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Client: v239259_China Shenghuo Pharmaceutical Holdings, Inc._10-Q

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 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 November 14, 2011.

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

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CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
 (Amounts in USD)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(Unaudited)</u>	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,936,948	\$ 1,669,387
Restricted Cash	314,718	-
Accounts and notes receivable, net of allowance of 2,355,552 and 2,260,505 for 2011 and 2010, respectively	15,895,009	11,531,027
Other receivables, net of allowance of 3,292,772 and 3,159,623 for 2011 and 2010, respectively	4,271,421	4,111,315
Advances to suppliers	590,735	580,168
Inventories	2,102,299	2,599,351
Due from related parties	201,077	190,614
Current deferred tax assets	1,133,114	833,568
Other current assets	135,549	208,111
Total current assets	28,580,870	21,723,541
Property, plant and equipment, net	22,586,801	21,069,139
Other non-current assets	2,395,763	2,554,193
Total assets	\$ 53,563,434	\$ 45,346,873
Liabilities and equity:		
Current liabilities:		
Accounts payable	\$ 8,643,563	\$ 8,964,404
Other payables and accrued expenses	12,133,317	9,699,857
Sales representative deposits	5,532,182	4,936,429
Due to related parties	-	79,864
Short-term borrowings	16,864,031	5,289,178
Advances from customers	1,337,319	1,158,649
Taxes payable and other current liabilities	1,071,970	881,506
Current portion of long-term borrowings	6,199,940	6,039,833
Total current liabilities	51,782,322	37,049,720
Long-term borrowings	-	6,251,227
Total liabilities	51,782,322	43,300,947
Commitments and contingencies		
Equity:		
Common stock, \$0.0001 par value, 100,000,000 shares authorized and 19,679,400 shares issued and outstanding	1,968	1,968
Additional paid-in capital	6,077,003	6,193,927
Appropriated retained earnings	147,023	147,023
Accumulated deficit	(6,243,196)	(5,940,439)
Accumulated other comprehensive income	1,677,434	1,638,109
Total stockholder's equity	1,660,232	2,040,588
Non-controlling interest	120,880	5,338
Total equity	1,781,112	2,045,926
Total Liabilities and equity	\$ 53,563,434	\$ 45,346,873

See notes to consolidated financial statements

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CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(Amounts in USD, except shares)

	<u>Three Months Ended September 30,</u>		<u>Nine Months ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Sales	\$ 10,910,079	\$ 8,551,182	\$ 31,248,165	\$ 23,340,191
Cost of goods sold	3,936,610	2,996,674	11,749,518	7,561,650
Gross profit	6,973,469	5,554,508	19,498,647	15,778,541
Operating expenses:				
Selling expenses	5,233,061	3,849,347	14,255,496	11,869,164
General and administrative expenses	1,366,711	894,301	3,638,386	2,493,749
Research and development expense	321,297	160,795	587,871	417,184
	6,921,069	4,904,443	18,481,753	14,780,097
Income from operations	52,400	650,065	1,016,894	998,444
Other income (expenses):				
Subsidy income	1,011	492,451	155,753	654,013
Interest and other expense	(593,459)	(193,908)	(1,494,441)	(718,323)
	(592,448)	298,543	(1,338,688)	(64,310)
(Loss) income before income tax	(540,048)	948,608	(321,794)	934,134
Income tax benefit (expense)	37,949	(118,370)	10,786	(141,001)
Net (loss) income	(502,099)	830,238	(311,008)	793,133
Net income (loss) attributable to non-controlling interests	4,355	42,581	(8,252)	34,313
Net (loss) income attributable to stockholders	\$ (506,454)	\$ 787,657	\$ (302,756)	\$ 758,820
Comprehensive income (loss):				
Net (loss) income	(502,099)	830,238	(311,008)	793,133
Foreign currency translation adjustment	(9,388)	21,221	40,397	26,135
Comprehensive (loss) income:	\$ (511,487)	\$ 851,459	\$ (270,611)	\$ 819,268
Comprehensive gain (loss) attributable to non-controlling interests	8,711	42,617	(7,180)	35,444
Comprehensive (loss) income attributable to stockholders	\$ (520,198)	\$ 808,842	\$ (263,431)	\$ 783,824
Basic and diluted (loss) earnings per share	\$ (0.03)	\$ 0.04	\$ (0.02)	\$ 0.04
Weighted average number of shares outstanding-basic and diluted	19,679,400	19,679,400	19,679,400	19,679,400

See notes to consolidated financial statements

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CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 (Amounts in USD)

	Nine months ended September 30,	
	2011	2010
Net cash provided by operating activities	\$ 2,275,642	\$ 2,239,891
Cash flows from investing activities:		
Purchase of long-lived assets	(4,425,497)	(5,607,809)
Proceeds from disposal of property	171	308,229
Net cash used in investing activities	(4,425,326)	(5,299,580)
Cash flows from financing activities:		
Proceeds from borrowings	22,083,616	24,640,172
Transfer to restricted cash	(314,718)	-
Payments on borrowings	(17,444,806)	(21,904,375)
Net cash provided by financing activities	4,324,092	2,735,797
Effect of foreign currency fluctuation on cash and cash equivalents	93,153	40,775
Net increase (decrease) in cash and cash equivalents	2,267,561	(283,117)
Cash and cash equivalents at beginning of period	1,669,387	1,986,540
Cash and cash equivalents at end of period	\$ 3,936,948	\$ 1,703,423
Supplemental information		
Cash paid for interest	\$ 1,041,719	\$ 543,799
Cash paid for income taxes	\$ 71,077	\$ 130,489

See notes to consolidated financial statements

CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

(a) Nature of Business

China Shenghuo Pharmaceutical Holdings, Inc., (“CSPH”), incorporated in Delaware, United States of America, through its subsidiaries (collectively the “Company”), designs, develops, markets, sells and exports pharmaceutical, nutritional supplements, cosmetic products, and also engages in the hotel operating business mainly in the People’s Republic of China (“PRC”). The Company also conducts research and development using the medicinal herb Panax notoginseng, also known as Sanqi, Sanchi, or Tienchi, which is grown in two provinces in the PRC. Sales from the cosmetic products represent less than 10% of total sales of the Company.

(b) Organization

As of September 30, 2011, the CSPH owns a 94.95% equity interest in Kunming Shenghuo Pharmaceuticals (Group) Co., Ltd. (“Shenghuo”). Shenghuo owns a 100% equity interest in Kunming Shenghuo Medicine Co., Ltd. (“Medicine”), Kunming Pharmaceutical Importation and Exportation Co., Ltd. (“Import/Export”) and Kunming Shenghuo Cosmetics Co., Ltd. (“Cosmetic”), respectively.

On April 30, 2009, Shenghuo formed Shi Lin Shenghuo Co., Ltd. (“Shi Lin”) as a wholly owned subsidiary. Shi Lin was formed for the purpose of purchasing or leasing land suitable for cultivating the medicinal herb Panax notoginseng for use in the production of the Company’s medicinal products. As of September 30, 2011, Shi Lin does not generate any revenue.

On November 15, 2010, Shenghuo formed Kunming Shenghuo Hotel Management Co., Ltd. (“Hotel”). According to the investment agreement with an independent third party, Shenghuo holds 80% equity interest in Hotel. Hotel was formed to run the hotel business.

Except for CSPH, all other entities are formed in and operate within the PRC.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying unaudited interim consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with the accounting policies described in the Company’s Form 10-K filed on March 30, 2011 (“2010 Form 10-K”), and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2010 Form 10-K.

The consolidated financial statements have been prepared on the basis that the Company will continue to operate throughout the next twelve months as a going concern. The Company’s consolidated current liabilities exceeded its consolidated current assets by approximate USD23,201,000 as of September 30, 2011 and USD15,326,000 as of December 31, 2010. These factors raise substantial doubt about the Company’s ability to continue as a going concern. In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management’s plan is to obtain such resources for the Company by seeking equity and/or debt financing by using Shenghuo Plaza and the two new office buildings as mortgage collateral after the Company has obtained the Property Ownership Certificate by the end of 2011 or early 2012. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. In the event we are not able to obtain funding, we will not be able to implement or may be required to delay all or part of our business plan, and our ability to attain profitable operations, generate positive cash flows from operating and investing activities and materially expand the business will be materially adversely affected. The accompanying consolidated financial statements do not include any adjustments relating to the classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the company be unable to continue in existence.

In the opinion of the management of the Company ("Management"), all normal recurring adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

(b) Principle of consolidation

The consolidated financial statements include the financial statements of the CSPH and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Non-controlling interests represents the ownership interests in the subsidiaries that are held by owners other than the parent and are part of the equity of the consolidated group. The non-controlling interests are reported in the consolidated balance sheets within equity, separately from the parent's equity. Net income or loss and comprehensive income or loss is attributed to the parent and the non-controlling interests. If losses attributable to the parent and the non-controlling interests in a subsidiary exceed their interests in the subsidiary's equity, the excess, and any further losses attributable to the parent and the non-controlling interests, is attributed to those interests.

