlongs's assets, which included, among other things, 69 SFDA-approved medicines, and an additional 20 new medicines, which have been submitted for approval to the SFDA; and

- as a result of TDR's acquisition of Jin Chuang in September 2008, TDR acquired franchise, production and operating rights to a portfolio of 20 medicines approved by the SFDA, and an additional 2 new medicines, which have been submitted for approval to the SFDA.

Our TDR Subsidiary Owns the Following Subsidiaries in China

Harbin First Bio-Engineering

On September 26, 2003, TDR formed Harbin First Bio-Engineering Company Limited (referred to herein as "Harbin Bio-Engineering") as its wholly owned subsidiary, with an authorized capital of $241,546 (2 million RMB). Harbin Bio-Engineering focuses on research and development of the use of natural medicinal plants and biological technology products, such as Endothelin-1. Harbin Bio-Engineering, which officially commenced production on July 21, 2006, is one of the first companies in Heilongjiang Province conducting research and development of high technology biological products. Harbin Bio-Engineering has two production lines:

- an enzyme immunity reagent kit production line; and

- a colloid gold production line.

Harbin Tian Qing Biotech Application

On October 16, 2006, TDR organized Harbin Tian Qing Biotech Application Company (referred to herein as "Tian Qing Biotech") as its wholly-owned subsidiary, to conduct research and development in the areas of tissue and stem cell banks, which is described in more detail below. (See "Research and Development" below.)

Heilongjiang Tianlong Pharmaceutical

On April 3, 2008, TDR completed the acquisition of Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized under the laws of the PRC (referred to herein as "Tianlong"), which is in the business of manufacturing external-use pharmaceuticals. Previously, in 2006, TDR had acquired the Beijing office of Tianlong. Tianlong's assets included, among other things, GMP-certified manufacturing facilities, state-of-the-art manufacturing equipment, an research and development center, sixty-nine (69) SFDA-approved medicines, and an additional thirty-eight (38) new medicines, which have been submitted for approval to the SFDA.

Heilongjiang Haina Pharmaceutical

On April 18, 2008, TDR consummated its acquisition of Heilongjiang Haina Pharmaceutical Inc., a corporation organized under the laws of the PRC (referred to herein as "Haina"), which is licensed as a wholesaler of TCD, bio-medicines, bio-products, medicinal devices, antibiotics and chemical medicines. At the time of the acquisition, Haina did not have an established sales network and was acquired for its primary asset, a Good Supply Practice (GSP) license (License No. A-HLJ03-010), issued by the Heilongjiang province office of the SFDA. The SFDA recently started issuing such licenses to resellers of medicines that maintain certain quality controls. The GSP license was issued as of December 21, 2006 and will expire on January 29, 2012. This license will enable us to expand Haina's

sales of medicinal products without having to go through a lengthy license application process. TDR had been overseeing the operations of Haina Pharmaceutical since January of 2008, as part of our due diligence prior to closing of this acquisition.

Peng Lai Jin Chuang Pharmaceutical

On September 5, 2008, TDR acquired Peng Lai Jin Chuang Pharmaceutical Company, a corporation organized under the laws of the PRC (referred to herein as "Jin Chuang"), from Peng Lai Jin Chuang Group Corporation. Jin Chuang, which has received Good Manufacturing Practice certification from the SFDA, was organized to develop, manufacture and distribute pharmaceutical, medicinal and diagnostic products in the PRC. In connection with the acquisition of Jin Chuang, TDR acquired all of Jin Chuang's assets, including, without limitation, franchise, production and operating rights to a portfolio of twenty (20) medicines approved by the SFDA.

Product Line

We manufacture over 90 branded products, which management believes enables us to maintain better control over product quality and availability while also reducing production costs. We also sell a total of 7 products manufactured by other firms (See "Other Products," below). Our manufacturing operations are conducted in our indirect subsidiaries' facilities located in Heilongjiang Province and Shan Dong Province in the PRC. Additionally, we maintain a working relationship with a number of outside manufacturers, including softgel manufacturers and packagers, and utilize these outside sources from time to time.

