

CHINA SKY ONE MEDICAL, INC.

Form S-1

April 11, 2008

As filed with the Securities and Exchange Commission on April 10, 2008

Registration No. 333-\_\_\_\_\_

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**CHINA SKY ONE MEDICAL, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**2833**

(Primary Standard Industrial  
Classification Code Number)

**87-0430322**

(I.R.S. Employer  
Identification Number)

**Room 1706, No. 30 Di Wang Building, Gan Shui Road,  
Nandang District, Harbin, People's Republic of China 150001  
86-451-53994073 (China)**

(Address, including zip code, and telephone number, including area  
code, of registrant's principal executive offices)

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:

Jeffrey A. Rinde, Esq.  
Hodgson Russ LLP  
1540 Broadway, 24<sup>th</sup> Floor  
New York, NY 10036

As soon as practicable after the effective date of this Registration Statement  
(Approximate date of commencement of proposed sale to the public)

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 “small reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer   
Non-accelerated filer       Smaller reporting company

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**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered (1) | Proposed Maximum Offering Price Per Unit (2) | Proposed Maximum Aggregate Offering Price (2) | Amount of Registration Fee |
|--|-----------------------------|--|---|----------------------------|
| Common stock, \$.001 par value per share           | 2,860,835 shares            | \$ 10.20                                     | \$ 28,449,452                                 | \$ 1,120                   |
| Common stock, \$.001 par value per share (3)       | 750,000 shares              | \$ 10.20                                     | \$ 7,650,000                                  | \$ 301                     |
| Common stock, \$.001 par value per share (4)       | 239,168 shares              | \$ 10.20                                     | \$ 2,439,483                                  | \$ 97                      |
| Common stock, \$.001 par value per share (5)       | 50,000 shares               | \$ 10.20                                     | \$ 510,000                                    | \$ 201                     |
| Common stock, \$.001 par value per share (6)       | 50,000 shares               | \$ 10.20                                     | \$ 510,000                                    | \$ 201                     |
| <b>Total</b>                                       | <b>3,950,003 shares</b>     |  | <b>\$ 49,758,935</b>                          | <b>\$ 1,920</b>            |

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends and similar transactions and anti-dilution provisions.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act; calculated based on the average of the bid and ask price for the Registrant's common stock on March 26, 2008, as reported on the OTC Bulletin Board.

(3) Represented by shares of common stock underlying Class A Warrants held by selling securityholders, exercisable at \$12.50 per share, expiring July 31, 2011.

(4) Represented by shares of common stock underlying callable warrants exercisable at \$3.50 per share, expiring on October 10, 2008.

(5) Represented by shares of common stock underlying consulting warrants issued to a former executive, exercisable at \$3.00 per share, expiring December 20, 2008.

(6) Represented by shares of common stock underlying placement agent warrants exercisable at \$3.50 per share, expiring on December 23, 2008.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE

AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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**SUBJECT TO COMPLETION, DATED APRIL 9, 2007**

**PROSPECTUS**

**China Sky One Medical, Inc.**

**3,950,003 Shares of Common stock**

**Offered by Selling Securityholders**

This prospectus relates to the resale from time to time of up to 3,950,003 shares of the common stock of China Sky One Medical, Inc., a Nevada corporation, by the selling securityholders described in the section entitled "Selling Securityholders" beginning on page 40 in this prospectus. The shares being sold by the selling securityholders includes 2,860,835 shares and 1,089,168 shares of our common stock issuable upon exercise of various outstanding warrants.

China Sky One will not receive any proceeds from the sale of the shares by the selling securityholders to the public. If any of the warrants are exercised so that the underlying shares may be sold in this offering, we will receive the exercise price of these warrants, which exercise prices vary between \$3.00 and \$12.50 per share.

The selling securityholders may offer and sell any of the shares of our common stock from time to time at fixed prices, at market prices or at negotiated prices, and may engage a broker, dealer or underwriter to sell the shares. For additional information on the possible methods of sale that may be used by the selling securityholders, you should refer to the section entitled "Plan of Distribution" on page 55 of this prospectus.

Our common stock is approved for quotations on the OTC Bulletin Board quotation service under the symbol "CSKI". The closing bid price of our common stock on March 26, 2008 was \$9.00.

Brokers or dealers effecting transactions in the shares should confirm the registration of these securities under the securities laws of the states in which transactions occur or the existence of an exemption from registration.

Certain selling securityholders and any participating broker-dealers may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act of 1933. See "Selling Securityholders" and "Plan of Distribution".

**Investing in the common stock of China Sky One involves a high degree of risk. You should invest in the common stock only if you can afford to lose your entire investment. See "Risk Factors" beginning on page 5.**

**The information in this prospectus is incomplete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2008



YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS, OR OF ANY SALE OF OUR COMMON STOCK.

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## PROSPECTUS SUMMARY

*This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in the common stock. You should carefully read this entire prospectus, including the section entitled “Risk Factors” and our financial statements and the notes contained in this prospectus, before making an investment decision.*

### **China Sky One Medical, Inc.**

China Sky One Medical, Inc. (“China Sky One”), is a Nevada corporation formed on February 7, 1986, formerly known as Comet Technologies, Inc. (“Comet”). On July 26, 2006, after our acquisition of a China based nutritional supplements business, we changed our name from “Comet Technologies, Inc.” to “China Sky One Medical, Inc.” Our executive offices are located at Room 1706, No. 30 Di Wang Building, Gan Shui Road, Nandang District, Harbin, People’s Republic of China 150001, and our Phone number in the PRC is 86-451-53994073.

We are engaged, exclusively through our PRC 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 PRC and through PRC 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 the PRC.

All of our business is conducted in the PRC, through our indirect subsidiary in the PRC, Harbin Tian Di Ren Medical Science and Technology Company (“TDR”), and TDR’s subsidiaries.

We acquired our current PRC based business on May 30, 2006 by acquiring all of the shares of common stock of American California Pharmaceutical Group, Inc., a California corporation formed on December 16, 2003 (“ACPG”), from its shareholders in exchange for 10,193,377 shares of our common stock (approximately 93% of our common stock at the time), resulting in a change of control of the Company, then known as Comet Technologies, Inc. This transaction is treated as a reverse merger for accounting purposes. At the time of this acquisition, ACPG had already owned TDR and its subsidiaries, which it acquired in 2005. ACPG does not have its own operations or revenues other than its ownership of TDR.

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.

We have also recently 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 October 16, 2006, the Company successfully entered into the field of research and development of tissue and stem cell banks, with the establishment of Harbin Tian Qing Biotech Application Company (“Harbin Biotech”). The Health Department of Heilongjiang Province, on the basis of the evaluation of results from experts, issued a document approving and authorizing the Company to enter into the above-mentioned development areas. Harbin Biotech, now a



wholly-owned subsidiary of the Company, obtained legal operation rights in these fields, which prevents other companies from entering the same fields in Heilongjiang Province.

On April 3, 2008, TDR completed an acquisition pursuant to an Equity Transfer Agreement dated February 22, 2008, between TDR and Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized under the laws of the PRC (“Heilongjiang”), which is in the business of manufacturing external-use pharmaceuticals. Our TDR subsidiary previously acquired the Beijing sales office of Heilongjiang in mid 2006. Pursuant to the Equity Transfer Agreement, TDR acquired 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang’s sole stockholder, in consideration for an aggregate of approximately \$8,300,000, consisting of (i) \$8,000,000 in cash, and (ii) shares of common stock of the parent company, China Sky One with a dollar value of \$300,000(24,809 shares, \$.001 par value per share).

## Summary of Offering

### *General*

The Company is not offering any securities in this registration statement and all securities will be sold by certain selling securityholders.

As of March 20, 2008, there were 14,852,214 shares of common stock outstanding, which includes 2,860,835 outstanding shares of our common stock being registered in this prospectus for resale by the selling securityholders. The sale of these shares and other shares may have an adverse effect on the market price for our common stock.

The common stock of China Sky One is traded on the OTC Bulletin Board under the trading symbol "CSKI".

### *Securities Being Registered*

#### *Common stock*

The Company is registering 3,950,000 shares of which 2,860,835 are outstanding shares of common stock being offered for resale by certain selling securityholders named in this prospectus. The Company will not receive any of the proceeds from the sales of these securities.

#### *Common stock Underlying Warrants*

We are also registering for resale by certain Selling Securityholders, 1,089,168 shares of common stock issuable upon exercise of warrants (but are not registering the warrants themselves) to held by them. We will receive proceeds only from the exercise of the warrants but will not receive proceeds from the sale of these securities by the selling securityholders. The warrants are exercisable at various prices. A summary of these warrants are as follows:

- 750,000 shares issuable upon exercise of Class A Warrants exercisable at \$12.50 per share, issued to investors in connection with our private offering in January 2008, exercisable between July 31, 2008 and July 31, 2011,
- 239,168 shares issuable upon exercise of callable warrants exercisable at \$3.50 per share (originally, 500,000 callable warrants, many of which have been exercised the shares of which are being registered hereby), expiring October 10, 2008 and held by certain investors in our private offering of securities in October of 2006,
- 50,000 shares of common stock issuable upon exercise of warrants exercisable at \$3.00 per share, issued to Mr. Jack M. Gertino, a former executive of the Company, and expiring December 23, 2008, and
- 50,000 shares of common stock issuable upon exercise of warrants exercisable at \$3.50 per share, issued to American Eastern Securities, Inc. (and its assigns) and expiring on October 10, 2008.

The above does not include 1,000,000 shares underlying warrants exercisable at \$2.00 per share, issued to certain previous investment bankers of the Company in 2006, which are not being registered but which, if sold, could have a dilutive effect on the Company's market price. The Company is required to register for re-sale all shares otherwise issuable upon exercise of certain of the above listed warrants. If a registration statement is not declared effective many of the foregoing warrants will become exercisable through a cashless exercise method.

#### *Use of Proceeds*

We will not receive any proceeds from the sale of common stock by the selling securityholders of China Sky One in this offering. However, we will receive proceeds from the exercise of warrants by the selling securityholders. In the extent warrants are exercised, we intend to use the proceeds for general working capital purposes.

*Risk Factors*

An investment in the shares involves various risks including, but not limited to, general economic and business conditions in China and the competitiveness of the over-the-counter nutritional supplement and the over-the-counter plant and herb-based pharmaceutical and medicinal products industry in China. Specific risk factors can be found commencing page 5.

**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected consolidated financial data of China Sky One for the years ended December 31, 2007 and 2006. Prior to such time the company was a “blank check” shell company, accordingly earlier financial information about the registrant may not be relevant. The table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements, including the notes, appearing in elsewhere in this prospectus.

Consolidated Income Statement Data

|   | <b>For the Years Ended<br/>December 31,</b> |               |
|---|---|---------------|
|   | <b>2007</b>                                 | <b>2006</b>   |
| Sales                                       | \$ 49,318,308                               | \$ 19,881,715 |
| Cost of goods sold                          | 10,939,531                                  | 5,063,084     |
| Research expenses                           | 3,158,351                                   | 2,026,788     |
| General & administrative                    | 16,163,577                                  | 10,738,285    |
| Depreciation                                | 443,063                                     | 121,522       |
| Other income                                | 48,889                                      |               |
| Gain on disposal of asset                   |   |               |
| Interest expense/finance costs              | (10,557)                                    | (227,857)     |
| Minority interest                           |   |               |
| Income tax (provision) benefit              | (3,319,173)                                 | (1,079,764)   |
| Net income                                  | 15,332,945                                  | 624,415       |
| Other comprehensive income                  | 1,849,724                                   | 364,565       |
| Total comprehensive income                  | 17,182,669                                  | 988,980       |
| Basic net income per share                  | \$ 1.27                                     | \$ 0.05       |
| Weighted average basic shares outstanding   | 12,094,949                                  | 12,031,536    |
| Diluted net income per common share         | \$ 1.15                                     | \$ 0.05       |
| Weighted average diluted shares outstanding | 13,370,528                                  | 12,941,283    |

Consolidated Balance Sheet Data

|                           | <b>Year Ended December 31,</b> |               |
|---------------------------|--------------------------------|---------------|
|                           | <b>2007</b>                    | <b>2006</b>   |
| Total Assets              | \$ 37,285,206                  | \$ 16,681,036 |
| Total Current liabilities | 5,040,393                      | 2,370,194     |
| Long term debt (1)        |                                |               |
| Minority interest         | —                              |               |
| Total stockholders equity | 32,244,813                     | 14,310,842    |

Quarterly Financial Data for 2007 and 2006

|                                   | <b>March 31,<br/>2007</b> | <b>June 30,<br/>2007</b> | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2007</b> | <b>Fiscal Year<br/>2006</b> |
|-----------------------------------|---------------------------|--------------------------|-------------------------------|------------------------------|-----------------------------|
| Total revenues                    | \$ 5,179,116              | \$ 19,824,363            | \$ 36,594,933                 | \$ 49,318,308                | \$ 19,881,715               |
| Gross profit                      | \$ 4,052,421              | \$ 15,389,020            | \$ 28,490,578                 | \$ 38,378,777                | \$ 14,818,631               |
| Gross Margin:                     | 78%                       | 78%                      | 77%                           | 78%                          | 75%                         |
| Net income                        | \$ 1,549,321              | \$ 5,781,644             | \$ 11,227,915                 | \$ 15,332,945                | \$ 624,415                  |
| Net earnings per common<br>share: |                           |                          |                               |                              |                             |
| Basic                             | \$ 0.13                   | \$ 0.48                  | \$ 0.93                       | \$ 1.27                      | \$ 0.05                     |
| Diluted                           | \$ 0.12                   | \$ 0.46                  | \$ 0.90                       | \$ 1.15                      | \$ 0.05                     |

*[Remainder of Page Intentionally Left Blank]*

## **RISK FACTORS**

*Our business and financial condition is subject to numerous and substantial risks including, without limitation, risks relating to our forward looking statements. A description of these forward looking statements is contained in the forepart of this prospectus and incorporated by reference herein. These risks include those set forth below and elsewhere in this prospectus. Readers are encouraged to review these risks carefully before making any investment decision. Additional risks and uncertainties not presently foreseeable to us may also impair business operations. If any of the following risks occur, our business, financial condition or operating results could be materially and adversely affected. In such case, the trading price of our common stock could decline, and an investor could lose all or part of his investment. Most of the risks set forth below pertain to the business relating to the businesses of our PRC based subsidiaries.*

## **BUSINESS RISKS**

***Certain officers and directors have significant control over our company, and we do not have employment agreements with them.***

Dr. Liu Yan-qing and Ms. Han Xiao-yan, who are officers and directors of China Sky One, also serve as officers and directors of ACPG and TDR. Dr. Liu and Ms. Han own, in the aggregate, 50.4% of the issued and outstanding shares of our common stock. As a result, these shareholders are effectively able to control certain corporate governance matters requiring shareholders' approval. Such matters may include transactions in which they have an interest other than as a shareholder of the Company, the approval of significant corporate transactions such as increasing the authorized number of our shares to complete acquisitions or raise capital, if necessary, and any other transactions requiring a majority vote without seeking other shareholders' approval. These persons also have the ability to control other matters requiring shareholder approval including our election of directors which could result in the entrenchment of management. Dr. Liu has also deposited 3,000,000 shares into escrow which may be released to unaffiliated investors if certain performance thresholds are not met, which would greatly reduce such executive's financial stake in our company.

Additionally, we do not have employment agreements with such management. Accordingly, if any of these persons should leave the company we would have no remedy or protections in place and would not be able to prevent them from competing with us or working for competitors.

***Our expansion plan may not be successful.***

Part of our strategy is to grow through increasing the distribution and sales of our products by penetrating existing markets in the PRC and Hong Kong, and entering new geographic markets in the PRC as well as Asia, the United States and other countries. However, many obstacles to entering such new markets exist, including, but not limited to, international trade and tariff barriers, regulatory constraints, product liability concerns, shipping and delivery costs, costs associated with marketing efforts abroad and maintaining attractive foreign exchange ratios. Moreover, our expansion strategy may be based on incorrect assumptions and may be flawed, and may even damage our performance, competitive position in the market and ultimately even our ability to survive in the marketplace. Even if the strategy is correct, we may never be able to successfully implement our strategy. We cannot, therefore, assure shareholders that we will be able to successfully overcome such obstacles and establish our products in any additional markets. Our inability to implement this growth strategy successfully may have a negative impact on growth, future financial condition, results of operations or cash flows.

***There are many safety risks involved in our products and services that could expose us to liability or inhibit our ability to secure insurance.***

Our products and services involve direct or indirect impact on human health and life. The drugs, products and services we manufacture and sell may be flawed and cause dangerous side effects and even fatality in certain cases, and lead to major business losses and legal and other liabilities and damages to our company. In the event that any of our products are alleged to have adverse side effects, we could be subject to product liability claims. In addition to the threat of liability, there may be insurance costs if we enter into certain markets or may not be able to obtain insurance for certain products in some countries. Some distributors may refuse to sell our products in certain countries if they perceive such products to have a high risk or to be uninsurable.

***We are highly dependent upon the public perception and quality of our products. Additionally, anti-corruption measures taken by the government to correct corruptive practices in the pharmaceutical industry could adversely affect our sales and reputation.***

We are highly dependent upon consumers' perception of the safety and quality of our products as well as similar products distributed by other companies. Thus, the mere publication of reports asserting that such products may be harmful could have a material adverse effect on our business, regardless of whether these reports are scientifically supported.

The government has recently taken anti-corruption measures to correct corrupt practices. In the pharmaceutical industry, such practices include, among others, acceptance of kickbacks, bribery or other illegal gains or benefits by the hospitals and medical practitioners from pharmaceutical distributors in connection with the prescription of a certain drug. Substantially all of our sales to our ultimate customers are conducted through third-party distributors. We have no control over our third-party distributors, who may engage in corrupt practices to promote our products. While we maintain strict anti-corruption policies applicable to our internal sales force and third-party distributors, these policies may not be effective. If any of our third-party distributors engage in such practices and the government takes enforcement action, our products may be seized and our own practices, and involvement in the distributors' practices may be investigated. If this occurs, our sales and reputation may be materially and adversely affected.

***Our success will depend on our research and the ability to develop new products.***

Our growth depends on our ability to consistently discover, develop and commercialize new products and find new and improve on existing technologies, platforms and products. As such, if we fail to make sufficient investments in research, to be attentive to consumer needs, or fail to focus on the most advanced technologies, our current and future products could be surpassed by more effective or advanced products of other companies.

***Significant competition from existing and new entities could adversely affect revenues and profitability.***

We compete with other companies, many of which are offering and/or developing, or can be expected to develop and offer, products similar to ours. Our market is a large market with many competitors. Many of our competitors are more established than we are, and have significantly greater financial, technical, marketing and other resources than our company. Some of our competitors have greater name recognition and a larger customer base. These competitors may be able to respond more quickly to new or changing opportunities and customer requirements and may be able to undertake more extensive promotional activities, offer more attractive terms to customers, and adopt more aggressive pricing policies. We cannot assure investors that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not harm our business.

***We may not be able to obtain sufficient financing, and may not be able to develop our product candidates.***

We may need to incur debt or issue equity in order to fund research and other expenditures as well as to make acquisitions and other investments. We cannot assure you that debt or equity financing will be available to us on acceptable terms or at all. If we cannot or are limited in the ability to incur debt, issue equity or enter in strategic collaborations, we may be unable to fund discovery and development of our product candidates, address gaps in our product offerings or improve our technologies.

We anticipate that we will need to raise substantial amounts of money to fund a variety of future activities integral to the development of our business, which may include but are not limited to the following:

- obtaining regulatory approval for our products and conducting research and development to successfully develop our stem cell and other technologies,
  - filing and prosecuting patent applications and defending and assessing patents to protect our technologies,
  - retaining qualified employees, particularly in light of intense competition for qualified scientists,
  - manufacturing products ourselves or through third parties,
- marketing our products, either through building our own sales and distribution capabilities or relying on third parties, and
  - acquiring new technologies, licenses or products.

We cannot assure you that any needed financing will be available to us on acceptable terms or at all. If we cannot obtain additional financing in the future, our operations may be restricted and we may ultimately be unable to continue to develop and potentially commercialize our product candidates.

***We are subject to market and channel risks.***



Over 75% of our sales are made in the PRC, where we primarily sell our products through drug chain stores. Because of this, we are dependent to a large degree upon the success of our PRC based distribution channel as well as the success of specific retailers in the distribution channel. Many of the drug stores are individual stores or very small chains, and only a few are large chain drug stores. We rely on these distribution channels to purchase, market, and sell our products. Our success is dependent, to a large degree, on the growth and success of the drug stores, which may be outside our control. There can be no assurance that the drug store distribution channels will be able to grow or prosper as it faces price and service pressure from other channels, including the mass market. There can be no assurance that retailers in the drug store distribution channel, in the aggregate, will respond or continue to respond to our marketing commitment in these channels.

***We may have difficulty in defending intellectual property rights from infringement.***

Our TCM products are generally not protected by patents but by trade secrets. Certain TCM license agreements are made on a non-exclusive basis. Our success depends, in large part, on our ability to protect current and future technologies and products and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market similar products. We continually file patent applications seeking to protect newly developed technologies and products in various countries, particularly in the PRC. Some patent applications in the PRC are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by many months, we may not be the first to invent, or file patent applications on any of its discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to or licensed by us may not provide competitive advantages for its products. Patents that are issued may be challenged, invalidated or circumvented by competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

To the extent that we market products in other countries, we may have to take additional action to protect our intellectual property. The measures we take to protect our proprietary rights may be inadequate, and we cannot provide any assurance that our competitors will not independently develop formulations and processes that are substantially equivalent or superior to our products or copy our products.

We also rely on trade secrets, non-patented proprietary expertise and continuing technological innovation that we seek to protect, in part, by entering into confidentiality agreements with licensees, suppliers, employees and consultants. These agreements may be breached and there may not be adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Moreover, trade secrets and proprietary technology may otherwise become known or be independently developed by competitors. If patents are not issued with respect to products arising from research, we may not be able to maintain the confidentiality of information relating to these products.

***We will be subject to risks relating to third parties that may claim that we infringe on their proprietary rights and may prevent us from manufacturing and selling certain of our products.***

There has been substantial litigation in the pharmaceutical and nutraceutical industries with respect to the manufacturing, use and sale of new products. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may be required to commence or defend against charges relating to the infringement of patent or proprietary rights. Any such litigation could involve or result in:

- the incurrence of substantial expense, even if we are successful in the litigation;
- a diversion of significant time and effort of technical and management personnel;
- the loss of our rights to develop or make certain products; and
- the payment of substantial monetary damages or royalties in order to license proprietary rights from third parties.

Although patent and intellectual property disputes within these industries have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. These arrangements may be investigated by regulatory agencies and, if improper, may be invalidated. Also, the required licenses may not be made available to our company on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent our company from manufacturing and selling some of our products or increase costs to market these products.

In addition, when seeking regulatory approval for some of our products, we are required to certify to regulatory authorities, including the SFDA that such products do not infringe upon third party patent rights. Filing a certification against a patent gives the patent holder the right to bring a patent infringement lawsuit against our company. Any lawsuit would delay regulatory approval by the SFDA. A claim of infringement and the resulting delay could result in substantial expenses and even prevent us from manufacturing and selling certain of our products.

The launch of a product prior to a final court decision or the expiration of a patent held by a third party may result in substantial damages to our company. Depending upon the circumstances, a court may award the patent holder damages equal to three times their loss of income. If our company is found to infringe a patent held by a third party and become subject to such treble damages, these damages could have a material adverse effect on our results of operations and financial condition.

***Our failure to comply with accounting policies and regulations in making reasonable estimates and judgments could negatively impact our financial position and results of operation.***

We will be subject to critical accounting policies and actual results may vary from estimates. We have followed, and will continue to follow, generally accepted accounting principles for the United States in preparing financial statements. As part of this work, we must make many estimates and judgments concerning future events. These affect the value of the assets and liabilities, contingent assets and liabilities, and revenue and expenses reported in such financial statements. We believe that these estimates and judgments are reasonable, and we have made them in accordance with accounting policies based on information available at the time. However, actual results could differ from estimates, and this could require us to record adjustments to expenses or revenues that could be material to our financial position and results of operations in the future.

***Our business is subject to many governmental regulatory and policy risks.***

Our business must be conducted in compliance with various government regulations and in particular, the PRC State Food and Drug Administration (“SFDA”) regulations. Government regulations may have material impact on our operations, increase costs and could prevent or delay the manufacturing and selling of our products. Research, development, testing, manufacturing and marketing activities are subject to various governmental regulations in China, including health and drug regulations. Government regulations, among other things, cover the inspection of and controls over testing, manufacturing, safety and environmental considerations, efficacy, labeling, advertising, promotion, record keeping and sale and distribution of pharmaceutical products. We will not be able to license, manufacture, sell and distribute the vast majority of its products without a proper approval from government agencies and in particular the SFDA. There is no assurance that we will obtain such approvals.

In addition, delays or rejections may be encountered based upon additional government regulation from future legislation, administrative action or changes in governmental policy and interpretation during the period of product development and product assessment. Although we have, so far, obtained the rights to sell our products in the PRC, we may not continue to receive and maintain regulatory approvals for the sales of these products. Our marketing activities are also subject to government regulations with respect to the prices that it intends to charge or any other marketing and promotional related activities. Government regulations may substantially increase the costs for developing, licensing, manufacturing and selling products, impacting negatively our operations, revenue, income and cash flow. For more specific risks relating to doing business in the PRC see “China Related Risks” below.

***There could be changes in government regulations towards the pharmaceutical and nutraceutical industries that may adversely affect our business.***

The manufacture and sale of pharmaceutical and nutraceutical products in the PRC is heavily regulated by many state, provincial and local authorities. These regulations significantly increased the difficulty and costs involved in obtaining and maintaining regulatory approvals for marketing new and existing products. Our future growth and profitability depends to a large extent on our ability to obtain regulatory approvals.

The SFDA of China implemented new guidelines for licensing of pharmaceutical products. All existing manufacturers with licenses, which are currently valid under the previous guidelines, were required to apply for the Good Manufacturing Practices “GMP” certifications by June 30, 2004, and to receive approvals by December 31, 2004. We received certifications for our current products. However, should we fail to maintain the GMP certifications under the new guidelines in the future, or for new products, our businesses would be materially and adversely affected.

Moreover, the laws and regulations regarding acquisitions of the pharmaceutical and nutraceutical industries in the PRC may also change and may significantly impact our ability to grow through acquisitions. For more specific risks relating to doing business in the PRC see “China Related Risks” below.

***We need to manage growth in operations to maximize our potential growth and achieve our expected revenues.***

Our success depends on our ability to achieve continued growth. In order to maximize potential growth in current and potential markets, we believe that we must expand our manufacturing and marketing operations. This expansion will place a significant strain on management and operational, accounting and information systems and will require substantial additional capital. We will need to continue to improve financial controls, operating procedures, and management information systems if and as we grow. We will also need to effectively train, motivate, and manage our employees. A failure to manage our growth could disrupt operations and ultimately prevent us from generating the revenues we expect.

***International operations require our company to comply with a number of U.S. and international regulations.***

We are required to comply with a number of international regulations in countries outside of the United States. In addition, we must comply with the Foreign Corrupt Practices Act, or FCPA, which prohibits U.S. companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. Any failure to adopt appropriate compliance procedures and ensure that our employees and agents comply with the FCPA and applicable laws and regulations in foreign jurisdictions could result in substantial penalties and/or restrictions in our ability to conduct business in certain foreign jurisdictions. The U.S. Department of The Treasury's Office of Foreign Asset Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, we are restricted from entering into transactions with certain targeted foreign countries, entities and individuals except as permitted by OFAC which may reduce our future growth.

***We may incur significant costs to ensure compliance with U.S. corporate governance and accounting requirements.***

We are a public reporting company, and, as such, we will incur significant costs associated with public company reporting requirements, costs associated with newly applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the U.S. Securities and Exchange Commission. We also will be deemed an "Accelerated Filer" for SEC reporting purposes, for the first time, which will require our preparation and filing of more detailed reports on a quicker schedule, which we have never done before. All of these applicable rules and regulations can be expected to increase legal and financial compliance costs and to make some activities more time consuming and costly. Management also expects that these applicable rules and regulations may make it more difficult and more expensive to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for our company to attract and retain qualified individuals to serve on our board of directors or as executive officers.

***We may have difficulty raising necessary capital to fund operations as a result of market price volatility for our shares of common stock.***

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new technologies and to expand into new markets. The exploitation of existing and new technologies may, therefore, be dependent upon our ability to obtain financing through debt and equity or other means.

***We are obligated to indemnify our officers and directors for certain losses they suffer.***

To the fullest extent permitted by Chapter 78 of the Nevada Revised Statutes, we may, if and to the extent authorized by our board of directors, indemnify our officers and any other persons who we have power to indemnify against liability, reasonable expense or other matter whatsoever. If we are required to indemnify any persons under this policy, we may have to pay indemnity in a substantial amount which we may be unable to recover at all.

#### **CHINA RELATED RISKS**

***Our business will be affected by the government regulation and Chinese economic environment because most of our sales will be in the China market.***

The manufacture and sale of pharmaceutical products in China is heavily regulated by many state, provincial and local authorities. The SFDA of China requires pharmaceutical manufacturers to obtain Good Manufacturing Practices, or GMP, certifications. We currently have the certifications needed for our current operations. However, should we fail to receive or maintain the GMP certifications in the future, we would no longer be able to manufacture pharmaceuticals in China, and our businesses would be materially and adversely affected. These regulations significantly increase the difficulty and costs involved in obtaining and maintaining regulatory approvals for marketing new and existing products. Our future growth and profitability depend to a large extent on our ability to obtain regulatory approvals. Additionally, the law could change so as to prohibit the use of certain pharmaceuticals. If one of our products becomes prohibited, this change would cease the productivity of that product. The China National Development and Reform Commission, or CNDRC, has recently implemented price adjustments on many marketed pharmaceutical products. We have no control over such governmental policies, which may impact the pricing and profitability of our products.

Although we have started exporting products to other countries, most of our sales are in the PRC and Hong Kong. It is anticipated that our products in the PRC will continue to represent a significant portion of sales in the near future.

As a result of our reliance on the PRC markets, our operating results and financial performance could be affected by any adverse changes in economic, political and social conditions in the PRC.

The modernization of regulations for the pharmaceutical industry is relatively new in the PRC, and the manner and extent to which it is regulated will continue to evolve. As a pharmaceutical company, we are subject to the Pharmaceutical Administrative Law, which governs the licensing, manufacture, marketing and distribution of pharmaceutical products in the PRC, and sets penalty provisions for violations of provisions of the Pharmaceutical Administrative Law. In addition as a "Foreign Owned Enterprise," we will be subject to the Foreign Company provisions of the Company Law of the PRC. Changes in these laws or new interpretations of existing laws may have a significant impact our methods and our cost of doing business. For example, if legislative proposals for pharmaceutical product pricing, reimbursement levels, approval criteria or manufacturing requirements should be

proposed and adopted, such new legislation or regulatory requirements may have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we are subject to varying degrees of regulation and licensing by governmental agencies in China. At this time, we are unaware of any China legislative proposals that could adversely affect our business. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect on our operations, that regulators or third parties will not raise material issues with regard to compliance or non-compliance with applicable laws or regulations, or that any changes in applicable laws or regulations will not have a material adverse effect on our business.

