

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 001-33537

CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation
or Organization)*

20-2903562
*(I.R.S. Employer
Identification
No.)*

No. 2, Jing You Road,
Kunming National Economy &
Technology Developing District
People' s Republic of China 650217
*(Address of Principal Executive
Offices)*

N/A
(Zip Code)

0086-871-728-2628
(Registrant' s Telephone Number, Including Area Code)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 19,679,400 shares outstanding of the issuer’s common stock, par value \$.0001 per share, as of May 1, 2009.

CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC.
FORM 10-Q QUARTERLY REPORT

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2009	December 31, 2008
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 908,596	\$ 1,612,054
Accounts and notes receivable, less allowance for doubtful accounts of \$4,949,009 and \$4,834,745, respectively	10,490,378	9,108,703
Sales representative advances, less allowance for doubtful accounts of \$3,026,086 and \$2,955,516, respectively	7,453,244	8,637,653
Advances to suppliers	508,627	446,168
Inventory, net of reserve for obsolescence of \$148,163 and \$147,978, respectively	3,784,385	4,287,462
Other current assets	31,714	41,177
Total Current Assets	23,176,944	24,133,217
Property, plant and equipment, net of	7,438,145	7,581,664

accumulated
depreciation of
\$5,531,158 and
\$5,341,933,
respectively

Intangible assets, net of accumulated amortization of \$125,572 and \$71,456, respectively		612,769		665,959
Long-term sales representative advances, less allowance for doubtful accounts of \$667,647 and \$664,532, respectively		1,288,088		663,433
TOTAL ASSETS	\$	32,515,946	\$	33,044,273

**LIABILITIES AND
STOCKHOLDERS'
EQUITY:**

Current Liabilities:

Accounts payable	\$	1,896,131	\$	1,293,460
Accrued expenses		6,861,907		2,721,082
Deposits		5,219,941		5,550,502
Payable to related parties		42,836		148,575
Short-term notes payable		11,323,378		9,850,211
Advances from		269,730		222,609

customers		
Taxes and related payables	1,006,165	1,236,574
Current portion of long-term debt	—	3,245,685
Total Current Liabilities	26,620,088	24,268,698
Long-Term Debt	1,460,792	1,131,193
Total Liabilities	28,080,880	25,399,891
Stockholders' Equity:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 19,679,400 and 19,679,400 outstanding, respectively	1,968	1,968
Additional paid-in capital	6,193,927	6,193,927
Statutory reserves	147,023	147,023
Retained deficit	(3,564,844)	(603,572)
Accumulated other comprehensive income, foreign currency translation	1,656,992	1,656,812
Noncontrolling Interest	—	248,224
Total Stockholders' Equity	4,435,066	7,644,382

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$	32,515,946 \$	33,044,273
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The accompanying notes are an integral part of these condensed consolidated financial statements

**CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS**

(unaudited)

	March 31, 2009	March 31, 2008
Sale of Products	\$ 6,770,526	\$ 5,486,468
Cost of Products Sold	2,301,525	2,099,462
Gross Profit	4,469,001	3,387,006
Operating Expenses:		
Selling expense	6,395,577	1,641,502
General and administrative expense	1,046,442	2,467,578
Research and development expense	7,281	118,976
Total Operating Expenses	7,449,300	4,228,056
Loss from Operations	(2,980,299)	(841,050)
Other Income (Expense):		

Interest income	881	3,265
Income from research and development activities	25,568	263,037
Interest expense	(251,690)	(256,082)
Non-operating expenses	(4,054)	(73,145)
Net Other (Expense)	(229,295)	(62,925)
Loss Before Income Taxes	(3,209,594)	(903,975)
Income tax expense	—	(2,176)
Net loss attributable to noncontrolling interest	248,322	53,491
Net Loss	\$ (2,961,272)	\$ (852,660)
Foreign currency translation adjustment	182	472,982
Comprehensive Loss	\$ (2,961,090)	\$ (379,678)
Loss Per Share		
Basic	\$ (0.15)	\$ (0.04)
Diluted	\$ (0.15)	\$ (0.04)
Weighted-Average Shares Outstanding		
Basic	19,679,400	19,679,400
Diluted	19,679,400	19,679,400

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended	
	March 31,	
	2009	2008
Cash Flows from		
Operating Activities:		
Net loss	\$ (2,961,272)	\$ (852,660)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	236,507	199,872
Noncontrolling interest in loss of subsidiaries	(248,322)	(53,491)
Change in current assets and liabilities:		
Accounts and notes receivable	(1,478,208)	1,320,069
Sales representative advances	502,229	(1,037,336)
Advances to suppliers	(61,890)	(574,171)
Inventory	508,390	(181,623)
Other current assets	9,513	76,870
Accounts payable	600,959	937,166
Accrued expenses	4,127,669	(325,048)
Deposits	(337,485)	451,037
Advances from customers	46,835	(18,041)
Taxes and related payables	(231,929)	(334,524)
Net Cash Provided by (Used in) Operating Activities	890,299	(391,880)

Cash Flows from**Investing Activities:**

Capital expenditures	(29,467)	(72,119)
Receivable from related parties	—	1,942

Net Cash (Used in)**Provided by Investing Activities**

(29,467)	(70,177)
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Cash Flows from**Financing Activities:**

Payable to related parties	(105,643)	(15,170)
Payments on short and long-term loans	(1,460,581)	(1,393,596)

Net Cash (Used in)**Provided by Financing Activities**

(1,566,215)	(1,408,766)
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Effect of exchange rate changes on cash

1,926	75,515
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Net Decrease in Cash and

Cash Equivalents	(703,458)	(1,795,308)
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Cash and Cash

Equivalents at

Beginning of Period	1,612,054	2,800,641
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Cash and Cash

Equivalents at End of Period

\$	908,596	\$	1,005,333
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Supplemental**Information**

Cash paid for interest \$	300,237	\$	256,082
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Cash paid for income taxes

11,399	—
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The accompanying notes are an integral part of these condensed consolidated financial statements

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of China Shenghuo Pharmaceutical Holdings, Inc., (the “Company” or the “Parent” or the “Group”) were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Management of the Company (“Management”) believes that the following disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2008, as amended.

These unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of Management, are necessary to present fairly the consolidated financial position and results of operations of the Company for the periods presented. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009.

Translating Financial Statements - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The functional currency of the operating subsidiaries in the People’s Republic of China (“PRC”) is the Chinese Yuan Renminbi (“CNY”); however, the condensed consolidated financial statements have been expressed in United States Dollars (“USD”). The accompanying condensed consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The condensed consolidated statements of operations have been translated using the weighted average exchange rates prevailing during the operating periods of each statement.

NOTE 2 - ORGANIZATION AND NATURE OF OPERATIONS

Nature of Business - The Company and its subsidiaries designs, develops, markets, exports and sells pharmaceutical, nutritional supplements and cosmetic products throughout the People’s Republic of China (PRC) and abroad. The Company also conducts research and development for third parties as well as for itself using the medicinal

herb Panax notoginseng, also known as Sanqi, Sanchi, or Tienchi and sells pharmaceutical, nutritional supplements and cosmetic products that contain this herb, which is grown in two provinces in the PRC. Sales from the cosmetic products represent less than 10% of total Company sales and revenue. The Company does not maintain accounting records by line of business as the Company's subsidiaries sell products from multiple lines of business and Management evaluates each subsidiary as a separate entity.

Organization - The Company owns a 94.95% equity interest of Kunming Shenghuo Pharmaceuticals Co., Ltd. ("Shenghuo"). Shenghuo owns a 99% equity interest in Kunming Shenghuo Medicine Co., Ltd. ("Medicine") and Kunming Pharmaceutical Importation and Exportation Co., Ltd. ("Import/Export"), a 98.18% interest in Kunming Shenghuo Cosmetics Co., Ltd. ("Cosmetic"). All of these entities are formed in and operate within the PRC. No minority interest is presented at March 31, 2009 due to accumulated losses of the Company.