We sell our products under six main categories:

- Patches (4 items);
- Ointments (15 items);
- Sprays (9 items);
- Diagnostic Kits (3 items);
- Contract Sales (7 items); and
- Others (over 50 items)

A description of our main product lines follows.

Sumei Slim Patch

The Sumei Slim Patch is marketed and sold within and outside the PRC as a more natural way to lose weight. The Sumei Slim Patch uses Saponin, believed to regulate and restrain the excessive secretion of certain hormones, while promoting others. The Sumei Slim Patch is also believed to foster weight loss and prevent weight gain.

Pain Killer Patch

A pain killer patch applied to the neck, shoulder and waist, this product is a treatment to fend off fever, promote well-being and to relieve diarrhea. The patch is used for a number of ailments, including fever, headache, dysentery of a heat type, diarrhea and stiffness and pain in the neck caused by hypertension.

Anti-Hypertension Patch

The anti-hypertension patch is based on five thousand years of Chinese herbal vein therapy that has been adapted to a modern trans-dermal therapeutic system (TTS). The product utilizes a Body-Yong-Guan point technique, which is believed to maximize the effectiveness of the medicinal ingredients. The product is believed to stimulate blood capillaries and is believed to be effective in improving circulation and in reducing blood pressure.

Dysmenorrheal Patch

This is a soft patch, applied externally, for pain relief from dysmenorrheal (menstrual cramps) that combines traditional Chinese point therapy and modern trans-dermal technology. This product contains a pure herb formula selected from rare Chinese herbs or plants which is refined to extract the effective ingredients. This product is believed to be effective in regulating microcirculation, in balancing the functions of the human body and in enhancing the immunity response of women. It is believed to be effective in treating the dysmenorrheal (cramping) in a woman's critical days, and in regulating pain and catamenia (menstruation period).

Yin Ke Psoriasis Spray

Psoriasis is a skin disease that is difficult to treat. Our research scientists have focused their efforts in finding treatments for this disease. Yin Ke Psoriasis Spray is a spray that contains Chinese herbal ingredients that are believed to be effective in killing pathogenic ringworms inside or under the skin, causing scale-like skin to fall off, and allowing healthy skin to grow.

Wart Removing Spray

This product has been developed to eliminate the viruses in a tumors or warts. The product is effective in removing warts, through a strong permeation and sterilization process. The product is a highly concentrated washing liquid that is applied topically to the affected area.

Chilblain Ointment

This product contains Rhizoma Paridis, Rhizoina Bletilae and Camphor, and is refined from Chinese herbal materials. It is believed to be effective in improving blood circulation, and in eliminating various symptoms of Chilblain (a cold injury that appears as an inflamed swelling on the extremities), including itching and swelling.

Hemorrhoids Ointment

This product contains Acetate, Radix Notoginseng, and Rhizoma Coptidis. The product is made in a soft ointment that is effective in sterilizing and relieving hemorrhoid symptoms, including itching, distending pain, burning, and bleeding.

Tinea Pedis Spray, Ointment and Powder

This product contains Cortex Pseudolaricis and Cortex Phellodendri, and is a treatment for killing various pathogens on the skin surface and subcutaneously, such as mycete (a fungus), trichopytic, staphylococcal bacteria aureus, bacillus coli, and candida albicans (thrush).

Dermatitis Spray

This product is effective in sterilization and in relieving itching in various kinds of skin pruritis (intense itching condition) caused by eczema, urticaria (hives), seborrheic dermatitis (flaking of skin, dandruff), herpes zoster (shingles), neurodermitis and allergic dermatitis.

Dandruff Treatment Herbal Shampoo

This product has been specifically designed to treat dandruff, and is not intended for use as an ordinary shampoo. The product is believed to be effective in killing fungi and providing nutrition to pallium cells.

Runze Eye Drop

This product is refined from active ingredients extracted from natural herbs or plants, and functions as a protection from infection, tiredness of optic nerves and myopia.

Testing Kits

Cardiac Arrest Early Examination Kit

This product is used for early stage diagnosis of myocardial infarction (heart attacks). We completed SFDA clinical testing of the Cardiac Arrest Early Examination Kit and began sales of this product in 2007. This kit is patented in PRC.