***Certain political and economic considerations relating to China could adversely affect our company.***

China is transitioning from a planned economy to a market economy. While the PRC government has pursued economic reforms since its adoption of the open-door policy in 1978, a large portion of the Chinese economy is still operating under five-year plans and annual state plans. Through these plans and other economic measures, such as control on foreign exchange, taxation and restrictions on foreign participation in the domestic market of various industries, the PRC government exerts considerable direct and indirect influence on the economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental, and are expected to be refined and improved. Other political, economic and social factors can also lead to further readjustment of such reforms. This refining and readjustment process may not necessarily have a positive effect on our operations or future business development. Our operating results may be adversely affected by changes in China's economic and social conditions as well as by changes in the policies of the PRC government, such as changes in laws and regulations, or the official interpretation thereof, which may be introduced to control inflation, changes in the interest rate or method of taxation, and the imposition of additional restrictions on currency conversion.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

***There are risks inherent in doing business in China.***

The PRC is a developing country with a young market economic system overshadowed by the state under heavy regulation and scrutiny. Its political and economic systems are very different from the more developed countries. China also faces many social, economic and political challenges that may produce major shocks and instabilities and even crises, in both its domestic arena and in its relationship with other countries, including but not limited to the United States. Such shocks, instabilities and crises may in turn significantly and adversely affect our performance.

***The recent nature and uncertain application of many PRC laws applicable to our company create an uncertain environment for business operations and they could have a negative effect on our business and operations.***

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. In 1979, the PRC began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. The promulgation of new laws, changes of existing laws and the abrogation of local regulations by national laws could have a negative impact on our business, business prospects and operations. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

***It may be difficult to effect service of process and enforcement of legal judgments upon our company and its officers and directors because they reside outside the United States.***

As our operations are presently based in the PRC and our directors and officers reside in the PRC, service of process on our company and such directors and officers may be difficult to effect within the United States. Also, substantially all of our assets are located in the PRC and any judgment obtained in the United States against our company may not be enforceable outside the United States.



***Our business may be affected by unexpected changes in regulatory requirements in the jurisdictions in which we operate.***

Our company, and its subsidiaries, are subject to many general regulations governing business entities and their behavior in China and in other jurisdictions in which we and our subsidiaries have, or plan to have, operations and market products. In particular, we are subject to laws and regulations covering food, dietary supplements and pharmaceutical products. Such regulations typically deal with licensing, approvals and permits. Any change in product licensing may make our products more or less available on the market. Such changes may have a positive or negative impact on the sale of our products and may directly impact the associated costs in compliance and our operational and financial viability. Such regulatory environment also covers any existing or potential trade barriers in the form of import tariff and taxes that may make it difficult for us to import our products to certain countries and regions, such as Hong Kong, which would limit its international expansion.

***We may have difficulty attracting talent in foreign countries.***

Currently, over 75% of our sales are in the PRC and in Hong Kong. We are in the process of attempting to establish marketing and sales presence in the United States and other countries. We expect to establish an office in the United States for investor relations. In the future, we may explore expanding its operations in the United States, as well as other countries throughout the world. Upon effecting any such expansion, we may not be able to identify and retain qualified personnel due to its lack of understanding of different cultures and lack of local contacts. This may impede international expansion.

***Currency conversion and exchange rate volatility could adversely affect our financial condition, by making acquisitions in China or of Chinese products ore expensive.***

The PRC government imposes control over the conversion of RMB into foreign currencies. Under the current unified floating exchange rate system, the People's Bank of China publishes an exchange rate, referred to as the PBOC exchange rate, based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions authorized to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorized range above or below the PBOC exchange rate according to market conditions.

Pursuant to the Foreign Exchange Control Regulations of the PRC issued by the State Council which came into effect on April 1, 1996, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of the PRC which came into effect on July 1, 1996, regarding foreign exchange control, conversion of RMB into foreign exchange by Foreign Investment Enterprises, or FIE's, for use on current account items, including the distribution of dividends and profits to foreign investors, is permissible. FIEs are permitted to convert their after-tax dividends and profits to foreign exchange and remit such foreign exchange to their foreign exchange bank accounts in the PRC.

Conversion of RMB into foreign currencies for capital account items, including direct investment, loans, and security investment, is still subject to certain restrictions. On January 14, 1997, the State Council amended the Foreign Exchange Control Regulations and added, among other things, an important provision, which provides that the PRC government shall not impose restrictions on recurring international payments and transfers under current account items. These rules are subject to change.

Enterprises in the PRC (including FIEs) which require foreign exchange for transactions relating to current account items, may, without approval of the State Administration of Foreign Exchange, or SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks by providing valid receipts and proofs.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to certain restrictions, and prior approval from the SAFE or its relevant branches must be sought.

Our company is a FIE to which the Foreign Exchange Control Regulations are applicable. There can be no assurance that we will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

Since 1994, the exchange rate for RMB against the United States dollars has remained relatively stable, most of the time in the region of approximately RMB8.00 to US\$1.00. However, in 2005, the Chinese government announced that would begin pegging the exchange rate of the Chinese RMB against a number of currencies, rather than just the U.S. dollar. Currently, exchange rates are approximately RMB 7.006 to US\$1.00 resulting in the increase in price of Chinese products to U.S purchasers. As our operations are primarily in China, any significant revaluation of the Chinese RMB may materially and adversely affect cash flows, revenues and financial condition. For example, to the extent that we need to convert United States dollars into Chinese RMB for operations, appreciation of this currency against the United States dollar could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we decide to convert Chinese RMB into United States dollars for other business purposes and the United States dollar appreciates against this currency, the United States dollar equivalent of the Chinese RMB that we convert would be reduced.

***We are required to be in compliance with the registered capital requirements of the PRC.***

Under the Company Law of the PRC, our company will be required to contribute a certain amount of “registered capital” to our wholly owned subsidiary. By law, our subsidiaries are required to contribute at least 10% of after tax net income (as determined in accordance with Chinese GAAP) into a statutory surplus reserve until the reserve is equal to 50% of the Company and its subsidiaries’ registered capital, and between 5% and 10% of its after tax net income, as determined by our board of directors, into a public welfare fund. These reserve funds are recorded as part of shareholders’ equity but are not available for distribution to shareholders other than in the case of liquidation. As a result of this requirement, the amount of net income available for distribution to shareholders will be limited.

***Since most of our assets are located in the PRC, any dividends or proceeds from liquidation are subject to the approval of the relevant PRC government agencies. We are not likely to declare dividends in the near future and would need regulatory approval to do so.***

Because our assets are predominantly located inside the PRC, we will be subject to the law of the PRC in determining dividends. Under the laws governing foreign invested enterprises in the PRC, dividend distribution and liquidation are allowed but subject to special procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the board of directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency’s approval and supervision as well the foreign exchange control. This may generate additional risk for investors in case of dividend payment and liquidation.

## **RISKS RELATED TO COMMON STOCK**

***There are substantial risks of lack of liquidity and volatility risks.***

Our common stock is quoted in the OTC Bulletin Board market under the symbol "CSKI." The liquidity of our common stock may be very limited and affected by its limited trading market. The OTC Bulletin Board market is an inter-dealer market much less regulated than the major exchanges, and is subject to abuses and volatilities and shorting. There is currently no broadly followed and established trading market for our common stock. An established trading market may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. Absence of an active trading market reduces the liquidity of the shares traded there.

The trading volume of our common stock may be limited and sporadic. As a result of such trading activity, the quoted price for our common stock on the OTC Bulletin Board may not necessarily be a reliable indicator of its fair market value. In addition, if our shares of common stock cease to be quoted, holders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock and as a result, the market value of our common stock likely would decline.

***We do not plan to declare or pay any dividends to our shareholders in the near future and would need regulatory approval to do so.***

We have not declared any dividends in the past, and we do not intend to distribute dividends in the near future. The declaration, payment and amount of any future dividends will be made at the discretion of the board of directors and subject to PRC law, and will depend upon, among other things, the results of operations, cash flows and financial condition, operating and capital requirements, and other factors as the board of directors considers relevant. There is no assurance that future dividends will be paid, and if dividends are paid, there is no assurance with respect to the amount of any such dividend.

***Sales of our common stock may have an adverse effect on the market price of our common stock. Additionally, we may issue shares upon exercise of outstanding warrants that are exercisable at prices that are below current market prices which will be dilutive to the common stock.***

As of March 20, 2008, there were 14,852,214 shares of common stock outstanding, which includes 2,500,000 shares of our common stock we sold in January 2008 private offering, many of which will become freely transferable under Rule 144 in July 2008 as well as 100,000 shares issued in connection with the recent exercise of warrants at \$3.00 per share and 260,835 callable warrants exercised at \$3.50 per share all of which are required to be registered, along with other shares underlying warrants listed below, in this registration statement. The sale of these shares may have an adverse effect on the market price for our common stock.

The exercise of options and warrants at prices below market price of our common stock could adversely affect the price of our common stock and on our ability to obtain future private or public financings. Additional dilution may result from the issuance of shares of our capital stock in connection with outstanding warrants or shares issued in connection with financing or other share for service arrangements.

Specifically, the following shares underlying warrants are outstanding which include:

- 1,000,000 shares (which are not being registered herein) issuable upon exercise of warrants exercisable at \$2.00 per share via cashless exercise, and expiring July 31, 2009, originally issued to American Eastern Group, Inc. (500,000 warrants) and Schenzen DRB (500,000 warrants) as partial consideration for consulting and investment banking services relating to our October 2006 offering and reverse merger,

- 750,000 shares issuable upon exercise of Class A Warrants exercisable at \$12.50 per share, issued to investors in connection with our private offering in January 2008, exercisable between July 31, 2008 and July 31, 2011,
- 239,168 shares issuable upon exercise of callable warrants exercisable at \$3.50 per share (originally, 500,000 callable warrants, many of which have been exercised the shares of which are being registered hereby), expiring October 10, 2008 and held by certain investors in our private offering of securities in October of 2006,
- 50,000 shares of common stock issuable upon exercise of warrants exercisable at \$3.00 per share, issued to Mr. Jack M. Gertino, a former executive of the Company, and expiring December 23, 2008, and
- 50,000 shares of common stock issuable upon exercise of warrants exercisable at \$3.50 per share, issued to American Eastern Securities, Inc. (and its assigns), and expiring on October 10, 2008.

The Company is required to register for re-sale and is registering for resale hereby, all of the above listed common stock. If a registration statement is not declared effective many of the foregoing warrants will become exercisable through a cashless exercise method.

***Certain Protective Provisions Relating to 2,500,000 shares issued in our January 2008 private offering may have an adverse effect on the price of our common stock.***

In addition to the above mentioned registration rights, holders of the 2,500,000 shares of common stock acquired in our recently completed private offering (January 2008) have certain put rights and rights to receive 3,000,000 additional shares from a key shareholder, as well as additional shares from us, in the event that certain earnings thresholds are not met or if we issue low priced securities. Specifically, these investors have:

- The right to receive additional shares from us in the event that we issue shares (or convertible securities or warrants convertible into or exercisable for common stock) prior to January 31, 2009 at per share price (or conversion or exercise price) of less than \$10.00, in such amount so as to reduce the average price paid by such shareholder to the price per share being paid by the new investors,
- The right to receive up to 3,000,000 shares deposited into escrow by our principal shareholder, in the event that the Company fails to attain Earnings Per Share, as adjusted of at least (i) \$1.05 per share for fiscal year ended December 31, 2007 based on fully diluted shares outstanding before the January 2008 offering (an aggregate of 13,907,696), and/or (ii) \$1.75 per share for fiscal year ending December 31, 2008 based on fully diluted shares outstanding after the January 2008 Offering (an aggregate of 16,907,696 shares). While the Company has satisfied the criterion of (i) above for 2007, no assurance can be made that we will satisfy our earnings goal next year.

The occurrence of either of the above would result in the issuance of additional shares to these investors and would have a material adverse effect on the market price or liquidity of our common stock. The foregoing could also result in a decrease in our principal shareholder's financial stake in the company.

### **FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as “may”, “expect”, “plans”, “intends”, “anticipate”, “believe”, “estimate” and “continue” or similar words and are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial condition or state other “forward-looking” information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control. The factors listed above in the section captioned “Risk Factors”, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in the common stock, you should be aware that the occurrence of the events described as risk factors and elsewhere in this prospectus could have a material adverse effect on our business, operating results and financial condition.

## BUSINESS

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. (“Comet”). 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 a PRC based operating company and TDR’s subsidiaries (the “TDR Acquisition”), 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, the Company issued a total of 10,193,377 shares of its 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.

We have also recently 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 an acquisition pursuant to an Equity Transfer Agreement dated February 22, 2008, between TDR and Heilongjiang Tianlong Pharmaceutical, Inc., a corporation with a multitude of SFDA approved medicines and new medicine applications, organized under the laws of the PRC (“Heilongjiang”), which is in the business of manufacturing external-use pharmaceuticals. Our TDR subsidiary previously acquired the Beijing sales office of Heilongjiang in mid 2006. Pursuant to the Equity Transfer Agreement, TDR acquired 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang’s sole stockholder Wu Jiechen, a resident of China, in consideration for an aggregate purchase price of approximately \$8,300,000, consisting of (i) approximately \$8,000,000 in cash, and (ii) approximately \$300,000 of shares of common stock (24,809 shares, \$.001 par value per

share) of the Registrant. The seller had no material relationship with the Registrant or any of its affiliates, or any director or officer of the registrant, or any associate of any such director or officer. Additional information relating to this entity can be found elsewhere in this “Business” section and in “Recent Developments” at the end of this section below.

### **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.



Our manufacturing and sales facilities are in the City of Harbin, Heilongjiang Province and we have sales offices in Beijing.

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 in 2007 was \$49,318,308, most of which was from sales in China, of which, export sales for our main countries of export (in order of revenues during the year ended 2007) were as follows:

| <b>Export Country</b> | <b>2007 Revenues</b> |
|-----------------------|----------------------|
| Malaysia              | 93,016,227 RMB       |
| United Kingdom        | 540,364 RMB          |
| Hong Kong             | 319,064 RMB,         |
| United Arab Emirates  | 46,215 RMB           |
| United States         | 45,884 RMB           |
| Russia                | 20,160 RMB           |
| Sweden                | 4,458 RMB            |
| Ireland               | 3,346 RMB            |

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 the corporate organization of the Company and all related subsidiaries.

## **SFDA Licenses**

The State Food and Drug Administration of the government of Heilongjiang, China (“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 11 product licenses and permits, inclusive of our recently approved Cardiac Arrest Early Examination and kidney disease testing kits, which have allowed TDR to commercialize a total of 38 products. TDR is undertaking efforts to develop a series of 8 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 the acquisition by TDR of Heilongjiang in April of 2008, TDR acquired all of Heilongjiang’s assets, which included, among other things, sixty-nine (69) SFDA-approved medicines, and an additional thirty-eight (38) new medicines, which have been submitted for approval to the State Food and Drug Administration of China (SFDA).

## **Our TDR Subsidiary Owns the Following Subsidiaries in China**

### *Harbin Bio-Engineering; Enzyme Immunity and Colloid Gold Production*

Harbin First Bio-Engineering Company Limited (often referred to herein as “Harbin Bio-Engineering”), was formed in Heilongjiang Province, in the PRC by TDR as its wholly owned subsidiary, on September 26, 2003 with an authorized capital of \$241,546 (RMB 2 million). 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 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 Bio-Engineering officially put its facility into production on July 21, 2006.

### *Kangxi Medical; Topical Applications*

Kangxi Medical Care Product Factory (referred to herein as “Kangxi Medical”) was formed on July 20, 2001, in the City of Harbin, Heilongjiang Province, in the PRC, with an authorized capital of \$60,386 (RMB 500,000). Kangxi Medical manufactures and sells branded external use Chinese medicine and other natural products under the registered trademark “Kangxi.” Our Kangxi Medical division has four production lines: spray, ointment and cream, powder, and patch. In July 2006 Kangxi Medical was merged into Harbin Bio-Engineering with Harbin Bio-Engineering as the surviving subsidiary of TDR.

### *Harbin Tian Qing Biotech Application Company; Research and Development*

We have also recently 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. (See “Research and Development” below.)

### *Heilongjiang Pharmaceuticals; External Use Pharmaceuticals*

On April 3, 2008, our TDR subsidiary completed the acquisition, pursuant to an Equity Transfer Agreement entered into on February 22, 2008 between TDR and Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized

under the laws of the PRC (referred to herein as “Heilongjiang”), which is in the business of manufacturing external-use pharmaceuticals. TDR previously, in 2006, acquired the Beijing office of this company. Additional information about the terms of this acquisition and the business of Heilongjiang Pharmaceuticals is contained in “Recent Developments” below. Heilongjiang’s assets include, among other things, GMP-certified manufacturing facilities, state-of-the-art manufacturing equipment, an research and development center, approximately \$500,000 in inventory, sixty-nine (69) SFDA-approved medicines, and an additional thirty-eight (38) new medicines, which have been submitted for approval to the State Food and Drug Administration of China (SFDA). In addition, approximately 130 employees of HTP have agreed to continue in their current capacities as employees of HTP. The acquisition was approved by China’s Department of Industry and Commerce as of April 3, 2008.

### **Product Line**

We manufacture over thirty-eight (38) 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 eight (8) products manufactured by other firms (See “Other Products,” below). Our manufacturing operations are conducted in our indirect subsidiaries’ facilities located in Harbin City, China. 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 three basic categories: cosmetics (4 items); medical devices (4 items); and external use medicinal or pharmaceutical external use products (over 22 items). We sell these products in four main different forms, including, without limitation, sprays, ointments and creams, powders, and patches. A description of our main product lines follows.

### ***Sumei Slim Patch***

The Sumei Slim Patch is marketed and sold in 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 Paradis, 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.

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***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 Approved and Brought to Market in 2007**

***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.

***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, 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.

| <b>Product Name</b>   | <b>Treatment Applications</b> | <b>Main Component</b> |
|-----------------------|-------------------------------|-----------------------|
| Ofloxacin Eye Drops   | Conjunctivitis, keratitis     | Ofloxacin             |
| Ribavirin Nasal Drops | Influenza                     | Ribavirin             |

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|                                     |  |  |
|-------------------------------------|--|--|
| Econazole Nitrate<br>Suppositories  | Colpitis (inflammation of the<br>vagina) | Econazole Nitrate                      |
| Qianliming Nasal Drops              | Coryza (head cold)                       | Ethyl ester hydroxybenzene, etc.       |
| Terbinafine Hydrochloride<br>Liquor | Tinea (scalp ringworm)                   | Terbinafine Hydrochloride              |
| Compound Camphor Cream              | Eczema, dermatitis, etc.                 | Camphor, menthol, methyl<br>salicylate |
| Terbinafine Hydrochloride<br>Cream  | Tinea (scalp ringworm)                   | Terbinafine Hydrochloride              |
| Sulfasalazine Suppositories         | Colonitis                                | Sulfasalazine                          |

Total sales in 2007 from products manufactured by other companies under exclusive sales arrangements totaled approximately \$12,998,000 or approximately 26% of total sales in the year ended December 31, 2007, as compared to \$6,383,000, for the year ended December 31, 2006. 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 revenues for 2007 based on application and application usage.

### *Revenues based on Application Category*

Our revenues during 2007 were \$49,318,308. 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, 2007:

| Product Category  | Revenue in 2007            |                         |
|---|----------------------------|-------------------------|
|   | Approx.<br>Amount (U.S.\$) | Approx.<br>% of Revenue |
| Sprays  | \$ 8,742,088               | 18%                     |
| Patches   | 1,402,736                  | 3%                      |
| Ointments   | 3,269,732                  | 7%                      |
| Liquids, Creams and Powders   | 1,704,979                  | 3%                      |
| Miscellaneous Health and Beauty and Products Manufactured by others<br>(43 items) | 34,198,773                 | 69%                     |
| <b>Total Gross Sales From Above Categories</b>                                    | <b>\$ 49,318,308</b>       | <b>100%</b>             |

## 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. We have also recently organized Harbin Tian Qing Biotech Application Company (“Harbin 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, 2007 we invested \$3,158,351 in our own internal R&D with approximately \$2,707,679 (18,970,000 RMB) (unaudited) invested by our R&D partners. Our R&D investments in 2006 were \$2,026,788. 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: (1) the development of an enzyme linked immune technique to prepare extraneous diagnostic kits (see table below); (2) the development of an enzyme linked gold colloid technique to prepare extraneous rapid diagnostic test strip; (3) the development of a gene recombination technique to prepare gene drug; (4) the development of a biology protein chip for various tumor diagnostic applications; and (5) the development of a cord blood stem cell bank described below.

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**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 2008 or beyond for other products. A summary of each of these products is set forth in the table below.

| <b>Testing Kits Name</b>                  | <b>Clinical Experiment and Status</b>   | <b>Application Area</b>                     | <b>Patent or Intellectual Property (IP)</b> |
|---|---|---|---|
| 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; and 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 2008 for: Uterine cancer, cervical cancer, ovulatory cancer, liver cancer, breast cancer and neisseria gonorrhoea. 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. As of the date of this prospectus, we have already completed toxicology 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 is 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 \$2,278,047 (15,690,000 RMB) (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, including the Company.

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 the Heilongjiang Province of the PRC, through December 2010 and currently intend to renew this license from time to time as necessary. The Company 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, Neuroblastoma, 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.

### ***Our Stem Cell Research***

There are numerous advantages of cord blood stem cell banks over traditional marrow transplants, including: a high success rate; low rejection rate; rich source of cord blood; absence of suffering of recipient; simple inspection and quick application; and low matching requirements. While we are not aware of a method to calculate the size of the stem cell market, management believes that the market for this business in PRC and elsewhere is potentially very large. The entry into this business will require strict examination and approval by PRC and local governmental agencies and will require close collaboration with medical institutions and academies.

Blood from umbilical cords—a byproduct of normal childbirth—is a good source of potentially life-saving stem cells, called Hematopoietic progenitor cells (HPCs), the type of stem cells also found in bone marrow and mobilized peripheral blood that give rise to various kinds of blood cells. Transplants of these stem cells have been effective in treating diseases of the blood and immune system, such as anemia and leukemia. Consequently, in many parts of the world, cord blood, once seen as a waste to be discarded after a birth, is now viewed as a valuable resource.

Over the past decade, several public and private cord blood banks have been established in other parts of the world to provide for the collection and preservation of these cells. The PRC is now making these activities available to a limited number of private enterprises in different parts of the PRC, including the Heilongjiang Province where the Company conducts its principal operations. As indicated, our Harbin Biotech subsidiary will have the exclusive right and license to establish a research and development business in this area in northeast China through 2010.

Typically, public cord blood banks collect and store umbilical cord blood donated by women at the birth of a child.

This blood is preserved and stored and made available for a significant fee to anyone who needs it in the future. The children of the donor may, in turn, be able to use the stored stem cells to fight various diseases, immune deficiencies and genetic disorders. Storing the stem cells will come at a cost to the donor, consisting of a sizable initial fee and an annual maintenance fee for each year of storage.

Through Harbin Biotech, we are in the process of implementing a plan to establish a cord stem cell and tissue bank at our newly established facility outside Harbin, Heilongjiang Province, PRC, which is expected to be completed in 2008 or 2009. Management estimates that the total expected project costs to complete the project will be US \$30 million.

This project is a substantial commitment by the Company, and consequently involves a number of significant risks, including, without limitation:

- our need to raise substantial additional capital to fund our stem cell R&D project over the next two or more years, through borrowings, the sale of equity or from income from operations, which, if not obtained on a timely basis, the could severely compromise this project and our rights,
- our continued compliance with laws and requirements of the PRC and reliance on a license from the PRC government to engage in these research and business operations in northeast China on an exclusive basis,
- the developing nature of stem cell banking and research, and numerous technical and development challenges, including issues pertaining to the long-term viability of cryogenically frozen cord blood, and
- our reliance on the efforts of management, in particular Liu Yan-Qing, our President to continue to manage our stem cell research.

There can be no assurance we will be successful in obtaining capital when needed, or on favorable terms or that the PRC government will not restrict or cancel our rights, or allow other competitors to become engaged in this business in northeast China, which would make it more difficult for us to compete.

While we do not expect that our research and development in this area will have a negative impact on our current core business - the manufacture, marketing and sale of nutritional and medicinal products - the development of this business will require substantial managerial, technical and financial resources.

During the 2007 fiscal year, the Company had capital expenditures of over \$10,671,398 (74,763,814RMB) on equipment and construction; \$3,427,979 (24,016,420 RMB) on R&D and \$256,922 (1,800,000RMB) on initiating and continuing the stem cell bank program as well as additional costs in previous periods on equipment, construction and R&D as described in this prospectus.

### **Sales Approach**

We have established a domestic marketing network for our products covering most of the PRC mainland, and have employed sales agents in these areas. Our target customers are chain drug stores and hospitals in all cities. We use distributors to sell products in those countries and remote regions where we do not have sales agents. We have established a marketing network through independent agents to develop an international market. At present, while our primary initial growth focus remains mainland PRC, we have also established over 20 international agents to sell our products, and are expanding our overseas sales efforts.

### **Materials and Suppliers**

We employ a purchasing staff with extensive knowledge of our products who work with marketing, product development, and formulations and quality control personnel to source raw materials for products and other items.

Raw materials are sourced principally in the PRC, and are generally available from a variety of suppliers. No one supplier accounts for more than 20% of our total raw material purchases. We seek to mitigate the risk of a shortage of raw materials, through identification of alternative suppliers for the same or similar raw materials, where available. We manufacture bulk branded products to allow more extensive vertical integration and to improve the quality and

consistency of raw materials.

### **Customers and Distribution**

Currently, our products are sold primarily in the PRC and, to a lesser extent, in Hong Kong and in eleven other countries as listed above. Approximately 75% of our revenues in 2007 were from the sale of products in China and Hong Kong with Malaysia marking our largest country of export.

Over the past several years, we have continuously expanded our distribution channels for our products. As a result, we have established representative sales offices in 22 provinces and 125 municipalities, and deployed sales managers and representatives in each of these markets.

Our products are sold directly to retail stores, including pharmacies and drug store chains, and through independent distributors. We currently have 943 customers, not including branches of retail and drug supply chains. Only two customers accounted for more than 5% of our total revenues in 2007.

As a means of accelerating our distribution into other countries, we expect that we will enter into strategic marketing arrangements with firms that have distribution channels, brand name recognition or other unique marketing strengths.

Under a typical arrangement we expect to will grant limited exclusivity to a sales agent or distributor to certain products in a specified territory(ies), subject to the agent meeting specified minimum monthly or annual sales numbers. Consistent with this approach, in March, 2007, we entered into an exclusive strategic agreement with Takasima Industries (“Takasima”), under the terms of which Takasima has been engaged as the exclusive sales agent of our patch products in Malaysia. Takasima will offer our Slim Patch products in Malaysia, under Takasima’s name brand. (See “Item 6. Management’s Discussion and Analysis”).

We also export a number of its products to various countries, including Malaysia, United Arab Emirates, United Kingdom, Hong Kong, the United States, and others, and utilize agents and independent distributors for these marketing and sales efforts.

We will continue efforts to expand our markets into other provinces and larger cities in the PRC, and to other markets worldwide.

### **Competition**

Competition in the TCM, pharmaceutical, and over-the-counter nutraceutical business is intense in China and throughout the world. We compete with various firms, many of which produce and market products similar to our products, and many of which have greater resources than us in terms of manufacturing and marketing capabilities, management expertise and breadth, and financial wherewithal. Some of these competitors are far larger, have more resources than us and have stronger sales and distribution networks.

Our direct competitors are other domestic firms engaged in developing, manufacturing and marketing TCM and nutraceutical products. There are many of these companies in the PRC, in Heilongjiang Province and even in the city of Harbin.

We expect that the competition for medicinal products in the PRC and other world markets will become more intense over the next few years both from existing competitors and new market entrants. We will also face competition from foreign companies who may have established products, a strong proprietary pipeline and strong financial resources.

Our management believes that we have certain competitive advantages in introducing new products to market due to key focus areas for development, our existing distribution channels, research and development capabilities and our relationship with certain universities and other research institutions. However, there can be no assurance that we will be able to compete and continue to grow in this highly competitive environment. Additional information relating to Competition in the PRC can be found in the “Risk Factors” section above.

### **Properties**

Our facilities are located on approximately 92,000 square meters of land, including two buildings in the city of Harbin, Heilongjiang Province. We also have a sales and marketing facility in Beijing, PRC.

Under Chinese law, the government owns all of the land in the PRC and companies and individuals are authorized to use the land only through land use rights granted by the PRC government. The PRC has granted TDR a land use grant covering the land and facilities in which its headquarters are located in downtown Harbin City, which expires in 2046. The PRC has granted land use rights on TDR’s two production and warehouse facilities, expiring in 2048 and 2053, respectively. TDR’s two buildings contain GMP production certified facilities, and are used for manufacturing office, warehousing and staff operations.

### ***Description of Production and Other Facilities***



We have two separate facilities, headquartered in the city of Harbin in the Heilongjiang Province of China. The older facility includes 3,000 square meters of production space, and 1,000 square meters of warehouse. The facility also includes an extraction workshop (approximately 1,200 square meters) and filling workshop (approximately 500 square meters) for traditional Chinese medicines; a patches production line (approximately 500 square meters), packing workshop (approximately 500 square meters), testing workshop (approximately 50 square meters), examination laboratory (approximately 100 square meters), sample laboratory (approximately 50 square meters), refining room (approximately 100 square meters), and a work-in-process warehouse (approximately 300 square meters); finished product warehouse (approximately 200 square meters), materials warehouse (approximately 100 square meters) and a packing warehouse (approximately 400 square meters).