NOTE 3 - SELECTED SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Translating Financial Statements - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the United States Securities and Exchange Commission. The functional currency of the operating subsidiaries in the PRC is the Chinese Yuan Renminbi ("CNY"); however, the consolidated financial statements have been expressed in United States Dollars ("USD"). The accompanying consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The consolidated statements of operations have been translated using the average exchange rates prevailing during the operating periods of each statement.

Principles of Consolidation - The accompanying consolidated financial statements present the operations of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates - The preparation of 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 and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments — The carrying amounts reported in the consolidated balance sheets for accounts and notes receivables, employee advances, advances to suppliers, accounts payable, accrued liabilities, and advances from customers approximate fair value because of the immediate or short-term maturity of these financial instruments. Management believes the interest rates on short-term notes payable and

long-term debt reflect rates currently available in the PRC. Thus, the carrying value of these loans approximates fair value.

Cash and Cash Equivalents - The Company's cash and cash equivalents are maintained in bank deposit accounts. The Company has not experienced any losses with respect to these deposits. Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts, and short-term certificates of deposit with original maturities of three months or less. The Company did not enter into any hedge contracts during any of the periods presented.

Accounts and Notes Receivable and Allowance for Doubtful Accounts - Trade receivables are carried at original invoiced amounts less an allowance for doubtful accounts. An allowance for uncollectible accounts receivable is established by charges to operations for amounts required to maintain an adequate allowance, in management's judgment, to cover anticipated losses from customer accounts and sales returns. Such accounts are charged to the allowance when collection appears doubtful. Any subsequent recoveries are credited to the allowance account. The Company believes that the allowance for doubtful accounts is consistent with industry standards in the PRC based on the products that are being sold.

Notes receivable were \$219,440 and \$750,877 as of March 31, 2009 and December 31, 2008, respectively. The notes represent bank drafts that have been arranged with third-party financial institutions by certain customers to settle their purchases from us. These bank drafts are non-interest bearing and are due within six months. Such sales and purchasing arrangements are consistent with industry practices in the PRC.

Sales Representative Advances - Sales representative advances are presented net of an estimated allowance for doubtful advances. As time passes from when advances are made to sales representatives for travel and related expenses, the Company will create an allowance for these older receivables as the likelihood of collection from each particular sales representative decreases as their respective advances age. Long-term sales representative advances are not expected to be realized in the current operating period.

Inventory - Inventories consist principally of pharmaceutical products and are stated at weighted average cost. When market value of the inventory products is lower than the weighted average cost, inventory is reduced to its net realizable value. The Company also holds inventory on consignment.

Property and Equipment - Property and equipment are stated at cost. Maintenance and depreciation are charged to expense as incurred and major improvements are capitalized.

Gains or losses on sales or retirements are included in the statements of operations in the period of disposition, determined by reference to their carrying amounts. The Company reviews its property and equipment periodically for changes in circumstances that would indicate its recoverable carrying value is less than its net book value. If such circumstances occur, impairment is charged to such items.

Intangible Assets - Acquisition costs of land use rights are capitalized at their acquisition cost and amortized using the straight-line method over their estimated useful lives. For those intangible assets with legal protection over a specific period, their useful life is the protected period. Assets that do not have legal protection periods are amortized over their estimated useful life. Research and development costs are expensed during the period incurred.

Impairment of Long-Lived Asset - The Company reviews its long-lived assets, including intangibles, for impairment at least annually or when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over their remaining life in measuring whether the assets are recoverable.

Deposits and Accrued Expenses - Accrued expenses consists of accrued commission expense, accrued payroll expense, and accrued welfare expense. Deposits consist of funds paid by the sales representatives to obtain the Company's products to sell. The Company retains these deposits during the time the sales representatives provide services to the Company. When the Company receives full payment from the customer or the sales representatives terminate sales services, the deposits are returned to the sales representatives. The Company records deposits from sales representatives when payments are received.

Advances to Suppliers and Advances from Customers - The Company will often make advanced payments to suppliers for materials, or receive advance payments from customers in the normal course of business. Advances to suppliers were \$508,627 and \$446,168 as of March 31, 2009 and December 31, 2008, respectively. Advances to suppliers are recorded when payment is made by the Company and relieved against inventory when goods are received. The advance payments to suppliers may include provisions that set the purchase price and delivery date of raw materials. Advances from customers were \$269,730 and \$222,609 as of March 31, 2009 and December 31, 2008, respectively and are recognized in revenue when delivery has occurred.

Revenue Recognition - The Company recognizes revenue when it is realized and earned. The Company considers revenue realized or realizable and earned when (1) it has persuasive evidence of an arrangement, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped to the client, risk of loss has transferred

to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in client acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

The Company recognizes revenue for its consignment sales only after the customer has checked the quality of the goods and the Company has received a written confirmation from the customer that they have accepted the goods.

Cost of Revenues - The cost of revenues are the direct expenses incurred in producing the pharmaceuticals and cosmetics, which include materials, wages, handling charges, and a portion of overhead expenses associated with the manufacture and delivery of products.

Shipping and Handling Costs - Shipping and handling costs are included in selling expenses.

Research and Development - The Company charges research and development costs to operations in the period incurred. The Company recognizes revenue from research and development activities in accordance with the revenue recognition policy as stated above. Because in many cases the Company cannot be assured that the terms of specific contracts can be fulfilled, the Company recognizes revenue only after all terms of a contract are complete.

Advertising - Advertising expense was \$19,240 and \$392,496 for the three months ended March 31, 2009 and 2008, respectively.

Basic and Diluted Earnings per Share - The computation of basic and diluted earnings per share is based on the weighted-average number of shares outstanding during the periods presented. Potentially dilutive securities for the three months ended March 31, 2009 and 2008 include 46,000 warrants which were antidilutive due to losses of the Company.

Retirement Benefit Plans - The Company makes monthly contributions to various employee retirement benefit plans organized by provincial governments in the PRC in accordance with rates prescribed by them. The provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Company. Contributions to these plans are charged to expense as incurred.

Comprehensive Income - Other comprehensive income presented in the consolidated financial statements consists of cumulative foreign currency translation adjustments.

Credit Risk - The carrying amounts of accounts receivable and sales representative advances included in the balance sheets represent the Company' s major exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The Company performs ongoing credit evaluations of each customer' s financial condition. It maintains allowances for doubtful accounts and believes its current reserves are adequate.

The Company has its cash in bank deposits and money market funds primarily in the PRC. Historically, deposits in Chinese banks have been secure due to the state policy on protecting depositors' interests. China promulgated a new Bankruptcy Law in August 2006, which came into effect on June 1, 2007, which, together with more specific, complementary regulations to be issued in the future, shall provide the implementation for the bankruptcy of Chinese banks. In the event that bankruptcy laws are enacted for banks in the PRC, the Company' s deposits may be at a higher risk of loss.

Business Condition and Liquidity - Although the Company has had a history prior to 2008 of positive income, working capital and retained earnings, the Company has incurred a net loss for the three months ended March 31, 2009 of \$2.9 million and net cash provided by operating activities of \$0.9 million and used funds in financing activities of \$1.6 million. As a result during the three months ended March 31, 2009, the cash and cash equivalents have decreased \$0.7 million. In addition, the Company had an accumulated deficit of \$3.5 million as of March 31, 2009, primarily due to the losses in the quarter ended March 31, 2009 and the loss of \$4.6 million for fiscal 2008. As shown in Note 6, the Company has \$11.3 million in short term loans that mature in 2009. Additionally, as discussed in Note 10, putative class action lawsuits have been asserted against the Company and the Company is undergoing an voluntary investigation by the Securities and Exchange Commission.