(c) Accounts and notes receivable

Accounts receivable are recognized and carried at original sale amounts less an allowance for uncollectible accounts, as needed.

Accounts receivable are reviewed periodically as to whether they are past due based on contractual terms and their carrying values have become impaired. An allowance for doubtful accounts is recorded in the period in which loss is determined to be probable based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging and prevailing economic conditions. Accounts receivable balances are written off after all collection efforts have been exhausted.

Notes receivable represent bankers' acceptances that have been arranged with third-party financial institutions by certain customers to settle their purchases from us. These bankers' acceptances are non-interest bearing and are collectible within six months. Such sales and purchasing arrangements are consistent with industry practices in the PRC.

There are no outstanding amounts from customers that individually represent greater than 10% of the total balance of accounts receivable for the periods presented.

The Company entered into a factoring agreement with Bank of China ("BOC"), to transfer accounts receivable with full recourse. The Company is required to repurchase the transferred accounts receivable, if any controversy arises on the accounts receivable, at a price of proceeds received from BOC less settled accounts receivable plus interest and other necessary penalty or expense. The Company accounts for its transferred accounts receivable in accordance with Accounting Standard Codification ("ASC") Topic 810, with the proceeds received from BOC being recognized as collateralized borrowings.

(d) Income taxes

CSPH and its consolidated entities each files tax returns separately.

The Company follows ASC Topic 740, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company follows ASC Topic 740, which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income tax in interim periods, and income tax disclosures.

The Company is not subject to any income tax in the United States. Shenghuo is qualified to enjoy preferential tax rate under relevant PRC tax laws and regulations, with effective income tax rate of 10% in 2009, 11% in 2010 and 12% in 2011. From 2012, Shenghuo will be subject to income tax at a rate of 25%. All other subsidiaries in the PRC were subject to income tax at a rate of 25% for the periods presented.

(e) Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 605. All of the following criteria must exist in order for the Company to recognize revenue: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

Delivery does not occur until products have been shipped to the wholesale companies, risk of loss has transferred to the wholesale companies and wholesale companies' acceptance has been obtained, or the Company has objective evidence that the criteria specified in wholesale companies' 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.

In general, the Company does not allow wholesale companies to return products unless there are defects in manufacturing or workmanship. Sales returns are subject to a strict process and have to be authorized by Management. Sales returns are netted against sales when occurred. Historically, the amounts of sales returns have been immaterial.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. The historical cost of acquiring an item of property, plant and equipment includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. If an item of property, plant and equipment requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the item is a part of the historical cost. This item is categorized as construction in progress and is not depreciated until substantially all the activities necessary to bring it to the condition and location necessary for its intended use are completed.

Depreciation of property, plant and equipment is calculated using the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets as follows:

Asset	Useful life (years)	Residual value %
Buildings	25 - 30	5%
Machinery	3 - 20	0-5%
Office equipment and furnishing	3 - 10	0-5%
Vehicles	3 - 10	0-5%

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Depreciation of property, plant and equipment attributable to manufacturing activities is capitalized as part of inventories, and expensed to cost of goods sold when inventories are sold.

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statements of operations.

(g) Fair value of financial instruments

The carrying amounts reported in the consolidated balance sheets for accounts and notes receivable, other receivables, advances to suppliers, accounts payable, advances from customers, other payables and accrued expenses, deposits payable 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.

(h) Recent Accounting Pronouncements

In the three months period ended September 30, 2011, the FASB issued ASU No. 2011-06 through ASU No. 2011-09, none of which are expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 3—SEGMENT REPORTING

The Company has four major reportable segments, Medicine, Cosmetic, Hotel and Shi Lin. The Company's reportable segments are based primarily on different types of business and represent the primary mode used to assess allocation of resources and performance. The Company evaluates its business segments primarily on the basis of segment earnings, with segment earnings defined as earnings before corporate expense, depreciation and amortization expense, interest, income taxes and certain other items. The Company has no material inter-segment sales.

(a) Segment reporting for the three months ended September 30, 2011 (unaudited):

	<u>Medicine</u>	<u>Hotel</u>	<u>Shi Lin</u>	<u>Others</u>	<u>Total</u>
Revenues from external customers	\$ 9,922,640	\$ 852,601	\$ -	\$ 134,838	\$ 10,910,079
Inter segment revenues	48,761	-	-	-	48,761
Interest income	2,703	383	36	34	3,156
Interest expense	(544,223)	(6,354)	11	(114)	(550,680)
Net interest (expenses) income	(541,520)	(5,971)	47	(80)	(547,524)
Depreciation and amortization	232,626	125,745	2,685	5,172	366,228
Segment (loss) profit	(552,091)	200,774	(83,702)	(108,528)	(543,547)
Other significant noncash items:					
Provision and allowance	13,479	-	-	(69,144)	(55,665)
Segment assets as of September 30, 2011	\$ 42,049,425	\$ 13,561,189	\$ 7,645,588	\$ 1,349,288	\$ 64,605,490

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During the three months ended September 30, 2011 and 2010, the revenue from external customers in other segment was generated from the Cosmetic business.

Reconciliations of segment revenue, profit and loss and assets with consolidated amount are listed as follows:

	<u>For the three months ended September 30, 2011</u>
Revenues	
Total revenues for reportable segments	\$ 10,958,840
Elimination of inter segment revenues	(48,761)
Total consolidated revenues	<u>\$ 10,910,079</u>
Profit or loss	
Total loss for reportable segments	\$ (543,547)
Other income	11,587
Other expense	(22,499)
Subsidy income	1,011
Elimination of inter segment loss	13,400
Loss before income tax	<u>\$ (540,048)</u>

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(b) Segment reporting for the three months ended September 30, 2010 (unaudited):

	<u>Medicine</u>	<u>Hotel</u>	<u>Shi Lin</u>	<u>Others</u>	<u>Total</u>
Revenues from external customers	\$ 8,360,676	\$ -	\$ -	\$ 190,506	\$ 8,551,182
Intersegment revenues	62,042	-	-	-	62,042
Interest income	941	-	268	32	1,241
Interest expense	(214,747)	-	-	(178)	(214,925)
Net interest (expenses) income	(213,806)	-	268	(146)	(213,684)
Depreciation and amortization	191,119	-	558	5,219	196,896
Segment profit (loss)	500,926	-	(69,322)	(34,658)	396,946
Other significant noncash items:					
Provision and allowance	-	-	-	-	-
Segment assets as of December 31, 2010	\$ 37,722,049	\$ 8,613,549	\$ 7,350,765	\$ 1,481,330	\$ 55,167,693

Reconciliations of segment revenue, profit and loss and assets with consolidated amount are listed as follows:

	<u>For the three months ended September 30, 2010</u>	
Revenues		
Total revenues for reportable segments	\$	8,613,224
Elimination of inter segment revenues		(62,042)
Total consolidated revenues	\$	8,551,182
Profit or loss		
Total profit for reportable segments	\$	396,946
Other income		34,363
Other expense		(22,506)
Subsidy income		492,451
Elimination of inter segment loss		47,354
Income before income tax	\$	948,608

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(c) Segment reporting for the nine months ended September 30, 2011 (unaudited):

	<u>Medicine</u>	<u>Hotel</u>	<u>Shi Lin</u>	<u>Others</u>	<u>Total</u>
Revenues from external customers	\$ 28,807,709	\$ 1,920,318	\$ -	\$ 520,138	\$ 31,248,165
Inter segment revenues	251,517	-	-	-	251,517
Interest income	5,448	911	104	121	6,584
Interest expense	(1,259,291)	(12,997)	-	(237)	(1,272,525)
Net interest (expenses) income	(1,253,843)	(12,086)	104	(116)	(1,265,941)
Depreciation and amortization	674,072	328,662	7,952	15,511	1,026,197
Segment (loss) profit	(49,691)	51,375	(207,179)	(83,685)	(289,180)
Other significant noncash items:					
Provision and allowance	(22,033)	-	-	(69,144)	(91,177)
Segment assets as of September 30, 2011	\$ 42,049,425	\$ 13,561,189	\$ 7,645,588	\$ 1,349,288	\$ 64,605,490

During the nine months ended September 30, 2011 and 2010, the revenue from external customers in other segment was generated from the Cosmetic business.