The newer facility consists of a four floor office building (1,500 square meters for office purpose, 1,200 square meters for R&D center, 800 square meters for central examination lab, dormitory and eatery 1,000 square meters), total 4,500 square meters construction area, and a factory of 3,500 square meters. The facilities also include: an enzyme immunity reagent kit production workshop (1,500 square meters) and a colloid gold production workshop (600 square meters); a packing workshop (800 square meters); and an examination lab (500 square meters). The newer facility also includes a research center covering approximately 1,200 square meters, for research pertaining to the development of various products, including traditional Chinese medicinals (TCM), biological medicine, gene medicine, immune body research, and vitro diagnosis reagent. These facilities also include an electricity room, heating and boiler room and garage. Our enzyme immunity examination reagent kit production workshop includes antigen and immune body areas, disinfection room, aseptic clothes room, cushion room, weighing room, separation room, cleaning equipment room, a Wan Ji flow cushion room, and antigen and immune body sign room. The enzyme sign processing area has cushion room, cloth cleaning room, cleaning equipment room, packing material temporary storage room, raw material temporary storage room, equipment storage room, weighing room, seal protection room, seal foster room, drying room, packing room, and middle cooler room. The work fluid separation loading room includes a disinfection clean room, storage room, weighting room, loading room, and immune body purification room. The colloid gold production workshop has a darkroom, sample room, seal room, cementation room, cutting room, and a packing room. The packing workshop includes a central equipment room, a cooler room, material relay room, label and temporary storage room, a packing material temporary storage room, two examination cooler rooms, and two finished product cooler rooms.

We also have a sales office in Beijing, which TDR acquired in December of 2006, when it completed the acquisition of the products, dealership and marketing network of Heilongjiang. In addition to the above, our properties include GMP-certified manufacturing facilities of Heilongjiang and manufacturing equipment which was acquired on April 3, 2008. (See “Corporate History” above and “Recent Developments” and “Management’s Discussion and Analysis or Plan of Operation” below).

Our production facilities are operated in accordance with “good manufacturing practices” (“GMP”).

## **Government Regulation**

### ***Regulatory Environment***

Our principal sales market is in the PRC. We are subject to the Pharmaceutical Administrative Law of the PRC, which governs the licensing, manufacturing, marketing and distribution of pharmaceutical products in the PRC, and sets penalties for violations. Our business is subject to various regulations and permit systems of the government of the PRC. Additionally, we are subject to government licensing rights and regulations, which relating to our stem cell R&D license. Permits we attain for TCM products are granted on a non-exclusive basis and one limited for four to five years.

The governmental approval process in the PRC for a newly developed health product can be lengthy and difficult. A product sample is first sent to a clinical testing agent designated by the Ministry of Health, which conducts extensive clinical testing and examinations of the product to verify if it has the specified functions as stated by the company producing the product. A report will then be prepared and issued by the clinical testing agent confirming or negating such functions. It generally takes six months to one year for a report to be issued by the testing agent, after submittal to the agent. The report must then be submitted to a provincial Health Management Commission for approval.

Following this submittal, a letter of approval issued by such commission will be submitted to the Ministry of Health for the issuance of a certificate that authorizes sale and marketing of the product in the PRC.

This entire process will generally take between eighteen months and two years. The approval process will depend to a certain extent on whether a specified product is a plant based pharmaceutical (“PBP”) or a plant based nutraceutical (“PBN”). PBPs are products composed of herbs, roots and plants that do not use synthetic chemicals, with certain medicinal functions for treatment of one or more illnesses. PBPs are generally prescription-based but in some cases may be sold over-the-counter. PBNs, also frequently known as “dietary supplements” or “nutritional supplements,” are also composed of herbs, roots and plants, but are essentially prophylactic or preventive in nature. All PBNs are available over-the-counter without a prescription. In the PRC, PBPs require the approval of the SFDA, and PBNs only require the approval of state and local governments prior to manufacturing and sale. Obtaining the approval from the SFDA is generally more complex and lengthy.

Because we and our subsidiaries are wholly-owned enterprises, we are subject to the law of foreign investment enterprises in the PRC, and the foreign company provisions of the Company Law of China, which governs the conduct of our wholly-owned subsidiaries and their officers and directors, and also limits our ability to pay dividends.

### ***Compliance with Environmental Law***

We comply with the Environmental Protection Law of the PRC, as well as applicable local regulations. In addition to compliance with the PRC law and local regulations, we consistently undertake active efforts to ensure the environmental sustainability of our operations. Because the manufacturing of herb and plant-based products does not generally cause significant damage or pollution to the environment, the cost of complying with applicable environmental laws is not material. In the event we fail to comply with applicable laws, we may be subject to

penalties.

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## Intellectual Property

We regard our service marks, trademarks, trade secrets, patents and similar intellectual property (“IP”) as critical to our business. We have relied, and will continue to rely, on patent, trademark and trade secret law, as well as confidentiality and license agreements with certain of our employees, consultants, customers and others, to protect our proprietary rights.

Under the PRC State Protection law, certain herbal medicine products which have received approval from the SFDA, have automatic protected IP rights for a seven-year period from the date of grant of such approval. An application can be submitted to extend such protection for up to three consecutive seven-year periods. Once this protection period has expired, an applicant may apply for patent protection in the PRC which lasts for up to 20 years for traditional medicines depending on the type of patent, and is renewable for indefinite number of times. Patents for arts and crafts and packaging have 10 year patent protection periods which are also renewable. To a large extent, we rely on such State Protection law to protect our IP rights with respect to our products. In addition, as of the date of this filing, we own a total of 6 patents and one patent application (Endothelin-1) in the PRC, pertaining to our TCMs and biotech diagnostic kits and drugs, as follows:

- Package foil bag design patent of Sumei slim patch, registered December 4, 2001;
- Package box design patent for all TCM products, registered December 4, 2001;
- Arts and crafts patent of Human Urinary Albumin Elisa Kit, registered August 24, 2004;
- Arts and crafts patent of Sumei slim patch, registered in 2001;
- Arts and crafts design patent of myocardial infarction testing kit, registered March 16, 2004;
- Arts and crafts patent of Suning cough removing patch, initially registered December 4, 2001; and
- Endothelin-1 patent relating to anti-tumor technology (application for public instruction made), registered October 4, 2006;

We have received awards and grants from the government of the PRC for R&D in 2007 for the below listed products, resulting in a total amount of \$2,141,022 (15,000,000 RMB) of which \$42,492 (300,000 RMB) has been paid with the remaining amount anticipated to be available to us in 2008:

- High Technology products certificates by Heilongjiang High Technology Products Committee covering the following products:

- The Coryza Spray;
- Dermatitis Spray;
- Pharyngitis Spray;
- Tinea Pedis spray;
- Gonorrhea Cleaning Spray;
- Wart-removing liquid;

· Sumei Slim patch;

· Suning Cough removing patch; and

· Psoriasis Spray.

· National Class Torch Project (pertaining to the Sumei slim patch);

· Excellence Products Award for Human Urinary Albumin Elisa Kit by The 6th New & High Technology Fruits Fair Shen Zhen and National Commercial Department;

· 100 important pre-phase projects in Heilongjiang Province covering various medical diagnostics kits;

· Material Medical Technology Research and Development Company (by Heilongjiang provincial Science and Technology Bureau); and

· High Technology Industrialized Base of Medical Area, by Heilongjiang Provincial Development and Reform Committee (March of 2006).

### **Trademarks**

We have registered “Kang Xi” as our trademark, which is used for all of our TCM products.

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## Employees

The number of our employees has increased over the past two years, due to growth, increased research and development and expanded marketing and distribution of products. Currently we have a total of approximately 1,443 full time employees and manufacturers' representatives, generally falling into the following categories:

By subsidiary company:

| Company                       | Number of Employees |
|-------------------------------|---------------------|
| TDR (includes Harbin Biotech) | 1,269*              |
| Harbin Bio-Engineering        | 174                 |
| <b>TOTAL:</b>                 | <b>1,443</b>        |

By nature of job (TDR and Harbin Bio-Engineering combined):

| Type of Job                          | Number of Employees |
|--------------------------------------|---------------------|
| Executives and Managers              | 26                  |
| Production and clerical              | 170                 |
| Sales and Marketing                  | 1,222               |
| Research and Development, Technology | 25                  |
| <b>TOTAL:</b>                        | <b>1,443</b>        |

\* Includes manufacturers' representatives.

\*\* Does not include 10 part time technical researchers.

In addition to the above, approximately 130 employees of Heilongjiang have agreed to continue in their current capacities as employees of Heilongjiang as a result of our acquisition of them in April 2008.

We do not have employment agreements in place with our executive management. None of the employees are covered by a collective bargaining agreement, however, we believe our relationship with employees is good.

## Legal Proceedings.

We are not a party to any material pending legal proceedings, and to the best of our knowledge, no such proceedings by or against the Company have been threatened.

## Recent Developments

On January 31, 2008 China Sky One entered into a Securities Purchase Agreement with certain accredited investors, for the purchase and sale of 2,500,000 units of securities at \$10.00 per unit, pursuant to which we sold an aggregate of (i) 2,500,000 shares of common stock, and (ii) Class A Warrants to purchase 750,000 additional shares of common stock, at an exercise price of \$12.50 per share, for an aggregate purchase price prior to expenses and fees of \$25,000,000. Holders of the 2,500,000 shares of common stock sold in this offering have certain put rights and rights to receive additional shares from certain key shareholders in the event that certain thresholds are not met. Additional information relating to the securities sold in this offering and to the put or make whole rights of the investors may be found in the Risk Factors of this prospectus, in the section under the caption "Item 5. Market for Common Equity and Related Stockholder Matters" and in the section titled "Item 6. Management's Discussion and Analysis or Plan of

Operation” and other sections below and are incorporated by reference.

As of February 22, 2008, the board of directors of China Sky One authorized an increase in the number of directors on the Board from three (3) to seven (7), and appointed Song Chun Fan, Jiang Qi Feng, Zhao Jie and Qian Xu Feng to fill the vacancies created as a result of such increase, to serve until such time as their successors shall be duly elected, unless they resign, are removed from office, or are otherwise disqualified from serving as directors of the Corporation. The biographies of Song Chun Fan, Jiang Qi Feng, Zhao Jie and Qian Xu Feng as well as additional information relating to these committees is also provided below in the section captioned “Item 9. Directors, Executive Officers and Corporate Governance”.

On April 3, 2008, TDR completed an acquisition pursuant to an Equity Transfer Agreement dated February 22, 2008, between TDR and Heilongjiang Tianlong Pharmaceutical, Inc., a corporation with a multitude of SFDA approved medicines and new medicine applications, organized under the laws of the PRC (“Heilongjiang”), which is in the business of manufacturing external-use pharmaceuticals. Our TDR subsidiary previously acquired the Beijing sales office of Heilongjiang in mid 2006. Pursuant to the Equity Transfer Agreement, TDR acquired 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang’s sole stockholder Wu Jiechen, a resident of China, in consideration for an aggregate purchase price of approximately \$8,300,000, consisting of (i) approximately \$8,000,000 in cash, and (ii) approximately \$300,000 of shares of common stock (24,809 shares, \$.001 par value per share) of the Registrant. The seller had no material relationship with the Registrant or any of its affiliates, or any director or officer of the registrant, or any associate of any such director or officer. Additional information relating to this entity can be found elsewhere in this “Business” section and in “Recent Developments” at the end of this section below.

As a result of its purchase of the existing business of Heilongjiang, TDR acquired all of Heilongjiang’s assets, including, without limitation, land use rights, GMP-certified manufacturing facilities, state-of-the-art manufacturing equipment, an research and development center, approximately \$500,000 in inventory, sixty-nine (69) SFDA-approved medicines, and an additional thirty-eight (38) new medicines, which have been submitted for approval to the State Food and Drug Administration of China (SFDA). In addition, approximately 130 employees of Heilongjiang have agreed to continue in their current capacities as employees of Heilongjiang. The acquisition was approved by China’s Department of Industry and Commerce as of April 3, 2008. The foregoing is a summary and additional information relating to this acquisition can be found in our Current Report on Form 8-K/A dated February 22, 2008, and Current Report dated April 3, 2008 including the

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**FORWARD LOOKING STATEMENTS**

The following discussion should be read in conjunction with the information contained in the consolidated financial statements of the Company and the notes thereto appearing elsewhere herein and in the risk factors and "Forward Looking Statements" summary set forth in the forepart of this prospectus as well as the "Risk Factors" section above and are afforded the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. Readers should carefully review the risk factors disclosed in this prospectus and other documents filed by us with the SEC.

**DISCUSSION**

We acquired our current PRC based business on May 30, 2006 by acquiring all of the shares of common stock of American California Pharmaceutical Group, Inc., a California corporation formed on December 16, 2003 ("ACPG"), from its shareholders in exchange for 10,193,377 shares of our common stock (approximately 93% of our common stock at the time), resulting in a change of control of the Company, then known as Comet Technologies, Inc. The transaction is treated as a reverse merger for accounting purposes. At the time of this acquisition, ACPG had already owned TDR and its subsidiaries, which it acquired in 2005. ACPG does not have its own operations or revenues other than its ownership of TDR.

We primarily generate revenues and income and generate cash from sales by our PRC based subsidiaries, of products in the areas of external-Chinese medicine and over-the counter non-prescription health care products in the PRC. Our principal products include spray, ointment, powder, patch, cream, and miscellaneous health and beauty products. Our principal products are categorized as 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 PRC 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 the PRC.

The Company achieved continuing growth on the sale of both our own product line and a contract service line of manufacturer's products which we sell through our distribution channel. For the year ended December 31, 2007, total revenue was \$49,318,308, a 148% increased over 2006, and 2007 net income was \$15,332,945, or \$1.15 per share on a diluted basis compared to net income of \$624,415, or \$0.05 per share on a diluted basis in 2006.

All of our business is conducted through our wholly-owned subsidiary, ACPG which, in turn, wholly owns Harbin Tian Di Ren Medical Science and Technology Company (referred to herein as "TDR") a company organized in the PRC and TDR's subsidiaries, described above and below.

We have also recently 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 \_\_, 2008, TDR completed an acquisition pursuant to an Equity Transfer Agreement dated February 22, 2008, between TDR and Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized under the laws of the PRC ("Heilongjiang"), which is in the business of manufacturing external-use pharmaceuticals. Our TDR subsidiary previously acquired the Beijing sales office of Heilongjiang in mid 2006. Pursuant to the Equity Transfer Agreement, TDR acquired 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang's sole stockholder in consideration for an aggregate of approximately (i) \$8,000,000 in cash, and (ii) shares of common stock of the



parent company, China Sky One with a dollar value of \$300,000.

Tianlong's Beijing office had revenues of approximately US\$1.5 million from January to November of 2006, with 20% in net profits. We expect sales to increase by 30% in 2007, which means the purchase of Tianlong would increase 2007 sales to approximately US\$1.98 million.

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. 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 in the "Description of Business" section above, which is incorporated by reference herein .

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 we are currently applying for approval to enter clinical experiments. This medicine has been recognized by the PRC as the “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. We hold the intellectual property rights pertaining to this technology, and we have obtained an invention patent to this intellectual property in the PRC. Under our partnership arrangements with other universities and research institutions, we will generally hold the intellectual property rights to any developed technology.

At present, our ongoing research is divided into five general areas: (1) the development of an enzyme linked immune technique to prepare extraneous diagnostic kits (see table below); (2) the development of an enzyme linked gold colloid technique to prepare extraneous rapid diagnostic test strip; (3) the development of a gene recombination technique to prepare gene drug; (4) the development of a biology protein chip for various tumor diagnostic applications; and (5) the development of a cord blood stem cell bank, as described under “Item 1. Description of Business.”

We currently have eight biological products under development: HIV detection kit; a uterus cancer diagnostic kit; a breast cancer diagnostic kit; a liver cancer diagnostic kit; a rectum cancer diagnostic kit; a gastric cancer diagnostic kit; a gene recombination drug; and a multi-tumor marker protein chip detection kit. We are also working to establish two sales networks and cell banks covering domestic and international markets.

In addition, we also have three products: AMI Diagnostic Kit, Human Urinary Albumin Elisa Kit and Early Pregnancy Diagnostic Kit that have passed the final stages of national inspection in 2006 or 2007. These diagnostic kits are being sold through drug stores, hospitals, examination stations and independent sales agents throughout the PRC. We also plan to market these products in Vietnam, Indonesia, Philippines and eventually in Africa. (See “Item 1. Description of Business - Biological Products - Examination and Diagnosis Kits”)

Our AMI Diagnostic Kit, which reached markets in 2007, is used for early diagnosis of Myocardial Infarction (MI), also known as heart disease. All the test kits require users to place a blood or urine sample on the marker and a positive (+) or negative (-) reaction signal will result, showing if a user should consult his or her doctor for further testing. According to the China Medical Newspaper, several million people die from MI every year. MI often occurs to people who are, but not limited to, smokers, over-weight and diabetic. There are approximately 8 million new MI patients in China every year. Recent medical studies have shown that heart failure or heart attacks are increasing among younger people in China. This is a result from a more modern life style, the fast pace of city life and increased pressure from work or school. The use of AMI Diagnostic Kits will help in early detection that can help in reducing these statistics.

Our Human Urinary Albumin Elisa Kit is used for early diagnosis of nephropathy, or kidney problems. According to the China Medical Newspaper, early kidney impairment does not present obvious symptoms, but causes irreversible impairments to the kidney. There are billions of people who suffer from diabetes, hypertension, cardiovascular disease and nephritis all over the world. We developed this diagnostic kit to inform users of any major changes their kidney may be experiencing.

Our Early Pregnancy Diagnostic Kit uses monoclonal antibody technology to inform users if they are pregnant. With this type of technology, a monoclonal antibody is created to specifically bind to a hormone, Human Chorionic Gonadotropin (HCG), that a pregnant woman produces after conception. This process allows for the detection of pregnancy. The ability to determine early pregnancy is important in avoiding the absorption of harmful chemicals or drugs that can directly affect an infant.

In March, 2007, we entered into a strategic agreement with Takasima. As a result of this agreement, Takasima has been engaged as the sole agent of China Sky One's patch products in Malaysia. Takasima has commenced marketing and sales efforts of China Sky One's Slim Patch product line. The Slim Patch is a weight loss product that is currently sold in China under the "Tian Di Ren" brand. The Slim Patch will be repackaged and sold in Malaysia under the "Takasima" brand name. The strategic agreement also requires that Takasima will generate sales revenue of approximately US\$1.0 million per month. Since the signing of the agreement, Takasima has fulfilled its monthly obligation. Management anticipates that this strategic agreement could result in up to US\$12 million in additional annual sales revenue in 2007, with a net profit margin of approximately 20%. The agreement also provides that Takasima has a first right of refusal to become the sole distributor of the Slim Patch in all of Southeast Asia.

During the second quarter of 2007, TDR entered into an agreement with the Development and Construction Administration Committee of Harbin Song Bei New Development district to purchase the land use rights for 50 years for development of a new biotech engineering project. Terms of the agreement called for a deposit of 30% of the total land price within 15 days after signing the agreement, 40% payment 7 days prior to the start of construction and the balance 7 days after getting the formal land use right.

The project consists of two phases:

(1) Main workshop, R&D center and office using land area of 30,000 square meters, construction started in May 2007 projected to be completed by June 2008.

(2) Second workshop and show room using land area of 20,000 square meters, Construction starting in September 2008 to be completed by December 2009.

TDR has committed to the Development and Construction Administration Committee of Harbin Song Bei New Development District that the minimum investment per square meter will be \$394.

### **Significant Accounting Estimates and Policies**

The discussion and analysis of our financial condition and results of operations is based upon our financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities. On an on-going basis, we evaluate our estimates including the allowance for doubtful accounts, the salability and recoverability of our products, income taxes and contingencies. We base our estimates on historical experience and on other assumptions that we believes to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Property and equipment are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, we must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the recoverable amount is less than the carrying amount, an impairment charge must be recognized, based on the fair value of the asset.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, which we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary.

We have determined the significant principles by considering accounting policies that involve the most complex or subjective decisions or assessments. Our most significant accounting policies are those related to intangible assets and research and development.

**Intangible assets** - Intangible assets consist patents, distribution rights and customer lists. Patent costs are being amortized over the remaining term of the patent. Distribution rights and customer lists are being amortized over 10 years.

Intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). Intangible assets with finite useful lives are amortized while intangible assets with indefinite useful lives are not amortized. As prescribed by SFAS 142, goodwill and intangible assets are tested periodically for impairment. The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets," effective January 1, 2002. Accordingly, the Company reviews its long-lived assets, including property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment costs, if any, are measured by comparing the carrying amount of the related assets to their fair value.

**Research and development**—Research and development expenses include the costs associated with the Company’s internal research and development as well as research and development conducted by third parties. These costs primarily consist of salaries, clinical trials, outside consultants, and materials. All research and development costs discussed above are expensed as incurred.

Third-party expenses were reimbursed under non-refundable research and development contracts, and are recorded as a reduction to research and development expense in the statement of operations.

The Company recognizes in-process research and development in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method* and the AICPA Technical Practice Aid, *Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*. Assets to be used in research and development activities, specifically, compounds that have yet to receive new drug approval and would have no alternative use, should approval not be given, are immediately charged to expense when acquired.

For the year ended December 31, 2007, the Company incurred \$3,158,351 in research and development expenditures, and \$2,026,788 for year 2006.

## RESULTS OF OPERATIONS

### *Year Ended December 31, 2007 as compared to Year Ended December 31, 2006*

Our principal business operations are conducted through our wholly owned subsidiary, Harbin Tian Di Ren Medical Science and Technology Company (“TDR”), and TDR’s subsidiaries. The results of operations of TDR have been included in the below financial statements since the acquisition date.

|  | <b>December 31</b>   |          |                      |
|--|----------------------|----------|----------------------|
|  | <b>2007</b>          | Variance | <b>2006</b>          |
| <b>REVENUES</b>                        |                      |          |                      |
| Product Sales (net of sales allowance) | \$ 36,320,156        | 171%     | \$ 13,386,223        |
| Contract Sales                         | 12,998,152           | 104%     | 6,382,737            |
| Government Grant                       | -                    |          | 112,755              |
| Total revenues                         | \$ 49,318,308        | 148%     | \$ 19,881,715        |
| <b>COST OF GOOD SOLD</b>               |                      |          |                      |
| Cost of good sold                      | 10,939,531           | 116%     | 5,063,084            |
| Gross Profit                           | \$ <b>38,378,777</b> | 159%     | \$ <b>14,818,631</b> |

Total sales increased by 148% in 2007 compared to 2006. The \$29,436,593 million increase in sales is attributable to strong performances from our sales distribution channel.

Product sales increased by 171% in the year ended December 31, 2007, to \$36,320,156 from \$13,386,223 in 2006. This growth in sales is attributable to volume and continuing efforts to develop our distribution channels by hiring direct territory managers and sales agents to assure that our products and their associated benefits are seen by those making or influencing the purchasing decisions. A new series named Bio-Chemical Products were launched on 2007. It increased the sales amount by \$3 million for the year ended December 31, 2007. The company opened the overseas market on this year and the unit selling price is higher than local market. The overseas market generated sales amount of \$12.4 million in this year.

### *Contract and Other Revenue*

The following table summarizes the period over period changes in our contract and other revenues:

|                            | <b>2007</b>   | <b>Change</b> | <b>2006</b> |
|----------------------------|---------------|---------------|-------------|
| Contract and other revenue | \$ 12,998,152 | 104% \$       | 6,382,737   |

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Contract and other revenue was \$12,998,152 in 2007, or a significant increase of \$ 6,615,415 over sales of \$6,382,737 in 2006. In 2007, contract and other revenue increased primarily due to net product distribution service revenue from sales of other manufactured brands through our distribution channel, which constitutes approximately 22% of total sales in 2007.

### *Cost of Goods Sold and Product Gross Margin*

|                      | 2007          | December<br>Variance | 2006          |
|----------------------|---------------|----------------------|---------------|
| Total sales          | \$ 49,318,308 | 148%                 | \$ 19,881,715 |
| Cost of goods sold   | \$ 10,939,531 | 116%                 | \$ 5,063,084  |
| Product gross margin | 78%           |                      | 75%           |

Our product's gross margin for 2007 was 78%, compared to 75% for 2006. The increased gross margin was primarily due to the overseas sales that had a profit margin around 80%. The profit margin of local sales was stable compared to last year's.

### *Selling, General and Administrative Expenses.*

The following table summarizes the period over period changes in our selling, general and administrative (SG&A) expenses over the last two years:

|  | 2007         | December 31<br>Variance | 2006         |
|--|--------------|-------------------------|--------------|
| Operating Expenses                           |              |                         |              |
| R&D Expenses                                 | \$ 3,158,351 | 56%                     | \$ 2,026,788 |
| General, administrative and selling expenses | 16,163,577   | 51%                     | 10,738,285   |
| Depreciation and amortization                | 443,063      | 265%                    | 121,522      |
| Total operating expenses                     | 19,764,991   | 53%                     | 12,886,595   |
| Other Income (Expenses)                      |              |                         |              |
| Other income                                 | 48,889       |                         | -            |
| Interest expense                             | (10,557)     |                         | (227,857)    |
| Total other income (expenses)                | \$ 38,332    |                         | \$ (227,857) |

Gross sales increased approximately \$29,436,593 million in 2007 and corresponding, selling, general and administrative expenses ("SG&A") for 2007 increased by \$5,425,292 over 2006. Selling expenses increased significantly due to the increase of sales. Advertising expenses increased by \$2,808,264 to \$4,385,045, or 178%, in 2007 from \$1,576,781 in 2006. Salaries, commissions, and incentives paid to sales persons increased 122% in 2007 compared to 2006. General and administrative expenses increased 50% compare to 2006.

Research and development ("R&D") expenses were \$3,158,351 for 2007 compared to \$2,026,788 for 2006. We anticipate R&D expenses will increase as we conduct additional clinical trials and seek out additional patents and claims for our products.

Finance costs decreased by \$217,300 from 2006, primary due to the paid off of the short term notes in 2007.

### **LIQUIDITY AND CAPITAL RESOURCES**



The following table summarizes our cash, cash equivalents and marketable securities, our working capital, and our cash flow activity as of the end of, and for each of, the last two years:

|  | <b>December 31</b> |                |
|--|--------------------|----------------|
|  | <b>2007</b>        | <b>2006</b>    |
| Cash, cash equivalents and marketable securities | \$ 9,190,870       | \$ 6,586,800   |
| Working capital                                  | \$ 15,447,162      | \$ 7,797,928   |
| Year Ended December 31:                          |                    |                |
| Cash provided by (used in):                      |                    |                |
| Operating activities                             | \$ 11,601,480      | \$ 5,182,539   |
| Investing activities                             | \$ (10,260,933)    | \$ (4,596,507) |
| Financing activities                             | \$ (32,516)        | \$ 2,930,832   |

As of December 31, 2007, cash and cash equivalents were \$9,190,870, an increase of 40% over December 31, 2006. The increase of \$ 2,604,070 in 2007 was primarily due to: an increase net income of \$14.7 million, and increase of accounts payable balance of \$2.0 million and effect of the foreign currency translation of \$1.3 million. The increase was partially offset by an increase of accounts receivable of \$7.5 million and land deposit prepayment of \$8.0 million.

The Company's current ratio at December 31 was 4.06, and quick ratio was 3.99. Its primary sources of funds include cash balances, cash flow from operations, and potentially the proceeds of borrowing and sales of equity. Management endeavors to ensure that funds are available to take advantage of new investment opportunities and that funds are sufficient to meet future liquidity and capital needs. Management considers current working capital and borrowing capabilities adequate to cover the Company's current operating and capital requirements.

There was no restrictive bank deposit pledged as of December 31, 2007. Therefore, the Company did not have to maintain any minimum balance in the relevant deposit account as security.

Cash flows provided by operating activities were \$11.60 million for the year ended December 31, 2007 compared to cash provided by operating activities of \$5.18 million for the comparable 2006 period. The increase in cash provided by operating activities of \$6.42 million was attributable primarily to the longer accounts receivable collection period compared to year ended December 31, 2006.

Working capital at December 31, 2007 was \$15.4 million, compared to \$7.8 million at December 31, 2006. Significant factors that resulted in an increase in 2007 working capital were: a \$2.6 million increase in cash, cash equivalents, and a \$7.5 million increase in accounts receivable primarily due to increased sales of \$40.5 million in 2007.

These increases were partially offset by: a \$1.0 million increase in income taxes payable primarily due to higher profitability; a \$2.0 million increase in accounts payable, and other accrued liabilities including increases in accruals in wages.

Inventories increased by \$93,110 to \$371,672 as of December 31, 2007, from \$278,562 as of December 31, 2006. The Company has a small inventory on hand primarily due to the enhanced productivity of newly purchased equipment and machinery, and the popularity of Company products in the market.

*Year Ended December 31, 2006 as compared to Year Ended December 31, 2005*

|  | 2006                 | December 31<br>Variance | 2005                |
|--|----------------------|-------------------------|---------------------|
| <b>REVENUES</b>                        |                      |                         |                     |
| Product Sales (net of sales allowance) | \$ 13,386,223        | 78.42%                  | \$ 7,502,682        |
| Contract Sales                         | 6,382,737            | 101975%                 | 6,253               |
| Government Grant                       | 112,755              | -44.38%                 | 202,706             |
| Total revenues                         | \$ 19,881,715        |                         | \$ 7,711,641        |
| <b>COST OF GOOD SOLD</b>               |                      |                         |                     |
| Cost of good sold                      | 5,063,084            | 129%                    | 2,213,667           |
| <b>Gross Profit</b>                    | <b>\$ 14,818,631</b> | <b>170%</b>             | <b>\$ 5,497,974</b> |

Total sales increased by 158% in 2006 compared to 2005. The \$12.17 million increase in sales is attributable to strong performances from our sales distribution channel, as well as the addition of a new line of contract sale service in 2006 to sell other manufactured brands through our distribution channel.

Product sales increased by 78.42% in the year ended December 31, 2006, to \$13,386,233 from \$7,502,682 in 2005. This growth in sales is attributable to volume and continuing efforts to develop our distribution channels by hiring direct territory managers and sales agents to assure that our products and their associated benefits are seen by those making or influencing the purchasing decisions.

Government grant was recognized of \$112,755 in 2006 compared to \$202,706 in 2005. The government grant was issued to support our research and development, and the production of new medicines. The grant is recognized as income over the period necessary to match the related costs. This decrease in government grant received was also due to the expansion in our size and an increase in revenue and capital which made us less qualified for certain government grant that are issued to small businesses.

### ***Contract and Other Revenue***

The following table summarizes the period over period changes in our contract and other revenues:

|                            | <b>2006</b>  | <b>Change</b> | <b>2005</b> |
|----------------------------|--------------|---------------|-------------|
| Contract and other revenue | \$ 6,382,737 | 101975%       | \$ 6,253    |

Contract and other revenue was \$6,382,737 in 2006, or a significant increase of \$6,376,484 over nominal sales of \$6,253 in 2005. In 2006, contract and other revenue increased primarily due to net product distribution service revenue from sales of other manufactured brands through our distribution channel, which constitutes approximately 32% of total sales in 2006.