The Company has expended significant efforts to expand its revenues by assisting its sales representatives and increasing its marketing efforts during the quarter ended March 31, 2009 and during fiscal 2008. The net loss for the three months ended March 31, 2009 was primarily caused by increased selling expenses, legal, auditing, expenses related to assisting sales representatives and marketing expenses. In addition, the Company may be forced to give significant attention to the class action lawsuits noted above. The Company believes that it will remedy these matters and will be able to return to its normal operations in the near future but the Company can not give any assurance that this will be the case.

Recently Enacted Accounting Standards - In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial

liabilities to fiscal years beginning after November 15, 2008. The adoption of the portions of SFAS No. 157 that were not postponed by (FSP FIN) No. 157-2 did not have an effect on our consolidated financial statements. The Company does not expect the adoption of the postponed portions of SFAS No. 157 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of

earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No. 141(R) and SFAS No. 160 are not expected to have a material impact on our results of operations or financial position.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSB FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company does not expect the adoption of FSP FAS 142-3 to have a material impact on our consolidated financial statements.

NOTE 4 - INVENTORY

Inventory consisted of the following:

March 31,

December 31,

	2009	2008
Raw materials	\$ 815,200	\$ 1,061,465
Work-in-process	1,758,241	2,003,825
Finished goods	346,350	648,074
Product on consignment	1,012,757	722,076
Total Inventory	\$ 3,932,548	\$ 4,435,440
Less:		
Provision for obsolescence	(148,163)	(147,978)
Net Inventory	\$ 3,784,385	\$ 4,287,462

NOTE 5 - RELATED PARTY TRANSACTIONS

At March 31, 2009 and December 31, 2008 the amounts payable to officers were \$42,836 and \$148,575, respectively. These amounts are due on demand and do not accrue interest.

During 2007 the Company entered into a loan agreement with a bank which is secured by shares of the Company owned by the Company's principal shareholder. See Note 6.

NOTE 6 - NOTES PAYABLE

The Company's notes payable consist of short-term debt that is payable to banks, governmental financial bureaus, municipalities and a company. The following schedule summarizes the Company's debt obligations and respective balances at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Short-term note payable to a municipality, interest at 1.8%, due \$	73,040	\$ 72,948

on demand,
unsecured

Short-term
note
payable to a
finance
bureau,
interest at
4.5%, due on
demand,
unsecured

	75,277	75,182
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Short-term
note
payable to a
bank,
interest at
7.47%,
matures
April 2009,
secured by
property

	3,651,981	3,647,399
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Short-term
note
payable to a
bank,
interest at
6.57%,
matures
April 2009,
secured by
property

	1,460,792	—
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Short-term
note
payable to a
government
development
zone
interest at
2.43%, due
on demand,

	219,119	218,844
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secured by
property

Short-term

note
payable to a
bank,
interest at
7.72%,
matures
August
2009,
secured by
shareholder

5,843,168

5,835,838

Total

short-term
notes
payable

\$

11,323,378

\$

9,850,211

March 31,
2009

December 31,
2008

Long-term

note
payable
to a
bank,
interest
at
8.316%,
matures
April
2010,
secured
by
property

1,460,792

1,458,959

Long-term

—

2,917,919

note payable to a bank, interest at 6.57%, matures March 2010, due on demand, unsecured

Total long-term debt	1,460,792	4,376,878
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Less current maturities of long-term debt	—	3,245,685
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Long-term notes payable, net of current portion	\$ 1,460,792	\$ 1,131,193
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Past due notes payable	\$ 294,395	\$ 294,026
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On August 17, 2007, the Company received a loan for \$6,651,094 from Shuang Long Branch of Agricultural Bank of China with a term of two years. The loan bears interest at a rate of 7.72% which is due quarterly. The loan was for working capital and is guaranteed by Lan's International Medicine Investment Co Ltd. ("LIMI"). Gui Hua Lan, our Chief

Executive Officer; Feng Lan, our President; and Zheng Yi Wang, our Executive Director of Exports, are directors and have voting and investment control over the shares owned by LIMI, which beneficially owns or controls approximately 78% of our outstanding shares. In addition, Gui Hua Lan, Feng Lan and Zheng Yi Wang owns 62.42%, 5.15% and 1.45%, respectively, of LIMI's issued and outstanding shares. LIMI is not receiving any compensation for the guarantee of the Company's loan.

NOTE 7 - STOCKHOLDERS' EQUITY

Statutory Reserves - According to the Articles of Association, the Company is required to transfer a certain portion of its net profits to Statutory Reserves, as determined under PRC accounting regulations, from net income to both the surplus reserve fund and the public welfare fund. Accordingly, the Company has recorded an aggregate of \$147,023 in the Statutory Reserves account in the equity section of the accompanying balance sheet as of March 31, 2009 and December 31, 2008, respectively.

The following summarizes the outstanding warrants as of March 31, 2009:

Exercise Price	Warrants Outstanding	Weighted-Average Remaining Contractual Life (Years)	Number Exercisable
\$3.50	6,000	3.4	6,000
\$4.20	40,000	3.2	40,000
	46,000		46,000

NOTE 8 - INCOME AND OTHER TAXES

The Company accounts for its income taxes in accordance with SFAS No. 109, which requires recognition of deferred tax assets and liabilities and their respective tax bases and any tax credit carry forwards available. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has established a valuation allowance for all deferred income tax assets due to the uncertainty of their realization. Income taxes payable are included in taxes and related payables on the accompanying balance sheets. Income taxes are not required to be paid to the PRC until after the end of the Company's fiscal year.

The principle of group consolidation for tax purposes does not exist in China. Each legal entity files its own individual tax return in the PRC. This means that the Company pays tax on all profits realized by each subsidiary, and that losses can only be carried forward and utilized in the same legal entity.

The Company is not subject to any income taxes in the United States, but was subject to corporate income tax in the PRC at a combined rate of

25% for 2008 and 30% and a local income tax rate of 3% for 2007. However, because the Parent is located in a special region, it has a 15% corporate income tax rate and has been granted a “tax holiday” during which it will pay no income taxes through December 31, 2008. On March 16, 2007, the National People’s Congress of China passed the new Enterprise Income Tax Law, (“EIT Law”), and on December 6, 2007, the State Council of China issued the Implementation Regulations for the EIT Law which took effect on January 1, 2008. The EIT Law and Implementation Regulations Rules impose a unified EIT of 25% on all domestic-invested enterprises and Foreign Invested Entities, or FIEs, unless they qualify under certain limited exceptions.

As a result of the above change in the income tax laws, the Parent has a 18% rate for 2009 with a tax holiday of 50% of the tax rates in effect during fiscal 2009 through 2011 as determined by the PRC government and the regional tax authorities. The phase-in income tax rate is 18% for 2009, 20% for 2010, 22% for 2011, 24% for 2012, and 25% for 2013 and after. Medicine, Import/Export, Cosmetics, Beisheng and Pingbian Shenghuo are taxed at the new 25% rate effective January 1, 2008.

The Company had no undistributed earnings of the Company’s foreign subsidiaries since acquisition at March 31, 2009. The investment in subsidiaries of approximately \$8.73 million is considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. The Company has U.S. net operating loss carryforwards of approximately \$2.86 million that, if unused begin to expire in 2026. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

The Company is also subject to Value Added Tax (“VAT”) and other miscellaneous taxes including city construction tax, turnover tax and consumption tax. All enterprises that sell commodities, engage in repair and maintenance or import and export business in the PRC are subject to VAT tax. The standard rate for VAT tax is 17%. Once declared, VAT taxes are due on a monthly basis.