Kidney Disease Testing Kit

The Urinate Micro Albumin Examination Testing Kit is used in connection with early stage diagnosis for primary kidney disease, hypertension and diabetes. We completed SFDA clinical testing for the Urinate Micro Albumin Examination Testing Kit and commenced sales of this product in 2007. This kit is patented in PRC.

Early Pregnancy Test Kit

The early pregnancy test kit is used to determine pregnancy through a urine sample. We completed SFDA clinical testing for this kit and commenced sales of this product in 2007. This kit is patented in PRC.

Other Products

TDR offers a number of additional products made from Chinese herbs and plants, including a leukoderma ointment, rheumatism spray, Coryza powder, Hircus removing spray, gonorrheal cleaning spray, a snoring retardant, deodorants, diet tea, cough arresting patch, pharyngitis spray, Clindamycin Metronidazole Liniment, Ganciclovir Injection, Loquat Syrup, Indigowoad Root Granule, and others.

Historically we have sold only products that we manufactured. However, during the 2007 fiscal year, we began an initiative to sell medicinal products manufactured by other companies under exclusive sales and marketing arrangements. Set forth in the table below is information concerning these products and the intended treatment applications.

Product Name	Treatment Applications	Main Component
Ofloxacin Eye Drops	Conjunctivitis, Keratitis	Ofloxacin
Ribavirin Nasal Drops	Influenza	Ribavirin
Econazole Nitrate Suppositories	Colpitis (inflammation of the vagina)	Econazole Nitrate
Qianliming Nasal Drops	Coryza (head cold)	Ethyl Ester Hydroxybenzene, etc.
Terbinafine Hydrochloride Liquor	Tinea (scalp ringworm)	Terbinafine Hydrochloride

Compound Camphor Cream	Eczema, dermatitis, etc.	Camphor, Menthol, Methyl Salicylate
Terbinafine Hydrochloride Cream	Tinea (scalp ringworm)	Terbinafine Hydrochloride
Sulfasalazine Suppositories	Colonitis	Sulfasalazine

Total sales in 2008 from products manufactured by other companies under exclusive sales arrangements totaled approximately $5,642,182 or approximately 6% of total sales in the year ended December 31, 2008, as compared to $12,998,000 for the year ended December 31, 2007. We market and sell these products through our existing distribution channels to our customers throughout the world and primarily in China. We intend to expand our product line under sales and manufacturing contracts with third-party manufacturers with a goal of increasing sales revenue from current and new pharmaceutical and medicinal products manufactured by other companies.

Revenues by General Product Lines

Management believes that the most accurate benchmark of revenue breakdown is based on the method of application as different applications have different sales channels. Below is a breakdown of our revenues for 2008 based on application and application usage.

Revenues based on Application Category

Our total revenues during fiscal 2008 and 2007 were approximately $91,801,000 and $49,318,308, respectively. The following table sets forth our principal product categories based on application type and the approximate amount and percentage of revenue from each of such product categories, during the fiscal year ended December 31, 2008 and 2007:

		For the Year Ended December 31					
		2008			2007		
Product Category (97 products)	Subsidiary	Quantity (Unit)	Sales USD	% of Sales	Quantity (Unit)	Sales USD	% of Sales
Patch (5 products)	TDR	9,494,535	$ 35,484,230	39%	2,294,901	$ 19,690,051	39%
Ointment (20 products)	TDR & TL	11,478,130	23,068,210	25%	3,037,022	6,190,003	13%
Spray (19 products)	TDR & TL	3,941,295	10,612,679	12%	3,580,266	9,210,233	19%
Diagnostic Kits (3 products)	First	2,184,013	8,780,990	10%	739,151	2,990,664	6%
Contract Sales (7 products)	Haina	3,837,578	5,655,085	6%	5,718,652	8,197,758	17%
others (43 products)		4,306,972	8,214,989	8%	1,896,193	3,039,599	6%
Total		35,242,523	$ 91,816,183	100%	17,266,185	$ 49,318,308	100%