### ***Cost of Goods Sold and Product Gross Margin***

The following table summarizes the period over period changes in our product sales and cost of goods sold and product gross margin:

|                      | <b>2006</b>   | <b>Variance</b> | <b>2005</b>  |
|----------------------|---------------|-----------------|--------------|
| Total sales          | \$ 19,881,715 | 158%            | \$ 7,711,641 |
| Cost of goods sold   | \$ 5,063,084  | 129%            | \$ 2,213,667 |
| Product gross margin | 75%           |                 | 71%          |

Our product gross margin for 2006 was 75%, compared to 71% for 2005. The lower gross margin was primarily due to the launch of a new sales line of other manufactured brands through our distribution channel, the gross margin for this contract service line is around 80% with a corresponding impact to our product gross profit.

### ***Operating Expenses.***

The following table summarizes the period over period changes in our operating and interest expenses over the last two years:

|                    | <b>2006</b>  | <b>December 31<br/>Variance</b> | <b>2005</b> |
|--------------------|--------------|---------------------------------|-------------|
| Operating Expenses |              |                                 |             |
| R&D Expenses       | \$ 2,026,788 | 3079%                           | \$ 63,749   |

|                                     |               |       |              |
|-------------------------------------|---------------|-------|--------------|
| General and administrative expenses | 10,738,303    | 268%  | 2,914,190    |
| Depreciation and amortization       | 121,522       | 111%  | 57,563       |
| Total operating expenses            | \$ 12,886,595 |       | \$ 3,035,502 |
| Interest expense                    | \$ 227,857    | 1197% | \$ 17,563    |

Gross sales increased approximately \$12.17 million in 2006, and corresponding, selling, general and administrative expenses (“SG&A”) for 2006 increased by \$7,824,095 over 2005. Higher expenses were primarily driven by higher headcount which increased compensation and benefits by \$1.12 million including employee stock-based compensation expense of \$65,604 from our adoption of SFAS 123R on January 1, 2006. In addition, this increase is attributable to an increase in advertising costs of \$648,225; \$2.5 million related to a general expansion of our sales and marketing activities; our promotional program relating to our business growth; business development activities; and the sales force expansion planned for the anticipated launch in our new contract service line. The increase in SG&A was also impacted by the inclusion of approximately of \$1.8 million in professional and advisory fees related to the reverse merger with Comet.

Research and development (“R&D”) expenses were \$2,026,788 for 2006 compared to \$63,749 for 2005. We anticipate R&D expenses will increase as we conduct additional clinical trials and seek out additional patents and claims for our products.

Finance costs increased by \$210,299 from 2005, associated with bank loans of \$511,642 and preferential conversion feature expense of \$177,803.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our cash, cash equivalents and marketable securities, our working capital, and our cash flow activity as of the end of, and for each of, the last two years:

|  | 2006         | 2005         |
|--|--------------|--------------|
| <b>As of December 31:</b>                        |              |              |
| Cash, cash equivalents and marketable securities | \$ 6,586,800 | \$ 2,937,333 |
| Working capital                                  | 7,797,928    | 2,935,221    |
| <b>Year Ended December 31:</b>                   |              |              |
| Cash provided by (used in):                      |              |              |
| Operating activities                             | 5,182,539    | 1,089,769    |
| Investing activities                             | (4,596,507)  | (776,488)    |
| Financing activities                             | 2,930,832    | 590,635      |

As of December 31, 2006, cash and cash equivalents were \$6,586,800, an increase of 124% over December 31, 2005. The increase of \$3,649,467 in 2006 was primarily due to: an approximately \$5.18 million was generated from operations in China tax jurisdictions; net proceeds generated from a private common stock issuance of \$2,715,000, and notes of \$215,832. These increases were partially offset by capital expenditures of \$4.23 million in 2006.

The Company’s current ratio at December 31 was 4.29, and quick ratio was 4.17. Its primary sources of funds include cash balances, cash flow from operations, and potentially the proceeds of borrowing and sales of equity. Management endeavors to ensure that funds are available to take advantage of new investment opportunities and that funds are sufficient to meet future liquidity and capital needs. Management considers current working capital and borrowing capabilities adequate to cover the Company's current operating and capital requirements.

There was no restrictive bank deposit pledged as of December 31, 2006. Therefore, the Company did not have to maintain any minimum balance in the relevant deposit account as security.

Our total outstanding liabilities were \$2.37 million as of December 31, 2006.

Cash flows provided by operating activities were \$5.18 million for the year ended December 31, 2006 compared to cash provided by operating activities of \$1.09 million for the comparable 2005 period. The increase in cash provided by operating activities of \$4 million was attributable primarily to sales growth, which is also enhanced by a \$1.94 million increase in accounts receivable, and offset by increased inventories of approximately \$103,000 plus an increase of approximately \$0.7 million increase in accounts payable and accrued expenses.

Working capital at December 31, 2006 was \$7.8 million, compared to \$2.94 million at December 31, 2005. Significant factors that resulted in an increase in 2006 working capital were: a \$3.65 million increase in cash, cash equivalents; a \$1.70 million of non cash share-based compensation; and a \$1.94 million increase in accounts receivable primarily due to increased sales of \$12.26 million in 2006, offset by higher collection activity.

These increases were partially offset by: a \$420,795 increase in income taxes payable primarily due to higher profitability; a \$1,688,896 increase in liabilities reflecting the share-based compensation pursuant to the requirement of SFAS 123R; a \$519,531 increase in accounts payable, and other accrued liabilities including increases in accruals in wages.

Accounts receivables increased by \$1,940,913 or 154% to \$3,199,026 as of December 31, 2006, compared to \$1,258,113 as of December 31, 2005. This increase is primarily due to an increase in sales of \$12,260,025. More than ninety percent of the Company's receivables are aged less than 90 days.

Inventories decreased by \$102,578 to \$278,562 as of December 31, 2006, from \$381,140 as of December 31, 2005.

The Company has a small inventory on hand primarily due to the enhanced productivity of newly purchased equipment and machinery, and the popularity of Company products in the market.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2007, the Company had no material derivative instruments. The Company may enter into derivative financial instrument transactions in order to mitigate its interest rate risk on a related financial instrument in the future.

Our balance sheet includes amount of assets and liabilities whose fair values are subject to market risk. Market risk is the risk of loss arising from adverse changes in market prices or interest rates. Generally, the Company's borrowing is short to medium term in nature and therefore approximates fair value. The Company currently has interest rate risk as it relates to its fixed maturity mortgage participation interest. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs by closely monitoring its interest rate debt.

The Company has certain equity risks as it relates to its marketable equity securities, and foreign currency risks as it relates to investments denominated in foreign currencies. The Company and its subsidiaries are mainly located in China, and there were no significant changes in exchange rates, during the reported periods. However, unforeseen developments may cause a significant change in exchange rates. The Company is subject to commodity price risks arising from price of construction materials.

The Company is subject to market and channel risks. Over 90% of the Company's sales are made in the PRC, where the Company primarily sells its products through drug chain stores. Because of this, the Company is dependent to a large degree upon the success of that distribution channel as well as the success of specific retailers in the distribution channel. Many of the drug stores are individual stores or very small chains, and only a few are large chain drug stores. The Company relies on these distribution channels to purchase, market, and sell its products. The Company's success is dependent, to a large degree, on the growth and success of the drug stores, which may be outside its control. There can be no assurance that the drug store distribution channels will be able to grow or prosper as it faces price and service pressure from other channels, including the mass market. There can be no assurance that retailers in the drug store distribution channel, in the aggregate, will respond or continue to respond to the Company's marketing commitment in these channels.

The Company is highly dependent upon the public perception and quality of its products, consumers' perception of the safety and quality of its products, as well as similar products distributed by other companies. Thus, the mere publication of reports asserting that such products may be harmful could have a material adverse effect on the Company, regardless of whether these reports are scientifically supported. Adverse publicity may have a material adverse effect on the Company's business, financial condition, and results of operations. There can be no assurance of future favorable scientific results and media attention, or of the absence of unfavorable or inconsistent findings.

### **Currency Exchange Fluctuations**

All of Company's revenues and majority of the expenses in 2007 were denominated primarily in Renminbi ("RMB"), the currency of China, and was converted into US dollars at the exchange rate of 7.006 RMB to 1 U.S. Dollar. In the third quarter of 2005, the Renminbi began to rise against the US dollar. There could be no assurance that RMB-to-U.S.

dollar exchange rates will remain stable. A devaluation of RMB relative to the U.S. dollar would adversely affect our business, financial condition and results of operations. We do not engage in currency hedging.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to our financial position or results of operations.

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**MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER  
MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information - Common stock**

Our common stock ("Common stock") is traded on the OTC Bulletin Board under the symbol "CSKI." The range of high and low sales prices for each quarter during the last two fiscal years, as quoted on the OTC Bulletin Board for the periods discussed above, is set out in the table that follows. These quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

|             | Year Ended December 31, 2007 |          | Year Ended December 31, 2006 |         |
|-------------|------------------------------|----------|------------------------------|---------|
|             | High                         | Low      | High                         | Low     |
| 1st Quarter | \$ 10.00                     | \$ 7.00  | \$ 5.50                      | \$ 1.81 |
| 2nd Quarter | \$ 14.20                     | \$ 6.00  | \$ 3.50                      | \$ 3.50 |
| 3rd Quarter | \$ 14.35                     | \$ 10.00 | \$ 7.55                      | \$ 3.40 |
| 4th Quarter | \$ 15.50                     | \$ 9.00  | \$ 8.50                      | \$ 4.25 |

As of March 26, 2008, the closing bid price for our Common stock was \$10.20.

Since its inception, no dividends have been paid on our Common stock. We intend to retain any earnings for use in our business, so it is not expected that any dividends on the Common stock will be declared and paid in the foreseeable future. We do not currently have any restrictions that would limit our ability to pay dividends, and we are not currently aware of any restrictions that are likely to limit our ability to pay dividends in the future.

At March 20, 2008, there were approximately 431 holders of record of the Company's Common stock, with 14,852,214 shares outstanding.

**EQUITY COMPENSATION PLAN INFORMATION**

|  | (a)   | (b)   | (c)   |
|--|---|---|---|
|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| <b>Plan Category</b>   |   |   |   |
| Equity compensation plans approved by security holders (1)     | 113,500   | 3.65  | 1,386,500   |
| Equity compensation plans not approved by security holders (2) | None  | n/a   | -0-   |
| <b>Total</b>   | <b>113,500</b>  | <b>n/a</b>  | <b>1,386,500</b>  |

(1) The Company's board of directors adopted a 2006 Stock Incentive Plan (the "Plan"), to be effective on July 31, 2006. The Plan was approved by the shareholders on July 31, 2006.

(2) We do not have any equity compensation plans not approved by the security holders.

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## Sales of Unregistered Securities

On January 31, 2008 China Sky One entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain accredited investors, for the purchase and sale of units consisting of: (i) one (1) share of the Company’s common stock, \$.001 par value per share (“Common stock”); and (ii) 750,000 Class A Warrants exercisable at \$12.50 per share, and expiring on July 31, 2011 (the “Class A Warrants”), for a purchase price of \$10.00 per Unit (the “January 2008 Offering”), and gross offering proceeds of \$25,000,000.

Holders of the 2,500,000 shares of common stock sold in our January 2008 Offering have certain put rights and rights to receive additional shares from the Company if we sell low priced securities or from certain key shareholders in the event that certain thresholds are not met, in addition to registration rights. Specifically, these investors have:

- The right to receive additional shares of common stock from China Sky One in the event that we sell shares (or convertible securities or warrants convertible into or exercisable for common stock) prior to January 31, 2009 at per share price (or exercise or conversion price) of less than \$10.00, in such amount so as to reduce the average price paid by such shareholder to the price per share being paid by the new investors,
- The right to receive up to 3,000,000 shares deposited into escrow by our principal shareholder, in the event that the Company fails to attain Earnings Per Share, as adjusted of at least (i) \$1.05 per share for fiscal year ended December 31, 2007 based on fully diluted shares outstanding before the January 2008 offering (an aggregate of 13,907,696), and/or (ii) \$1.75 per share for fiscal year ending December 31, 2008 based on fully diluted shares outstanding after the January 2008 Offering (an aggregate of 16,907,696 shares). While the Company has satisfied the criterion of (i) above for 2007, no assurance can be made that we will satisfy our earnings goal next year.

The Class A Warrants represent the right to purchase an aggregate of 750,000 shares of common stock, at an exercise price of \$12.50 per share, and have the following additional characteristics:

- The Class A Warrants are exercisable beginning on the six-month anniversary of the closing of the January 2008 Offering and will expire July 31, 2011.
- Commencing on one-year anniversary of the Closing Date, in the event the Warrant Shares may not be freely sold by the holders of the Class A Warrants due to the Company’s failure to satisfy its registration requirements, and an exemption for such sale is not otherwise available to the Warrant-holders under Rule 144, the Class A Warrants will be exercisable on a cashless basis.
- The Exercise Price and number of Warrant Shares will be subject to adjustment for standard dilutive events, including the issuance of Common stock, or securities convertible into or exercisable for shares of Common stock, at a price per share, or conversion or exercise price per share less than the Class A Warrant exercise price of \$12.50 per share.
- At anytime following the date a Registration Statement covering the Warrant Shares is declared effective, we will have the ability to call the Class A Warrants at a price of \$0.01 per Class A Warrant, upon thirty (30) days prior written notice to the holders of the Class A Warrants, provided (i) the closing price of the Common stock exceeded \$18.75 for each of the ten (10) consecutive trading days immediately preceding the date that the call notice is given by the Company, and (ii) the Company has attained an Adjusted EPS of at least \$1.75 per share for the fiscal year ending December 31, 2008, as set forth in our audited financial statements of the Company.
- If, among other things, we fail to cause a Registration Statement covering the Warrant Shares to be declared effective prior to the applicable dates set forth in the Registration Rights Agreement, the expiration date of the Class A Warrants shall be extended one day for each day beyond the Effectiveness Deadlines.

· If a Warrant-holder exercises its Put Right under the Put Agreement (defined in Item 1.01 above), such Warrant-holder's right to exercise the Class A Warrants shall be suspended, pending the satisfaction of our obligations to pay the Warrant-holder the applicable Repurchase Price. Upon receipt of the Repurchase Price in full by the Warrant-holder, the Warrant-holder's right to exercise the Class A Warrants shall automatically and permanently terminate and expire, and the Class A Warrants shall be immediately cancelled on the books of the Company.

### **USE OF PROCEEDS**

Each of the selling securityholders will receive all of the net proceeds from the sale of shares by that securityholder. We will not receive any of the net proceeds from the sale of the shares. The selling securityholders will pay any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in offering or selling their shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, OTC Bulletin Board fees, blue sky registration and filing fees, and fees and expenses of our counsel and accountants.

A portion of the shares covered by this prospectus are, prior to their sale under this prospectus, issuable upon exercise of Class A warrants. Upon the exercise of warrants by payments of cash, we will receive the exercise price of the warrants, which, subject to any future adjustment, is currently \$12.50 per share. To the extent that we receive cash upon the exercise of the warrants, we expect to use that cash for general corporate purposes.

### **DILUTION**

We are not selling any of the shares of common stock in this offering. All of the shares sold in this offering will be held by the selling securityholders at the time of the sale, so that no dilution will result from the sale of the shares. However, in the event that any of our warrants which are exercisable at below market prices are exercised, shareholders will suffer dilution.

## SELLING SECURITYHOLDERS

The following table presents information regarding the selling securityholders based upon information furnished by them.

In accordance with various agreements, we have agreed with the selling securityholders to register shares of common stock presently owned by them. Our registration of the shares does not necessarily mean that the selling securityholders will sell all or any of the shares, however, the following table assumes that all shares registered will be sold.

The shares offered by this prospectus may be offered from time to time by the selling securityholders listed in the following table. Each selling securityholder will determine the number of shares to be sold and the timing of the sales. Because the selling securityholders may offer all, some or none of their shares, no definitive estimate as to the number of shares thereof that will be held by the selling securityholders after such offering can be provided, and the following table has been prepared on the assumption that all shares of common stock offered under this prospectus will be sold

In addition to the 2,860,835 already outstanding shares of common stock held by selling securityholders that are being registered for resale hereby, the following additional shares which may be issued upon exercise of warrants are being registered for resale by the selling securityholders in this registration statement:

- 750,000 shares issuable upon exercise of Class A Warrants to purchase, at an exercise price of \$12.50 per share, issued to investors in connection with our private offering in January 2008, exercisable between July 31, 2008 and July 31, 2011,
- 239,168 shares issuable upon exercise of callable warrants at \$3.50 per share (originally, 500,003 callable warrants, many of which have been exercised, the underlying shares of which are being registered hereby) and expiring October 10, 2008 (the “Callable Warrants”), held and being resold by certain investors in our private offering of securities in October of 2006,
- 50,000 shares of common stock issuable upon exercise of warrants issued to Mr. Jack M. Gertino, a former executive of the Company, at \$3.00 per share and expiring December 23, 2008 (the “Consulting Warrants”), and
  - 50,000 shares of common stock issuable upon exercise of warrants issued to American Eastern Securities, Inc. (and its assigns), exercisable at \$3.50 per share and expiring on October 10, 2008 (the “AES Offering Warrants”). The selling securityholders purchased their shares or, in some cases, were issued their shares in exchange for services rendered, all in private placements.

| Name  | Shares Beneficially Owned Prior to Offering |         | Number of Shares Offered | Shares Beneficially Owned After Offering |         |
|---|---|---------|--------------------------|--|---------|
|   | Number                                      | Percent |                          | Number                                   | Percent |
| Abington Company Ltd. (2) (1)                                 | 100,000                                     | (2) (1) | 100,000 (2) (1)          | -0-                                      | -0-     |
| Dominic Jr. and Virginia Albo (2)                             | 2,500                                       | (2)     | 2,500 (2)                | -0-                                      | -0-     |
| Alder Capital Partners I LP (3)                               | 136,500                                     | (3) %   | 136,500 (3)              | -0-                                      | -0-     |
| Alder Offshore Master Fund LP (4)                             | 58,500                                      | (4) %   | 58,500 (4)               | -0-                                      | -0-     |
| Bilau, LLC (2) (5)  | 8,334                                       | (2) (5) | 8,334 (2) (5)            | -0-                                      | -0-     |
| Brummett Family Trust, John B and Nancy Brummett TTEE (2) (6) | 2,500                                       | (2) (6) | 2,500 (2) (6)            | -0-                                      | -0-     |
| Byron B. Barkley IRA (2)                                      | 5,000                                       | (2)     | 5,000 (2)                | -0-                                      | -0-     |
| Kenneth Block (2)   | 5,000                                       | (2)     | 5,000 (2)                | -0-                                      | -0-     |

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|  |         |         |         |         |     |     |
|--|---------|---------|---------|---------|-----|-----|
| James T. and Katy H. Chang JT TEN <sup>(2)</sup>                 | 15,000  | (2)     | 15,000  | (2)     | -0- | -0- |
| Dong Feng Chen <sup>(2)</sup>                                    | 5,000   | (2)     | 5,000   | (2)     | -0- | -0- |
| Julie Hsu Chen <sup>(2)</sup>                                    | 15,000  | (2)     | 15,000  | (2)     | -0- | -0- |
| Wei Qiang Chen <sup>(2)</sup>                                    | 10,000  | (2)     | 10,000  | (2)     | -0- | -0- |
| Michael Chu <sup>(2)</sup>                                       | 5,317   | (2)     | 5,317   | (2)     | -0- | -0- |
| Clearview Investments LTD <sup>(7)</sup>                         | 65,000  | (7)     | 65,000  | (7)     | -0- | -0- |
| Rene V. and Jacqueline J. Cote JT TEN <sup>(2)</sup>             | 5,000   | (2)     | 5,000   | (2)     | -0- | -0- |
| Mike Crawford <sup>(8)</sup>                                     | 6,500   | (8)     | 6,500   | (8)     | -0- | -0- |
| Denison Casing Corp Def Ben Pen Pi & Trust UA <sup>(2) (9)</sup> | 5,000   | (2) (9) | 5,000   | (2) (9) | -0- | -0- |
| Michael S. Done <sup>(2)</sup>                                   | 5,000   | (2)     | 5,000   | (2)     | -0- | -0- |
| Joseph S. and Betty A. Franey JT TEN <sup>(2)</sup>              | 5,000   | (2)     | 5,000   | (2)     | -0- | -0- |
| James Gaddis IRA <sup>(2)</sup>                                  | 5,000   | (2)     | 5,000   | (2)     | -0- | -0- |
| Jack M. Gertino <sup>(10)</sup>                                  | 50,000  | (10)    | 50,000  | (10)    | -0- | -0- |
| Jeff M. and Mary Jane Gertino JT TEN <sup>(2)</sup>              | 10,000  | (2)     | 10,000  | (2)     | -0- | -0- |
| Guerilla Partners LP <sup>(11)</sup>                             | 130,000 | (11)    | 130,000 | (11)    | -0- | -0- |

|   | Shares Beneficially Owned<br>Prior<br>to Offering |          |  | Number of<br>Shares<br>Offered | Shares Beneficially<br>Owned<br>After Offering |         |     |
|---|---|----------|--|--------------------------------|--|---------|-----|
|   | Number  | Percent  |  |                                | Number   | Percent |     |
| Kenneth Hankawa <sup>(2)</sup>                                      | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Heller Capital Investments <sup>(12)</sup>                          | 78,000  | (12)     |  | 78,000                         | (12)   | -0-     | -0- |
| Derrick Ho <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Clayton S. Hovivian <sup>(2)</sup>                                  | 15,000  | (2)      |  | 15,000                         | (2)  | -0-     | -0- |
| Jack Hsieh <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Hua-Mei 21 <sup>st</sup> Century Partners, LP <sup>(13)</sup>       | 195,000   | (13)     |  | 195,000                        | (13)   | -0-     | -0- |
| Investment Hunter, LLC <sup>(14)</sup>                              | 195,000   | (14)     |  | 195,000                        | (14)   | -0-     | -0- |
| Jayhawk Private Equity Co-Invest<br>Fund, LP <sup>(15)</sup>        | 1,925   | (15)     |  | 1,925                          | (15)   | -0-     | -0- |
| Jayhawk Private Equity Fund, LP <sup>(16)</sup>                     | 30,575  | (16)     |  | 30,575                         | (16)   | -0-     | -0- |
| Jeli Properties, LLC <sup>(2)(17)</sup>                             | 7,500   | (2) (17) |  | 7,500                          | (2) (17)                                       | -0-     | -0- |
| J.M.G. Corporation <sup>(2) (18)</sup>                              | 7,500   | (2) (18) |  | 7,500                          | (2) (18)                                       | -0-     | -0- |
| Hui-Lan Lee <sup>(2)</sup>  | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Jian Ping Li <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Jin Chun <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Lian Xiao Li <sup>(2)</sup>   | 5,000   | 2(2)     |  | 5,000                          | (2)  | -0-     | -0- |
| Peter Shih-Hsiang and Melissa<br>Pi-Chuan Liao JTEN <sup>(2)</sup>  | 8,334   | (2)      |  | 8,334                          | (2)  | -0-     | -0- |
| Pin Hsiu Lin <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Paul Masters IRA <sup>(19)</sup>                                    | 6,500   | (19)     |  | 6,500                          | (19)   | -0-     | -0- |
| O'Sullivan, Elizabeth <sup>(2)</sup>                                | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Ching Ching Angela Pan <sup>(2)</sup>                               | 7,500   | (2)      |  | 7,500                          | (2)  | -0-     | -0- |
| Paul Junger Witt Family Trust of 1988<br><sup>(2) (20)</sup>        | 16,667  | (2) (20) |  | 16,667                         | (2) (20)                                       | -0-     | -0- |
| Jason C. Pettigrew <sup>(21)</sup>                                  | 13,000  | (21)     |  | 13,000                         | (21)   | -0-     | -0- |
| Pope Investments II LLC <sup>(22)</sup>                             | 1,391,000   | (22)     |  | 1,391,000                      | (22)   | -0-     | -0- |
| Professional Offshore Opportunity<br>Fund, Ltd <sup>(23)</sup>      | 195,000   | (23)     |  | 195,000                        | (23)   | -0-     | -0- |
| Yuanxu and Weidong Zhou Song<br>JTEN <sup>(2)</sup>                 | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Straus GEPT Partners LP <sup>(24)</sup>                             | 65,000  | (24)     |  | 65,000                         | (24)   | -0-     | -0- |
| Straus Partners LP <sup>(25)</sup>                                  | 97,500  | (25)     |  | 97,500                         | (25)   | -0-     | -0- |
| Allen K Sun <sup>(2)</sup>  | 10,000  | (2)      |  | 10,000                         | (2)  | -0-     | -0- |
| Ji Long Sun <sup>(2)</sup>  | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Susan Harris Family Trust of 1988 <sup>(2)</sup><br><sup>(26)</sup> | 16,667  | (2) (26) |  | 16,667                         | (2) (26)                                       | -0-     | -0- |
| Jaruey Swangwongse <sup>(2)</sup>                                   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Kinji Tasugi <sup>(2)</sup>   | 8,850   | (2)      |  | 8,850                          | (2)  | -0-     | -0- |
| Paul Thurston <sup>(2)</sup>  | 50,000  | (2)      |  | 50,000                         | (2)  | -0-     | -0- |
| Edward Tien <sup>(2)</sup>  | 10,000  | (2)      |  | 10,000                         | (2)  | -0-     | -0- |
| Vision Opportunity China, LP <sup>(27)</sup>                        | 260,000   | (27)     |  | 260,000                        | (27)   | -0-     | -0- |
| Chin T. Wang <sup>(2)</sup>   | 5,000   | (2)      |  | 5,000                          | (2)  | -0-     | -0- |
| Wayne M. Rogers and Amy Rogers<br>Family Trust <sup>(2) (28)</sup>  | 8,334   | (2) (28) |  | 8,334                          | (2) (28)                                       | -0-     | -0- |



|  |         |      |   |         |      |     |     |
|--|---------|------|---|---------|------|-----|-----|
| Wedbush Morgan Sec Inc. CTDN IRA<br>Contributory 1/16/02 <sup>(29)</sup> | 6,500   | (29) | % | 6,500   | (29) | -0- | -0- |
| Wedbush Morgan Sec Inc. CTDN IRA<br>Cont 8/27/96 <sup>(30)</sup>         | 13,000  | (30) |   | 13,000  | (30) | -0- | -0- |
| Wedbush Securities Inc. Cust IRA R/O<br>Holding 10/13/92 <sup>(31)</sup> | 39,000  | (31) |   | 39,000  | (31) | -0- | -0- |
| Wedbush Securities Inc. Cust IRA SEP<br>12/16/92 <sup>(32)</sup>         | 6,500   | (32) |   | 6,500   | (32) | -0- | -0- |
| Whitebox Intermarket Partners LP <sup>(33)</sup>                         | 260,000 | (33) |   | 260,000 | (33) | -0- | -0- |
| John V. Winfield <sup>(34)</sup>   | 45,000  | (34) |   | 45,000  | (34) | -0- | -0- |
| Lee Yang <sup>(2)</sup>  | 5,000   | (2)  |   | 5,000   | (2)  | -0- | -0- |
| Shan I Yeh <sup>(2)</sup>  | 5,000   | (2)  |   | 5,000   | (2)  | -0- | -0- |
| Shirley Yeh <sup>(2)</sup>   | 5,000   | (2)  |   | 5,000   | (2)  | -0- | -0- |
| Norman Zada <sup>(2)</sup>   | 25,000  | (2)  |   | 25,000  | (2)  | -0- | -0- |
| Wen Chen Zheng <sup>(2)</sup>  | 5,000   | (2)  |   | 5,000   | (2)  | -0- | -0- |

(1) The name of the person with voting and dispositive power over the shares held by Abington Company Ltd. is Toshio Masuda.

(2) Indicates shares issuable upon exercise of Callable Warrants.

- (3) Shares beneficially owned by Alder Capital Partners I LP includes 13,500 shares of common stock underlying Class A Warrants. Michael Licosati, an officer and control person of the general partner of Alder Capital Partners I LP has voting and dispositive power over these shares.
- (4) Shares beneficially owned by Alder Offshore Master Fund LP includes 13,500 shares of common stock underlying Class A Warrants. Michael Licosati, an officer and control person of the general partner of Alder Offshore Master Fund LP has voting and dispositive power over these shares.
- (5) The name of the person with voting and dispositive power over the shares held by Bilau, LLC is Nancy Lubinski.
- (6) The name of the persons with shared voting and dispositive power over the shares held by Brummett Family Trust, John B and Nancy Brummett TTEE are John B. Brummett and Nancy Brummett.
- (7) Shares beneficially owned by Clearview Investment Ltd. includes 15,000 shares of common stock underlying Class A Warrants. Michael D. Starcher, an officer of the entity has voting and dispositive power over these shares.
- (8) Includes 1,500 shares of common stock underlying Class A Warrants.
- (9) The name of the person with voting and dispositive power over the shares held by Denison Casing Corp Def Ben Pen Pi & Trust UA is Alex Hsu.
- (10) Shares beneficially owned by Jack M. Gertino, a former executive of the Company, includes 50,000 shares of common stock underlying Consulting Warrants exercisable at \$3.00 per share and expiring December 20, 2008.
- (11) Shares beneficially owned by Guerilla Partners LP includes 30,000 shares of common stock underlying Class A Warrants. Leigh S. Curry, an officer and control person of the general partner of Guerilla Partners LP has voting and dispositive power over these shares.
- (12) Shares beneficially owned by Heller Capital Investments includes 18,000 shares of common stock underlying Class A Warrants. Ronald I. Heller, an officer and control person of the general partner of Heller Capital Investments has voting and dispositive power over these shares.
- (13) Shares beneficially owned by Hua-Mei 21<sup>st</sup> Century Partners, LP includes 45,000 shares of common stock underlying Class A Warrants. Leigh S. Curry, an officer and control person of the general partner of Hua-Mei 21<sup>st</sup> Century Partners, LP has voting and dispositive power over these shares.
- (14) Shares beneficially owned by Investment Hunter, LLC includes 45,000 shares of common stock underlying Class A Warrants. Gary C. Evans, an officer and control person of the general partner of Investment Hunter, LLC has voting and dispositive power over these shares.
- (15) Shares beneficially owned by Jayhawk Private Equity Co-Invest Fund, LP includes 444 shares of common stock underlying Class A Warrants. Michael D. Schmitz, an officer and control person of the general partner of Jayhawk Private Equity Co-Invest Fund, LP has voting and dispositive power over these shares.
- (16) Shares beneficially owned by Jayhawk Private Equity Fund, LP includes 7,056 shares of common stock underlying Class A Warrants. Michael D. Schmitz, an officer and control person of the general partner of Jayhawk Private Equity Fund, LP has voting and dispositive power over these shares.
- (17)

The name of the person with voting and dispositive power over the shares held by Jeli Properties, LLC is Eugene Inose.