The Company has an aggregate of \$12.1 million of net operating loss carryforwards available to its subsidiaries in the PRC that, if unused by the offset of future income of the individual subsidiary, begin to expire in 2011.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Class Action Lawsuits - In 2008, putative class action lawsuits were asserted against the Company and certain other parties in the United States District Court for the Southern District of New York (the "Court"). On February 12, 2009, an amended complaint was served on the Company by new lead counsel for the class, consolidating the putative class actions and bearing the caption Beni Varghese, Individually and on Behalf of All Other Similarly Situated v. China Shenghuo Pharmaceutical Holdings, Inc., et al., Index No. 1:08 CIV. 7422. The defendants include the Company, the Company's controlling shareholders, Lan's International Medicine Investment Co., Limited, the Company's chief executive officer, Gui Hua Lan, the Company's former chief financial officer, Qiong Hua Gao, and the Company's independent registered public accounting firm, Hansen, Barnett & Maxwell, P.C. During the second quarter of 2009, the Company plans to file motions to dismiss the complaint.

The amended consolidated complaint alleges that the Company failed to take adequate steps to ensure its financial reporting comported with U.S. Generally Accepted Accounting Principles ("GAAP") and, as a result, the Company was required to restate what are alleged to be materially false and misleading financials for accounting periods during the alleged class period from August 2007 through August 20, 2008. The amended consolidated complaint further alleges, among other things, that certain of the Company's SEC filings and other public statements contained false and misleading statements which resulted in damages to the plaintiffs and the members of the purported class when they purchased the Company's securities. On the basis of those allegations, plaintiffs in each of the actions seek an unspecified amount of damages under Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

The Company believes the allegations in the amended consolidated complaint are without merit, and intends to vigorously defend the class action lawsuits. The Company does not believe the outcome of this suit will have a material adverse effect on the Company. However, the Company is unable at this time to predict the outcome of this litigation or whether the Company will incur any liability associated with the litigation, or to estimate the effect such outcome would have on the financial condition, results of operations, or cash flows of the Company.

Economic environment - Since all of the Company's operations are conducted in the PRC, the Company is subject to special considerations and significant risks not typically associated with companies operating in the United States of America. These risks include, among others, the political, economic and legal environments and foreign currency exchange rate fluctuations. The Company's operational results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in

governmental policies with respect to medical reforms and other laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. In addition, all of the Company's revenue is denominated in the PRC's currency CNY, which must be converted into other currencies before remittance out of the PRC. Both the conversion of CNY into foreign currencies and the remittance of foreign currencies abroad require approval of the PRC government.

Due to changes in current worldwide economic conditions, the Company's ability to raise capital or borrow funds may be limited and may also adversely affect the Company's operations.

Dependence on a single raw material - The primary ingredient in all of the Company's products is Sanchi, an herb grown in two provinces of the PRC. The Company relies on its in-house purchasing department to acquire sufficient Sanchi at the best prices available and may on occasion make advance payments to suppliers that include provisions for setting the purchase price and delivery date. However, the Company is not reliant on a single source or supplier in order to obtain the Sanchi.

NOTE 10 - GEOGRAPHIC INFORMATION

The Company derives its sales from China and from other various countries. Operations in China make up the majority of the Company's sales, with a very small portion from other various countries. No revenues from external customers attributed to any individual foreign country are material. The following table summarizes sales by geographic location for the years ended December 31, 2008 and 2007:

	Three months ended	
	March 31,	
	2009	2008
Sales from China	\$ 6,702,090	\$ 5,284,219
Sales from other countries	68,436	202,249
Total	\$ 6,770,526	\$ 5,486,468

NOTE 11 - CONCENTRATIONS

For the three months ended March 31, 2009 the Company had concentrations of purchases from one vendor accounting for 37.84% of total purchases.

NOTE 12 - SUBSEQUENT EVENTS

In April of 2009 the note payable with an interest rate of 7.47% and a balance of \$3,651,981 as of March 31, 2009 was refinanced. The new note payable is due in one year and bears interest at a rate of 5.31%

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this quarterly report, including in the documents incorporated by reference into this quarterly report, includes some statements that are not purely historical and that are "forward-looking statements." Such forward-looking statements include, but are not limited to, statements regarding our company' s and our management' s expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition, and results of operations. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipates," "believes," "continue," "could," "estimates," "expects," "intends," "may," "might," "plans," "possible," "potential," "predicts," "projects," "seeks," "should," "will," "would" and similar expressions, or the negatives of such terms, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this quarterly report are based on current expectations and beliefs concerning future developments and the potential effects on the Company. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following:

- our reliance on one product for over 87% of our revenues;
- our reliance on limited suppliers for Sanchi, a scarce plant that is the primary ingredient in almost all of our products;
- replacement of our primary product by other medicines or the removal of our primary product from China's Insurance Catalog;
- our ability to raise additional capital needed for working capital, future operations and research and development;
- our ability to collect on advances to sales representatives;
- our reliance on our three largest customers for a significant percentage of our sales;
- our ability to effectively grow management;
- our dependence on key personnel;
- our ability to establish and maintain a strong brand;
- the ability of our products to effectively compete with those of our competitors;
- continued receipt and maintenance of regulatory approvals, certificates, permits and licenses required to conduct business in China;
- our ability to collect on trade receivables;
- our ability to develop and market new products, including those with high profit margins;
- subjection of additional products to price controls by the Chinese government;
- our ability to obtain all necessary government certifications and/or licenses to conduct our business;
- protection of our intellectual property rights;
- loss of certain tax concessions;

- our lack of insurance to cover losses due to fire, casualty or theft;
- changes in the laws of the PRC that affect our operations;
- changes in the foreign currency exchange rate between U.S. dollars and Renminbi;
- cost of complying with current and future governmental regulations and the impact of any changes in the regulations on our operations;
- the effect on our operations of costs associated with the Restatement, including litigation costs;
- a downturn in the economy of the PRC or inflation in the PRC;
- our ability to establish and maintain adequate management, legal and financial controls, including effective internal controls over financial reporting;
- volatility of the market for our common stock;
- the possibility of substantial sales of our common stock;
- influence of our principal stockholder;
- cooperation of the minority shareholder of our principal operating subsidiary; and
- other factors listed from time to time in our filings with the Securities and Exchange Commission, including without limitation, our Annual Report on Form 10-K for the year ended December 31, 2008 and subsequent reports on Form 8-K.

The risks included above are not exhaustive. Other sections of this quarterly report may include additional factors that could adversely impact our business and operating results. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and we cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-

looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assume responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

You should read this quarterly report, and the documents that we reference in this quarterly report and have filed as exhibits to this quarterly report with the Securities and Exchange Commission, completely and with the understanding that our actual future results, levels of activity, performance and achievements may materially differ from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Overview

We are primarily engaged in the research, development, manufacture, and marketing of pharmaceutical, nutritional supplement and cosmetic products. Almost all of our products are derived from the medicinal herb Panax notoginseng, also known as Sanqi, Sanchi or Tienchi. Panax notoginseng is the root of the greyish-brown or greyish-yellow plant that only grows in a few geographic locations, among which is the Yunnan Province in southwest China, where we are located; this province accounts for 90% of the total global production. The main root of Panax notoginseng are cylindrical shaped and are most commonly one to six centimeters long and one to four centimeters in diameter. Panax notoginseng saponins (PNS), the active ingredients in Panax notoginseng, are extracted from the plant using high-tech equipment and in accord with Good Manufacturing Practice (GMP) standards. Our main product, Xuesaitong Soft Capsules, accounted for more than 83% of our sales for the period ended March 31, 2009.

We earn revenues mainly from the production and sale of our products and external processing. We hope to increase profits as a result of making new products and increasing sales, since the sale of products is our main source for generating cash. Our business involves a significant degree of risk as a result of the opportunities and challenges we face in selling our products. We have traditionally focused on research and development of products serving cardiovascular and cerebrovascular disease, peptic ulcer disease and health products markets. However, we intend to devote additional resources to research and development and to continue to evaluate and develop additional high-tech product candidates to expand our pipeline where we perceive an unmet need and commercial potential and to improve existing products to enhance their efficacy.