Reconciliations of segment revenue, profit and loss and assets with consolidated amount are listed as follows,

	<u>For the nine months ended September 30, 2011</u>	
Revenues		
Total revenues for reportable segments	\$	31,499,682
Elimination of inter segment revenues		(251,517)
Total consolidated revenues	<u>\$</u>	<u>31,248,165</u>
Profit or loss		
Total loss for reportable segments	\$	(289,180)
Other income		33,528
Other expense		(192,433)
Subsidy income		155,753
Elimination of inter segment profit		(29,462)
Loss before income tax	<u>\$</u>	<u>(321,794)</u>

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(d) Segment reporting for the nine months ended September 30, 2010 (unaudited):

	<u>Medicine</u>	<u>Hotel</u>	<u>Shi Lin</u>	<u>Others</u>	<u>Total</u>
Revenues from external customers	\$ 22,693,704	\$ -	\$ -	\$ 646,487	\$ 23,340,191
Intersegment revenues	271,756	-	-	-	271,756
Interest income	6,086	-	359	194	6,639
Interest expense	(659,791)	-	-	(570)	(660,361)
Net interest (expenses) income	(653,705)	-	359	(376)	(653,722)
Depreciation and amortization	538,547	-	558	18,454	557,559
Segment profit (loss)	649,225	-	(89,580)	(213,351)	346,294
Other significant noncash items:					
Provision and allowance	-	-	-	-	-
Segment assets as of December 31, 2010	\$ 37,722,049	\$ 8,613,549	\$ 7,350,765	\$ 1,481,330	\$ 55,167,693

Reconciliations of segment revenue, profit and loss and assets with consolidated amount are listed as follows:

	For the nine months ended September 30, 2010
Revenues	
Total revenues for reportable segments	\$ 23,611,947
Elimination of inter segment revenues	(271,756)
Total consolidated revenues	<u>\$ 23,340,191</u>
Profit or loss	
Total profit for reportable segments	\$ 346,294
Other income	200,978
Other expense	(292,646)
Subsidy income	654,013
Elimination of inter segment loss	25,495
Income before income tax	<u>\$ 934,134</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following:

	<u>September 30,</u> <u>2011</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2010</u>
Raw materials	\$ 839,674	\$ 807,796
Work-in-process	563,453	1,127,918
Finished goods	699,172	663,637
	<u>\$ 2,102,299</u>	<u>\$ 2,599,351</u>

NOTE 5 – BORROWINGS

The Company's borrowings are payable to banks and governmental financial bureaus. The following summarizes the Company's debt obligations and respective balances as of September 30, 2011 and December 31, 2010:

	<u>September 30,</u> <u>2011</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2010</u>
Current:		
Short-term bank borrowings, collateralized	\$ 16,035,488	\$ 5,135,870
Short-term bank borrowings, uncollateralized	786,794	-
Current portion of long-term borrowings, collateralized	6,199,940	6,039,833
Borrowings from governmental financial bureau, uncollateralized	41,749	153,308
	<u>23,063,971</u>	<u>11,329,011</u>
Non-current:		
Long-term bank borrowings, collateralized	-	6,251,227
	<u>\$ 23,063,971</u>	<u>\$ 17,580,238</u>

(a) As of September 30, 2011, the balance of borrowings from Agricultural Bank of China (the "ABC") was approximately USD16,428,000, among which, borrowings amounting to approximately USD10,921,000 was collateralized by land use rights and buildings, while the others in an aggregate amount of approximately USD5,508,000 were guaranteed by the CSPH's 94.95% shares in Shenghuo.

(b) As of September 30, 2011, short-term borrowings of approximately USD1,259,000 from Fudian Bank was collateralized by the Shenghuo's patent.

(c) As of July 29, 2011, the Company was granted of a one-year line of credit by BOC with a maximum of RMB30,000,000 (approximately USD4,720,000) factoring advance between July 29, 2011 and July 28, 2012.

As of September 30, 2011, short-term borrowings of approximately USD4,548,000, were secured by accounts receivable, with an amount of approximately USD5,685,000. The unused line of credit as of September 30, 2011 was approximately USD172,000 which required additional collaterals upon withdrawal.

(d) As of September 30, 2011, short-term borrowings of RMB5,000,000 (USD786,794) from China Minsheng Bank Corporation were unsecured.

(e) The weighted average interest rate for the borrowings at September 30, 2011 and December 31, 2010 are as follows:

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(Unaudited)	
Current:		
Short-term bank borrowings	7.44%	5.33%
Current portion of long-term borrowings	5.40%	5.40%
Borrowings from governmental financial bureau	-	-
Non-current:		
Long-term bank borrowings	-	5.4%

NOTE 6 – RELATED PARTY TRANSACTIONS AND BALANCES

The Group entered into shares transfer agreements with Mr. Feng Lan in August 2011 for the 1% and 1% shares of Import/Export and Medicine he held respectively. The Group would pay RMB10,000 and RMB100,000 respectively for the 1% and 1% shares of Import/Export and Medicine respectively.

The Group also entered into shares transfer agreements with Mr. Lei Lan in June 2011 for the 1.82% shares of Cosmetics. The Group would pay RMB100,000 for the 1.82% shares of Cosmetics.

Both transactions mentioned above were finished in the third quarter of 2011. After which the Group holds 100% shares of Import/Export, Medicine and Cosmetics.

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(Unaudited)	
Amounts due from related parties		
Kunming Dianjiao Nutritional Supplements Co., Ltd. (“Dianjiao”)	\$ 201,077	\$ 190,614
Amounts due to related parties		
Officers	\$ -	\$ 79,864

As of September 30, 2010, the amount due from Dianjiao which is under common control with the Company was for business purpose, it was interest free and repaid on demand.

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NOTE 7 – BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Unaudited)

Basic earnings per share is computed by dividing net income or loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income or (loss) per share reflects the potential dilution from the exercise or conversion of other securities into common stock, but only if dilutive. Potentially dilutive securities for the periods ended September 30, 2011 and 2010 include 246,000 warrants. However, since the exercise price of the related common stock for these two periods exceeds the average market price and dilutive loss per share excludes all potential common shares if their effect is anti-dilutive, the warrants are considered as no dilutive effect in computation of earnings per share.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net (loss) income attributable to stockholders	\$ (506,454)	\$ 787,657	\$ (302,756)	\$ 758,820
Weighted average number of shares outstanding - basic and diluted	19,679,400	19,679,400	19,679,400	19,679,400
Basic and diluted (loss) earnings per share	<u>(0.03)</u>	<u>0.04</u>	<u>(0.02)</u>	<u>0.04</u>

NOTE 8 – CONCENTRATIONS

For the three and nine months ended September 30, 2011, the Company had concentrations of purchases raw materials from three vendors accounting for 77% and 69% respectively of total purchases, as compared to approximately 79% and 62% of total purchase for the three and nine months ended September 30, 2010, respectively.

Concentration of sales from two customer accounting for 20% and 15% and 12% and 15% of total sales for the three and nine months ended September 30, 2011 respectively. No significant concentration on sales from single customer for the three and nine months ended September 30, 2010, respectively.

As of September 30, 2011 and December 31, 2010, the Company had no significant concentration on accounts receivable.

Approximately 89% and 86% of the sales came from a single product, Xuesaitong Soft Capsules for the three months and nine months ended September 30, 2011, as compared to approximately 91% and 89% for the three months and nine months ended September 30, 2010, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES**(a) Operating lease commitment**

On September 8, 2010, the Company signed an agreement with Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre (“Entrepreneur Centre”) to rent the land for planting suitable-for-cultivating medicinal herb for use in the production of the Company’s medicinal products and to construct a health preserving zone and travel service center. The total operating lease amounted to approximately USD4,818,000 with a lease term of 20 years.

As of September 30, 2011, the operating lease commitment is summarized as below:

Year Ending December 31,	Amount
October 1 to December 31, 2011	\$ 97,759
2012	234,622
2013	234,622
2014	234,622
2015	3,656,195
	<u>\$ 4,457,820</u>

(b) Capital Commitment

As of September 30, 2011, we have a capital commitment of USD261,675 related to the Shenghuo Plaza project. Such amount is expected to be paid within 2011.

As of September 30, 2011, we have a capital commitment of USD5,161,137 for the second instalment of purchasing land use right for Xinglin International Health-Preserving Tourist Resort. Such amount is expected to be paid upon the requirement of the Management Committee of Kunming Shilin Taiwan Farmer Entrepreneur Centre.

NOTE 10 – SUBSEQUENT EVENTS

The Company did not have any significant subsequent events as of the issuance of the financial statements.

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

Forward-Looking Statements

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of China Shenghuo Pharmaceutical Holdings, Inc. Throughout this document, references to "we," "our," the "Company" refer to China Shenghuo Pharmaceutical Holdings, Inc and its subsidiaries. MD&A should be read in conjunction with our financial statements and the related notes, and the other financial information included in this report.