- (18) The name of the person with voting and dispositive power over the shares held by J.M.G. Corporation is Jack Gertino.
- (19) Shares beneficially owned by Paul Masters IRA includes 1,500 shares of common stock underlying Class A Warrants. Paul Masters, an officer and control person of the general partner of Paul Masters IRA has voting and dispositive power over these shares.
- (20) The name of the person with voting and dispositive power over the shares held by Paul Junger Witt Family Trust of 1988 is Paul Junger Witt.
- (21) Includes 3,000 shares issuable upon exercise of Class A Warrants.
- (22) Shares beneficially owned by Pope Investments II LLC includes 321,000 shares of common stock underlying Class A Warrants. William P. Wells, an officer and control person of the general partner of Pope Investments II LLC has voting and dispositive power over these shares.
- (23) Shares beneficially owned by Professional Offshore Opportunity Fund, Ltd includes 45,000 shares of common stock underlying Class A Warrants. Marc Swickle, an officer and control person of the general partner of Professional Offshore Opportunity Fund, Ltd has voting and dispositive power over these shares.
- (24) Shares beneficially owned by Straus GEPT Partners LP includes 15,000 shares of common stock underlying Class A Warrants. Greg Connors, an officer and control person of the general partner of Straus GEPT Partners LP has voting and dispositive power over these shares.
- (25) Shares beneficially owned by Straus Partners LP includes 22,500 shares of common stock underlying Class A Warrants. Greg Connors, an officer and control person of the general partner of Straus Partners LP has voting and dispositive power over these shares.
- (26) The name of the person with voting and dispositive power over the shares held by Susan Harris Family Trust of 1988 is Susan Harris.
- (27) Shares beneficially owned by Vision Opportunity China, LP includes 60,000 shares of common stock underlying Class A Warrants. Adam Benowitz, an officer and control person of the general partner of Vision Opportunity China, LP has voting and dispositive power over these shares.
- (28) The names of the persons with voting and dispositive power over the shares held by Wayne M. Rogers and Amy Rogers Family Trust are Wayne M. Rogers and Amy Rogers.
- (29) Beneficiary with voting and dispositive power is Gregory Cook.
- (30) Beneficiary with voting and dispositive power is John Peter Selda.
- (31) Beneficiary with voting and dispositive power is Fred L. Astman.
- (32) Beneficiary with voting and dispositive power is George Loxom.
- (33) Shares beneficially owned by Whitebox Intermarket Partners LP includes 60,000 shares of common stock underlying Class A Warrants. Jonathan Wood, an officer and control person of the general partner of Whitebox Intermarket Partners LP has voting and dispositive power over these shares.

(34) Includes 15,000 shares issuable upon exercise of callable Warrants held by Mr. Winfield.

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Kyle Rogers, Timothy Keating and Jeff Andrews, who are principals of Keating Investments, and Mathew Wang and Sun Kai Pan of American Eastern Securities, Inc. are each representatives or affiliates of broker-dealers. As such, these individuals, as well as those broker-dealer affiliates listed in the footnotes to the table, may be deemed underwriters within the meaning of the Securities Act of 1933, as amended, with respect to the securities listed. Each of them has indicated to the Company that they acquired their shares in the ordinary course either for cash or for administrative services, that they intend to sell their shares in ordinary brokerage transactions and, at the time of their purchase, they had no agreements or understandings directly or indirectly with any party to distribute their securities.

None of the selling shareholders has held any position or office with us or engaged in any transaction with us other than investment banking, advisory and related services for which they received their shares except that Mr. Gertino, an executive and officer of the Company prior to his receipt of 50,000 warrants at the time of our acquisition of ACPG in May of 2006. (see “Certain Relationships and Related Transactions” elsewhere in this prospectus).

## MANAGEMENT

### Directors and Officers

As of February 22, 2008, the board of directors of the Company authorized an increase in the number of directors on the Board from three (3) to seven (7), and appointed Song Chun Fan, Jiang Qi Feng, Zhao Jie and Qian Xu Feng to fill the vacancies created thereby each of which newly appointed persons also serve on certain committees of the board, to serve until such time as their successors shall be duly elected, unless they resign, are removed from office, or are otherwise disqualified from serving as directors of the Company. The biographies of all directors are provided below.

The following table sets forth certain information regarding our directors and executive officers during the fiscal year ended December 31, 2007 and through March of 2008:

| Name          | Age | Positions                                       |
|---------------|-----|---|
| Liu Yan-qing  | 43  | Chief Executive Officer, President and Director |
| Han Xiao-yan  | 40  | Chief Financial Officer and Director            |
| Wang Hai-feng | 31  | Secretary/Treasurer and Director                |
| Song Chun Fan | 68  | Director  |
| Jiang Qi Feng | 25  | Director  |
| Zhao Jie      | 45  | Director  |
| Qian Xu Feng  | 40  | Director  |

The following information reflects the business background and experience of each director and officer.

**Liu Yan-qing** is our Chief Executive Officer and President, and Director of TDR and the General Manager of our Harbin Bio-Engineering subsidiary. He graduated from Prophylactic Department of Harbin Medicine University, where he obtained his bachelor's degree. In 2005, he studied at Tsing Hua University and earned an Executive Masters of Business. Before establishing his own company, he had 8 years of experience as a reporter of Family Health Newspaper, and has 10 years of experience in drug marketing, research and development of new drugs and enterprise management. Mr. Yan-qing has been instrumental in establishing TDR's sales program and sales network covering the PRC.

**Han Xiao-yan** is our Chief Financial Officer, and the General Manager of TDR and the Vice Director of Harbin Bio-Engineering. She received a master of business administration at Harbin Industrial University. She had five years of hygiene and medical media experience before becoming employed by TDR, and has been instrumental in developing and marketing TDR's products and expanding its sales. She serves as senior marketing manager and administrative manager. She has 10 years of financial management experience. In 2004, she was appointed the general manager of TDR, with responsibility for financing, production, quality control and purchasing. In 2003, she was appointed vice director of Harbin Bio-Engineering.

**Wang Hai-feng**, our Secretary/ Treasurer, graduated from Heilongjiang University where he majored in English Literature and received two bachelors' degrees in English and International Trade. Mr. Hai-feng joined TDR in 2003 and has served as the manager of the international business department, and the assistant to the president and the secretary of the board of directors since such time. He has been instrumental in the establishment of our international business department and the expansion of foreign trade. In 2005, he assisted in product innovation and branding for international markets. Through the efforts of Mr. Wang, we have established strategic relationships with several foreign partners. Before his employment by TDR, Mr. Wang had experience in product exporting, translating and project operations in foreign companies.

**Song Chun Fan**, joined our board of directors on February 22, 2008. From 1964 to the present, Song Chun Fan has been employed by the First Clinical College of Harbin Medical University in Heilongjiang, China, where he has served as the Director of the Surgery Research Room and the Director of graduate students of the Surgery Department since 1996. From 1998 to the present, Song Chun Fan has been the acting Director of the Heilongjiang Professional Surgery Committee, the Commissary of the Degree Commission of China, the Director of the Key Laboratory of Cell Transplantation of the Ministry of Public Health of China, the Vice-Chairman of the Heilongjiang Medicine Association, the Vice-Chairman of the Heilongjiang Physician Association, and the Director of Heilongjiang (Special) Medical Treatment Application Administration Committee. Song Chun Fan received a Bachelor's Degree in Medical Treatment from Harbin Medical University in 1964.

**Jiang Qi Feng**, joined our board of directors on February 22, 2008. From September 2006 to the present, Jiang Qi Feng has served as a Teaching Assistant and a Research Assistant at Simon Fraser University in Canada, where he specializes in biology statistics, biology research and probability. Jiang Qi Feng received a Masters Degree in Computer Science from Simon Fraser University in 2006, and Bachelor's Degrees in Bio-Statistics and Mathematics from the University of British Columbia in 2005.



**Zhao Jie**, joined our board of directors on February 22, 2008. From 1999 to the present, Zhao Jie has served as the Tissue Specialist of the Replant Department of Capital Health Transplant Services in Alberta, Canada, responsible for various aspects of tissue transplantation, including determining donee acceptability, processing and preserving tissue, performing surgical procedures, and quality control. In addition, Zhao Jie has written and published several books and articles regarding tissue transplantation. Zhao Jie has received awards from Capital Health for Quality and Safety (2006), Recognition of Excellence and Achievement (2002), and Teamwork (2002). Zhao Jie received a Bachelor's Degree in Medicine from Harbin Medical University in 1988.

**Qian Xu Feng**, joined our board of directors on February 22, 2008. From March 2005 to the present, Qian Xu Feng has been employed by Moody's Investors Service; from May 2007 to the present, as the Vice President and Senior Analyst, from May 2006 to May 2007, as the Assistant Vice President and Quantitative Analyst, and from March 2005 to April 2006, as the Quantitative Analyst. Prior to that, from June 2004 until February 2005, Qian Xu Feng was the Research Fellow of the Furman Center for Real Estate and Urban Policy of New York University, where she conducted empirical quantitative research in various aspects of commercial and residential properties. From September 1990 to July 1996, Qian Xu Feng was an Assistant Professor of Economics at the Beijing Normal University. Qian Xu Feng received a Ph.D. in Economics from Rutgers University in 2004, a Masters Degree in Economics from Rutgers University in 2001, a Masters Degree in Accounting from City University of New York in 1999, and a Bachelor's Degree in Economics from Beijing Normal University in 1990

#### **Significant Employees.**

**Wen Chao Zhang** has been the Director of Scientific and Technological Development of the Company since 2005. Mr. Zhang graduated with a PhD in biology pharmaceuticals from South China University of Technology in 1997. Mr. Zhang has been employed in various R&D roles since his graduation. Mr. Zhang completed our gene recombination medicine independently and has been responsible for researching and developing various products that have been launched by the Company since 2005.

#### **Involvement in Certain Legal Proceedings.**

There have been no events under any bankruptcy act, no criminal proceedings and no judgments, injunctions, orders or decrees material to the evaluation of the ability and integrity of any director, executive officer, promoter or control person of Registrant during the past five years.

#### **Board of Directors**

We have 7 members serving on our Board of Directors. Each board member is nominated for election at our annual meeting to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified.

#### **Board Committees**

The Board of Directors has an Audit Committee, Nominating and Governance Committee, Executive Committee, a Finance Committee and a Compensation Committee, all of which were created on February 22, 2008. A description of each committee follows.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. Based on the

Company's review of copies of such forms received by it, the Company believes all such filing requirements applicable to officers, directors and 10% owners of its common stock have been complied with.

**Code of Ethics**

We have adopted a Code of Ethics that applies to our principal chief executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as well as other employees (the "Code of Ethics"). A copy of the Code of Ethics is appended as an exhibit to our Amended Report on Form 10-KSB for the year ended December 31, 2006. The Code of Ethics is being designed with the intent to deter wrongdoing, and to promote the following:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships,

· Full, fair, accurate, timely and understandable disclosure in reports and documents that a small business issuer files with, or submits to, the Commission and in other public communications made by the small business issuer,

· Compliance with applicable governmental laws, rules and regulations,

· The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code,

· Accountability for adherence to the code,

### **Director Independence**

While our securities are not trading on a national securities exchange or Nasdaq, our Board believes in good faith that four of our directors, that Song Chun Fan, Jiang Qi Feng, Zhao Jie and Qian Xu Feng would all qualify as independent directors under the rules of the American Stock Exchange Company Guide (the “AMEX Company Guide”), because they (i) do not currently own a significant percentage of our shares, (ii) are not currently employed by us, (iii) have not been actively involved in the management of the Company, and (iv) do not fall into any of the enumerated categories of people who cannot be considered independent directors under the AMEX Company Guide.

### **Audit Committee**

The Company has a separately designated standing Audit Committee and adopted an Audit Committee Charter on February 22, 2008. The purpose of the Audit Committee is to recommend to the board of directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants. The Audit Committee has been created after the appointment of the auditors however, have approved the inclusion of their report herewith. The Audit Committee also reviews and discusses with management and the board of directors, such matters as accounting policies, internal accounting controls and procedures for preparation of financial statements. The Audit Committee is required, at all times to be composed exclusively of directors who, in the opinion of our board of directors, are free from any relationship that would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles. The Audit Committee is comprised of solely independent directors, Messrs. Jiang Qi Feng, Zhao Jie and Qian Xu Feng. Management believes, in good faith, that each of these members are considered “independent” under Section 303A.02 of the listing standards of American Stock Exchange, as determined by our board of directors. and that Jiang Qi Feng qualifies as an “audit committee financial expert” as defined under Item 401(c) of Regulation S-B. A copy of the Audit Committee Charter is filed as an exhibit to this prospectus and can be made available in print free of charge to any shareholder who requests it.

### **Compensation Committee**

The Company has designated a Compensation Committee of Board of Directors and adopted a Compensation Committee Charter on February 22, 2008. The Compensation Committee is responsible for (a) reviewing and recommending to the board of directors on matters relating to employee compensation and benefit plans, and (b) assisting the board in determining the compensation of the CEO and other executives and make recommendations to the board with respect to the compensation of the CFO, other executive officers of the Company and independent directors. The Compensation Committee is comprised independent directors, Messrs. Jiang Qi Feng, Qian Xu Feng and Song Chun Fan.

### **Nominating and Governance Committee**

We created a Nominating and Governance Committee and adopted a Nominating and Governance Committee Charter on February 22, 2008. The purpose of this committee is to assist the board of directors in identifying qualified individuals to become board members, in determining the composition of the board of directors and in monitoring the process to assess Board effectiveness. The Nominating and Governance Committee of the board of directors comprised of independent directors Zhao Jie, Qian Xu Feng and Song Chun Fan. A copy of the Nominating and Governance Committee Charter is filed as an exhibit to this prospectus and can be made available in print free of charge to any shareholder who requests it.

#### **Executive Committee**

We have created an Executive Committee of the Board of Directors, comprised solely of independent directors. Song Chun Fan, Zhao Jie and Jiang Qi Feng serve as members of the Executive Committee.

## **Finance Committee**

We have created a Finance Committee of the Board of directors, comprised solely of independent directors. Qian Xu Feng, Jiang Qi Feng and Song Chun Fan serve as members of the Finance Committee.

## **Family Relationships**

There are no family relationships among our executive officers and directors.

## **Indemnification**

Under Chapter 78 of the Nevada Revised Statutes, we have broad powers to indemnify and insure our directors and officers against liabilities they may incur in their capacities as such. Article VII of our articles of incorporation provides, in part, that we must indemnify our directors and officers, and their respective heirs, administrators, successors and assigns against any and all expenses, including amounts paid upon judgments, counsel fees and amounts paid in settlement by reason of their being or having been directors or officers. This indemnification is in addition to any rights to which those indemnified may be entitled under any law, by law, agreement, vote of shareholder or otherwise.

This indemnification provisions may be sufficiently broad to permit indemnification of our directors and officers for liabilities (including reimbursement of expenses incurred) arising under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

The indemnity provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the indemnification agreements and the insurance are necessary to attract and retain talented and experienced directors and officers.

At present, there is no pending litigation or proceeding involving any of our directors or officers where indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

## **Anti-Takeover Provisions**

Provisions of Nevada law, our articles of incorporation, or our bylaws could have the effect of delaying or preventing a third party from acquiring us, even if the acquisition would benefit our stockholders. The provisions of Nevada law and in our articles of incorporation and bylaws are intended to enhance the likelihood of continuity and stability in the composition of our Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of China Sky One. These provisions are designed to reduce our vulnerability to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of our outstanding shares, or an unsolicited proposal for the restructuring or sale of all or part of our company. See the Subsection titled "Anti-Takeover Provisions" in the "Description of Capital Stock" Section below.

## **Director Fiduciary Duty and Business Judgment Provisions**

Nevada has enacted several statutes governing the fiduciary duty and business judgment of our directors and officers including a provision that our directors and officers must exercise their powers in good faith and with a view to our interests. In the same section, the Nevada Revised Statutes state that our directors and officers, in deciding upon matters of business, are presumed to act in good faith, on an informed basis and with a view to our interests. They may rely on information, opinions, reports, financial statements and other financial data, that are prepared or presented by our directors, officers or employees who are reasonably believed to be reliable and competent.

### **Limitation on Liability**

Section 78.138(7) of the Nevada Revised Statutes provides that our directors and officers will not be individually liable to us or our stockholders or our creditors for any damages as a result of any act or failure to act in their capacity as a director or officer unless it is proven that the act or failure to act breached fiduciary duties as a director or officer and such breach involved intentional misconduct, fraud or a knowing violation of law. As a result, neither we nor our stockholders nor our creditors have the right to recover damages against a director or officer for any act or failure to act in his capacity as a director or officer, except in the situations described above and except under very limited circumstances.

## PRINCIPAL STOCKHOLDERS

The following table sets forth as of March 20, 2008, the number and percentage of the outstanding shares of Common stock which, according to the information supplied to the Company, were beneficially owned by (i) each person who is currently a director of the Company, (ii) each executive officer, (iii) all current directors and executive officers of the Company as a group and (iv) each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding common stock. The below chart is based on 14,852,214 shares issued and outstanding as of March 20, 2008. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock subject to options or warrants currently exercisable or exercisable within 60 days after the date of this prospectus are deemed outstanding, but are not deemed outstanding for the purpose of computing the percentage of ownership of any other person. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

| Name and Address of Beneficial Owner               | Common Stock (1) | Percent of Class |
|--|------------------|------------------|
| Liu Yan-qing (2)                                   | 4,666,595(3)     | 31.4%            |
| Han Xiao-yan (2)                                   | 1,407,707(4)     | 9.4%             |
| Wang Hai-feng (2)                                  | 2,150(5)         | *                |
| Song Chun Fan                                      | -0-              | *                |
| Jiang Qi Feng                                      | -0-              | *                |
| Zhao Jie   | -0-              | *                |
| Qian Xu Feng                                       | -0-              | *                |
| All Officers and Directors as a group (7 persons): | 6,076,452        | 40.9%            |
| <b>Non Executive Principal Shareholders:</b>       |                  |                  |
| Trang Chong "Charles" Hung (6)                     | 107,685(6)       | *                |
| American Eastern Group, Inc. (7)                   | 600,285(6)       | 4.0%             |
| American Eastern Securities, Inc. (8)              | 74,803(6)        | 1.4%             |
| Charles Hung, Jr. (9)                              | 94,803(7)        | *                |

\* Indicates under 1%.

(1) All shares are held of record and beneficially.

(2) The mailing address for each shareholder is the principal executive offices of the Company, Room 1706, No. 30 Di Wang Building, Gan Shui Road, Nandang District, Harbin, People's Republic of China 150001.

(3) Includes 6,000 shares issuable upon currently exercisable options at \$3.65 per share issued pursuant to the company's 2006 Incentive Stock Plan and expiring on October 26, 2011, but does not include 4,000 shares issuable upon exercise of options vesting on June 30, 2008. Also includes 3,000,000 shares deposited into escrow pursuant to the Make Good Agreement with investors in our January 2008 Offering pursuant to which such shares may be distributed to such investors if the Company does not attain \$1.75 earnings per share for the fiscal year ending in December 31, 2008, based on fully diluted shares outstanding (16,907,696) excluding warrants issued in such offering.

(4) Includes 3,800 shares issuable upon currently exercisable options at \$3.65 per share issued pursuant to the company's 2006 Incentive Stock Plan and expiring on October 26, 2011, but does not include 3,200 shares issuable upon exercise of options vesting on June 30, 2008.

(5)

Includes 2,000 shares issuable upon currently exercisable options at \$3.65 per share issued pursuant to the company's 2006 Incentive Stock Plan and expiring on October 26, 2011, but does not include 2,000 shares issuable upon exercise of options vesting on December 31, 2008 or 1,000 options vesting on December 31, 2009.

(6) The address for each of Mr. Hung and these two entities and for Mr. Charles Hung, Jr. is 865 South Figueroa Street, #3340, Los Angeles, CA 90017. Mr. Hung is a principal of both American Eastern Group, Inc. and American Eastern Securities, Inc., and has voting and dispositive power over all of the listed shares in addition to those held in his name. Includes 67,685 shares and 40,000 shares issuable upon exercise of warrants. Does not include shares of American Eastern Group, Inc., American Eastern Securities, Inc. and Charles Hung Jr. and EIC Investments, which shares are deemed owned as part of a group in which Mr. Hung is a part (see notes 5 and 6 below).



- (7) Includes 100,285 shares and 500,000 shares issuable upon exercise of warrants at \$2.00 per share, expiring on July 31, 2009. Both Mr. Hung and Charles Hung Jr. are officers and control persons of this entity (See “Item 13. Certain Relationships and Related Transactions, and Director Independence”).
- (8) Includes 54,803 shares and 20,000 shares of the common stock of the Company issued upon exercise of warrants exercisable at \$3.00 and 10,000 shares issuable upon exercise of warrants exercisable at \$3.50, expiring on October 10, 2008. (See “Item 13. Certain Relationships and Related Transactions, and Director Independence”).
- (9) Includes 40,000 shares of common stock issuable upon exercise of warrants held by Mr. Charles Hung Jr., as well as 54,803 shares of common stock held by EIC Investments, LLC, an entity in which Mr. Charles Hung Jr. is a manager.

### EXECUTIVE COMPENSATION

The following table sets forth the cash compensation paid by the Company to its President and all other executive officers who earned annual compensation exceeding \$100,000 for services rendered during the fiscal years ended December 31, 2007 and December 31, 2006.

#### SUMMARY COMPENSATION TABLE

| Name and principal position                     | Year | Salary (\$)    | Bonus (\$) | Awards (\$)(1) | Awards (\$)  | Nonqualified                        | Deferred                     | All Other Compensation (\$) | Total (\$)     |
|---|------|----------------|------------|----------------|--------------|-------------------------------------|------------------------------|-----------------------------|----------------|
|   |      |                |            |                |              | Stock Option Plan Compensation (\$) | Non-Equity Compensation (\$) |                             |                |
| <b>Liu Yan-Qing</b>                             |      |                |            |                |              |                                     |                              |                             |                |
| Principal Executive Officer and Director        | 2007 | 68,512         | —          | —              | —            | —                                   | —                            | —                           | —              |
|   | 2006 | 19,500         | —          | —              | 4,377(1)     | —                                   | —                            | —                           | 23,877         |
| <b>Han Xiao-Yan</b>                             |      |                |            |                |              |                                     |                              |                             |                |
| Principal Financial Officer and Director        | 2007 | 54,810         | —          | —              | —            | —                                   | —                            | —                           | —              |
|   | 2006 | 16,500         | —          | —              | 3,502(1)     | —                                   | —                            | —                           | 20,002         |
| <b>Wang Hai-Feng</b>                            |      |                |            |                |              |                                     |                              |                             |                |
| Secretary/Treasurer                             | 2007 | 40,793         | —          | —              | —            | —                                   | —                            | —                           | —              |
|   | 2006 | 13,500         | —          | —              | 1,124(1)     | —                                   | —                            | —                           | —              |
| <b>Richard B. Stuart(2)</b>                     |      |                |            |                |              |                                     |                              |                             |                |
| former Principal Executive Officer and Director | 2007 | N/A            | —          | —              | —            | —                                   | —                            | —                           | —              |
|   | 2006 | —              | —          | —              | —            | —                                   | —                            | 28,200(2)                   | 28,200         |
| <b>Jack M. Gertino (2)</b>                      |      |                |            |                |              |                                     |                              |                             |                |
| former Principal Financial Officer and Director | 2007 | N/A            | —          | —              | —            | —                                   | —                            | —                           | —              |
|   | 2006 | —              | —          | —              | —            | —                                   | —                            | 56,325(2)                   | 56,325         |
| <b>TOTAL</b>                                    |      | <b>213,615</b> | <b>—</b>   | <b>—</b>       | <b>9,003</b> | <b>—</b>                            | <b>—</b>                     | <b>84,525</b>               | <b>128,314</b> |

(1) Option Awards represent the aggregate grant date fair value of options to purchase 10,000 common shares for Dr Liu, 8,000 common shares for Ms. Han, and 5,000 common shares for Mr. Wang, computed in accordance with FAS

123R. The grant, vesting and forfeiture information and assumption made in valuation may be found in Note 5 to our financial statements for the year ended December 31, 2007, which are attached hereto, beginning on Page F-1, and in the notes following the table below.

(2) Mr. Stuart and Mr. Gertino are former officers and directors of the publicly traded company, China Sky One, and have resigned from all positions and ceased receiving any form of compensation in May 2006 at the time of the reverse merger of ACPG into China Sky One. We recorded compensation expense for Richard B. Stuart and Jack M. Gertino, computed on an hourly basis, in the amounts indicated, for their efforts in reviewing specific business opportunities for a possible business combination during the fiscal year, participating in meetings and conference calls in connection with such opportunities, and undertaking related activities.

**Summary of Employment Agreements and Arrangements**

The Company does not have formal employment agreements with management at this time.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END****Outstanding Equity Awards at Fiscal Year-end**

| Name   | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Exercised Options (#) | Equity Incentive Plan Awards: Number of Securities Unearned (#) | Option Exercise Price (\$) | Option Expiration Date | Equity Incentive Plan Awards: Market Value of Shares or Units Earned |  |  |  |
|--|---|---|---|----------------------------|------------------------|--|--|--|--|
|  |   |   |   |                            |                        | Number of Shares or Units That Have Not Vested                       | Number of Shares or Units That Have Not Vested | Number of Shares or Units That Have Not Vested | Number of Shares or Units That Have Not Vested |
| (a)  | (b)   | (c)   | (d)   | (e)                        | (f)                    | (g)  | (h)  | (i)  | (j)  |
| Liu Yan-Qing<br>Principal Executive Officer and Director | 0   | 0   | 10,000(1)   | \$ 3.65                    | October 26, 2011       | 0  | 0  | 0  | 0  |
| Han Xiao-Yan<br>Principal Financial Officer and Director | 0   | 0   | 8,000(2)  | \$ 3.65                    | October 26, 2011       | 0  | 0  | 0  | 0  |
| Wang Hai-Feng,<br>Secretary/Treasurer                    | 0   | 0   | 5,000(3)  | \$ 3.65                    | October 26, 2011       | 0  | 0  | 0  | 0  |

(1) On October 26, 2006, we issued to Liu Yan-Qing under our 2006 Incentive Stock Plan (the "Plan"), options to purchase 10,000 shares of common stock, 6,000 options vesting June 30, 2007, and the remaining 4,000 options vesting on June 30, 2008. These options are exercisable for a five-year period from the date of grant at an exercise price of \$3.65 per share.

(2) On October 26, 2006, we issued to Han Xiao-Yan under our Plan, options to purchase 8,000 shares of common stock, 4,800 options vesting June 30, 2007, and the remaining 3,200 options vesting on June 30, 2008. These options are exercisable for a five-year period from the date of grant at an exercise price of \$3.65 per share.

(3) On October 26, 2006, we issued to Wang Hai-Feng under our Plan, options to purchase 5,000 shares of common stock, 2,000 options vesting December 31, 2007, 2,000 options vesting December 31, 2008, and the remaining 1,000 options vesting on December 31, 2009. These options are exercisable for a five-year period from the date of grant at

an exercise price of \$3.65 share.

### **Equity Compensation Plan Information**

The Company's board of directors adopted a 2006 Stock Incentive Plan (the "Plan"), to be effective on July 31, 2006.

The Plan was approved by the shareholders on July 31, 2006. The Plan authorizes the granting of incentive stock options and nonqualified stock options to purchase common stock, stock appreciation rights ("SARs"), restricted stock, performance stock and bonus stock, to key executives and other key employees and consultants of the Company, including officers of the Company and its subsidiaries. The purpose of the Plan is to attract and retain key employees, to motivate key employees to achieve long-range goals and to further identify the interests of key employees with those of the other shareholders of the Company. The Plan authorizes the award of 1,500,000 shares of Common stock to be used for stock, SARs, restricted stock and performance and bonus stock. If an award made under the Plan expires, terminates or is forfeited, canceled or settled in cash, without issuance of shares covered by the award, those shares will be available for future awards under the Plan. The Plan will terminate on July 31, 2017. The Plan is intended to qualify for favorable treatment under Section 16 of the Exchange Act, as amended, pursuant to Rule 16b-3 promulgated thereunder ("Rule 16b-3"). The Plan provides for the grant of "incentive stock options," as defined in Section 422 of the Internal Revenue Code ("Code") and nonqualified stock options.

The Plan designates a Stock Option Committee appointed by the Board of Directors (which may be the Compensation Committee) and authorizes the Stock Option committee to grant or award to eligible participants of the Company and its subsidiaries and affiliates, stock options, SARs, restricted stock performance stock awards and Bonus Stock awards for up to 1,500,000 shares of common stock of the Company. The initial members of the Stock Option Committee are the Board of Directors.

On October 26, 2006, the Company granted a total of 113,500 non-qualified options under the Plan to key employees, including its officers. These options are exercisable at a price of \$3.65 per share, or 85% of the fair market value of the Shares covered by the options as of the date of grant. The options begin to vest in June, 2007, and typically vest in increments over either a two-year or three year period, and expire in October, 2011, unless earlier terminated by their terms. The outstanding options include a total of 23,000 options held by current officers and directors.

The following table provides certain information with respect to the Company's equity compensation plans in effect as of December 31, 2007.

| <b>Plan Category</b>                                       | <b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>(c) Number of securities remaining available for future issuance under equity compensation plans (including securities reflected in column a)</b> |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 113,500  | \$ 3.65  | 1,386,500  |
| Equity compensation plans not approved by security holders | None   |  |  |
| <b>Total</b>   | <b>113,500</b>   |  | <b>1,386,500</b>   |

#### DIRECTOR COMPENSATION

We do not currently pay any cash fees to our directors.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Effective May 30, 2006, we acquired 100% of ACPG in a stock-for-stock exchange. The transaction was treated as a reverse merger and a recapitalization of ACPG for financial reporting purposes. As part of the exchange, Liu Yan-qing and Han Xiao-yan, officers and directors of ACPG and TDR, received 4,660,595 and 1,402,907 shares, respectively, of the common stock of China Sky One in exchange for their ownership interest in ACPG. The other shareholders of ACPG received a total of 4,129,875 shares of common stock of China Sky One for their ownership interest in ACPG, including American Eastern Group, Inc., American Eastern Securities, Inc., and its principal, Trang Chong (Charles) Hung, who received 87,685 shares, 54,803 shares, and 87,685 shares of the Company, respectively, in connection with the transaction.

In connection with the closing of the stock exchange described above, the Company entered into a consulting agreement with former officers of China Sky One dated May 11, 2006, with Jack M. Gertino and Richard B. Stuart, officers and directors who resigned at closing, providing for their services as consultants. For such services, China Sky One and ACPG agreed to compensate Messrs. Gertino and Stuart as follows: (a) the sum of \$3,000 per month for a period of two years; (b) the issuance of a total of 219,212 shares of restricted common stock (or 109,606 shares each) of the Company. In addition, under this arrangement, the Company granted to Mr. Gertino an option to purchase a total of 50,000 shares at a price of \$3.00 per share at any time before December 20, 2008.