With intense price competition among many similar or identical products in the industry, we believe that building brand equity is the primary means to generate and sustain profitable growth in the future. Our brand strategy is centered on “Lixuwang” —the brand under which most of our products are sold. We believe that our relationships within the Chinese pharmaceutical industry are key to building brand equity, and we believe we can benefit from developing and maintaining relationships with professionals within the industry, especially physicians and hospitals.

Xuesaitong Soft Capsules, which has been listed in the National Insurance Catalogue and is subject to wholesale and retail price controls by the Chinese government, are primarily sold in China, but the product is also sold in various developing countries, including Malaysia, Indonesia and Kyrgyzstan. Sales of the product in China are regulated by the SFDA as a prescription drug and therefore must be sold to consumers through hospital pharmacies and cannot be advertised, thus limiting the ability of the company to market the brand. We sell to hospital pharmacies in cities through regional distributors in the area. No single distributor accounts for over 10% of our sales as of March 31, 2009.

As of March 31, 2009, our medicine marketing team maintains sales offices or agents in approximately 31 provinces throughout China. The sales network covers approximately 210 cities and is staffed by approximately 600 sales representatives. We intend to grow our internal marketing and sales function and increase our relationships with other national distributors to expand the distribution and presence of our non-prescription brands and cosmetics.

We hope to further expand sales beyond China into other countries where our products could be affordable treatment options. We intend to focus on the expansion of our cosmetics product line and devote additional marketing and sales resources to that end with the aim that our cosmetics products will account for a larger percentage of our revenue in the future.

Our business is capital intensive, and these research and development, marketing, sales network expansion and cosmetic product expansion initiatives will require us to expend significant cash resources, which could adversely affect our profitability and liquidity. We do face certain challenges and risks, including our relatively high debt ratio, which is one of our main risks. We have encountered a shortage of working capital and are exploring possible ways to address our short and long term cash needs.

We believe that among the most important economic or industry-wide factors relevant to our growth in the short term is the reform of the medical system in China and the adjustment of medicine prices, which will affect the sale of our main product, Xuesaitong Soft Capsules, in hospitals. In order to increase long-term growth, we have applied for the designation of Xuesaitong Soft Capsules as a medicine with “good quality worthy of high price,” which we received in February 2007. Currently, the Chinese government supports the medical system in urban and rural communities.

According to data from the Southern Medicine Economy Research Institute, the pharmaceutical industry in China grew about 27% on a year-over-year basis in 2008. This growth was driven by a number of favorable factors including improving standards of living from an increase in disposable income, an aging population, the improving access and higher participation in the State Basic Medical Insurance System, and the increase in government spending on public health care.

On January 21, 2009, the Chinese government announced a healthcare reform plan proposing the government spend upward of RMB 850 billion over the next three years to make medical services and products more affordable and accessible to the entire population. We believe the successful implementation of the policies outlined in the plan will have a significant impact on the domestic pharmaceutical sector. There are five key tasks the healthcare reforms are aiming to address: 1) to expand medical insurance coverage and increase participation rate, 2) set up a national basic drug system, 3) establishment of an extensive public health system, 4) increasing the efficiency and improve the quality of basic medical services, especially in the rural areas, and 5) reform state-owned hospitals.

Traditional Chinese Medicine, or TCM, including prescription and over-the-counter pharmaceuticals, have been widely used in China for many years and are an important part of the overall Chinese culture. The recently announced healthcare reform plan contains measures and policies that we believe will help support and promote the growth and development of the domestic TCM market. TCM drug manufacturers are likely to benefit from this reform as we believe the government will add more TCM-related drugs to the national medicine catalog. In addition, we expect the government will focus on disease prevention as it rolls out the nationwide medical insurance coverage. The TCM market is a vibrant and growing industry despite the challenging economic environment and it will remain a part of mainstream medicine in China.

We hope to stabilize the sales channel into hospitals and widen the reach of sales in urban and rural communities at the same time. Large increases in medicine sales at an average lower price will ensure the growth of general medicinal sales over the next few years.

Our “12 Ways™ Chinese Traditional Medicine Beauty Salon Series, or 12 Ways, cosmetic products are sold to a number of cities and provinces outside our local region. We have opened a number of retail specialty counters to offer our cosmetic products at pharmacies throughout Eastern China, eventually expanding our retail presence across China. As of March 31, 2009, we have opened about 608 retail specialty counters in more than 30 cities in 22 provinces throughout China. In addition, we opened a 12 Ways Chinese Herbal Beauty Salon in Kunming that will feature approximately ten traditional Chinese medicine

practitioners and beauticians that provide a variety of services, including acupuncture, body massage, foot massage and other services. All products used in the salon will be supplied by us. Management hopes that the opening of this salon and the opening of retail counters will allow us to increase our brand recognition and strengthen marketing. Our ability to effectively open and operate new retail locations depends on several factors, including, among others, our ability to identify suitable counter locations, the availability of which is outside our control; our ability to prepare counters for opening within budget; our ability to hire, train and retain personnel; our ability to secure required governmental permits and approvals; our ability to contain payroll costs; and our ability to generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund short term cash needs and our expansion plans.

There is potential for growth in production and sales due to the growth of new products and expansion of new channels into urban and rural communities. However, it will be uncertain which of our new products will pass the applicable tests and get clinical approval without difficulty because of the uncertainty of test results and clinical approvals. Over the last three years, the price of the main raw material we use – Sanchi – has fluctuated and is now rising, which will likely increase our cost of product sold. In addition, our expected increased expenses for research and development, marketing and sales may have an adverse affect on future profit levels and available cash resources.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. We believe the following are the critical accounting policies that impact the financial statements, some of which are based on management’ s best estimates available at the time of preparation. Actual experience may differ from these estimates.

Basis of Presentation and Translating Financial Statements – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The functional currency of the operating subsidiaries in the People’ s Republic of China (“PRC”) is the Chinese Yuan Renminbi (“CNY”); however, the condensed consolidated financial statements have been expressed in United States Dollars (“USD”). The accompanying condensed consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The consolidated statements of operations have been translated using the weighted average exchange rates prevailing during the operating periods of each statement.

Cash and Cash Equivalents – Our cash and cash equivalents are maintained in bank deposit accounts. We have not experienced any losses with respect to these deposits. Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts and short-term certificates of deposit with original maturities of three

months or less. We do not have any restricted cash as of March 31, 2009. We did not enter into any hedge contracts during any of the periods presented.

Inventory– Inventory consists principally of pharmaceutical products and are stated at weighted average cost. When market value of the inventory products is lower than the weighted average cost, inventory is reduced to its net realizable value. The Company also holds inventory on consignment.

Accounts Receivable and Allowance for Doubtful Accounts – Trade receivables and employee advances are carried at original invoiced amounts less an allowance for doubtful accounts. An allowance for uncollectible accounts receivable is established by charges to operations for amounts required to maintain an adequate allowance, in management’s judgment, to cover anticipated losses from customer accounts and sales returns. Such accounts are charged to the allowance when collection appears doubtful. Any subsequent recoveries are credited to the allowance account. Employee advances consist of business advances to employees for travel and related expenses and various prepaid expenses mainly for market development. As time passes from when advances are made to employees for travel and related expenses, we will create an allowance for these older receivables as the likelihood of collection from each particular employee decreases as their respective advances age. We believe that the allowance for doubtful accounts is consistent with industry standards in the PRC based on the products that are being sold.