This filing contains forward-looking statements. The words "anticipated," "believe," "expect," "plan," "intend," "seek," "estimate," "project," "could," "may," and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect our management's current views with respect to future events and financial performance and involve risks and uncertainties, including, without limitation, our ability to repay certain bank loans due in 2011, general economic and business conditions; changes in foreign, political, social, and economic conditions; our expansion into the retail distribution of our cosmetic products; regulatory initiatives and compliance with governmental regulations; the ability to achieve further market penetration and additional customers; and various other matters, many of which are beyond our control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance of the actual results or developments. Refer to the sections entitled "Risk Factors" and "Special Note Regarding Forward-Looking Statements" contained in this report.

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 approximately 86% and 89% of our sales for the nine months ended September 30, 2011 and 2010 respectively.

We have expanded our real estate owned and deployed in our pharmaceutical operations by 107,231 square feet. This is a result of the construction of our 29,212 square feet new 7-storey office building for our executives and administrative staff. We also built a 78,020 square feet 7-storey adjacent building to be used as a training facility for sales and marketing team, 12 Ways team and our staff's continuing education. These two new office buildings were built at a cost of approximately RMB 26 million (approximately \$4 million) by using cash flow from our operations and are debt free. We rented out the 3rd floor and part of the 4th floor of the training facility building totaling an area of 15,931 square feet for a term of four years. The lease began in April 2011 with an annual rental of RMB532,800 (\$83,841) for the first year and 5% increment for each year in the next three years.

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Shenghuo Plaza and Zhonghuang Hotel

With the substantial completion of Shenghuo Plaza at the end of 2010, we entered into a new business - the hotel and hospitality business. Shenghuo Plaza consists of 17-storey totaling approximately 252,984 square feet. Two floors of Shenghuo Plaza are designed to be utilized as 12 Ways Chinese Herbal Beauty Demonstration Center. In the center, we will use 12 Ways cosmetics to demonstrate how to keep beautiful and healthy, provide a variety of services, including acupuncture, body massage, foot massage and train our professional beauticians. The Company believes this center will be helpful to promote 12 Ways' brand recognition and the sales of 12 Ways cosmetics. In addition, 12 Ways beauty products will be prominently displayed in the lobby of the Shenghuo Plaza in order to expose them to tourists and business clientele. The decoration of those floors hasn't finished yet. The balance of Shenghuo Plaza is used as a business hotel - Zhonghuang Hotel, restaurant and banquet facilities and an entertainment venue. The hotel is designed as per 4-star hotel standards. The market focus of the hotel is tour groups, business people, business conferences, wedding banquet, business banquet, and ancillary services. The Company believes that Shenghuo Plaza is a sound investment that will generate cash flow to support the R&D and the pharmaceutical business of the Company. On November 15, 2010, we formed Shenghuo Hotel Management of which we hold 80% equity interest, while Tianzhiheng Hotel Management Co., Ltd. ("Tianzhiheng") holds 20% equity interest, to operate the hotel together. Tianzhiheng is a professional hotel management company with rich experiences in hotel operation. The Company believes the cooperation with Tianzhiheng can complement the Company's lack of experience in the hotel management business and help the Company to operate the hotel better. As of September 30, 2011, we incurred a cost of approximately RMB 83.2 million (approximately \$13.1 million) to build Shenghuo Plaza. While we have not conducted any formal appraisal, we believe that Shenghuo Plaza can be valued at approximately RMB 250 million (approximately \$39.3 million) based on the market price of comparable land and buildings. Shenghuo Plaza has begun trial operations since January 2011. Sixteen floors are now open to the public on a trial basis, as we completed the interior decoration and outfitting of 2 floors in the third quarter. The interior decoration and outfitting of the one remaining floor is expected to be completed in November 2011. The entire Shenghuo Plaza will be formally open to the public after we obtain our business license. In order to get the business license for Shenghuo Plaza, we must obtain the following certificates: (1) Certificate of Completion Acceptance and Environmental Protection, (2) Certificate of Inner Building Environment Examination, (3) Certificate of Fire Prevention Inspection, (4) Building Completion Examination Certificate and (5) Property Ownership Certificate. As of now, we have obtained the first three certificates mentioned above. We expect to receive the Building Completion Examination Certificate and Property Ownership Certificate by the end of 2011 or early 2012. Once the Building Completion Examination Certificate and Property Ownership Certificate are issued, we intend to apply for a business license for Zhonghuang Hotel and use Shenghuo Plaza and the two new office buildings as mortgage collateral for a new loan amounting to RMB 100 million (approximately \$16 million) to finance the Xinglin International Health-Preserving Tourist Resort discussed below and to reduce current short term debt. We expect Shenghuo Plaza to generate approximately RMB 2.4 million (approximately \$0.38 million) in annual net income commencing with the fiscal year of 2011. This cash flow will allow us to support our R&D development and otherwise advance our pharmaceutical operations. \$0.9 million has been expended on Shenghuo Plaza and Zhonghuang Hotel during the nine months ended September 30, 2011 and since the construction has been substantially completed as of September 30, 2011, no significant further expenditure is expected.

Xinglin International Health-Preserving Tourist Resort

We are also expanding into the businesses of wellness tourism. On April 30, 2009, we formed Shilin Shenghuo Pharmaceutical Co., Ltd. ("Shilin Shenghuo") as a wholly owned subsidiary for the purpose of purchasing or leasing land to build our own medicinal herb planting base. On September 8, 2010, we signed an agreement with Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre ("Entrepreneur Centre") to lease a piece of land located near the Stone Forest which has been recognized as a world natural heritage. With an area of 437.9 acres (2,658 Mu), the land will be used to construct a Traditional Chinese Medicine ("TCM")-based ecological wellness tourism destination that focuses on improving the health and extending the life expectancy of the elderly and introduce TCM culture - Xinglin International Health-Preserving Tourist Resort (the "Resort"). In the Resort, approximately 250.4 acres (1,520 Mu) are devoted to planting suitable-for-cultivating Sanchi and other medicinal herbs for use in the production of our medicinal products in 2011. The rest of the property will be used to build exhibition facilities which emphasize TCM culture, a temple, a TCM museum and apartments for elderly people.

In an effort to reduce costs of raw materials used in our medicinal products, we have grown the medicinal herb Banlangen and Danshen, which are used in the production of our Banlangen Tablets/Grains and Danshen Tablets, on 197.6 acres (1,200 Mu) and 16.5 acres (100 Mu), respectively. We expect to harvest them by the end of this year. We have also constructed greenhouses within the Resort in which the medicinal herb Sanqi are grown on 3.3 acres (20 Mu) beginning during the second quarter of 2011, which we expect to harvest in 2014.

The total operating lease amounted to approximately RMB 30.6 million (equals to approximately \$4.8 million) with a lease term of 20 years. Our operating lease commitment is approximately \$0.1 million for the rest of 2011, \$0.23 million for each of 2012, 2013 and 2014, and approximately \$3.7 million for 2015. The terms of the operating lease are set forth in the Lease Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden (the "Lease Agreement"), dated September 8, 2010 between Kunming Shenghuo Pharmaceutical (Group) Co., Ltd. ("Kunming Shenghuo") and the Entrepreneur Centre and previously filed.

In January of 2011, we submitted the plan of programming and design of the Resort. It was approved by the Urban and Rural Planning Committee of Shilin County, which consists of, among others, the Secretary of Shilin County Party Committee, the head of Shilin County, deputy head of Shilin County, Construction Bureau, Land and Resource Bureau, Finance Bureau, Environment Protection Bureau of Shilin County and the Entrepreneur Centre et al., on March, 22, 2011. We anticipate that the whole Resort project will take 5 years to complete.

In October 2011, we paid RMB 1,797,700 (\$282,884) to the Entrepreneur Centre as a further installment payment for the purchase of certain land use right for the Resort. With this payment and the first installment of RMB 5 million (\$786,794) paid in 2010, the Company has paid 18% of the total purchase price of RMB 37,800,000 (\$5,948,166) for the land use right. The remaining balance will be paid in future installments as determined by the Entrepreneur Centre. The terms of the land use right purchase is set forth in the Supplemental Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden (the "Supplemental Agreement"), dated September 8, 2010 between Kunming Shenghuo and the Entrepreneur Center and previously filed. Both the Lease Agreement and the Supplemental Agreement are subject to the fulfillment by Kunming Shenghuo of certain conditions including timely payment and construction and implementation of the Resort in accordance with the prescribed timeframe and standards.