China Sky One has incurred fees to American Eastern Group, Inc. ("AEG"), and Shenzhen DRB Investment Consultant Limited ("DRB"), in the amount of \$200,000 in cash for services rendered in connection with the Exchange Agreement. In addition, in October, 2006, we granted to AES and DRB warrants to purchase an aggregate of 1,000,000 shares of common stock (500,000 warrants each) exercisable at any time before July 31, 2009, at a price of \$2.00 per share. One-half of such warrants were deemed to be earned as of the completion of the Exchange Agreement, and the other one-half was deemed earned after completion of our private offering in October, 2006. The fair value of the above warrants was calculated as \$1,469,190 as of December 31, 2006, based on the Black-Scholes model of accounting, and the total value of compensation to AES and DRB has been determined to be \$2,317,128.

American Eastern Securities, Inc., acted as placement agent for the Company in connection with its private offering completed in October, 2006. The Company sold a total of 200 Units in the private offering, at a price of \$15,000 per Unit, for total gross proceeds of \$3,000,000 and net cash proceeds of approximately \$2,745,000. Each Unit in the private offering consisted of a total of 5,000 shares of common stock and a warrant to purchase an additional 2,500 shares of common stock at any time prior to October 10, 2008, at a price of \$3.50 per share. As a result, the Company sold a total of 1,000,000 shares of common stock, and issued warrants to purchase an additional 500,000 shares of common stock. As placement agent, American Eastern Securities earned a placement fee of \$270,000 or 9% of the total proceeds from the private offering, and was granted a warrant to purchase Units equivalent to 10% of the Units sold in the offering in October 2006, or a total of 100,000 shares at a price of \$3.00 per share, and, subject to exercising the foregoing \$3.00 Warrants in full, a warrant for an additional 50,000 shares exercisable at \$3.50 per share. The \$3.00 warrants were exercised in full. All of the warrants described above have an expiration date of October 10, 2008.

On January 31, 2008, and in order to facilitate the January 2008 Offering, Liu Yan-qing deposited 3,000,000 shares into escrow pursuant to an Escrow Agreement. These shares may be released from escrow and issued to the investors in the January 2008 Offering in the event that the Company fails to attain Earnings Per Share, as adjusted of at least (i) \$1.05 per share for fiscal year ended December 31, 2007 based on fully diluted shares outstanding before the January 2008 offering (an aggregate of 13,907,696), and/or (ii) \$1.75 per share for fiscal year ending December 31, 2008 based on fully diluted shares outstanding after the January 2008 Offering (an aggregate of 16,907,696 shares). While the Company has satisfied the criterion of (i) above for 2007, no assurance can be made that we will satisfy our earnings goal next year.



## PLAN OF DISTRIBUTION

We are registering shares of our common stock to permit the resale of such common stock by the holders from time to time. We will not receive any of the proceeds from the sale of such common stock. The selling securityholders have advised us that, prior to the date of this prospectus, they have not made any agreement or arrangement with any underwriters, brokers or dealers regarding the distribution and resale of the securities. If we are notified by a selling securityholder that any material arrangement has been entered into with an underwriter for the sale of the securities, a supplemental prospectus will be filed to disclose such of the following information as we believe appropriate:

the name of the participating underwriter;

the number of securities involved;

the price at which the securities are sold, the commissions paid or discounts or concessions allowed to such underwriter; and

other facts material to the transaction.

The selling securityholders may sell all or a portion of their securities covered by this prospectus through customary brokerage channels, either through broker-dealers acting as agents or brokers for the seller, or through broker-dealers acting as principals, who may then resell the securities in the over-the-counter market, or at private sale or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The selling securityholders may also sell their shares of common stock through private sales. The selling securityholders may effect such transactions by selling the securities to or through underwriters or broker-dealers, and such underwriters or broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling securityholders and/or the purchasers of the shares for whom they may act as agent (which compensation may be in excess of customary commissions). The selling securityholders and any broker-dealers that participate with the selling securityholders in the distribution of the securities may be deemed to be underwriters and commissions received by them and any profit on the resale of the securities positioned by them might be deemed to be underwriting discounts and commissions under the Securities Act.

Sales of the shares of common stock may be made by means of one or more of the following:

a block trade in which a broker or dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a dealer as principal and resale by such dealer for its account pursuant to this prospectus;

ordinary brokerage transactions and transactions in which the broker solicits purchasers;

privately negotiated transactions;

short sales;

broker-dealers may agree with the selling securityholder to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

and other method permitted pursuant to applicable law.



The selling securityholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling securityholders may also engage in short sales against the box (except where short sale occurs prior to the effective date of this registration statement), puts and calls and other transactions in our securities or derivatives of our securities and may sell or delivery shares in connection with these trades.

In effecting sales, brokers or dealers engaged by the selling securityholders may arrange for other brokers or dealers to participate.

The selling securityholders may pledge or grant a security interest in some or all of the Class A Warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act, amending, if necessary, the list of selling securityholders to include the pledgee, transferee or other successors in interest as selling securityholders under this prospectus. The selling securityholders also may transfer and donate the warrants or shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling securityholders may choose not to sell any or may choose to sell less than all of the shares of common stock registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling securityholders are not restricted as to the price or prices at which they may sell their shares. Sales of shares at less than market prices may depress the market price of our common stock. Moreover, the selling securityholders are not restricted as to the number of shares which may be sold at any one time.

Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. The selling securityholders are advised to ensure that any underwriters, brokers, dealers or agents effecting transactions on behalf of the selling securityholders are registered to sell securities in all fifty states. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We will pay all the expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. We have agreed to indemnify the selling securityholders against certain liabilities, including liabilities under the Securities Act, in accordance with the registration rights agreements, or the selling securityholders will be entitled to contribution. We may be indemnified by the selling securityholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling securityholder specifically for use in this prospectus, in accordance with the related registration rights agreements, or we may be entitled to contribution.

The selling securityholders should be aware that the anti-manipulation provisions of Regulation M under the Exchange Act will apply to purchases and sales of shares of common stock by the selling securityholders, and that there are restrictions on market-making activities by persons engaged in the distribution of the shares. Under Regulation M, the selling securityholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of common stock of China Sky One while such selling securityholders are distributing shares covered by this prospectus. The selling securityholders are advised that if a particular offer of common stock is to be made on terms constituting a material change from the information set forth above, then, to the extent required, a post-effective amendment to the accompanying registration statement must be filed with the Securities and Exchange Commission.

Once sold under the shelf registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

#### **DIVIDEND POLICY**

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any earnings to support operations and to finance the growth and development of our business. Additionally, the issue of dividends will require PRC regulatory approval. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors unless the distribution would render us unable to repay our debts as they become due, as provided in Chapter 78.288 of the Nevada Revised Statutes, and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospect and other factors that the board of directors may deem relevant. (See, also "Risk Factors" above.)

## DESCRIPTION OF CAPITAL STOCK

China Sky One is authorized to issue 20,000,000 shares of common stock, \$.001 par value per share. At March 20, 2007, there were 14,852,214 shares of common stock issued and outstanding that were held by approximately 431 stockholders of record.

The common stock of China Sky One is quoted on the OTC Bulletin Board under the symbol "CSKI".

### Common stock

Holders of common stock are entitled to one vote for each share held on all matters voted upon by stockholders, including the election of directors. Provided a quorum is present, the affirmative vote of the holders of a majority of shares of common stock present, in person or by proxy, is required for all matters brought before the shareholders, including the election of directors.

Shareholders are not entitled to cumulative voting rights, and accordingly, the holders of a majority of the voting power of the shares voting for the election of directors can elect the entire class of directors to be elected each year if they choose to do so and, in that event, the holders of the remaining shares will not be able to elect any person as a director of such class.

The holders of common stock have no preemptive rights to purchase or subscribe for any of our stock now or hereafter authorized or for securities convertible into such stock. However, investors in our January 2008 offering have received the right to be issued additional shares of common stock if we issue shares of convertible securities below \$10.00 per share, so as to reduce their average price paid per share to our new offering price. All of the outstanding shares of common stock are fully paid and nonassessable. Upon any liquidation of China Sky One, the holders of common stock are entitled to share ratably in assets available for distribution to such stockholders. Holders of common stock are entitled to receive dividends out of assets legally available therefore at such times and in such amounts as the Board of Directors may from time to time determine.

As part of the Company's private placement of its common stock and Class A warrants in January 2008, the lead investor in the offering, was granted a right of first refusal, for a period of eighteen months after the later of the closing date, or the effective date of a registration statement covering the resale of the shares of common stock sold and shares of common stock underlying the Class A warrants, to purchase up to a maximum of \$15,000,000 of any securities offered by the Company in any proposed offering of common stock, or other securities or debt obligations, except certain issuances. See "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Sales of Unregistered Securities."

### Preferred Stock

We are authorized to issue 5,000,000 shares of preferred stock, \$.001 par value. The preferred stock may, without action by our shareholders, be issued by the Board of Directors from time to time in one or more series for such consideration and with such relative rights, privileges and preferences as the Board may determine. Accordingly, the Board has the power to fix the dividend rate and to establish the provisions, if any, relating to voting rights, redemption rate, sinking fund, liquidation preferences and conversion rights for any series of preferred stock issued in the future.

It is not possible to state the actual effect of any other authorization of preferred stock upon the rights of holders of common stock until the Board determines the specific rights of the holders of any other series of preferred stock. The Board's authority to issue preferred stock also provides a convenient vehicle in connection with possible acquisitions and other corporate purposes, but it could have the effect of making it more difficult for a third party to acquire a

majority of the outstanding voting stock. Accordingly, the issuance of preferred stock may be used as an anti-takeover device without further action on the part of our shareholders and may adversely affect the holders of the common stock.

### **Options**

In 2006, we adopted the China Sky One Medical, Inc. 2006 Stock Incentive Plan, or the Plan, pursuant to which we may issue to our officers, directors, employees and consultants incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance stock and bonus stock. The Plan provides for the issuance of up to 1,500,000 shares of our common stock pursuant to awards made under the Plan. As of the date of this prospectus, we had grants outstanding under the Plan to purchase a total of 113,500 shares of our common stock. All of our outstanding options, stock appreciation rights and restricted stock expire ten years after the date of grant. The Plan is designed to qualify under the Internal Revenue Code as an incentive stock option plan.

## Warrants

The company has issued various warrants to investors and consultants in connection with financings and other transactions. The shares underlying these warrants (but not the warrants themselves) are being registered in the registration statement to which this prospectus is a part. The following is a list and description of warrants outstanding.

### *Class A Warrants*

In connection with the private placement of 2,500,000 shares of our common stock on January 31, 2008, we issued Class A warrants to the purchasers of the common stock in this private placement. The Class A warrants represent the right to purchase an aggregate of 750,000 shares of our common stock, at a current exercise price of \$12.50 per share, and have the following additional characteristics:

- The Class A warrants shall be exercisable beginning on the six-month anniversary of the closing date and will expire three years thereafter.
- Commencing on one-year anniversary of the closing date, in the event the shares of common stock underlying the Class A warrants may not be freely sold by the warrant holders due to our failure to satisfy certain registration requirements, and an exemption for such sale is not otherwise available to the warrant holders under Rule 144, the Class A warrants will be exercisable on a cashless basis.
- The exercise price and number of shares of common stock issuable upon exercise of the Class A warrants will be subject to adjustment for standard dilutive events, including the issuance of common stock, or securities convertible into or exercisable for shares of common stock, at a price per share, or conversion or exercise price per share less than the exercise price.
- At anytime following the date a registration statement covering the shares of common stock underlying the Class A warrants is declared effective, we will have the ability to call the Class A warrants at a price of \$0.01 per Class A warrant, upon thirty days prior written notice to the holders of the Class A warrants, provided (i) the closing price of our common stock exceeded \$18.75 for each of the ten consecutive trading days immediately preceding the date that the call notice is given by us, and (ii) we have attained an adjusted EPS of at least \$1.75 per share for the fiscal year ending December 31, 2008, as set forth in our audited financial statements.
- If, among other things, we fail to cause a registration statement covering the shares of common stock underlying the Class A warrants to be declared effective prior to the applicable dates set forth in the registration rights agreement, the expiration date of the Class A warrants will be extended one day for each day beyond the effectiveness deadlines.
- If a warrant holder exercises its put right under the put agreement between us and the warrant holder, such warrant holder's right to exercise the Class A warrants shall be suspended, pending the satisfaction of our obligations to pay the warrant holder the applicable repurchase price. Upon receipt of the repurchase price in full by the warrant holder, the warrant holder's right to exercise the Class A warrants shall automatically and permanently terminate and expire, and the Class A warrants shall be immediately cancelled on our books.
- The warrant holder shall not be entitled to exercise a number of Class A warrants in excess of the number of Class A warrants upon exercise of which would result in beneficial ownership by the warrant holder and its affiliates of more than 9.9% of the outstanding shares of our common stock. This limitation on exercise may be waived by written agreement between us and the warrant holder; provided, however, such waiver may not be effective less than sixty-one days from the date thereof.

***Warrants Issued In 2006 Relating to Stock Exchange and Financings***

On May 30, 2006, and in connection with the Stock Exchange Agreement, with shareholders of China Sky One, we granted an option to one of our former officers, Jack M. Gertino, entitling him to purchase a total of 50,000 shares, at any time before December 20, 2008, at a price of \$3.00 per share.

In October of 2006 and in connection with their acting as placement agents in connection with financing transactions, we issued to each of American Eastern Group, Inc. and Shenzhen DRB Investment Consultant Limited, warrants to purchase 500,000 shares of common stock (a total of 1,000,000 shares) exercisable at any time before July 31, 2009, at a price of \$2.00 per share, with a provision for cashless exercise. One-half of such warrants were deemed to be earned as of the completion of the 2006 Exchange Agreement, and the other one-half was deemed earned after completion of the Company's private offering in October 2006. These warrants have not been exercised as of yet.

In an October 2006 private equity and warrant financing with gross proceeds of \$3,000,000 to the Company, in which American Eastern Securities acted as placement agent, the Company sold a total of 1,000,000 shares of common stock and 500,000 warrants to purchase common stock at any time prior to October 10, 2008, at an exercise price of \$3.50 per share. As placement agent, American Eastern Securities earned a cash fee and was granted a warrant to purchase Units equivalent to 10% of the Units sold in the offering in October 2006, or a total of 100,000 shares at a price of \$3.00 per share, and, subject to exercising the foregoing \$3.00 Warrants in full, a warrant for an additional 50,000 shares exercisable at \$3.50 per share. The \$3.00 warrants were exercised in full. All of the warrants described above have an expiration date of October 10, 2008.

## Anti-Takeover Provisions

Provisions of Nevada law, our articles of incorporation, or our bylaws could have the effect of delaying or preventing a third party from acquiring us, even if the acquisition would benefit our stockholders. The provisions of Nevada law and in our articles of incorporation and bylaws are intended to enhance the likelihood of continuity and stability in the composition of our Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of China Sky One. These provisions are designed to reduce our vulnerability to an unsolicited proposal for a takeover that does not contemplate the acquisition of all of our outstanding shares, or an unsolicited proposal for the restructuring or sale of all or part of our company.

*Nevada Anti-Takeover Statute.* We are subject to the “business combination” provisions of Sections 78.411 to 78.444 of Nevada’s Combinations with Interested Stockholders statute. In general, such provisions prohibit a Nevada corporation with at least 200 stockholders from engaging in various “combination” transactions with any interested stockholder:

- for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the transaction is approved by the board of directors prior to the date the interested stockholder obtained such status; or
- after the expiration of the three-year period, unless:
- the transaction is approved by the board of directors or a majority of the voting power held by disinterested stockholders, or
- if the consideration to be paid by the interested stockholder is at least equal to the highest of: (a) the highest price per share paid by the interested stockholder within the three years immediately preceding the date of the announcement of the combination or in the transaction in which it became an interested stockholder, whichever is higher, (b) the market value per share of common stock on the date of announcement of the combination and the date the interested stockholder acquired the shares, whichever is higher, or (c) for holders of preferred stock, the highest liquidation value of the preferred stock, if it is higher.

A “combination” is defined to include mergers or consolidations or any sale, lease exchange, mortgage, pledge, transfer or other disposition, in one transaction or a series of transactions, with an “interested stockholder” having: (a) an aggregate market value equal to 5% or more of the aggregate market value of the assets of the corporation, (b) an aggregate market value equal to 5% or more of the aggregate market value of all outstanding shares of the corporation, or (c) 10% or more of the earning power or net income of the corporation.

In general, an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years, did own) 10% or more of a corporation’s voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire our company even though such a transaction may offer our stockholders the opportunity to sell their stock at a price above the prevailing market price.

Nevada’s Acquisition of Controlling Interest statute (Sections 78.378 to 78.3793 of the Nevada Revised Statutes) applies only to Nevada corporations with at least 200 stockholders, including at least 100 stockholders of record who are Nevada residents, and which conduct business directly or indirectly in Nevada. As of the date of this prospectus, we do not believe we have 100 stockholders of record who are residents of Nevada, although there can be no assurance that in the future the Acquisition of Controlling Interest statute will not apply to us.

The Acquisition of Controlling Interest statute prohibits an acquiror, under certain circumstances, from voting its shares of a target corporation's stock after crossing certain ownership threshold percentages, unless the acquiror obtains approval of the target corporation's disinterested stockholders. The statute specifies three thresholds: one-fifth or more but less than one-third, one-third but less than a majority, and a majority or more, of the outstanding voting power. Once an acquiror crosses one of the above thresholds, those shares in an offer or acquisition and acquired within 90 days thereof become "control shares" and such Control Shares are deprived of the right to vote until disinterested stockholders restore the right. The Acquisition of Controlling Interest statute also provides that if control shares are accorded full voting rights and the acquiring person has acquired a majority or more of all voting power, all other stockholders who do not vote in favor of authorizing voting rights to the control shares are entitled to demand payment for the fair value of their shares in accordance with statutory procedures established for dissenters' rights.



*Provisions of Charter and Bylaws.* In addition, provisions of our articles of incorporation and bylaws may also have an anti-takeover effect. These provisions may delay, defer or prevent a tender offer or takeover attempt of our company that a stockholder might consider in his or her best interest, including attempts that might result in a premium over the market price for the shares held by our stockholders. The following summarizes these provisions:

- Authorized but Unissued Shares. Our authorized but unissued shares of common and preferred stock are available for our Board of Directors to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of our authorized but unissued shares of common and preferred stock could render it more difficult or discourage an attempt by a third party to obtain control of our company by means of a proxy context, tender offer, merger or other transaction.
- Supermajority Vote Provisions. The Nevada Revised Statutes provide generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a Nevada corporation's articles of incorporation or bylaws, unless a corporation's articles of incorporation or bylaws, as the case may be, require a greater percentage. Our articles and bylaws do not currently require any approval of more than a majority of our outstanding shares in order to amend our articles of incorporation or bylaws.

### **Transfer Agent and Registrar**

The Transfer agent and registrar for China Sky One is Interwest Transfer Company, Inc., 1981 East Murray Holladay Road, Suite 100, Salt Lake City, Utah 84117; telephone (801) 272-9294.

### **LEGAL MATTERS**

The validity of the issuance of the shares of common stock offered hereby and certain other legal matters in connection therewith have been passed upon for us by Hodgson Russ LLP.

### **EXPERTS**

The consolidated financial statements of China Sky One Medical, Inc. as of and for the years ended December 31, 2006, included herein, have been audited by e-Fang Accountancy Corp, independent registered public accountants, as indicated in their reports with respect thereto, and are in reliance upon the authority of said firm as experts in accounting and auditing. The consolidated financial statements of China Sky One Medical, Inc. as of and for the years ended December 31, 2007, included herein, have been audited by Sherb & Co., LLP, independent registered public accountants, as indicated in their reports with respect thereto, and are in reliance upon the authority of said firm as experts in accounting and auditing.

### **WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered under this prospectus. This prospectus does not contain all of the information in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and to the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference. You may inspect a copy of the registration statement without charge at the SEC's principal office in Washington, D.C., and copies of all or any part of the registration statement may be obtained from the Public Reference Section of the SEC, 100 F. St. NE, Washington, D.C. 20549, upon payment of fees prescribed by

the SEC. The SEC maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the Web site is <http://www.sec.gov>. The SEC's toll free investor information service can be reached at 1-800-SEC-0330.

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we file reports, proxy statements and other information with the SEC.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent public accountants and quarterly reports for the first three fiscal quarters of each fiscal year containing unaudited interim financial information. You should direct any requests for documents: by mail to China Sky One Medical, Inc., Room 1706, No. 30 DiWang Building, Gan Shui Road, Nandang District, Harbin, People's Republic of China 150001; by telephone at 86-451-53994073. Additional information about China Sky One is also available on our website at: [www.skyonemedical.com](http://www.skyonemedical.com).

Some of the statements contained in this prospectus, including statements under “Prospectus Summary”, Risk Factor”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”, are forward-looking and may involve a number of risks and uncertainties. Actual results and future events may differ significantly based upon an number of factors, including:

- rapid technological change in the industry;
- our reliance on key strategic relationships;
- the impact of competitive products and services and pricing; and
- uncertain protection of our intellectual property.

**CONSOLIDATED FINANCIAL STATEMENTS**

**China Sky One Medical, Inc.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Directors  
China Sky One Medical, Inc.

We have audited the accompanying consolidated balance sheets of China Sky One Medical, Inc. and its Subsidiaries as of December 31, 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, and audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Sky One Medical, Inc. as of December 31, 2007 and the results of its operations and its cash flows for the year ended December 31, 2007 in conformity with accounting principles generally accepted in the United States.

/s/ Sherb & Co., LLP

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Certified Public Accountants

Boca Raton, Florida  
March 25, 2008

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**E-FANG ACCOUNTANCY CORP., & CPA**

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**17800 CASTLETON ST., SUITE 208, CITY OF INDUSTRY, CA 91748**

*REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF**

*China Sky One Medical, Inc. and Subsidiaries*

**(Incorporated in the State of Nevada, USA)**

We have audited the accompanying consolidated balance sheets of China Sky One Medical, Inc. and its subsidiaries (the "Company") as of December 31, 2006 and the related consolidated statements of income, retained earnings and cash flows for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Sky One Medical, Inc. and its subsidiaries as of December 31, 2006 and the Company's results of its operations and cash flows for the years ended December 31, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

As more fully disclosed in Note 18, the Company changed its financial reporting regarding certain significant accounting errors to conform to accounting principles generally accepted in the United States of America. Our report date remains the same but the financial statements, as presented herein, are different from that expressed in our previous report.

**e-Fang Accountancy Corp. & CPA**

Certified Public Accountant

/s/ e-Fang Accountancy Corp. & CPA

City of Industry, California

March 19, 2007

(November 7, 2007 for Note 18 with respect to correction of errors)

The independent auditing firm of e-Fang Accountancy Corp & CPA. has audited the financial statements of China Sky One Medical, Inc. for the fiscal years ended December 31, 2006. e-Fang Accountancy Corp & CPA's reports on China Sky One Medical Inc.'s financial statements for the fiscal years ended December 31, 2006 did not contain an adverse opinion or a disclaimer of opinion; nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles. During China Sky One Medical, Inc.'s most recent fiscal year and subsequent interim periods

preceding the date of this report, there were no disagreements with e-Fang Accountancy Corp & CPA. on any matter of financial statement disclosure, or auditing scope or procedure except some minor accounting issues that have already been resolved.

Dated: March 31, 2008

/s/ e-Fang Accountancy Corp., & CPA

e-Fang Accountancy Corp., & CPA

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China Sky One Medical, Inc. and Subsidiaries  
Consolidated Balance Sheet  
December 31, 2007

**ASSETS**

Current Assets

|                             |                   |
|-----------------------------|-------------------|
| Cash and cash equivalents   | \$ 9,190,870      |
| Accounts receivable         | 10,867,106        |
| Other receivables           | 40,200            |
| Inventories                 | 371,672           |
| Prepaid expenses            | 17,707            |
| <b>Total current assets</b> | <b>20,487,555</b> |

|                             |           |
|-----------------------------|-----------|
| Property and equipment, net | 6,861,432 |
| Land Deposit                | 8,003,205 |
| Intangible assets, net      | 1,933,014 |

\$ 37,285,206

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities

|                                       |                  |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 2,845,308     |
| Wages payable                         | 381,482          |
| Welfare payable                       | 221,911          |
| Taxes payable                         | 1,567,188        |
| Deferred revenues                     | 24,504           |
| <b>Total current liabilities</b>      | <b>5,040,393</b> |

Stockholders' Equity

|   |                   |
|---|-------------------|
| Preferred stock (\$0.001 par value, 5,000,000 shares authorized, none issued and outstanding)     | -                 |
| Common stock (\$0.001 par value, 20,000,000 shares authorized, 12,228,363 issued and outstanding) | 12,228            |
| Additional paid-in capital  | 9,572,608         |
| Accumulated other comprehensive income  | 2,271,843         |
| Retained earnings   | 20,388,134        |
| <b>Total stockholders' equity</b>   | <b>32,244,813</b> |

\$ 37,285,206

See accompanying summary of accounting policies and notes to the consolidated financial statements.

China Sky One Medical, Inc. and Subsidiaries  
Consolidated Statements of Operations

|   | Years Ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2007                     | 2006              |
| Revenues  | \$ 49,318,308            | \$ 19,881,715     |
| Cost of Goods Sold                                  | 10,939,531               | 5,063,084         |
| Gross Profit  | 38,378,777               | 14,818,631        |
| <b>Operating Expenses</b>                           |                          |                   |
| Selling, general and administrative                 | 16,163,577               | 10,738,285        |
| Depreciation and amortization                       | 443,063                  | 121,522           |
| Research and development                            | 3,158,351                | 2,026,788         |
| <b>Total operating expenses</b>                     | <b>19,764,991</b>        | <b>12,886,595</b> |
| <b>Other Income (Expense)</b>                       |                          |                   |
| Other income  | 48,889                   | -                 |
| Interest expense                                    | (10,557)                 | (227,857)         |
| Total other income (expense)                        | 38,332                   | (227,857)         |
| Net Income Before Provision for Income Tax          | 18,652,118               | 1,704,179         |
| <b>Provision for Income Taxes</b>                   |                          |                   |
| Current   | 3,319,173                | 764,462           |
| Deferred  | -                        | 315,302           |
|   | 3,319,173                | 1,079,764         |
| <b>Net Income</b>                                   | <b>\$ 15,332,945</b>     | <b>\$ 624,415</b> |
| Basic Earnings Per Share                            | \$ 1.27                  | \$ 0.05           |
| Diluted Earnings Per Share                          | \$ 1.15                  | \$ 0.05           |
| Basic Weighted Average Shares Outstanding           | 12,094,949               | 12,031,536        |
| Diluted Weighted Average Shares Outstanding         | 13,370,528               | 12,941,283        |
| <b>The Components of Other Comprehensive Income</b> |                          |                   |
| Net Income  | \$ 15,332,945            | \$ 624,415        |
| Foreign currency translation adjustment             | 1,849,724                | 364,565           |
| <b>Comprehensive Income</b>                         | <b>\$ 17,182,669</b>     | <b>\$ 988,980</b> |

See accompanying summary of accounting policies and notes to the consolidated financial statements.

China Sky One Medical, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Years Ended December 31, 2007 and 2006

|   | Common Stock           |              | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Stockholders'<br>Equity |
|---|------------------------|--------------|----------------------------------|----------------------|---|----------------------------------|
|   | Number<br>of<br>Shares | Par<br>Value |                                  |                      |   |                                  |
| Balance at December 31, 2005            | 10,929,370             | \$ 10,929    | \$ 2,847,438                     | \$ 4,430,774         | \$ 57,554                                       | \$ 7,346,695                     |
| Conversion of notes payable             | 102,166                | 103          | 204,229                          | -                    | -   | 204,332                          |
| Issuance of addition common stock       | 1,000,000              | 1,000        | 2,978,853                        | -                    | -   | 2,979,853                        |
| Compensation expense for warrants       | -                      | -            | 2,547,575                        | -                    | -   | 2,547,575                        |
| Preferential conversion feature of note | -                      | -            | 177,803                          | -                    | -   | 177,803                          |
| Employee stock options                  | -                      | -            | 65,604                           | -                    | -   | 65,604                           |
| Foreign currency translation adjustment | -                      | -            | -                                | -                    | 364,565   | 364,565                          |
| Net income                              | -                      | -            | -                                | 624,415              | -   | 624,415                          |
| Balance at December 31, 2006            | 12,031,536             | 12,032       | 8,821,502                        | 5,055,189            | 422,119   | 14,310,842                       |
| Issuance of common stock for services   | 30,000                 | 30           | 194,970                          | -                    | -   | 195,000                          |
| Warrants exercised                      | 166,827                | 167          | 515,667                          | -                    | -   | 515,834                          |
| Employee stock options                  | -                      | -            | 40,468                           | -                    | -   | 40,468                           |
| Foreign currency translation adjustment | -                      | -            | -                                | -                    | 1,849,724                                       | 1,849,724                        |
| Net income                              | -                      | -            | -                                | 15,332,945           | -   | 15,332,945                       |
| Balance at December 31, 2007            | 12,228,363             | \$ 12,229    | \$ 9,572,607                     | \$ 20,388,134        | \$ 2,271,843                                    | \$ 32,244,813                    |

See accompanying summary of accounting policies and notes to the consolidated financial statements.

## China Sky One Medical, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

|   | <b>Years Ended December 31,</b> |              |
|---|---------------------------------|--------------|
|   | <b>2007</b>                     | <b>2006</b>  |
| <b>Cash flows from operating activities</b>                               |                                 |              |
| Net Income  | \$ 15,332,945                   | \$ 624,415   |
| <b>Adjustments to reconcile net cash provided by operating activities</b> |                                 |              |
| Depreciation and amortization   | 443,063                         | 246,556      |
| Share-based compensation expense  | 235,468                         | 2,878,031    |
| Preferential conversion feature of note                                   | -                               | 177,803      |
| <b>Net change in assets and liabilities</b>                               |                                 |              |
| Accounts receivables and other receivables                                | (7,478,964)                     | (1,994,678)  |
| Inventories   | (73,142)                        | 105,655      |
| Construction in progress  | -                               | 2,517,215    |
| Prepaid expenses and other  | 93,463                          | (87,979)     |
| Accounts payable and accrued liabilities                                  | 1,963,542                       | 101,698      |
| Related party payable   | -                               | (18,540)     |
| Wages payable   | 102,534                         | 141,776      |
| Welfare payable   | 70,280                          | 45,056       |
| Taxes payable   | 960,170                         | 433,419      |
| Deferred revenue  | (47,879)                        | 12,112       |
| Net cash provided by operating activities                                 | 11,601,480                      | 5,182,539    |
| <b>Cash flows from investing activities</b>                               |                                 |              |
| Purchases of fixed assets   | (2,222,448)                     | (3,022,448)  |
| Land deposit  | (8,003,205)                     | -            |
| Purchase of intangible assets   | (35,280)                        | (1,574,059)  |
| Net cash used in investing activities                                     | (10,260,933)                    | (4,596,507)  |
| <b>Cash flows from financing activities</b>                               |                                 |              |
| Sale of common stock for cash   | -                               | 2,715,000    |
| Issuance of convertible notes   | -                               | 200,000      |
| Proceeds from short-term loan   | -                               | 15,832       |
| Proceeds from warrants conversion   | 515,834                         | -            |
| Payment to short-term loan  | (548,350)                       | -            |
| Net cash provided by (used in) financing activities                       | (32,516)                        | 2,930,832    |
| Effect of exchange rate   | 1,296,039                       | 132,603      |
| Net increase in cash  | 2,604,070                       | 3,649,467    |
| Cash and cash equivalents at beginning of year                            | 6,586,800                       | 2,937,333    |
| Cash and cash equivalents at end of year                                  | \$ 9,190,870                    | \$ 6,586,800 |
| <b>Supplemental disclosure of cash flow information</b>                   |                                 |              |
| Interest paid   | \$ 10,457                       | \$ 36,429    |
| Taxes paid  | \$ 2,359,003                    | \$ 767,701   |

Non-cash Investing and financing activities:

|                               |    |   |    |   |
|-------------------------------|----|---|----|---|
| Cashless exercise of warrants | \$ | 5 | \$ | - |
|-------------------------------|----|---|----|---|

See accompanying summary of accounting policies and notes to the consolidated financial statements.