Prior to 2009, we made significant cash advances to our sales representatives to assist and encourage them to expand the marketing and sales of our products into new markets and gain new customers. From and after January 1, 2009, the Company changed its policy of advancing sales representatives their selling and marketing expenses to reimbursing them for such expenditure when they present proper expense vouchers. We accrue a fixed amount of selling expense for each sale when the revenue is recognized.

Advances to Suppliers and Advances from Customers – As is customary in the PRC, we will often make advanced payments to suppliers for materials, which may include provisions that set the purchase price and delivery date of raw materials, or receive advance payments from customers.

Advertising Expense – We expense advertising costs as incurred. Advertising costs for the three months ended March 31, 2009 and 2008 were \$19,240 and \$392,496, respectively. The decrease in our advertising expense is due primarily to the termination of an advertising agreement for cosmetic products executed by the Company with a national television network. The Company is now focused on a marketing and advertising strategy tailored to regional markets, which we believe is more effective and cost efficient.

Research and Development Expense – We expense research and development expenses as incurred. Research and development expense for the three months ended March 31, 2009 and 2008 was \$7,281 and \$118,976, respectively. The decrease was primarily due to a decrease in the cost of researching materials as we shifted our research and development focus to a few innovative pharmaceuticals instead of a number of generic drugs.

Basic and Diluted Earnings (Loss) per Share – Basic and diluted earnings (loss) per share are calculated by dividing net earnings attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share are calculated to give effect to potentially issuable dilutive common shares. The computation of basic and diluted earnings per share is based on the weighted-average number of shares outstanding during the periods presented. Potentially dilutive securities for the three months ended March 31, 2009 and 2008 include 46,000 warrants which were antidilutive due to losses of the Company.

Comprehensive Income (Loss) – Other comprehensive income (loss) presented in the consolidated financial statements consists of cumulative foreign currency translation adjustments.

Recently Adopted Accounting Standards – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP FIN) No. 157-2 which extended the effective date for certain nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of the portions of SFAS No. 157 that were not postponed by (FSP FIN) No. 157-2 did not have a material impact on our consolidated financial statements. The Company does not expect the adoption of the postponed portions of SFAS No. 157 to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements, consolidated net income shall be adjusted to include the net income attributed to the non-controlling interest and consolidated comprehensive income shall be adjusted to include the comprehensive income attributed to the non-controlling interest. The calculation of earnings per share will continue to be based on income amounts attributable to the Parent. SFAS No. 141(R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No.

141(R) and SFAS No. 160 are not expected to have a material impact on our results of operations or financial position.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" (FSB FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset

under SFAS No. 141(R) and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company does not expect the adoption of FSP FAS 142-3 to have a material impact on our consolidated financial statements.

Results of Operations

Three Months Ended March 31 2009 and 2008

The following table sets forth our statements of operations for the three months ended March 31, 2009 and 2008 in U.S. dollars (unaudited):

	For the three months ended March 31,			
	2009	2008	Change (\$)	Variance (%)
	<i>(in thousand, except share and per share amounts)</i>			
Products \$	6,771 \$	5,486	1,285	
Products	2,302	2,099	203	
Profit	4,469	3,387	1,082	

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expenses	6,396	1,642	4,754
and Administrative expenses	1,046	2,468	(1,422)
and Development expenses	7	118	(111)
Operating expenses	7,449	4,228	3,221
Provision for doubtful accounts	(2,980)	(841)	(2,139)
Income (Losses):			
Income	1	3	(2)
Income from leases and development leases	26	263	(237)
Expense	(252)	(256)	4
Operating expenses	(4)	(73)	69
Expense	(229)	(63)	(166)
Income Taxes	(3,209)	(904)	(2,305)
Income tax	0	(2)	2
Income table	248	53	195

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(2,961)	(853)	(2,108)
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0	473	(473)
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\$	(2,961)\$	(380)	(2,581)
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Share

\$	(0.15)\$	(0.04)	(0.11)
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\$	(0.15)\$	(0.04)	(0.11)
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Average

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19,679,400	19,679,400	560,000
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19,679,400	19,679,400	560,000
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Sale of products: Sale of products for the three months ended March 31, 2009 was approximately \$6.77 million, an increase of approximately \$1.28 million, or 23.4%, from approximately \$5.49 million for the three months ended March 31, 2008. The increase in sales is due to the sales of primary product, Xuesaitong Soft Capsule, which increased by \$1.46 million and our sales of cosmetic products, which increased by \$0.12 million. The increase in sales was partially offset by the reduction of \$0.7 million in sales of other companies' non-prescription medicine and the decrease in export of \$0.13 million because of the recession in the world economy. The foreign exchange rate fluctuation also impacted the sales revenue by \$0.53 million.

Cost of products sold: Our cost of products sold for the three months ended March 31, 2009 was approximately \$2.3 million, an increase of approximately \$0.2 million or 9.62%, from approximately \$2.10 million for the three months ended March 31, 2008. The increase in cost of products sold was due primarily to the increase in sales volume of primary products, including one of the Company's and cosmetic products and the increase in price of certain major raw materials, including Sanchi, one of the Company's primary raw materials, since December 31, 2008.

Gross profit: Our gross profit for the three months ended March 31, 2009 was approximately \$4.47 million as compared with approximately \$3.39 million for the three months ended March 31, 2008. Gross profit as a percentage of revenues was approximately 66% for the three months ended March 31, 2009, increased from 61.7% for the three months ended March 31, 2008. The increase in gross margin percentage was due primarily to the increase of high profit margin products in 2009 and the reduced sale of certain of other companies' non-prescription medicine, which had generated a poor profit margin for the period ended March 31, 2008.

Selling expense: Selling expenses were approximately \$6.40 million for the three months ended March 31, 2009, an increase of approximately \$4.75 million, or 290%, from approximately \$1.64 million for the three months ended March 31, 2008. The Company's main product has been sold to patients through hospitals developed by sales representatives, however, the Company believes it is in its best long term interest to grow its operations in the OTC market, which will produce higher profit margins and has decided to expand into the OTC market in 2009. In connection with the Company moving its operations towards the OTC market, the Company has adopted a policy to absorb a significantly higher percentage of costs incurred by sales representatives than in the past in order to get sales representatives' cooperation in developing the OTC market. The costs to each sale to be borne by the Company are being accrued in Selling Expenses.

General and administrative expense: General and administrative expenses were approximately \$1.05 million for the three months ended March 31, 2009, a decrease of approximately \$1.4 million, or 57.59%, from approximately \$2.47 million for the three months ended March 31, 2008. The decrease was due primarily to the decrease in bad debt expenses on accounts receivables and sales representative advances. Beginning in 2009, however, instead of advancing sales representatives money to sustain or develop a particular market, we reimburse those sales representatives selling and marketing expenses when they present proper expense vouchers. Management believes this change gives the Company better control over the risk of incurrence of bad debts.

Research and development expense: We expense research and development expenses as incurred. Research and development expense for the three months ended March 31, 2009 and 2008 was \$7,281 and \$118,976, respectively. The decrease was primarily due to a decrease in the cost of researching materials as we shifted our research and development focus to a few innovative pharmaceuticals instead of a number of generic drugs.

Net other expense: Net other expense, which includes interest income, income from research and development activities, interest expense and non-operating expenses, was \$229,295 for the three months ended March 31, 2009 as compared to \$62,925 for the three months ended March 31, 2008, an increase of \$166,370, or 264%. The increase in net other expense was primarily due to the decrease in income from research and development activities and the decrease in interest income.

Benefits from (provision for) income taxes: Provision for income taxes was \$0 for the three months ended March 31, 2009 as compared to a provision for income tax of approximately \$2,176 for the three months ended March 31, 2008. The Company is not currently subject to any US income tax because all the Company's operations are located in China. In China, each of our subsidiary entity files its own individual tax

return in the PRC. The Company pays tax on all profits realized by each subsidiary, and that losses can only be carried forward and utilized in the same legal entity. Determination of the amount of unrecognized deferred US income tax liability is not practical because of the complexities associated with its hypothetical calculation.