New drug pipeline

- *Wei Dingkang Soft Capsules* - a type of traditional Chinese medicine designed to treat peptic ulcer disease by inhibiting bacterial growth, relieving stomach muscle spasms, and reducing inflammation of the intestinal lining. The product is designed to be effective for upset stomach, vomiting, pain and degradation of the stomach lining. The product has been approved by the State Food and Drug Administration (SFDA) for clinical testing. Phase II clinical trials were completed in December 2007, after which the phase II exploratory and enhanced clinical trials have commenced and completed in 2010. In the third quarter of 2011, we have held a seminar with related experts and drafted a preliminary clinical research protocol. We have entered into an agreement with a clinical study company to run phase III clinical trials. We anticipate Phase III clinical trials will begin at the beginning of 2012 and will be completed by the first half of 2013. Thereafter, we will submit the application for production approval. We expect to obtain production approval by the end of 2013 or the beginning of 2014. We expect to incur a cost of approximately RMB 4.2 million (approximately \$0.66 million) to run Phase III clinical trials in 2012 and 2013.

- *Dencichine for Injection* - is designed to treat hemorrhage diseases, such as stop or reduce bleeding during/after operations. The pharmacology and toxicology studies are almost finished and the results demonstrate that Dencichine for Injection shows high effectiveness and high safety both in our internal animal models tests and the test conducted by Nanjing Evaluation and Research Center. So far, we have completed the preparation of the materials and we plan to submit our application for clinical trials to State Food and Drug Administration (SFDA) in November 2011. Assuming required governmental approvals are obtained in a timely fashion, we anticipate that production and marketing of the product will begin in 2013. Dencichine for Injection is a drug requiring extensive testing by the national SFDA, including neurotoxicity testing, which may take a significant amount of time. In addition, clinical testing and audit processes are out of our control, so we must allow for additional time. We expect to incur approximately RMB1,000,000 (approximately \$153,905) in 2011 and approximately RMB 2 to 3 million (approximately \$0.3 million to \$0.5 million) in 2012 and 2013 in connection with clinical trials.

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Sh1002 - is designed to treat one of complications of diabetes mellitus: retinal vascular lesions. We submitted Investigational New Drug Application (IND) for Sh1002 to FDA in October 2010 and have been approved to start IND study after December 24, 2010. The application for clinical trials for Sh1002 in America has also been approved by FDA and the Phase I clinical trial has been started in the second quarter of 2011. So far, a group consisted of 18 patient cases accepted the Phase I clinical trial and no one has any adverse drug reactions. We plan to continue conducting the Phase I and Phase II clinical trials in America and then license our technology to a foreign pharmaceutical company, while retaining the China domestic marketing and the global manufacturing right of Sh1002. We expect to incur approximately \$400,000 for Phase I clinical trials in 2011 of which approximately \$283,690 has been expended as of September 30, 2011. Approximately \$2 million is expected to be expended for Phase II clinical trials in 2012.

On September 22, 2010 the Company received notice from NYSE Amex LLC (the "NYSE Amex" or "Exchange") Staff indicating that the Company is below certain of the Exchange's continued listing standards due to the fact that its stockholder's equity is less than \$2,000,000, it has sustained losses from continuing operations, and it has net losses in two out its three most recent fiscal years, as set forth in Section 1003 (a) (i) of the NYSE Amex Company Guide. The Company was afforded the opportunity to submit a plan of compliance to the Exchange to demonstrate its ability to regain compliance with the continued listing standards by March 22, 2012. On October 29, 2010 and November 29, 2010, the Company presented its plan to and responded to supplemental questions from the Exchange.

On December 6, 2010 the Exchange notified the Company that it accepted the Company's plan of compliance and granted the Company an extension until March 22, 2012 to regain compliance with the continued listing standards. The Company is subject to periodic review by Exchange Staff during the extension period and is in the process of responding to requests for certain supplemental information. As of September 30, 2011 and December 31, 2010, the stockholder's equity reached approximately \$1.8 million and \$2.0 million respectively.

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 our main product "Xuesaitong" Soft Capsule is sold and "Shenhuo" - the brand under which most of our products are sold. "Lixuwang", the trademark of Xuesaitong Soft Capsule, was awarded the Chinese Well-Known Trademark Honor by the State Administration for Industry and Commerce of China in 2010. This prestigious award gives China Shenghuo green path in anti-counterfeit campaign and intellectual property protection. 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.

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Since 2005, our primary product, Xuesaitong Soft Capsules has been listed in Part B of the State Insurance Catalogue. Xuesaitong Soft Capsules represented approximately 86% of our sales for the nine months ended September 30, 2011. In addition to the State Insurance Catalogue, each of the 31 Chinese provinces establishes its own provincial insurance catalogue (each, a "PIC"). A drug listed on the PIC will result in the patient purchasing such drug to receive the same 90% reimbursement as if such drug were listed on Part B of the State Insurance Catalogue. In November 2009, the Ministry of Labor and Social Security in China announced the updated State Insurance Catalogue, which took effect on July 1, 2010. Xuesaitong Soft Capsules, our primary product, was not included in Part B of the State Insurance Catalogue. Banlangen Tablets, Dansheng Tablets and Sulfadiazine Silver Ointment remain listed in the updated State Insurance Catalogue. In order to mitigate the negative impact the removal from the State Insurance Catalogue may have on the Company, we have applied for provincial listing in 31 provinces. Xuesaitong Soft Capsules has been listed in the 2010 Provincial Insurance Catalogs of the following sixteen provinces: Tianjin, Jiangsu, Hebei, Henan, Shanghai, Heilongjiang, Fujian, Anhui, Guangdong, Yunnan, Beijing, Guangxi, Inner Mongolia, Shaanxi, Gansu and Hunan. The total percentage of sales derived from Xuesaitong Soft Capsules in these provinces account for 72% in 2010 and 75% for the nine months ended September 30, 2011. Xuesaitong Soft Capsules has been delisted from the 2010 Provincial Insurance Catalogs of the following 15 provinces: Zhejiang, Jiangxi, Jilin, Liaoning, Shandong, Shanxi, Chongqing, Hubei, Sichuan, Xinjiang, Guizhou, Qinghai, Ningxia, Tibet and Hainan provinces and city where it generated a sales of 28% in 2010 and 25% for the nine months ended September 30, 2011. Xuesaitong Soft Capsules accounted for approximately 86% of the Company's revenues in the nine months period ended September 30, 2011. We expect to improve our sales effort in those sixteen provinces in which Xuesaitong has been listed on their PICs. The Company is in the process of developing a pipeline of proprietary formulations of other drug compounds. However, such formulations have not been finalized or submitted to State Food and Drug Administration ("SFDA") for review and approval. This process is time-consuming and capital intensive and there is no assurance that SFDA will accept the data presented by the Company without requiring additional data and that, ultimately, the application for drug approval will be successful. Therefore, in the near term the Company is dependent on the sales of Xuesaitong Soft Capsules.

Further, the Department of Health in China, which makes an independent assessment of the drugs available, publishes a "State Essential Drug List" as to what drugs are basic and prevalent and can satisfy the ordinary need for drugs to all the people. Patients purchasing medicines included in the "State Essential Drug List" are entitled to reimbursement of 90% of the costs of such medicines from the social medical fund in accordance with relevant regulations in China. In addition to the State Essential Drug List, each of the 31 Chinese provinces is entitled to add about 100 drugs to its own Provincial Essential Drug List. A drug listed on the provincial list will result in the patient purchasing such drug to receive the same 90% reimbursement. The Company's Xuesaitong Soft Capsule was listed on the "State Essential Drug List" in 2000 and 2004 which was updated every four years. Xuesaitong Soft Capsule was not included in the State Essential Drug List updated in 2009 but has been listed in the Provincial Essential Drug List of the following four provinces and cities - Yunnan, Henan, Hunan and Tianjin.

The wholesale and retail prices of medicines that are included in the national and provincial insurance catalogs are subject to price controls administered by the Price Control Office under the National Development and Reform Commission, or the NDRC, or their provincial price control authorities. Since Xuesaitong Soft Capsules is no longer listed in the 2010 State Insurance Catalog and the 2010 Provincial Insurance Catalogs of Zhejiang, Jiangxi, Jilin, Liaoning, Shandong, Shanxi, Chongqing, Hubei, Sichuan, Xinjiang, Guizhou, Qinghai, Ningxia, Tibet and Hainan provinces and cities, it is no longer subject to the state price control and provincial price controls in those fifteen provinces. However, since Xuesaitong Soft Capsules is still listed in the insurance catalogs of the rest of the sixteen provinces, its price is still subject to price control administered by the price control authorities in those provinces. Xuesaitong Soft Capsules is 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 Xuesaitong Soft Capsules to wholesale companies who resell them to hospital pharmacies. Our three largest customers are Tianjin Zhongxing Medicine Co., Ltd., Yunnan Pharmaceutical Co., Ltd., and Guangzhou Medicine, Co., Ltd., all of which accounted for 15%, 12% and 6% of our sales for the nine months ended September 30, 2011 respectively.