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2007**

**1. Description of Business**

China Sky One Medical, Inc. ("China Sky One" or the "Company"), a Nevada corporation, was formed on February 7, 1986, and formerly known as Comet Technologies, Inc. ("Comet"). On July 26, 2006, the change in the name of the reporting company from "Comet Technologies, Inc." to "China Sky One Medical, Inc.," became effective.

Effective May 30, 2006 and pursuant to a plan of reorganization, American California Pharmaceutical Group, Inc. ("ACPG") completed a stock change agreement with Comet Technologies, Inc., ("Comet"). Under the terms of the agreement, all of the ACPG's outstanding stock was exchanged for 10,193,377 shares of Comet common stock.

The closing of the Exchange Agreement ("Closing"), resulted in a change in voting control of Comet. The original shareholders of ACPG hold approximately 93% of the outstanding common stock of Comet, and the former Comet shareholders hold a total of 735,993 shares of common stock, or 7% of the outstanding common stock, including stock granted under a consulting agreement to Comet's then two current officers, who resigned as officers and directors at the closing. The common shares were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933 as amended and Regulation D thereunder. The transaction is treated as a reverse merger for accounting purposes.

American California Pharmaceutical Group, Inc. ("ACPG") was incorporated in the State of California on December 16, 2003. On December 8, 2005, ACPG completed its merger with Harbin TDR Medical Science & Technology Developing Co., Ltd., ("TDR"), by exchanging 100% of its issued and outstanding common stock for 100% of the issued and outstanding shares of common stock of TDR and its subsidiaries. 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, the People's Republic of China ("PRC"). TDR was reorganized and incorporated as a limited liability company on December 29, 2000 pursuant to the "Corporation Laws and Regulations" of the People's Republic of China.

On October 16, 2006, the Company successfully entered into the field of research and development of tissue and stem cell banks, with the establishment of Harbin Tian Qing Biotech Application Company ("Harbin Biotech"). The Health Department of Heilongjiang Province, on the basis of the evaluation of results from experts, issued a document approving and authorizing the Company to enter into the above-mentioned development areas.

TDR and First are a leading producers and distributors of external-Chinese medicine products in China. The principal activities of TDR and First are the research, manufacture and sale of over-the counter non-prescription health care products. TDR commenced its business in the sale of branded nutritional supplements and over-the-counter pharmaceutical products in Heilongjiang Province. TDR has subsequently evolved into an integrated manufacturer, marketer, and distributor of external use natural Chinese medicine products sold primarily to and through China domestic pharmaceutical chain stores.

China Sky One is a holding company whose principal operations are through its subsidiaries; it has no revenues separate from its subsidiaries, and has nominal expenses related to its status as a public reporting company and to its ownership interest in ACPG, TDR and TDR's subsidiaries.

Certain reclassifications have been made to the prior year to conform to the current year presentation.

Restatement of financial statements

During the process of preparing the financial statements for the quarter ended March 31, 2007, management determined that certain significant accounting errors had been made in prior quarters. These financial statements for the year ended December 31, 2006 have been restated to account for these changes. These changes have been reflected in a Form 10-KSB/A filed with the Securities and Exchange Commission in November 2007.

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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The corrections of errors included in these financials are:

|   | Effect on<br>December 31,<br>2006 Earnings | Effect on<br>prior years<br>earnings | Cumulative<br>effect on<br>Retained<br>Earnings |
|---|--|--------------------------------------|---|
| Capitalization of research and development costs which should have been charged to operations when incurred | \$ (1,879,885)                             | \$ (12,280)                          | \$ (1,892,165)                                  |
| Amortization of patent rights and covenants not to compete  | (121,522)                                  | (69,813)                             | (191,335)                                       |
| Correction of valuation of shares issued for consulting   | (446,879)                                  | —                                    | (446,879)                                       |
| Reclassification of value of warrants issued from additional paid-in capital to consulting expense          | (734,595)                                  | —                                    | (734,595)                                       |
| Record the value of the preferential conversion feature of the convertible notes payable                    | (177,803)                                  | —                                    | (177,803)                                       |
| Valuation allowance on deferred tax asset   | (315,302)                                  | —                                    | (315,302)                                       |
| Reclassification of stock compensation of \$1,688,896 from a liability to contributed capital               | —  | —                                    | —   |
|   | <b>\$ (3,675,986)</b>                      | <b>\$ (82,093)</b>                   | <b>\$ (3,758,079)</b>                           |

Components of the effect of this change on the consolidated statements of operations are as follows:

|                                    | As Filed Year<br>ended<br>December 31,<br>2006 | Adjustment to<br>Restate | Restated<br>Year ended<br>December<br>31, 2006 |
|------------------------------------|--|--------------------------|--|
| Gross Profit                       | \$ 14,818,631                                  | \$ -                     | \$ 14,818,631                                  |
| <b>Operating expenses</b>          |  |                          |  |
| Selling General and administrative | 9,556,811                                      | 1,181,474                | 10,738,285                                     |
| Depreciation and amortization      | -  | 121,522                  | 121,522  |
| Research and development           | 146,903  | 1,879,885                | 2,026,788                                      |
|                                    | 9,703,714                                      | 3,182,881                | 12,886,595                                     |
| <b>Other expense (income)</b>      |  |                          |  |
| Interest expense                   | 52,032   | 175,825                  | 227,857  |
| Currency exchange adjustment       | (1,978)  | 1,978                    | -  |
|                                    | 50,054   | 177,803                  | 227,857  |



|   |              |                |            |
|---|--------------|----------------|------------|
| Net income before provision for income tax  | 5,064,863    | (3,360,684)    | 1,704,179  |
| Provision for income tax:                   |              |                |            |
| Current                                     | 764,462      | -              | 764,462    |
| Deferred                                    | -            | 315,302        | 315,302    |
|   | 764,462      | 315,302        | 1,079,764  |
| Net income                                  | \$ 4,300,401 | \$ (3,675,986) | \$ 624,415 |
| Basic Earnings per share                    | \$ 0.36      | \$ (0.31)      | \$ 0.05    |
| Diluted earnings per share                  | \$ 0.31      | \$ (0.28)      | \$ 0.05    |
| Basic weighted average shares outstanding   | 12,031,536   | 12,031,536     | 12,031,536 |
| Diluted weighted average shares outstanding | 13,845,036   | 13,843,036     | 13,843,036 |

**China Sky One Medical, Inc. and Subsidiaries**  
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**2. Basis of Preparation of Financial Statements**

The accompanying financial statements differ from the financial statements used for statutory purposes in PRC in that they reflect certain adjustments, recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. Such differences are immaterial.

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Company and its subsidiaries, ACPG, TDR, and First. All inter-company transactions and balances were eliminated.

These financial statements are stated in U.S. Dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America. This basis of accounting differs from that used under applicable accounting requirements in the PRC. No material adjustment was required. Certain amounts in prior years have been reclassified to conform to current year's classification.

**3. Summary of Significant Accounting Policies**

**Use of estimates** – The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods.

Significant estimates included values and lives assigned to acquired intangible assets, reserves for customer returns and allowances, uncollectible accounts receivable, valuation of equity issuances such as shares of the Company's common stock and stock options to purchase shares of the Company's common stock, and slow moving and/or obsolete/damaged inventory. Actual results may differ from these estimates.

**Earnings per share** - Basic net earnings per common share is computed by dividing net earnings applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options and warrants.

**Cash and cash equivalents** – The Company considers all highly liquid debt instruments purchased with maturity period of three months or less to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for cash and cash equivalents approximate their fair value.

**Accounts receivable** – Accounts receivable are stated at net realizable value, net of an allowance for doubtful accounts. Provision of allowance is made for estimated bad debts based on a periodic analysis of individual customer balances including an evaluation of days of sales outstanding, payment history, recent payment trends, and perceived credit worthiness. At December 31, 2007, the Company had no allowance for doubtful accounts. Total accounts receivable at December 31, 2007 was \$10,867,106

**Inventories** – Inventories include finished goods, raw materials, freight-in, packing materials, labor, and overhead costs accounted for using the weighted average method. Provisions are made for slow moving, obsolete and/or damaged inventory based on a periodic analysis of individual inventory items including an evaluation of historical usage and/or movement, age, expiration date, and general conditions. There was no provision provided at December

31, 2007.

**Property and equipment** – Property and equipment are stated at the historical cost less accumulated depreciation. Depreciation on property, plant, and equipment is provided using the straight-line method over the estimated useful lives of the assets. An estimated residual value of 5% of cost or valuation was made for each items for both financial and income tax reporting purposes. The estimated lengths of useful lives are as follows:

|                           |                  |
|---------------------------|------------------|
| Buildings                 | 30 years         |
| Land use rights           | 50 years         |
| Furniture &<br>Equipments | 5 to 7<br>years  |
| Motor vehicles            | 5 to 15<br>years |
| Machineries               | 7 to 14<br>years |

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**China Sky One Medical, Inc. and Subsidiaries**  
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Expenditures for renewals and betterments were capitalized while repairs and maintenance costs were normally charged to the statement of operations in the year in which they were incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to obtain from the use of the asset, the expenditure is capitalized as an additional cost of the asset. Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset were removed from their respective accounts, and any gain or loss was recorded in the Consolidated Statements of Operations.

Property and equipment are evaluated for impairment in value annually or whenever an event or change in circumstances indicates that the carrying values may not be recoverable. If such an event or change in circumstances occurs and potential impairment is indicated because the carrying values exceed the estimated future undiscounted cash flows of the asset, the Company would measure the impairment loss as the amount by which the carrying value of the asset exceeds its fair value.

**Construction-in-progress** – Properties currently under development are accounted for as construction-in-progress. Construction-in-progress is recorded at acquisition cost, including land rights cost, development expenditure, professional fees, and the interest expenses for the purpose of financing the project capitalized during the course of construction.

Upon completion and readiness for use of the project, the cost of construction-in-progress is to be transferred to the facility. In the case of construction-in-progress, management takes into consideration the estimated cost to complete the project when making the lower of cost or market calculation.

**Intangible assets** – Intangible assets consists of patents, distribution rights and customer lists. Patent costs are being amortized over a total life of ten years. Distribution rights and customer lists are being amortized over 10 years.

Intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”). Intangible assets with finite useful lives are amortized while intangible assets with indefinite useful lives are not amortized. As prescribed by SFAS 142, goodwill and intangible assets are tested periodically for impairment. The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. Accordingly, the Company reviews its long-lived assets, including property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment costs, if any, are measured by comparing the carrying amount of the related assets to their fair value. There were no impairments as of December 31, 2007.

**Foreign Currency** - The Company’s principal country of operations is in The People’s Republic of China. The financial position and results of operations of the Company are recorded in RMB as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency (“US Dollars”) are dealt with as a separate component within shareholders’ equity.

**Revenue recognition** – Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied upon shipment from its facilities. Revenue is reduced by provisions for estimated returns and allowances as well as specific known claims, if any, which are based on historical averages that have not varied significantly for the periods presented.

The Company occasionally applies to various government agencies for research grants. Revenue from such research grants is recognized when earned. In situations where TDR receives payment in advance for the performance of research and development services, such amounts are deferred and recognized as revenue as the related services are performed.

Interest income is recognized when earned, taking into account the average principal amounts outstanding and the interest rates applicable.

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**China Sky One Medical, Inc. and Subsidiaries**  
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**Deferred revenues** - The Company recognizes revenues as earned. Amounts billed in advance of the period in which goods are delivered are recorded as a liability under "Deferred revenue." As of December 31, 2007 the Company has \$24,504 in deferred revenue.

**Shipping and Handling costs** - Shipping and handling costs are included in selling, general and administrative expenses and totaled \$297,728 and \$181,010 for the years ended December 31, 2007 and 2006, respectively.

**Research and development**—Research and development expenses include the costs associated with the Company's internal research and development as well as research and development conducted by third parties. These costs primarily consist of salaries, clinical trials, outside consultants, and materials. All research and development costs discussed above are expensed as incurred.

Third-party expenses were reimbursed under non-refundable research and development contracts, and are recorded as a reduction to research and development expense in the statement of operations.

The Company recognizes in-process research and development in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method* and the AICPA Technical Practice Aid, *Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries*. Assets to be used in research and development activities, specifically, compounds that have yet to receive new drug approval and would have no alternative use, should approval not be given, are immediately charged to expense when acquired.

For the year ended December 31, 2007, the Company incurred \$ 3,158,351 in research and development expenditures, and \$2,026,788 for the year ended December 31, 2006.

**Advertising**—The Company expensed advertising and promotion expenses as they are incurred. The total advertising expenses incurred for the year ended December 31, 2007 and 2006 was \$4,385,045 and \$1,576,781, respectively.

**Slotting fees**— From time to time, the Company enters into arrangements with customers in exchange for obtaining rights to place our products on customers' shelves for resale at retail. The Company also engages in promotional discount programs in order to enhance sales in specific channels. These payments, discounts and allowances reduce our reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104

The Company records its obligations under each arrangement at inception and amortizes the total required payments using the straight-line method over a term of time, which is normally the minimum time that we are allowed to sell our products in given retail outlets. The Company records the balance of the amortized slotting fee not used in the current period as prepaid expenses. As the Company applies the amortized slotting fee as contra revenue, it reduces the reported gross revenue by an amount equal to the reduction in prepaid expenses. The slotting fees incurred for the year 2006 were \$777,217. No slotting fees were paid during 2007.

**Taxation** – The Company uses the asset and liability method of accounting for deferred income taxes. The Company's provision for income taxes includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The Company records liabilities for income tax contingencies based on our best estimate of the underlying exposures.

The Company periodically estimates its probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the Company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations. The Company adjusts income tax expense in the period in which these events occur.

Provision for the PRC's enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward.

Provision for the PRC enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward. The Company does not accrue taxes on unremitted earnings from foreign operations as it is the Company's intention to invest these earnings in the foreign operations indefinitely.

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**China Sky One Medical, Inc. and Subsidiaries**  
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**Enterprise income tax**

Under the Provisional Regulations of The People's Republic of China Concerning Income Tax on Enterprises promulgated by the PRC, income tax is payable by enterprises at a rate of 33% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council.

According to "Enterprise Income Tax and Certain Preferential Policies Notice" published by the Ministry of Finance and the National Tax Affairs Bureau, if the enterprise is authorized by the State Council as a special entity, the enterprise income tax rate is reduced to 15%. The income tax rate for TDR is 15% based on State Council approval.

**Value added tax**

The Provisional Regulations of The People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is imposed on goods sold in, or imported into, the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

According to "Agriculture Product Value Added Tax Rate Adjustment and Certain Items' Value Added Tax Waiver" published by the Ministry of Finance and the National Tax Affairs Bureau, the value added tax for agriculture related products is to be taxed at 13%. Furthermore, traditional Chinese medicine and medicinal plant are by definition agriculture related products.

**Accounting for Uncertainty in Income Taxes** – In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under FIN 48, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the



threshold is no longer met.

The adoption of FIN 48 at January 1, 2007 did not have a material effect on the Company's financial position

**Comprehensive Income** – Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles are excluded from net income. For the Company, such items consist entirely of foreign currency translation gains and losses

**Related companies** – A related company is a company in which the director has beneficial interests in and in which the Company has significant influence.

**Retirement benefit costs** – According to the PRC regulations on pension plans, the Company contributes to a defined contribution retirement plan organized by municipal government in the province in which the Company was registered and all qualified employees are eligible to participate in the plan.

Contributions to the pension or retirement plan are calculated at 23.5% of the employees' salaries above a fixed threshold amount. The employees contribute between 2% to 8% to the pension plan, and the Company contributes the balance contribution of from 21.5% to 15.5%. The Company has no other material obligation for the payment of retirement benefits beyond the annual contributions under this plan.

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**China Sky One Medical, Inc. and Subsidiaries**  
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**Fair value of financial instruments** – The carrying amounts of certain financial instruments, including cash, accounts receivable, commercial notes receivable, other receivables, accounts payable, commercial notes payable, accrued expenses, and other payables approximate their fair values as at December 31, 2007 because of the relatively short-term maturity of these instruments.

**Recent accounting pronouncements:**

- In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“Statement No. 157”). The standard provides enhanced guidance for using fair value to measure assets and liabilities and also responds to investors’ requests for expanded information about the extent to which company’s measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. While the standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, it does not expand the use of fair value in any new circumstances. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management of the Company is evaluating the impact of this standard, but does not anticipate that it will have a significant impact on its financial statements.
- In September 2006, the FASB issued Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“SFAS No. 158”), an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer’s statement of financial position, (b) measurement of the funded status as of the employer’s fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. This Statement has no current applicability to the Company’s financial statements. Management plans to adopt this Statement on December 31, 2006 and it is anticipated the adoption of SFAS No. 158 will not have a material impact to the Company’s financial position, results of operations, or cash flows.
- In February 2007, the FASB issued Statement No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.
- In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will impact the Company in the event of any future acquisition.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

**4. Concentrations of Business and Credit risk**

The Company maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. As of December 31, 2007 the Company held \$583,495 of cash balances within the United States of which \$432,798 was in excess of FDIC insurance limits. At December 31, 2007, the Company had approximately \$8,605,000, in China bank deposits, which may not be insured. The Company has not experienced any losses in such accounts through December 31, 2007.

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**China Sky One Medical, Inc. and Subsidiaries**  
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Geographic Concentration; Fluctuations in Regional Economic Conditions. Nearly all of the Company's sales are concentrated in China. Accordingly, the Company is susceptible to fluctuations in its business caused by adverse economic conditions in this country. Difficult economic conditions in other geographic areas into which the Company may expand may also adversely affect its business, operations and finances.

The Company provides credit in the normal course of business. Substantially all customers are located in The People's Republic of China. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information.

Substantially all of the Company's fixed assets and operations are located in the Peoples Republic of China.

The Company is self-insured for all risks and carries no liability or property insurance coverage of any kind.

Substantially all of the Company's profits are generated from operations in mainland China.

Major Customers

During the years ended December 31, 2007 and 2006, Ningbo Yuehua Trading Co. and Guangzhou Xinghe Trading Co. accounted for approximately 14 % and 11%, respectively, of the Company's sales. One Customer accounted for 11% of all accounts receivable as of December 31, 2007.

Major Supplier

Purchases from Harbin Yongheng Printing Ltd. for the year ended December 31, 2007 and 2006 represented approximately 23.17% and 27.36% respectively, of purchases.

Payments of dividends may be subject to some restrictions due to the Company's operating subsidiaries all being located in the PRC.

**5. Earnings per Share**

We have applied SFAS No. 128, "Earnings Per Share" in its calculation and presentation of earnings per share - "basic" and "diluted". Basic earnings per share are computed by dividing income available to common shareholders (the numerator) by the weighted average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Stock warrants and options to purchase 1,617,483 shares of common stock, all were exercisable during the year ended December 31, 2007, were included in the computation of diluted earnings per share because the average market price of our common stock were less than the option exercise prices during these periods.

The dilutive potential common shares on warrants and options is calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represent s the potential

dilutive effect of the securities.

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**China Sky One Medical, Inc. and Subsidiaries**  
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The following table sets forth our computation of basic and diluted net income (loss) per share:

|   | <b>Years ended December 31,</b> |             |
|---|---------------------------------|-------------|
|   | <b>2007</b>                     | <b>2006</b> |
| <b><u>Numerator:</u></b>  |                                 |             |
| Net income (loss) used in calculation of basic earnings (loss) per share                          | \$ 15,332,945                   | \$ 624,415  |
| Net income (loss) used in calculation of diluted earnings (loss) per share                        | \$ 15,332,945                   | \$ 624,415  |
| <b><u>Denominator:</u></b>  |                                 |             |
| Weighted-average common shares outstanding used in calculation of basic earnings (loss) per share | 12,094,949                      | 12,031,536  |
| Effect of dilutive securities:  |                                 |             |
| Stock options and equivalents   | 1,275,579                       | 909,747     |
| Weighted-average common shares used in calculation of diluted earnings (loss) per share           | 13,370,528                      | 12,941,283  |
| Net income (loss) per share:  |                                 |             |
| Basic   | \$ 1.27                         | \$ 0.05     |
| Diluted   | \$ 1.15                         | \$ 0.05     |

## 6. Equity and Share-based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment (“SFAS No. 123R”), for options granted to employees and directors, using the modified prospective transition method, and therefore have not restated results from prior periods. Compensation cost for all stock-based compensation awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the fair value recognition provisions of SFAS No. 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line prorated basis over the requisite service period of the award. In March 2005, the SEC issued Staff Accounting Bulletin (“SAB”) No. 107, Share-Based Payment (“SAB No. 107”), regarding the SEC’s guidance on SFAS No. 123R and the valuation of share-based payments for public companies. We have applied the provisions of SAB No. 107 in the adoption of SFAS No. 123R. Under SFAS 123R, the company remeasures the intrinsic value of the options at the end of each reporting period until the options are exercised, cancelled or expire unexercised.

In July 2006, the Company’s stockholders approved the 2006 Stock Incentive Plan (the “2006 Plan”). The 2006 Plan, provides for the grant of stock options, restricted stock awards, and performance shares to qualified employees, officers, directors, consultants and other service providers. The 2006 Plan originally authorized the Company to grant options and/or rights to purchase up to an aggregate of 1,500,000 shares of common stock. As of December 31, 2007, non-qualified options to purchase a total of 113,500 shares have been granted under the 2006 Stock Incentive Plan. All options were granted in October 2006. An additional 50,000 shares registered under the 2006 plan were issued outright to employees of the company. All options have an exercise price of \$3.65 per share, the weighted fair market

value on the date of grant was \$4.25 per share. Of these 113,500 options a total of 60,500 were granted to employees and a total of 53,000 were granted to consultants. These options were valued under the following Black-Scholes assumptions: no dividends; risk-free interest rate of 4%; a contractual life of 5 years and volatility of 39%. All 113,500 options vest over various periods for the various options granted to employees and consultants. There were no options granted in the year ended December 31, 2007. As of December 31, 2007, these options have a remaining life of approximately 4 years, and remain outstanding and continue to be remeasured at the intrinsic value over their remaining vesting period ranging from 6 months to 2 years. Compensation expense in any given period is calculated as the difference between total earned compensation at the end of the period, less total earned compensation at the beginning of the period. Compensation earned is calculated on a straight line basis over the requisite service period for any give option award. The effect of adoption of the new standard for the year ended December 31, 2007 and 2006 related to stock options to employees were additional non-cash expenses of \$40,468 and \$65,604, respectively.

Options or stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with SFAS No. 123R and EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", and recognized over the related vesting or service period. In connection with closing of the Stock Exchange Agreement, the Company agreed to grant warrants to advisors for the services they already performed for the reverse merger in July 2006, entitling them to purchase up to 500,000 shares on or before July 31, 2009, at a price of US\$2.00 per share and options to purchase up to 50,000 shares on or before December 20, 2008 at a price of US\$3.00 per share. The fair value of these warrants and options were determined to be \$772,275 and deducted as expenses using the Black-Scholes option-pricing model with the following weighted assumptions: no dividends; risk-free interest rate of 4%; the contractual life of 2.5-3.5 years and volatility of 39%. The Company based its estimate of expected volatility on the historical, expected or implied volatility of similar entities whose share or option prices are publicly available

**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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On October 17, 2006 the Company closed a private offering (the “October 2006 Offering”) of 200 units of equity at \$15,000 per unit. Each unit consisted of 5,000 shares of the Company’s common stock at a price of \$3.00 per share and a warrant purchase 2,500 shares at \$3.50 per share. In this offering the Company issued at total of 1,000,000 common shares and granted warrants for the purchase of 500,000 at \$3.50 per share. The Company netted \$2,715,000 after fees of \$275,000. The warrants in this offering expire on October 10, 2008. The warrants contain a call provision at any time after January 10, 2008, if the bid price of the Company’s common stock averages over \$6.00 per share for any consecutive one week period.

In connection with the October 2006 Offering the Company granted the placement agent two warrants as follows: (i) a warrant to purchase 100,000 shares of common stock at an exercise price of \$3.00 per share and (ii) a warrant to purchase 50,000 shares at \$3.50 per share. The offering stipulates that the \$3.00 per shares options are to be exercised prior to any of the \$3.50 per share options being exercised. Both warrants to the placement agent expire on October 10, 2008.

During the year ended December 31, 2006 the Company granted to two advisors, in connection with services performed for the private placement, warrants for 500,000 shares of the Company’s common at \$2.00 per share. These warrants expire on July 31, 2009. The fair value of above warrants were computed as \$916,622

During the year ended December 31, 2006 the Company converted notes payable and accrued interest of \$204,332 into 102,166 shares of common stock at \$2.00 per share.

One January 3, 2007, the holder of 50,000 warrants dated March 11, 1999, granted prior to the May 30, 2006 company reorganization, stock exchange exercised the warrants by electing to use cashless conversion provision of the warrants and acquired 5,160 shares of the Company common stock (after giving effect to the 8-to 1 reverse stock split effected after the warrant was issued). These warrants are not included in the schedule below.

On April 3, 2007 the Company awarded 30,000 shares of restricted common stock to numerous key employees of the Company at price of \$6.50 per share, total compensation expenses \$195,000 under the Company’s 2006 Incentive Stock Plan.

A various times during the year ended December 31, 2007 warrant holder exercised their warrants, at various exercise prices, for total proceeds of \$515,834 and a total of 161,667 shares of common stock being issued.

|                                     | Shares<br>Underlying<br>Warrants | Weighted<br>average<br>Exercise<br>Price<br>Warrants | Shares<br>underlying<br>Options | Weighted<br>average<br>Exercise<br>Price<br>Options |
|-------------------------------------|----------------------------------|--|---------------------------------|---|
| Outstanding as of January 1, 2006   | 25,000                           | \$ 1.50  | -                               | \$ -  |
| Granted                             | 1,650,000                        | 2.58   | 163,500                         | 3.45  |
| Exercised                           | -                                | -  | -                               | -   |
| Expired or cancelled                | -                                | -  | -                               | -   |
| Outstanding as of December 31, 2006 | 1,675,000                        | 2.57   | 163,500                         | \$ 3.45   |
| Granted                             | -                                | -  | -                               | -   |
| Exercised                           | -                                | -  | -                               | -   |
| Expired or cancelled                | (161,667)                        | 3.19   | -                               | -   |
| Outstanding as of December 31, 2007 | 1,513,333                        | \$ 2.48  | 163,500                         | \$ 3.45   |



The following table summarizes information about stock warrants outstanding and exercisable as of December 31, 2007.

| Exercise Price | Outstanding December 31, 2007 | Weighted Average Remaining Life in Years | Number exercisable |
|----------------|-------------------------------|--|--------------------|
| \$ 2.00        | 1,000,000                     | 1.58                                     | 1,000,000          |
| \$ 3.00        | 100,000                       | .78                                      | 100,000            |
| \$ 3.50        | 413,333                       | .78                                      | 413,333            |
|                | <b>1,513,333</b>              |  | <b>1,513,000</b>   |

The following table summarizes information about stock options outstanding as of December 31, 2007.

| Exercise Price | Outstanding December 31, 2007 | Weighted Average Remaining Life in Years | Exercisable Options | Unvested Options |
|----------------|-------------------------------|--|---------------------|------------------|
| \$ 3.00        | 50,000                        | .97                                      | 50,000              | -                |
| \$ 3.65        | 113,500                       | 3.50                                     | 54,150              | 59,350           |
|                | 163,500                       |  | 104,150             | 59,350           |

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2007**

**7. Cash and Cash Equivalents**

As of December 31, 2007, Cash and Cash Equivalents consist of the following:

|  |                     |
|--|---------------------|
| Cash on Hand                           | \$ 2,598            |
| Bank Deposits                          | 9,188,272           |
| <b>Total Cash and Cash Equivalents</b> | <b>\$ 9,190,870</b> |

There is no restricted cash at the year ended December 31, 2007. Restricted cash at the year ended December 31, 2006 was \$1,640,015 and had been released by the end of March, 2007.

**8. Inventories**

The Company values its inventories at the lower of cost and market method. Inventories are accounted for using the first-in, first-out method. Inventories in the balance sheet include packing materials, raw materials, supplemental materials, work-in-process, and finished products.

As of December 31, 2007, inventories consist of the following:

|                        |                   |
|------------------------|-------------------|
| Raw Material           | \$ 252,318        |
| Supplemental Material  | 32,296            |
| Work-in-Process        | 57,337            |
| Finished Products      | 29,721            |
| <b>Total Inventory</b> | <b>\$ 371,672</b> |

**9. Property and Equipment**

All of TDR and its subsidiaries' buildings and fixed assets are located in the PRC and the land is used pursuant to a land use right granted by the PRC for 50 years commencing in 2004. As of December 31, 2007, Property and Equipment consist of the following:

|                                     |                  |
|-------------------------------------|------------------|
| Buildings                           | \$ 2,861,011     |
| Machinery and equipment             | 1,568,958        |
| Land use rights                     | 563,469          |
| Automobiles                         | 318,779          |
| Furniture and Equipments            | 96,501           |
| Construction in progress            | 2,113,957        |
| <b>Total Property and Equipment</b> | <b>7,522,675</b> |
| Less: Accumulated Depreciation      | (661,243)        |

|  |                     |
|--|---------------------|
| <b>Property and<br/>Equipment, Net</b> | <b>\$ 6,861,432</b> |
|--|---------------------|

For the year ended December 31, 2007 and 2006, depreciation expenses totaled \$187,231 and \$125,034 respectively.