Net (loss) income: We incurred a net loss of \$2.96 million for the three months ended March 31, 2009 as compared to a net loss of \$852,660 million for the three months ended March 31, 2008, an increase in net loss of approximately \$2.1 million. Considering the foreign currency translation adjustments of \$182 and \$472,982, for the three months ended March 31, 2009 and 2008, respectively, comprehensive loss of \$2.96 million, and \$379,678 was realized for the three months ended March 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

General – As of March 31, 2009, we had cash and cash equivalents of \$908,596. We have historically financed our business operations through bank loans, in addition to equity offerings. As of March 31, 2009, we had borrowed from banks and other institutions and had amounts of approximately \$11.32 million in short-term notes payable after making \$1.46 million in loan payments in March of 2009. All loans are secured by land, buildings and machinery as collateral except the loan from the Agricultural Bank of China mentioned below which is secured by a pledge by Lan's International Medicine Investment Co Ltd. (“LIMI”) of its shareholding in China Shenghuo (KUN). For the three months ending March 31, 2009 and 2008, the net decrease in cash and cash equivalents was approximately \$703,458 and \$1.8 million.

Our notes payable consist of short term debt that is payable to banks, governmental financial bureaus, municipalities and a company. The following schedule summarizes our debt obligations and respective balances:

March 31,
2009

December 31,
2008

Short-term note payable to a municipali ty, interest at 1.8%, due on demand, unsecured	\$	73,040	\$	72,948
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Short-term note payable to a finance bureau, interest at 4.5%, due on demand, unsecured		75,277		75,182
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Short-term note payable to a bank, interest at 7.47%, matures April 2009, secured by property		3,651,981		3,647,399
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Short-term note payable to a bank, interest at 6.57%, matures		1,460,792		—
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April 2009,
secured by
property

Short-term note payable to a government developmen t zone interest at 2.43%, due on demand, secured by property	219,119	218,844
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Short-term note payable to a bank, interest at 7.72%, matures August 2009, secured by shareholde r	5,843,168	5,835,838
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Total short-term notes payable	\$ 11,323,378	\$ 9,850,211
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March 31,
2009

December 31,
2008

Long-term note payable to a bank,	1,460,792	1,458,959
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interest at 8.316%, matures April 2010, secured by property			
Long-term note payable to a bank, interest at 6.57%, matures March 2010, due on demand, unsecured		—	2,917,919
		<hr/>	<hr/>
Total long-term debt	1,460,792		4,376,878
Less current maturities of long-term debt		—	3,245,685
		<hr/>	<hr/>
Long-term notes payable, net of current portion	\$ 1,460,792		\$ 1,131,193
	<hr/>		<hr/>
Past due notes payable	\$ 294,395		\$ 294,026
	<hr/>		<hr/>

On August 17, 2007, we received a loan for \$6,651,094 (RMB 50 million) from Shuang Long Branch of Agricultural Bank of China with a term of two years. The loan bears interest at a rate of 7.722%, which is due quarterly. Principal payments for the loan are as follows:

2007	\$	665,109
2008		1,995,328
2009		3,990,657
		<hr/>
		6,651,094

The loan is for working capital and is guaranteed by Lan' s International Medicine Investment Co Ltd. ("LIMI"). Gui Hua Lan, our Chief Executive Officer; Feng Lan, our President; and Zheng Yi Wang, our Executive Director of Exports, are directors and have voting and investment control over the shares owned by LIMI, which beneficially owns or controls approximately 77.3% of our outstanding shares. In addition, Gui Hua Lan, Feng Lan and Zheng Yi Wang owns 62.42%, 5.15% and 1.45%, respectively, of LIMI' s issued and outstanding shares. LIMI is not receiving any compensation for the guarantee of our loan.

In April 2008, we obtained a loan of \$1,424,455 from Shuang Long Branch of Agricultural Bank of China at an interest rate of 8.316% secured by property. A total of \$248,811 is due on May 20, 2009 with the remaining balance of \$1,139,244 due on March 31, 2010.

Also in April 2008, we obtained a loan of \$3,560,138 from Heping Branch of Construction Bank of China at an interest rate of 7.47% secured by property. The loan was due on April 3, 2009 and was refinanced with the same bank for a term of one year at an annual interest rate of 5.31%.

The following table provides summary information about net cash flow for the three months ended March 31, 2009 and 2008:

Cash Flow
Three months ended March 31,

	2009	2008
	(unaudited, in thousands)	
Net provided by (used in) operating activities	\$ 890	\$ (392)

Net cash used in investing activities	(29)	(70)
Net cash used in financing activities	(1,566)	(1,409)
Cash and Cash Equivalents at End of Period	\$ 909	\$ 1,005

Operating Activities: Net cash provided from operating activities for the three months ended March 31, 2009 was \$890,299, as compared to net cash used in operating activities of \$391,880 for the three months ended March 31, 2008. These results are comprised of: (i) net loss; (ii) cash used in taxes and related payables, accounts and notes receivable, advances to suppliers and deposits; (ii) cash generated in accrued expenses, advances to sales representatives, inventory, accounts payable and deposits from customers.

Investing Activities: Net cash used in investing activities was \$29,467 for the three months ended March 31, 2009, as compared to net cash used in the amount of \$70,177 for the three months ended March 31, 2008. The decrease in net cash used by investing activities was primarily due to a decrease in capital expenditure.

Financing Activities: Net cash used by financing activities was approximately \$1.57 million for the three months ended March 31, 2009 compared to net cash used in the amount of \$1.41 million for the three months ended March 31, 2008. The increase in cash used was primarily due to repayment of related party debt and bank loans. The Company is currently in discussions with certain lenders regarding securing a new credit facility secured by the Company's accounts receivable, which is currently unencumbered. The Company believes that based on discussion with these lenders to date, the Company should be able to secure financing which will address the short term needs of the Company.

Working Capital

As of March 31, 2009, our accounts receivable and notes receivable (less allowance for doubtful accounts of approximately \$4.95 million) were approximately \$10.49 million, an increase of approximately \$1.38 million, or 15% from accounts receivable of approximately \$9.11 million (net of allowance for doubtful accounts of \$4.83 million) as of December 31, 2008. The collection period typically runs from nine months to one year, considering the relatively long collection period in our industry.

Our company normally requires one to two months to deliver products once the order is placed with workshop. Inventory decreased during the three month period ended March 31, 2009 by \$503,077, a decrease of 11.7% over inventory as of December 31, 2008. The decrease in inventory was primarily due to faster moving inventory to meet an increase in sales.

Our payment cycle is considerably shorter than our receivable cycle, since we typically pay our suppliers all or a portion of the purchase price in advance and for some suppliers we must maintain a deposit for future orders. We require our customers to pay a certain percentage of the sales price as deposit before we ship products to them. The percentage varies from customer to customer. During the course of business, we reduce the deposit requirement for some customers with good credit.

To the extent that we cannot satisfy our cash needs, whether from operations or from a financing source, our business would be impaired in that it may be difficult for us to obtain products which could, in turn, impair our ability to generate sales. We have implemented new policies aimed at improving collection of accounts receivable in the future, including more detailed reporting from and increased control over provincial sales offices and representatives, incentives for sales representatives more closely tied to timely collection and more stringent enforcement of payment terms with distributors.

In addition, in the course of our business, we must make significant deposits to our suppliers when we place an order. As of March 31, 2009, our advance payments to our suppliers totaled approximately \$508,627. We are confident that our available funds and cash generated from operations will provide us with sufficient capital for a sustainable operation; however, we may require additional capital for acquisitions, for expanding business to related fields, or for the operation of the combined companies. We cannot assure that such funding will be available.