We have established sales offices in many cities in China that manage sales representatives according to our internal management rules and sales policy. Because the main product "Xuesaitong" capsule is sold to hospitals through regional wholesale companies located in the various cities of China and because China has thousands of wholesale companies, we employ a large number of sales representatives to expand into new markets and gain new customers.

As of September 30, 2011, our medicine marketing team maintains sales offices in approximately 21 provinces throughout China. The sales network covers approximately 215 cities and is staffed by approximately 693 sales representatives. We intend to grow our internal marketing and sales function and increase our relationships with other national wholesale companies to expand the distribution and presence of our non-prescription brands and cosmetics.

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We started to expand our business into the OTC market in selected areas around China since 2009. The gross sales of Xuesaitong Soft Capsules in the OTC market in Yunnan province amounted to RMB 9.3 million, resulting in a gross profit realized by the Company of approximately RMB 6.2 million during the nine months ended September 30, 2011. Based on these positive results, we will continue to expand our presence in the OTC market during the rest of 2011 in provinces such as Jiangsu, Fujian, Guangdong, Hunan, Liaoning, Shanghai, Shandong, Heilongjiang, Gansu, Beijing, Hebei and Hubei. Among them, Guangdong, Hunan and Liaoning are making greater contributions to the OTC market. As of September 30, 2011, in addition to the 2960 chain drugstores in Yunnan province, we have established sales relations with 4900 chain drugstores in most provinces in China. The Company reimburses the sales representatives their accrued selling expenses when related accounts receivable are collected.

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 China State Statistical Bureau, the total retail sales of Traditional Chinese Medicine ("TCM") and western medicines in China grew 23.5% on a year-over-year basis in 2010. This growth was driven by a number of favorable factors including the reform of the medical system in China, 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.

In January 21, 2009, the Chinese government announced a healthcare reform plan proposing the government spend upward of RMB850 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.

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.

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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. Also, we are focusing our efforts on developing better channels for selling our products to expand our revenue and to counter fierce market competition. To that extent, we began to build relationships with new high-quality sales agents and terminate our relationships with sales agent with poor historical performances since 2009. We believe that this shift will provide a sound foundation for our operations going forward.

Our 12 Ways™ Chinese Traditional Medicine Beauty Salon Series (“12 Ways”) cosmetic products are sold in 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 September 30, 2011, we have opened approximately 1100 retail specialty counters in more than 53 cities throughout China, including main cities such as Beijing, Shanghai, Nanjing, Hangzhou, Suzhou, Jinan, Weifang Shenzhen, Zhengzhou, Jiaozuo, Golmud, Zibo, Luzhou, Sanmenxia, Daqing, Lanzhou, Chongqing, Changchun, Jiujiang, Kunming and so on. In addition, we built a 12 Ways Chinese Herbal Beauty Demonstration Center by using two floors of Shenghuo Plaza, and the center has started trial operation since the middle of October. In the center, we use 12 Ways cosmetics to demonstrate how to keep beautiful and healthy, provide a variety of services, including acupuncture, body massage, foot massage and other services and train our professional beauticians. Management hopes that the opening of this center 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 been fluctuating, 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 effect on future profit levels and available cash resources.

Critical Accounting Policies and Estimates

Application of Critical Accounting Policies

We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management’s judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 2 – Summary of significant accounting policies in the Consolidated Financial Statements.

Allowance for Doubtful Accounts and Credit Losses

Accounts receivable are reviewed periodically as to whether they are past due based on contractual terms and their carrying values have become impaired. An allowance for doubtful accounts is recorded in the period in which loss is determined to be probable based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging and prevailing economic conditions. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We have considered all available information in our assessments of the adequacy of the provision for doubtful accounts and we do not expect there would be significant changes on conditions that would result in material effect on the allowance estimation. We will continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts.

Income Taxes and Tax Valuation Allowances

We follow Statement of Accounting Standard Codification (“ASC”) Topic 740 “Accounting for Income Taxes”, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies in making this assessment. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial adverse impact on our operating results.

Results of Operations

(a) Three Months Ended September 30, 2011 and 2010

The following table sets forth our results of operations for the three months ended September 30, 2011 and 2010.

	<u>Three months ended September 30,</u>			<u>Variance</u> <u>(%)</u>
	<u>2011</u>	<u>2010</u>	<u>Change (\$)</u>	
	<u>Unaudited</u>	<u>Unaudited</u>		
Sales	\$ 10,910,079	\$ 8,551,182	2,358,897	28%
Cost of goods sold	3,936,610	2,996,674	939,936	31%
Gross profit	6,973,469	5,554,508	1,418,961	26%
Operating expenses:				
Selling expenses	5,233,061	3,849,347	1,383,714	36%
General and administrative expenses	1,366,711	894,301	472,410	53%
Research and development expenses	321,297	160,795	160,502	100%
	6,921,069	4,904,443	2,016,626	41%
Income from operations	52,400	650,065	(597,665)	(92)%
Other (expenses) income	(592,448)	298,543	(890,991)	(298)%
(Loss) income before income tax expenses	(540,048)	948,608	(1,488,656)	(157)%
Income taxes benefit (expense)	37,949	(118,370)	156,319	(132)%
Net (loss) income	(502,099)	830,238	(1,332,337)	(160)%
Net income attributable to non-controlling interests	4,355	42,581	(38,226)	(90)%
Net (loss) income attributable to stockholders	\$ (506,454)	\$ 787,657	(1,294,111)	(164)%
Basic and diluted (loss) earnings per share	\$ (0.03)	\$ 0.04	(0.07)	(175)%
Weighted average number of shares outstanding - basic and diluted	19,679,400	19,679,400	-	0%

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Sales: Sales for the three months ended September 30, 2011 was approximately \$10.9 million, an increase of approximately \$2.3 million, or 28%, from approximately \$8.6 million for the three months ended September 30, 2010. The increase in sales was primarily due to the Company's main product Xuesaitong's sales increasing in Tianjin City and Yunnan Province as Xuesaitong was listed on the PIC list of Tianjin City since the second half year in 2010 and the Company strengthened sales promotion in the provinces and cities where Xuesaitong was listed on their PIC lists, especially Yunnan Province and Tianjin City. The OTC market also contributed part of increase of revenue as the Company also strengthened the OTC market development in 2011.

Cost of goods sold: Our cost of sales for the three months ended September 30, 2011 was approximately \$3.9 million, an increase of approximately \$0.9 million or 31% from approximately \$3.0 million for the three months ended September 30, 2010. The increase in cost of sales was due to the increase of the sales volume and the purchase price of Sanqi which is the main raw material of our main product Xuesaitong. Although we have started to grow Sanqi within the Resort, we will not be able to harvest until 2014 because it has a three year growth cycle. In addition, the Zhonghuang Hotel began trial operation since January 2011 which has contributed approximately \$0.5 million to the increase of cost of sales.

Gross profit: Our gross profit for the three months ended September 30, 2011 was approximately \$7.0 million as compared with approximately \$5.6 million for the three months ended September 30, 2010, an increase of approximately \$1.4 million, or 26%. Gross profit as a percentage of revenues was approximately 64% for the three months ended September 30, 2011, a decrease of 1% from 65% for the three months ended September 30, 2010. The slight decrease in gross profit percentage was primarily due to the increase of cost of sales as set forth above.

Selling expense: Selling expenses were approximately \$5.2 million for the three months ended September 30, 2011, an increase of approximately \$1.4 million, or 36%, from approximately \$3.8 million for the three months ended September 30, 2010. The primary reason for the increase in selling expenses was due to increase of sales commission to sales representative in line with the sales increment.

We reimburse the sales representatives their selling and marketing expenses when they submit the appropriate documentation to be reimbursed and their sales are collected. We reimburse the sales representatives their accrued selling expenses when related accounts receivable are collected.

General and administrative expense: General and administrative expenses were approximately \$1.4 million for the three months ended September 30, 2011, an increase of approximately \$0.5 million, or 53%, from approximately \$0.9 million for the three months ended September 30, 2010. The increase was primarily due to the increase of the management's traveling and conference expenses for expanding our sales channel. In addition, Zhonghuang Hotel began trial operation since January 2011 which has contributed \$94,100 to the increase of general and administrative expense.

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Research and development expense: Research and development expense for the three months ended September 30, 2011 was \$321,297, as compared to \$160,795 for the three months ended September 30, 2010, an increase of \$160,502. The increase was primarily due to the expenditures in the third quarter of 2011 for outside experts for the Phase I clinical test of Sh1002 which amounted to \$168,680.

Other expenses: Other expenses were \$592,448 for the three months ended September 30, 2011, which consisted of interest expense and non-operating expense, offset by subsidy income, interest income and non-operating income, a decrease of \$890,991, or 298%, from an income of \$298,543 for the three months ended September 30, 2010. The decrease was mainly due to an increase in interest expenses occurring and less subsidy income received as compared the same period in 2010.