**10. Intangible Assets**

As of December 31, 2007, the Company's unamortized intangible assets consist of:

|   |                     |
|---|---------------------|
| Patents                                   | \$ 1,599,814        |
| Distribution rights<br>and customer lists | 333,200             |
| <b>Total Intangible<br/>Assets, net</b>   | <b>\$ 1,933,014</b> |

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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Amortization expense for the year ended December 31, 2007 and 2006 was \$255,832 and \$ 121,522 respectively.

Future amortizations of intangible assets are as follows:

| <b>Year ended December 31,</b> |                     |
|--------------------------------|---------------------|
| 2008                           | \$ 239,581          |
| 2009                           | 239,581             |
| 2010                           | 239,581             |
| 2011                           | 239,581             |
| 2012                           | 239,581             |
| Thereafter                     | 735,109             |
|                                | <b>\$ 1,933,014</b> |

Patents are amortized over the life of the patent of ten years and the distribution rights and customer lists are amortized over ten years.

**11. Taxes Payable**

As of December 31, 2007, taxes payable consists of the following:

|                            |                     |
|----------------------------|---------------------|
| Value Added Tax, net       | \$ 612,602          |
| Enterprise Income Tax      | 940,819             |
| City Tax                   | 4,789               |
| Payroll Tax                | 8,978               |
| <b>Total Taxes Payable</b> | <b>\$ 1,567,188</b> |

**12. Income Taxes**

TDR was incorporated in the PRC which is governed by the Income Tax Law of the PRC concerning Enterprises and various local income tax laws (the "Income Tax Laws"). Under the Income Tax Laws, enterprises generally are subject to an income tax at an effective rate of 33% (30% PRC state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions or cities for which more favorable effective rates apply.

As of December 31, 2007, TDR as a foreign enterprise continues to enjoy a preferential enterprise income tax rate at 15%. In 2007, regular PRC tax rate of 33% was applied to First.

We record a full valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our

deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Pursuant to Sections 382 and 383 of the Internal Revenue Code (“IRC”), annual use of the Company’s net operating losses and tax credit carryforwards may be limited because of cumulative changes in ownership of more than 50% that have occurred. As of December 31, 2007, the Company has US net operating loss carryforward’s of approximately \$2,591,000 which will begin to expire in 2027. Accordingly, as mentioned above, any deferred tax asset that would result from these carryforwards have been fully reserved as of December 31, 2007.

Significant components of the Company’s deferred tax assets are shown below. Nil valuation allowance has been established to offset the deferred tax assets, as realization of such assets is certain per the management valuation. The tax benefit has been reported in the December 31, 2006 consolidated financial statements since the potential tax benefit is not offset by a valuation allowance.

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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Provision for the PRC enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward. The Company does not accrue taxes on unremitted earnings from foreign operations as it is the Company's intention to invest these earnings in the foreign operations indefinitely.

Net deferred tax assets consist of the following components as of December 31, 2007:

**Deferred tax assets:**

|   |            |
|---|------------|
| NOL Carryover from China Sky One<br>(formerly known as Comet) | \$ 246,000 |
| Share-based compensation expenses based<br>on 123R            | 639,000    |
|   | 885,000    |
| Valuation allowance   | (885,000)  |
| Net deferred tax asset  | \$ -       |

A reconciliation of the provision (benefit) for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income taxes is as follows:

|  | 2007         | 2006         |
|--|--------------|--------------|
| Computed tax at the federal statutory rate of 34%                          | \$ 6,342,000 | \$ 579,000   |
| Tax effect of US losses not utilized                                       | 170,000      | 715,000      |
| Benefit from tax of reduced tax rate in The Peoples<br>Republic of China   | (3,192,827)  | (529,541)    |
| Write off of deferred income tax asset for Financial<br>reporting purposes | -            | 315,305      |
| Provision (benefit) for income taxes                                       | \$ 3,319,173 | \$ 1,079,764 |
| Effective income tax rate  | 18%          | 63%          |

As of December 31, 2007, the Company has US net operating loss carryforward's of approximately \$724,000 which will begin to expire in 2027

In 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, which clarifies the application of SFAS 109 by defining a criterion that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transition provisions, the company adopted FIN 48 effective January 1, 2007.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes by the state. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current state officials.

Based on all known facts and circumstances and current tax law, the company believes that the total amount of unrecognized tax benefits as of December 31, 2007, is not material to its results of operations, financial condition or cash flows. The company also believes that the total amount of unrecognized tax benefits as of December 31, 2007, if

recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the company's results of operations, financial condition or cash flows.

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2007**

**13. Promissory Note Conversion**

On August 3, 2006, ACPG signed a convertible promissory note (the "Note") with Luminus Capital Management, Ltd. ("Luminus"), in the amount of \$200,000. The Note bears interest at 6.5% per annum with a maturity date of August 3, 2007, and is payable upon maturity or conversion of the Note. The preferential conversion feature of this note was valued at \$177,803 and charged against interest expense for the year ended December 31, 2006. On October 3, 2006, the Company announced that Luminus served notice to convert the Note into common shares at a price of \$2.00 per share. The note (including accrued interest) was converted on October 3, 2006, into a total of 102,166 shares of common stock.

**14. Land Purchase Agreement**

During the second quarter TDR entered into an agreement with the Development and Construction Administration Committee of Harbin Song Bei New Development district to purchase the land use rights for 50 years for development of a new biotech engineering project. Terms of the agreement called for a deposit of 30% of the total land price within 15 days after signing the agreement, 40% payment 7 days prior to the start of construction and the balance 7 days after getting the formal land use right.

The project consists of two phases:

- (1) Main workshop, R&D center and office using land area of 30,000 square meters, construction started in May 2007 projected to be completed by June 2008.
- (2) Second workshop and show room using land area of 20,000 square meters, Construction starting in September 2008 to be completed by December 2009.

TDR has committed to the Development and Construction Administration Committee of Harbin Song Bei New Development District that the minimum investment per square meter will be \$394.

As of December 31, 2007, the Company had made deposits totaling \$8,003,205 related to the acquisition of these land use rights.

**15. Commitments and Contingencies**

The formulation, manufacturing, processing, packaging, labeling, advertising, distribution and sale of external use Chinese medicine such as those sold by the Company are subject to regulations by one or more federal agencies. The principal federal agencies include the State Food and Drug Administration of the Government of the Peoples Republic of China, the Food and Drug Administration (the "FDA"), Heilongjiang Provincial Food and Drug Administration of the People's Republic of China (PFDA), National Biology Products Inspection Institute (NBPI) and the National Food and Drug Administration (NFDA) of the People's Republic of China and, to a lesser extent, the Consumer Product Safety Commission. These activities are also regulated by various governmental agencies for the countries, states and localities in which the Company's products are sold.

Although management believes that the Company is in material compliance with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with the applicable statutes, laws, rules and regulations will not be challenged by governing authorities or private parties, or that such challenges will not lead to material adverse effects on the Company's financial position, results of operations,



or cash flows.

The Company, like any other distributor or manufacturer of products that are designed to be ingested, exposes the Company to the inherent risk of product liability claims in the events of possible injuries caused by the use of its products. The Company does not have liability insurance with respect to product liability claims; the insurance environment of China is neither sufficient nor mature. Inadequate insurance or lack of contractual indemnification from parties supplying raw materials or marketing its products, and product liabilities related to defective products could have material adverse effects on the Company.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

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**China Sky One Medical, Inc. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2007**

**16. Subsequent Event**

On January 31, 2008 (the "Closing Date"), China Sky One Medical, Inc. (the "Company") entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors (the "Investors"), for the purchase and sale, in one or more closings to occur on or prior to February 15, 2007 (each, a "Closing"), of units of securities of the Company aggregating a minimum of \$25,000,000 and a maximum of \$30,000,000 (the "Units"), each Unit to consist of: (i) one (1) share of the Company's common stock, \$.001 par value per share ("Common Stock"); and (ii) warrants to purchase that number of shares of the Company's Common Stock equal to thirty (30%) percent of the principal dollar amount of the Units purchased, divided by the Unit Purchase Price (rounded to the nearest whole share) and expiring on July 31, 2011, (the "Class A Warrants"), for a purchase price of \$10.00 per Unit (the "Unit Purchase Price") (the "Offering"). As of the Closing Date, the Company sold an aggregate of 2,500,000 Units to the Investors, consisting of (i) 2,500,000 shares of Common Stock (the "Purchased Shares"), and (ii) Class A Warrants to purchase 750,000 additional shares of Common Stock, at an exercise price of \$12.50 per share (the "Purchased Warrants"), for an aggregate purchase price of \$25,000,000 (the "Offering Proceeds") (the "Private Placement").

On February 22, 2008, Harbin Tian Di Ren Medical Science and Technology Company, a limited liability company organized under the laws of the People's Republic of China ("Harbin"), which is a wholly-owned subsidiary of American California Pharmaceutical Group, Inc., a California corporation wholly-owned by China Sky One Medical, Inc., a Nevada corporation (the "Registrant"), entered into an Equity Transfer Agreement (the "Equity Transfer Agreement") with Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized under the laws of the People's Republic of China (Heilongjiang), which is in the business of manufacturing external-use pharmaceuticals. Pursuant to the Equity Transfer Agreement, Harbin shall acquire 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang's sole stockholder in consideration for an aggregate of approximately (i) \$8,000,000 in cash, and (ii) \$300,000 of shares of common stock of the Registrant. The acquisition, which is subject to the Registrant's due diligence review of Heilongjiang, as well as approval by the appropriate regulatory authorities in the People's Republic of China, is expected to close on or before March 31, 2008.

As of February 22, 2008 (the "Effective Date"), the board of directors of the Company (the "Board") authorized an increase in the number of directors on the Board from three (3) to seven (7), and appointed Song Chun Fan, Jiang Qi Feng, Zhao Jie and Qian Xu Feng to fill the vacancies created as a result of such increase, to serve until such time as their successors shall be duly elected, unless they resign, are removed from office, or are otherwise disqualified from serving as directors of the Corporation.

Until 2008, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No dealer, salesperson or any other person is authorized to give any information or make any representations in connection with this offering other than those contained in this prospectus and, if given or made, the information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not authorized or is unlawful.

**CHINA SKY ONE MEDICAL, INC.**

**3,950,003 Shares of Common stock**

**PROSPECTUS**

**Selling Securityholders**

\_\_\_\_\_, 2008

**(Subject to Completion)**

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**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

The expenses to be paid by the Registrant are as follows. All amounts, other than the SEC registration fee, are estimates.

|                              | <b>Amount to<br/>Be Paid</b> |
|------------------------------|------------------------------|
| SEC registration fee         | \$ 1,303                     |
| Legal fees and expenses      | \$                           |
| Accounting fees and expenses | \$                           |
| Printing and Engraving       | \$ 15,000                    |
| Transfer agent fees          | \$ -0-                       |
| Miscellaneous                | \$                           |
| <b>Total</b>                 | <b>\$</b>                    |

**ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Article VII of our articles of incorporation provides as follows:

The Company shall indemnify any and all persons who may serve or who have served at any time as directors or officers or who at the request of the Board of Directors of the Company, may serve or any time have served as directors or officers of another corporation in which the Company at such time owned or may own shares of stock or of which it was or may be a creditor, and their respective heirs, administrators, successors and assigns, against any and all expenses, including amounts paid upon judgments, counsel fees and amounts paid in settlement (before or after suit is commenced), actually and necessarily by such persons in connection with the defense or settlement of any claim, action, suit or proceeding in which they, or any of them, are made parties, or a party, or which may be asserted against them or any of them, by reason of being or having been directors or officers of the Company, or of such other corporation, except in relation to matters as to which any such director or officer of the Company, or of such other corporation or former director or officer or person shall be adjudged in any action, suit or proceeding to be liable for his own negligence or misconduct in the performance of his duty. Such indemnification shall be in addition to any other rights to which those indemnified may be entitled under any law, by law, agreement, vote of shareholder or otherwise.

Chapter 78 of the Nevada Revised Statutes provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he is not liable pursuant to Section 78.138 of the Nevada Revised Statutes or acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Chapter 78 of the Nevada Revised Statutes further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of

the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit if he is not liable pursuant to Section 78.138 of the Nevada Revised Statutes or acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court or other court of competent jurisdiction in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court or other court of competent jurisdiction shall deem proper.

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## **ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.**

The following sets forth a description of all sales and issuances of China Sky One's securities within the past three years which were not registered under the Securities Act. China Sky One relied upon one or more exemptions from registration under the Securities Act, including Section 4(2) thereof, Rule 506 of Regulation D, and Regulation S with respect to certain sales to non-U.S. persons (as defined in Regulation S).

### **Security Issuances Pursuant to Contractual Agreements**

On February 22, 2008, Harbin Tian Di Ren Medical Science and Technology Company, a limited liability company organized under the laws of the People's Republic of China, or Harbin, which is a wholly-owned subsidiary of American California Pharmaceutical Group, Inc., a California corporation wholly-owned by China Sky One, entered into an Equity Transfer Agreement, or the Equity Transfer Agreement, with Heilongjiang Tianlong Pharmaceutical, Inc., a corporation organized under the laws of the People's Republic of China, or Heilongjiang, which is in the business of manufacturing external-use pharmaceuticals. Pursuant to the Equity Transfer Agreement, Harbin shall acquire 100% of the issued and outstanding capital stock of Heilongjiang from Heilongjiang's sole stockholder in consideration for an aggregate of approximately (i) \$8,000,000 in cash, and (ii) \$300,000 of shares of common stock of China Sky One. The acquisition, which is subject to our due diligence review of Heilongjiang, as well as approval by the appropriate regulatory authorities in the People's Republic of China, is expected to close on or before March 31, 2008.

On or around August 29, 2007, an unaffiliated party exercised warrants to purchase 5,000 shares of our common stock at an aggregate exercise price of \$17,500.

On or around July 26, 2007, an unaffiliated party exercised warrants to purchase 2,500 shares of our common stock at an aggregate exercise price of \$8,750.

On June 18, 2007, an unaffiliated party exercised an outstanding warrant granted in connection with the Company's private offering completed in October, 2006. The warrant holder purchased a total of 15,000 shares at a price of \$3.50 per share, or a total of \$52,500.

On or about June 14, 2007, a former officer exercised an option dated March 11, 1999, to purchase a total of 25,000 shares at a price of \$1.50 per share, or a total of \$37,500.

On April 3, 2007, the Company granted a total of 30,000 shares of the Company's restricted common stock to employees, under the Company's 2006 Incentive Stock Plan.

On January 3, 2007, an unaffiliated party exercised an outstanding warrant granted in March, 1999, to purchase a total of 6,250 shares, using the cashless exercise provision of the warrant, resulting in the issuance of a total of 5,160 shares.

Each of these foregoing transactions were private transactions and were entered into in reliance upon an exemption from the registration provisions of the Securities Act, under Section 4(2), as a transaction not involving a public offering.

On October 3, 2006, Luminus Capital Management, Ltd., or Luminus, converted a convertible promissory note from the Company dated August 3, 2006 in the principal amount of \$200,000, together with interest at 6.5% per annum, into a total of 102,166 shares of restricted common stock, at a price of \$2.00 per share. This was a private transaction and was entered into in reliance upon an exemption from the registration provisions of the Securities Act, under Section 4(2), as a transaction not involving a public offering.

On May 11, 2006, ACPG entered into a Stock Exchange Agreement, or the 2006 Exchange Agreement, with the shareholders of China Sky One (then known as “Comet Technologies, Inc.”). The terms of the Exchange Agreement were consummated and the transaction was closed on May 30, 2006. As a result of the transaction, we issued a total of 10,193,377 shares of its common voting stock to the stockholders of ACPG, in exchange for 100% of the capital stock of ACPG. In connection with the transaction, a total of 219,212 shares was issued to the two former officers of ACPG under a consulting agreement and an option was granted to one of the former officers, Jack M. Gertino, entitling him to purchase a total of 50,000 shares, at any time before December 20, 2008, at a price of \$3.00 per share. The common shares were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933 as amended and Regulation D thereunder.

We incurred fees to American Eastern Group, Inc., or AEG, and Shenzhen DRB Investment Consultant Limited, or DRB, in the amount of \$200,000 in cash for services rendered in connection with the 2006 Exchange Agreement. In addition, in October, 2006, we granted to each of AEG and DRB warrants to purchase 500,000 shares of common stock (a total of 1,000,000 shares) exercisable at any time before July 31, 2009, at a price of \$2.00 per share. One-half of such warrants were deemed to be earned as of the completion of the 2006 Exchange Agreement, and the other one-half was deemed earned after completion of the Company’s private offering in October 2006. The fair value of the above warrants was calculated as \$1,469,190 as of December 31, 2006, based on the Black-Scholes model of accounting, and the total value of compensation to AEG and DRB has been determined to be \$2,317,128.

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During the quarter ended March 31, 2006, Richard B. Stuart, an officer and director of China Sky One, exercised his remaining option to purchase a total of 9,490 shares of our common stock at a price of \$1.50 per share, or a total purchase price of \$14,235. This was a private transaction and was entered into in reliance upon an exemption from the registration provisions of the Securities Act, pursuant to Section 4(2) thereunder, as a transaction not involving a public offering. The transaction occurred without the use of an underwriter, and the certificates representing the shares of common stock bear a restrictive legend permitting transfer only upon registration or pursuant to an exemption from registration under the Act.

On September 26, 2005, Jack Gertino and Richard Stuart, officers and directors at the time, exercised options resulting in the issuance of 236,120 shares and 124,080 shares of our restricted common stock, respectively, to Mr. Gertino and Dr. Stuart, at a price of \$0.1875 per share. Mr. Gertino and Dr. Stuart were owed \$46,530, and \$23,265, respectively, for services rendered to China Sky One, primarily in connection with a possible merger transaction that, after several months of efforts, was terminated. The purchase price under the options was paid through the conversion and cancellation of our indebtedness to Mr. Gertino and Dr. Stuart, as described below.

In March, 1999, we granted to each of our three then officers and directors - Jack M. Gertino, Dr. Richard Stuart and Philip Gugel, an option to purchase a total of 200,000 shares each of the Company's common stock at an exercise price of \$0.1875 per share (the "Option"). Mr. Gugel has since died, and his Option, which has not been exercised, has passed to his wife. The Options are exercisable for a period of ten (10) years, ending on March 11, 2009.

As a means of eliminating this debt from our balance sheet, and to provide us with working capital to undertake efforts to locate and enter into a business opportunity over the next few months, China Sky One and Mr. Gertino and Dr. Stuart agreed to eliminate the indebtedness to Gertino and Stuart through the exercise of the Options referenced above. Accordingly, Mr. Gertino's exercised his option in full, for the conversion of a total of \$37,500 in indebtedness to him, into a total of 200,000 shares of restricted common stock at a price of \$0.1875 per share. After the exercise of his entire option, we still owed Mr. Gertino the sum of \$9,030, which he agreed to convert into a total of 36,120 additional shares of restricted common stock at a price of \$0.25 per share, or the price paid by an unaffiliated investor, described below. Dr. Stuart agreed to convert the entire obligation to him (\$23,265), into a total of 124,080 shares of common stock under his option at a price of \$0.1875 per share. Because Dr. Stuart did not exercise all of his option, he was reissued an option to purchase a total of 75,920 shares at \$0.1875 per share. Mr. Gertino's Option has been exercised in full and is no longer outstanding.

Concurrently with the transactions described above, on September 26, 2005, we entered into a stock purchase agreement with American Eastern Group, Inc., or American, a Nevada corporation, providing for the sale by us to American of a total of 100,000 shares of our restricted common stock at a price of \$0.25 per share, or a total of \$25,000. As a result of the transactions described above, we issued a total of 460,200 shares of our restricted common stock. There were no commissions or fees paid to any third parties in connection with these transactions.

#### **Private Placement Offering of Shares of Common stock**

On January 31, 2008, or the SPA closing date, we entered into a securities purchase agreement, with certain accredited investors, for the purchase and sale of units of securities of the Company aggregating \$25,000,000, or the units, each unit consisting of: (i) one (1) share of our common stock; and (ii) Class A warrants to purchase that number of shares of our common stock equal to thirty percent of the principal dollar amount of the units purchased, divided by the unit purchase price (rounded to the nearest whole share), for a purchase price of \$10.00 per unit.

We closed the offering by having sold an aggregate of 2,500,000 units to these investors, consisting of an aggregate of (i) 2,500,000 shares of common stock (the "Purchased Shares"), and (ii) Class A warrants to purchase 750,000 additional shares of common stock, at an exercise price of \$12.50 per share and expiring on July 31, 2011, with aggregate offering proceeds of \$25,000,000.



Holders of the 2,500,000 shares of common stock sold in our January 2008 offering have certain put rights and rights to receive additional shares from certain key shareholders in the event that certain thresholds are not met. Specifically, these investors have:

- The right to receive additional shares from China Sky One in the event that the Company sells shares (or convertible securities or warrants convertible into or exercisable for common stock) prior to January 31, 2009 at per share of less than \$10.00, in such amount so as to reduce the average price paid by such shareholder to the price per share being paid by the new investors,

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- The right to receive up to 3,000,000 shares deposited into escrow by certain of our principal shareholders, in the event that the Company fails to attain earnings per share, as adjusted, of at least (i) \$1.05 per share for fiscal year ended December 31, 2007 based on fully diluted shares outstanding before the January 2008 offering (an aggregate of 13,907,696 shares), and/or (ii) \$1.75 per share for fiscal year ending December 31, 2008 based on fully diluted shares outstanding after the January 2008 offering (an aggregate of 16,907,696 shares). While the Company has satisfied the criterion of (i) above for 2007, no assurance can be made that we will satisfy our earnings goal next year;
- The lead investor in the offering, was granted a right of first refusal, for a period of eighteen months after the later of the SPA closing date, or the effective date of a registration statement covering the resale of the shares of common stock sold and shares of common stock underlying the Class A warrants, to purchase up to a maximum of \$15,000,000 of any securities offered by the Company in any proposed offering of common stock, or other securities or debt obligations, except certain issuances; and
- The Company agreed that, if and whenever, within twelve months of the SPA closing date, it issues or sells, or is deemed to have issued or sold, any shares of common stock, or securities convertible into or exercisable for shares of common stock, or modifies any of the foregoing which may be outstanding (with the exception of certain excluded securities), to any person or entity at a price per share, or conversion or exercise price per share less than the unit purchase price, then the Company shall issue, for each such occasion, additional shares of its common stock to the investors in such number so that the average per share purchase price of the shares of common stock purchased by the investors in the offering shall automatically be reduced to such other lower price per share. In addition, the investors will have the registration rights described in the registration rights agreement with respect to such additional shares.

The Class A warrants represent the right to purchase an aggregate of 750,000 shares of common stock, at an exercise price of \$12.50 per share, and have the following additional characteristics:

- The Class A warrants are exercisable beginning on the six-month anniversary of the SPA closing date and will expire on July 31, 2011 unless extended (the "Expiration Date").
- Commencing on one-year anniversary of the SPA closing date, in the event the shares of common stock underlying the Class A warrants may not be freely sold by the holders of the Class A warrants due to the Company's failure to satisfy its registration requirements, and an exemption for such sale is not otherwise available to the holders of the Class A warrants under Rule 144, the Class A warrants will be exercisable on a cashless basis.
- The exercise price and number of shares of common stock underlying the Class A warrants will be subject to adjustment for standard dilutive events, including the issuance of common stock, or securities convertible into or exercisable for shares of common stock, at a price per share, or conversion or exercise price per share less than the exercise price.
- At anytime following the date a registration statement covering shares of common stock underlying the Class A warrants is declared effective, we will have the ability to call the Class A warrants at a price of \$0.01 per Class A warrant, upon thirty (30) days prior written notice to the holders of the Class A warrants, provided (i) the closing price of the common stock exceeded \$18.75 for each of the ten (10) consecutive trading days immediately preceding the date that the call notice is given by the Company, and (ii) the Company has attained an earnings per share, as adjusted, of at least \$1.75 per share for the fiscal year ending December 31, 2008, as set forth in the audited financial statements of the Company.
- If, among other things, we fail to cause a registration statement covering the shares of common stock underlying the Class A warrants to be declared effective prior to the applicable dates, or the effectiveness deadlines, set forth in the

registration rights agreement, dated January 31, 2008, between the Company and the investors in the January 2008 offering, the expiration date of the Class A warrants will be extended one day for each day beyond the effectiveness deadlines.

· If a holder of the Class A warrants exercises its put right under the put agreement, dated January 31, 2008, between the Company and the investors in the January 2008 offering, such holder's right to exercise the Class A warrants shall be suspended, pending the satisfaction of our obligations to pay that holder the applicable repurchase price. Upon receipt of the repurchase price in full by the holder, the holder's right to exercise the Class A Warrants shall automatically and permanently terminate and expire, and the Class A warrants shall be immediately cancelled on the books of the Company.

On October 17, 2006, we closed a private offering to U.S. purchasers under Rule 506 of Regulation D, and a separate offering to foreign investors pursuant to Regulation S, resulting in the sale of a total of \$3,000,000 in Units, consisting of common stock and warrants. We sold a total of 200 Units at a price of \$15,000 per Unit, each Unit consisting of 5,000 shares at a price of \$3.00 per share, and common stock purchase warrants to purchase an additional 2,500 shares. As a result, we sold a total of 1,000,000 shares of our common stock, and issued warrants to purchase up to an aggregate of 500,000 additional shares of common stock at any time before October 10, 2008, at a price of \$3.50 per share. The warrants have a "call" provision entitling us to call for the exercise of the warrants at any time after January 10, 2008, if the bid price of our common stock averages over \$6.00 per share for any consecutive one-week period. The private offerings commenced on or about August 10, 2006. At the time of commencement of the private offerings, the bid price of our common stock was \$3.75. A total of approximately 162.54 Units were sold in the private offering prior to September 30, 2006, and the balance of 37.46 Units was sold after September 30, 2006. In connection with the offering, the Company incurred other offering expenses of \$285,062. The net cash proceeds from the offering were \$2,153,038 as of September 30, 2006. In connection with the private placement, the Company paid the placement agent, American Eastern Securities, Inc., a commission of 9% of the gross proceeds of the offering, and have also granted the placement agent, a warrant to purchase up to \$300,000 in Units sold in the private offerings, entitling American Eastern Securities, Inc. to purchase a total of 100,000 shares at a price of \$3.00 per share (all of which have been exercised), and warrants to purchase an additional 50,000 shares at a price of \$3.50 per share on or before October 10, 2008 which have not yet been exercised. As indicated, all of the securities were sold only to accredited investors as restricted securities. All of the securities were sold in the U.S. in reliance upon the exemption set forth under Section 4(2) of the Securities Act, and Rule 506 of Regulation D thereunder, and sales to foreign investors were made in reliance upon Regulation S of the Securities Act.

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## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES FROM FORM S-1

(a) Exhibits required by Item 601 of Regulation S-K. The exhibits listed on the Exhibit Index of this Registration Statement on Form S-1 have been previously filed, are filed herewith or are incorporated herein by reference to other filings.

(b) Financial Statement Schedules. Financial Statement Schedules not included below have been omitted because they are not required or not applicable, or because the required information is shown in the financial statements or notes thereto.

## ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes to provide certificates in such denominations and registered in such names as required by the purchasers to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be

governed by the final adjudication of such issue.

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The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Harbin in The People's Republic of China, on April 10, 2008.

**CHINA SKY ONE MEDICAL, INC.**

By: /s/ Liu Yan-Qing

\_\_\_\_\_  
Liu Yan-Qing, President and Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ Liu Yan-Qing April 10, 2008

\_\_\_\_\_  
Liu Yan-Qing  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

/s/ Han Xiao-Yan April 10, 2008

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Han Xiao-Yan  
Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)

/s/ Wang Hai-Feng April 10, 2008

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Wang Hai-Feng  
Secretary, Treasurer and Director

/s/ Song Chun Fan April 10, 2008

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Song Chun Fan, Director

/s/ Jiang Qi Feng April 10, 2008

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Jiang Qi Feng, Director

/s/ Qian Xu Feng April 10, 2008

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Qian Xu Feng, Director

/s/ Zhao Jie

April 10, 2008

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Zhao Jie, Director

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## EXHIBIT INDEX

(a) Exhibits. Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

- 3.1 Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 3.2 By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 3.3 Finance Committee Charter. (1)
- 3.4 Audit Committee Charter. (1)
- 3.5 Compensation Committee Charter. (1)
- 3.6 Nominating and Governance Committee Charter. (1)
- 3.7 Executive Committee Charter. (1)
- 4.1 Form of Class A Warrant exercisable at \$12.50 per share issued to investors in connection with offering of 2,500,000 shares of common stock and 750,000 Class A Warrants on January 31, 2008 (the "January 2008 Offering"). (4)
- 5.1 Opinion of Hodgson Russ LLP (To be filed by amendment).
- 10.1 Option granted to Richard B. Stuart dated March 11, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 10.2 Option granted to Philip C. Gugel dated March 11, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 10.3 Option granted to Jack M. Gertino dated March 11, 1999 (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).
- 10.4 Warrant granted to Mark E. Lehman dated March 11, 1999 (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10-SB, as filed with the Securities and Exchange Commission on May 13, 1999).

- 10.5 Warrant granted to American Eastern Group, Inc., dated October 10, 2006. (2)
- 10.6 Warrant granted to American Eastern Securities, Inc., dated October 24, 2006. (2)
- 10.7 Form of Securities Purchase Agreement between Company and investors, dated as of January 31, 2008, relating to January 2008 Offering. (3)
- 10.8 Form of Registration Rights Agreement between Company and investors, dated as of January 31, 2008, relating to January 2008 Offering. (3)
- 10.9 Form of Make Good Agreement between Pope Asset Management LLC, as the authorized agent of the investors, the Company and Liu Yan-Qing. (3)
- 10.10 Form of Make Good Escrow Agreement between Pope Asset Management LLC, as the authorized agent of the investors, the Company and Liu Yan-Qing. (3)
- 10.11 Form of Put Agreement between Company and investors, dated as of January 31, 2008, relating to January 2008 Offering. (3)
- 10.12 Equity Transfer Agreement, dated as of February 22, 2008, relating to acquisition of Heilongjiang Tianlong Pharmaceutical, Inc. (4)
- 14.1 Code of Ethics. (1)
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of Sherb & Co. LLP.
- 23.2 Consent of e-Fang Accountancy Corp. & CPA (Year End December 2006 Audit).
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- (1) Incorporated by reference from exhibits filed with Annual Report on Form 10-KSB for year ended December 31, 2007.
- (2) Incorporated by reference from exhibits filed with Annual Report on Form 10-KSB for year ended December 31, 2007, originally filed April 2, 2007.

- (3) Incorporated by reference from exhibits filed with Current Report on Form 8-K, Date of Event of January 31, 2008.
- (4) Incorporated by reference to the Registrant's Form 8-K/A, Date of Event February 22, 2008 filed on April 10, 2008

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