Before 2009, we made significant cash advances to our sales representatives to assist and encourage them to expand the marketing and sales of our products into new markets and gain new customers. We believe the sales representatives are more able to expand into new markets and obtain new customers if they have advanced funds for their travel, meals and other incidental expenses that arise over the time they perform their functions as sales representatives. Prior to September 2006, we did not ask sales representatives to pay off advances immediately because the Chinese economy has grown quickly and because competition in the pharmaceutical industry is intense. Instead, we encouraged sales representatives to expand their markets and gain more customers. However, beginning in September of 2006, we began to more vigorously pursue collection of all sales representative advances. Nonetheless, there are some sales representative advances that have aged so significantly that, based on prior experience, we do not expect to collect on every outstanding advance and have estimated the uncollectible balance based on the age of the advances. Beginning in 2009, instead of advancing sales representatives money to sustain or develop a particular market, we reimburse those sales representatives any selling and marketing expenses when they present proper expense vouchers. Management believes this change gives the Company better control over bad debt allowances.

Current and long-term employee advances (net of allowances for doubtful accounts) were approximately \$8.74 million at March 31, 2009 and \$9.3 million as of December 31, 2008, a decrease of approximately \$.56 million or 6%. The decrease was due to a change in the

Company's policy, whereby the Company no longer advances money to its sales representatives for selling and marketing expenses, but reimburses them expenses incurred when properly presented in the expense vouchers. As of March 31, 2009, the gross amount of employee advances was approximately \$12.4 million and as of December 31, 2008 it was approximately \$12.92 million, a decrease of approximately \$.52 million in that three-month period. In compliance with our established policy to reserve an allowance for specific percentages of our aged receivables, we accrued a larger allowance for the employee advances in order to consistently apply our established allowance policy.

The table below sets forth the outstanding gross and net amount of outstanding balances of current and long-term employee advances for the years ended December 31, 2007 and 2008 and the three months ended March 31, 2009.

For the year ended December 31, 2007	For the year ended December 31, 2008	For the three months ended March 31, 2009
\$ 11,210,921	\$ 12,921,134	\$ 12,430,000
2,447,073	3,620,048	3,690,000
\$ 8,763,848	\$ 9,301,086	\$ 8,740,000

Off-Balance Sheet Arrangements

None.

Foreign Currency Risk

Since all of our operations are conducted in the PRC, we are subject to special considerations and significant risks not typically associated with companies operating in the United States of America. These risks include, among others, the political, economic and legal environments and foreign currency exchange rate fluctuations. Our operational results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to medical reforms and other laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. Exchange

rate fluctuations may adversely affect the value, in U.S. dollar terms, of our net assets and income derived from its operations in the PRC. In addition, all of our revenue is denominated in the Chinese Yuan Renminbi (“CNY”), which must be converted into other currencies before remittance out of the PRC. Both the conversion of CNY into foreign currencies and the remittance of foreign currencies abroad require approval of the PRC government. The effect of the fluctuations of exchange rates is not considered to be material to our business operations.

Interest Rate Risk

We do not have significant interest rate risk, as our debt obligations are primarily fixed interest rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Smaller reporting companies are not required to provide the information required by this Item.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of March 31, 2009, our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) performed an evaluation of the effectiveness of and the operation of our disclosure controls and procedures as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act. Based on that evaluation, management concluded that because of the material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of March 31, 2009.

Management’ s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”). Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. In the course of its audit and review work for 2008 and 2009, our accountants identified significant deficiencies, resulting in material weaknesses in our financial reporting process described below and management identified additional significant deficiencies. These matters were reported to our Board of Directors and Audit Committee by management in March 2009. The information below shows the status of our remediation to date:

- Material adjustments related to the prior year audits were not recorded in the company's accounting records that were necessary to reconcile the retained earnings to the prior year balances, which is a material weakness.

Due to the complexities of applying the audit adjustments to sub-ledgers, to date, only material audit adjustments to general ledgers were tracked, but the detailed adjustments to sub-ledgers still needs to be tracked.

Remediation:

In addition to keeping Chinese GAAP books as a statutory requirement in China, our financial department is working with our auditors to identify the detailed supporting information of prior year adjustments to sub-ledgers for all audit adjustments. We are considering whether or not to continue a separate, second set of US GAAP books since the adjustments from our statutory books to US GAAP are not extensive and the complexities of maintaining the sub-ledgers in US GAAP books, which require double-loaded manual work, are difficult with the software we are currently using and our limited resources. We will analyze this situation over the next few months and determine the best approach.

Remediation is in process at this date.

- Multiple material adjustments were made as a result of audit procedures performed, which is a material weakness.

Remediation:

Our financial department has improved our book keeping procedures and closing procedures to improve financial reporting quality and reduce material adjustments to be made by the auditor. We expect this weakness to be remediated in the next few months.

Remediation is in process at this date.

- Sales department and warehouse department failed to follow the policy of returned goods to timely handle the returned goods from customers, which is a material weakness.

Remediation:

The sales department and warehouse department are now understand their responsibilities to our profit centers. We have accomplished this through training regarding our policies and monitoring performance. We have instituted operational and management reviews of quarterly inventory reports to identify slow moving inventory to take necessary actions based on those procedures.

Remediation is completed at this date.

- Capital expenditures were discussed and approved at management meetings which some directors of the board of directors attended but no formal board approval procedures were followed, which is a significant deficiency.

Remediation:

We have established a new policy regarding capital expenditures which requires executed board of directors' approval of material capital expenditures.

Remediation is completed at this date.

Regarding the duties of the cashiers in our financial department were not properly segregated, which is a significant deficiency in our internal controls, we have separated the bank reconciliation work from the cashier' s duties.

The remediation of this deficiency is completed at this date.

In addition, we have allocated significant financial and human resources to strengthen our internal control structure.

We believe that the foregoing steps have helped us remediate the material weakness and significant deficiencies identified above and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company' s financial reporting.

Our management is not aware of any material weakness in our internal control over financial reporting that causes them to believe that any material inaccuracies or errors existed in our financial statements as of March 31, 2009. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement of omission in any report we have filed with or submitted to the Commission, other than those that were corrected in connection with the Restatement to address the accounting errors in the financial statements for the fiscal year ended December 31, 2007 and the fiscal quarter ended March 31, 2008.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Changes in internal control over financial reporting

Except as described in this Item, there were no changes in our internal controls over financial reporting during the first fiscal quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

To improve performance, in 2009, the Company under the direction of the Board of Directors reorganized the company structure to set up independent responsibility centers or profit centers. Each center is required to keep its own set of accounts which generate income statement and balance sheet information for evaluation of the center's performance. Due to the limitations of our software, the accounting for the centers has to be manually tracked. Due to these limitations and the need for better management decision making information, as discussed above, we are considering whether or not to continue a separate, second set of US GAAP books since the adjustments from our statutory books to US GAAP are not extensive but the manual work required to keep a set of US GAAP books is extensive. We will analyze this situation over the next few months and determine the best approach.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Class Action Lawsuit - In 2008, putative class action lawsuits were asserted against the Company and certain other parties in the United States District Court for the Southern District of New York (the "Court"). On February 12, 2009, an amended complaint was

served on the Company by new lead counsel for the class, consolidating the putative class actions and bearing the caption Beni Varghese, Individually and on Behalf of All Other Similarly Situated v. China Shenghuo Pharmaceutical Holdings, Inc., et al., Index No. 1:08 CIV. 7422. The defendants include the Company, the Company's controlling shareholders, Lan's International Medicine Investment Co., Limited, the Company's chief executive officer, Gui Hua Lan, the Company's former chief financial officer, Qiong Hua Gao, and the Company's independent registered public accounting firm, Hansen, Barnett & Maxwell, P.C. During the second quarter of 2009, the Company plans to file motions to dismiss the complaint.