Research and Development

We currently conduct all of our research and development (“R&D”) activities, either internally or through collaborative arrangements with universities and research institutions in the PRC. We have our own research, development and laboratory facilities located at TRD’s principal headquarters in the city of Harbin, Heilongjiang Province, PRC. We have also recently organized Harbin Tian Qing Biotech Application Company (“Tian Qing Biotech”) as a wholly-owned PRC subsidiary of TDR, to conduct research and development in the areas of tissue and stem cell banks, which is described in more detail below. In all, our internal R&D team currently consists of approximately 35 people, of which 25 are full time researchers and 10 are part time technical experts. Many of our team members are professors affiliated with universities in the PRC.

Additionally, we have established several long-term partnerships with well-known universities and enterprises in the PRC. We have:

- built a gene medicine laboratory through a collaborative effort with Harbin Medical University;

- established a cell laboratory with North East Agricultural University; and
- founded a monoclonal antibody laboratory with Jilin University.

Under our partnership arrangements with other universities and research institutions, we will generally hold the intellectual property rights to any developed technology. As a result of one of these collaborations with Harbin Medical University, a product known as "Endothelin-1" is currently under development as a cancer suppressing product. Additional information relating to this product and other products being developed is set forth under "Products Under Development" below and under the general product descriptions throughout this prospectus.

During the year ended December 31, 2008, we invested approximately $7,415,000 in R&D. Our R&D investments in 2007 were approximately $3,158,000. Additional information about our R&D investments is included in the financial statements to this prospectus (and notes thereto) and our "Management Discussion and Analysis on Financial Condition and Results of Operations" section below.

Products Under Development

At present, our ongoing research is divided into five general areas:

- the development of an enzyme linked immune technique to prepare extraneous diagnostic kits (see table below);
- the development of an enzyme linked gold colloid technique to prepare extraneous rapid diagnostic test strip;
- the development of a gene recombination technique to prepare gene drug;
- the development of a biology protein chip for various tumor diagnostic applications; and
- the development of a cord blood stem cell bank described below.

Biological Products - Examination and Diagnosis Kits

We currently have various biological products under development at various stages of clinical testing and development. The development of some of these products are expected to be completed as early as the end of fiscal 2009. A summary of each of these products is set forth in the table below.

Testing Kits Name	Clinical Experiment and Status	Application Area	Patent or Intellectual Property (IP)
AIDS Early Examination Kit	Completed clinical testing; application for manufacturing certificate submitted.	Early stage diagnosis for AIDS	Method of Anti-body preparation is our IP.
Carcinoma Cervix Early Examination Kit	Research completed and application for manufacturing certificate submitted.	Early stage diagnosis for Carcinoma Cervix	Anti-body preparation is our IP.
Breast Cancer Early Examination Kit	Research on product formula completed; application for production permit submitted.	Early stage diagnosis for Breast Cancer.	Anti-body preparation is our IP.
Liver Cancer Early Examination Kit	Research on product formula completed; clinical experiment in process.	Early stage diagnosis for Liver Cancer.	Anti-body preparation is our IP.
Rectal Cancer Early Examination Kit	Research on product formula completed; clinical experiment in process.	Early stage diagnosis for Rectal Cancer.	Anti-body preparation is our IP.
Stomach Cancer Early Examination Kit	Product research completed; clinical experiment in process.	Early stage diagnosis for Stomach Cancer.	Anti-body preparation is our IP.
Multi-tumor Marker Protein Chip Assay Kit	Product research in process.	Early stage diagnosis for multiple cancers.	Anti-body preparation is our IP.
New Endostatin	Toxicology test, teratogenicity test and quality standard completed; product research in process.	Early stage diagnosis for cancer.	Anti-body preparation is our IP.

New Products

We are currently conducting toxicology experiments, quality standard measurement and other experimentation for our products under development. It is estimated that the experimental time takes about another seven to eight months for each product. We also hope to commence with clinical testing of 8 testing kit products in 2009 for uterine cancer, cervical cancer, ovulatory cancer, liver cancer, breast cancer and neisseria gonorrhea. We cannot predict whether, and when, these efforts will be successful, or the likelihood and/or timing of receiving SFDA approval of each product.