Income tax benefit (expense): Income tax benefit was \$37,949 for the three months ended September 30, 2011 as compared to income tax expense of \$118,370 for the three months ended September 30, 2010. The tax benefit was mainly attributable to the medicine segment of the Company and the deferred tax assets benefit from accrued expenses and provisions for inventory.

Net (loss) income attributable to shareholders: Net loss was \$506,454 for the three months ended September 30, 2011 as compared to the net income of \$787,657 for the three months ended September 30, 2010. The net loss was primarily due to the increase of the cost of raw material, expenses related to the trial operation of Shenghuo Plaza, research and development expense on the Phase I clinical test of Sh1002 in America, operating expenses, interest expense, and less government subsidy income (\$1,011 as compared to \$492,451 for the prior year period).

(b) Nine Months Ended September 30, 2011 and 2010

The following table sets forth our results of operations for the nine months ended September 30, 2011 and 2010.

	<u>Nine months ended September 30,</u>			<u>Variance (%)</u>
	<u>2011</u>	<u>2010</u>	<u>Change (\$)</u>	
	<u>Unaudited</u>	<u>Unaudited</u>		
Sales	\$ 31,248,165	\$ 23,340,191	7,907,974	34%
Cost of goods sold	11,749,518	7,561,650	4,187,868	55%
Gross profit	19,498,647	15,778,541	3,720,106	24%
Operating expenses:				
Selling expenses	14,255,496	11,869,164	2,386,332	20%
General and administrative expenses	3,638,386	2,493,749	1,144,637	46%
Research and development expenses	587,871	417,184	170,687	41%
	18,481,753	14,780,097	3,701,656	25%
Income from operations	1,016,894	998,444	18,450	2%
Other expenses	(1,338,688)	(64,310)	(1,274,378)	1982%
(Loss) income before income tax expenses	(321,794)	934,134	(1,255,928)	(134)%
Income taxes expense	10,786	(141,001)	151,787	(108)%
Net (loss) income	(311,008)	793,133	(1,104,141)	(139)%
Net (loss) income attributable to non-controlling interests	(8,252)	34,313	(42,565)	(124)%
Net (loss) income attributable to stockholders	\$ (302,756)	\$ 758,820	(1,061,576)	(140)%
Basic and diluted (loss) earnings per share	\$ (0.02)	\$ 0.04	(0.06)	(150)%
Weighted average number of shares outstanding - basic and diluted	19,679,400	19,679,400	-	0%

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Sales: Sales for the nine months ended September 30, 2011 was approximately \$31.2 million, an increase of approximately \$7.9 million, or 34 %, from approximately \$23.3 million for the nine months ended September 30, 2010. The increase in sales was primarily due to the Company's main product Xuesaitong's sales increasing in Tianjin City, Jiangsu, Guangdong and Yunnan Province as Xuesaitong was listed on the PIC list of Tianjin City since the second half year in 2010 and the Company strengthened sales promotion in the provinces and cities where Xuesaitong was listed on their PIC lists, especially Yunnan Province and Tianjin City. The OTC market also contributed part of increase of revenue as the Company also strengthened the OTC market development in 2011.

Cost of goods sold: Our cost of sales for the nine months ended September 30, 2011 was approximately \$11.7 million, an increase of approximately \$4.2 million, or 55%, from approximately \$7.5 million for the nine months ended September 30, 2010. The increase in cost of sales was due to the increase of the sales volume and the purchase price of Sanqi which is the main raw material of our main product Xuesaitong. Although we have started to grow Sanqi within the Resort, we will not be able to harvest until 2014 because it has a three year growth cycle. In addition, the Zhonghuang Hotel began trial operation since January 2011 which has contributed \$1.5 million to the increase of cost of sales.

Gross profit: Our gross profit for the nine months ended September 30, 2011 was approximately \$19.5 million as compared with approximately \$15.8 million for the nine months ended September 30, 2010, an increase of approximately \$3.7 million, or 24%. Gross profit as a percentage of sales was approximately 62% for the nine months ended September 30, 2011, a decrease of 6% from 68% for the nine months ended September 30, 2010. The decrease in gross profit percentage was primarily due to the increase of cost of sales set forth above.

Selling expense: Selling expenses were approximately \$14.3 million for the nine months ended September 30, 2011, an increase of approximately \$2.4 million, or 20%, from approximately \$11.9 million for the nine months ended September 30, 2010. The primary reason for the increase in selling expenses was due to increase of sales commission to sales representative in line with the sales increment.

We reimburse the sales representatives their selling and marketing expenses when they submit the appropriate documentation to be reimbursed and their sales are collected. We reimburse the sales representatives their accrued selling expenses when related accounts receivable are collected.

General and administrative expense: General and administrative expenses were approximately \$3.6 million for the nine months ended September 30, 2011, an increase of approximately \$1.1million, or 46%, from approximately \$2.5 million for the nine months ended September 30, 2010. The increase was primarily due to the increase of the management's traveling expenses and conference expenses for expanding our sales channel. In addition, Zhonghuang Hotel began trial operation since January 2011 which has contributed approximately \$0.25 million to the increase of general and administrative expense.

Research and development expense: Research and development expense for the nine months ended September 30, 2011 was \$587,871, as compared to \$417,184 for the period ended September 30, 2010, an increase of \$170,687 or 41%. The increase was primarily due to the expenditures in the third quarter of 2011 for outside experts for the Phase I clinical test of Sh1002 in America which amounted to \$168,680.

Other expenses: Other expenses were approximately \$1.3 million for the nine months ended September 30, 2011, which consisted of interest expense and non-operating expense, offset by subsidy income, interest income and non-operating income, an increase of approximately \$1.3 million, or 1982%, from \$64,310 for the nine months ended September 30, 2010. The increase was mainly due to less subsidy income from provincial government as compared the same period in 2010 and more interest expenses in the nine months period of 2011.

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Income tax benefit (expense): Income tax benefit was \$10,786 for the nine months ended September 30, 2011 as compared to income tax expense \$141,001 for the nine months ended September 30, 2010. The tax benefit was mainly from medicine segment of the Company and the deferred tax assets benefit from accrued expenses and provisions for inventory.

Net income (loss) attributable to shareholders: Net loss was \$302,756 for the nine months ended September 30, 2011 as compared to the net income of \$758,820 for the nine months ended September 30, 2010. The net loss was primarily due to the increase of the cost of raw material, expenses related to the trial operation of Shenghuo Plaza, research and development expense on the Phase I clinical test of Sh1002 in America, operating expenses, interest expense, and less government subsidy income (\$155,753 as compared to \$654,013 for the prior year period).

Liquidity and Capital Resources

General - As of September 30, 2011, we had cash and cash equivalents of approximately \$4.3 million. In the nine months ended September 30, 2011, the Company suffered a net loss of \$302,756 due to increase of raw materials' price from 2010, the increase of research and development expense, interest expense and less subsidy income. Our consolidated current liabilities exceeded consolidated current assets by approximately \$23.2 million as of September 30, 2011, and approximately \$15.3 million as of December 31, 2010. These factors raise substantial doubt about the Company's ability to continue as a going concern. In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by seeking equity and/or debt financing by using Shenghuo Plaza and the two new office buildings as mortgage collateral after the Company has obtained the Property Ownership Certificate by the end of 2011 or early 2012. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. In the event we are not able to obtain funding, we will not be able to implement or may be required to delay all or part of our business plan, and our ability to attain profitable operations, generate positive cash flows from operating and investing activities and materially expand the business will be materially adversely affected.

For the nine months ended September 30, 2011, we had net cash provided by operating activities of approximately \$2.3 million, an increase of approximately \$0.1 million from approximately \$2.2 million for the nine months ended September 30, 2010. We believe that we will be able to obtain more cash flows from operating activities by strengthen control on working capital management.

Cash flow

	Nine months ended September 30,	
	2011	2010
	Unaudited	Unaudited
	In thousands	
Net cash provided by operating activities	\$ 2,275,642	\$ 2,239,891
Net cash used in investing activities	(4,425,326)	(5,299,580)
Net cash provided by financing activities	4,324,092	2,735,797
Cash and cash equivalents at end of period	\$ 3,936,948	\$ 1,703,423

Operating Activities: Net cash provided by operating activities for the nine months ended September 30, 2011 was approximately \$2.3 million, as compared to net cash provided by operating activities of approximately \$2.2 million for the nine months ended September 30, 2010. The operating activities remain stable between these two periods.

Investing Activities: Net cash used in investing activities was approximately \$4.4 million for the nine months ended September 30, 2011, as compared to net cash used in the amount of approximately \$5.3 million for the nine months ended September 30, 2010. The decrease in net cash used in investing activities was primarily due to decreases in capital expenditures, specifically, the construction of Shenghuo Plaza.