Research and Development

Research and Development for Endothelin-1

One of our various products under development is Endothelin-1. We have already completed oxicology and teratogenicity testing, and have established quality standards, and further developments are underway to improve the product quality of Endothelin-1. In collaboration with Harbin Medical University, we have completed a laboratory experimental study pertaining to Endothelin-1, which is required prior to clinical trials, and are currently applying for approval to enter clinical experiments. At such time as development and clinical testing is successfully completed, we

will commence efforts to market Endothelin-1 in the PRC and, where legal, as a new anti-cancer medicine. There can be no assurance, of course, that these development efforts, or that any subsequent efforts to obtain SFDA approval (or other foreign drug regulatory authority approval where we may wish to market this drug) of the product, will be successful. We hope to develop Endothelin-1 as a cancer treatment drug that works by "starving" cancer cells by restricting the generation of blood vessels around cancer lesions, thereby inhibiting, to a degree, the source of nutrients upon which the cancer cells survive. Endothelin-1 has been recognized by the PRC medical industry as a "Top Category in New Medicine." In order to qualify as the "Top Category in New Medicine," a company must have intellectual property rights, high technology involvement, strong innovation, and the medicine must be the first of its kind to be introduced to the PRC. TDR has ownership of the intellectual property rights pertaining to this technology, and has obtained an invention patent in China for Endothelin-1. We expect that research and development and testing will be completed for manufacturing in 2009. To date we have expensed over approximately $3,163,218 (unaudited) on research and development for Endothelin-1.

Research and Development for Cord Blood Stem Cell Bank

In 2006, we began implementing a plan to establish a cord blood stem cell bank in the PRC, for the treatment of various diseases such as leukemia, lymphoma and rebirth anemia. We are now in the process of perfecting our cultivation methods and freezing/storage of stem cells. It is expected that these efforts will continue over the next two years or more in particular in the research and development of technology, applications and methodology for the establishment of a cord blood stem cell bank. We have recently organized Harbin Tian Qing Biotech Application Company (referred to herein as "Harbin Biotech") as a wholly-owned subsidiary, to conduct research and development in the areas of tissue and stem cell banks. This project will involve substantial expense and involve numerous risks. We entered into a development agreement with the Heilongjiang Provincial Red Cross out-patient department for purposes of defraying the costs of developing and marketing this product and are seeking additional R&D partners with laboratories having substantial experience in this area for this purpose as well.

Exclusive Regional License for Stem Cell Research

Research in biotechnology areas such as tissue and stem cell banks has historically been controlled tightly by the government of the PRC. Recently, however, the PRC government has altered its policies to allow one company per each geographic area in China to become actively engaged in research in these areas, with the result that many companies have applied to become engaged in this area of research and development.

In August 2006, we applied with the Ministry of Health of the PRC to become engaged in the research and development of stem cell and tissue banks and related biotechnology areas. Following an extensive review by the applicable local office of the Health Department of Heilongjiang Province, our application was approved on October 16, 2006, granting us, through our subsidiary, the exclusive right and license to become engaged in tissue and stem cell bank activities in Heilongjiang Province,PRC, through December 2010. We intend to renew this license from time to time as necessary. We organized Harbin Biotech to conduct these business operations, as required by Heilongjiang Province. Cord blood stem cells have been shown to be effective in treating a number of diseases, including but not limited to: (a) various forms of blood diseases, including Mediterranean anemia, Dresbach's anemia, hypoplastic anemia, inborn cell deficiency, Evan's syndrome, Fanconi's anemia, Kostmann's syndrome, and Blackfan-Diamond's anemia; (b) various malignant diseases, including encephaloma, lymphoma, acute and chronic leukemia, Ewing myoma, Neuoblastoma, germ cell tumor, and multiple myeloma; (c) metabolism defects, including congenital dyskeratosis, Gunter's disease, and Lesch-Nyhan's disease; (d) immunodeficiency disease, including chronic granuloma disease and Wiskott-Aldrich syndrome; and (e) various auto-immune diseases.