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Financing Activities: Net cash provided by financing activities was approximately \$4.3 for the nine months ended September 30, 2011, as compared to net cash provided in the amount of approximately \$2.7 for the nine months ended September 30, 2010. The increase in cash used was primarily due to the increase of loans borrowed from banks.

Working Capital Deficiency

Our consolidated current liabilities exceeded our consolidated current assets by approximately \$23.2 million as of September 30, 2011 and approximately \$15.3 million as of December 31, 2010.

As of September 30, 2011, our net accounts and notes receivable (less allowance for doubtful accounts of approximately \$2.3 million) were approximately \$15.9 million, an increase of approximately \$4.4 million, from approximately \$11.5 million (net of allowance for doubtful accounts of approximately \$2.3 million) as of December 31, 2010 which is in line with the increase in sales.

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 to develop new customers. We believed that the sales representatives would be better able to expand into new markets and to secure new customers if they were advanced funds for their travel, meals and other incidental expenses that arose in connection with their sales activities. 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 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. Pursuant to the policies adopted at the beginning of 2009, instead of advancing sales representatives money to sustain or develop markets, we reimburse sales representatives their selling and marketing expenses when they present expense vouchers. Management considers this a better way to manage the potential for bad debts on the advances to sales representatives. We pay the accrued selling expenses only when we collect an account receivable for which a sales representative has presented his expense receipts. Because we offer a grace period of one to three months to our clients for remitting payments due, the accrued sales expenses may remain outstanding as long as it takes to collect the corresponding accounts receivable.

As of September 30, 2011, our accounts payable were approximately \$8.6 million, a decrease of approximately \$0.4 million, from approximately \$9.0 million as of December 31, 2010.

As of September 30, 2011, our advance from customers increased from approximately \$1.2 million in 2010 to approximately \$1.3 million in 2011. The increase of was mainly due to the prepayment in the amount of approximately \$0.6 million by our largest customer Tianjin Zhongxing Medicine Co., Ltd. to us for Xuesaitong purchasing.

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 sales representatives to pay a certain percentage of the sales price as deposit before we deliver the products to the customers. The deposits were approximately \$5.5 million as of September 30, 2011 and approximately \$4.9 million as of December 31, 2010.

Other payables and accrued expense, mainly consisted of accrued commission payable to the sales representatives, increased by approximately \$2.4 million, from approximately \$9.7 million as of December 31, 2010 to approximately \$12.1 million as of September 30, 2011 due to the net effect of payment and accrual for commission for the nine months ended September 30, 2011.

To the extent that we cannot satisfy our cash needs, whether from operations or from a financing source, our business may 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 wholesale companies or distributors. We will continue to accelerate the collection of trade receivables and shorten the turnover days.

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In April 2011, we signed a loan agreement with Fudian Bank and obtained a short-term borrowing amounting to RMB8 million (approximately \$1.2 million) between April 22, 2011 and April 21, 2012. This short-term borrowing was collateralized by the Shenghuo's patent - a Method of Synthetic Preparation of Dencichine for Treatment of Bleeding (No. ZL00109992.2).

In July, 2011, we entered into a factoring agreement with Bank of China (the "BOC") to transfer our accounts receivable with full recourse and the proceeds received from BOC being recognized as collateralized borrowings. Under this renewed factoring agreement, BOC agrees to provide the Company a maximum of approximately RMB 30 million (equal to approximately \$4.6 million) factoring advance until July 28, 2012.

In August, 2011, we signed a loan agreement with Agricultural Bank of China (the "ABC") and obtained a short-term borrowing amounting to RMB 35 million (approximately \$5.5 million) between August 26, 2011 and August 25, 2012. This short-term borrowing was collateralized by Shenghuo's shares.

Further, in September, 2011, Medicine borrowed a short-term loan in the amount of RMB 5,000,000 (\$786,794) from China Minsheng Bank Corporation. This loan was unsecured.

The completion of Shenghuo Plaza and the two new office buildings is expected to generate more cash flows and increase our ability to obtain additional financing from banks. By using Shenghuo Plaza and the two new office buildings as mortgage collateral after the Company has obtained the Property Ownership Certificate by the end of 2011 or early 2012 and the proceeds to be generated from operations, we are confident that we will have sufficient working capital for at least the next 12 months. We will continue to make efforts to expand our sales to get more cash flow.

However, we may require additional capital for acquisitions, for expanding business to related fields, or for the operation of the subsidiaries and there is no assurance that such funding will be available. Please see Note 5—Borrowings in the Consolidated Financial Statements.

Off-Balance Sheet Commitment and Arrangements

On September 8, 2010, the Company signed an agreement with Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre to lease land for planting suitable-for-cultivating medicinal herb for use in the production of the Company's medicinal products and to construct a health preserving zone and travel service center. The total operating lease amounted to approximately \$4.8 million with a lease term of 20 years. Up to approximately \$4.5 million under this lease agreement would be paid in the coming 4 years.

The Company plans to pay the lease expense by using the cash flow from our operations and bank borrowings.

Except as aforementioned, the Company does not have any outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. In addition, the Company does not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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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 our operations in the PRC. In addition, all of our revenue is denominated in the Chinese Yuan Renminbi (“RMB”), which must be converted into other currencies before remittance out of the PRC. Both the conversion of RMB 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**Disclosure controls and procedures**

Our management, with the participation of our chief executive officer and chief financial officer, Messrs. Feng Lan and Mr. Raymond Wang respectively, evaluated the effectiveness of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this report, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, Mr. Lan and Mr. Wang concluded that despite our hiring of a CFO who is familiar with U.S. GAAP in this April, more training offered to our staff in the accounting department and improvements in areas of previously identified weakness in internal control over financial reporting identified (described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2010), our disclosure controls and procedures were not effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 former chief executive officer, Gui Hua Lan, the Company’s former chief financial officer, Qiong Hua Gao, and the Company’s former independent registered public accounting firm, Hansen, Barnett & Maxwell, P.C. (HB&M). Both the Company and HB&M filed motions to dismiss the complaint, but those motions were denied by the Court. The substantive allegations of the amended consolidated complaint have previously been summarized in disclosures by the Company.

On July 21, 2010, in a mediation conducted by Retired Judge Nicolas H. Politan, the Company entered into an agreement in principle with counsel for plaintiffs in this litigation and HB&M, in which the parties agreed to settle all claims by the putative class members in exchange for payments of USD200,000 by the Company and USD600,000 by HB&M’s professional liability insurer. The settlement must be approved by the Court to become effective and, on or about November 2, 2010, the plaintiffs filed a motion with the Court seeking such approval.

On March 18, 2011, The Court issued an Order and Judgement finally approving the Settlement of all claims and dismissing the complaint.

ITEM 1A. RISK FACTORS

Except as reflected in this Form 10-Q, there have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- | | |
|------|---|
| 10.1 | English translation of Loan Contract, dated August 26, 2011 by and between Kunming Shenghuo Pharmaceutical (Group) Co., Ltd. and Agricultural Bank of China. |
| 10.2 | English translation (revised) of the Lease Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden between Kunming Shenghuo Pharmaceutical (Group) Co.,Ltd and Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre, dated September 8, 2010. |
| 10.3 | English translation (revised) of the Supplemental Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden between Kunming Shenghuo Pharmaceutical (Group) Co.,Ltd and Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre, dated September 8, 2010. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a). |

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31.2 Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.*

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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SIGNATURES

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

CHINA SHENGHUO PHARMACEUTICAL HOLDINGS, INC.
(Registrant)

November 14, 2011

By: /s/ Feng Lan

Feng Lan
Chief Executive Officer and President

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Exhibit 10.1

ABCS[2010]1003-1

AGRICULTURAL BANK OF CHINA

AGRICULTURAL BANK OF CHINA
Loan Contract of Current Capital
No. 53010120110002461

Dear Client:

For your best interest, please read all provisions under this Contract carefully before executing it, especially those provisions in black, paying attention to your rights and obligations. Please feel free to contact the administering branch for any questions.

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Borrower (Full Name): Kunming Shenghuo Pharmaceutical (Group) Co., Ltd.
Place of Residence: No.2 Jing You Road, Kunming National Economy & Technology Developing District
Legal Representative: Guihua Lan

Lender (Full Name): Agricultural Bank of China, Kunming Shuanglong Branch
Place of Residence: No. 51 Tangshuang Road, Kunming
Tel: +86-871-3113732 **Fax:** 86-871-3113732
Legal Representative: Qian He

Pursuant to the relevant PRC laws and regulations, the two parties, following consultations, mutually agree to enter into this Contract ("Contract") as follows.

1. Definitions

Unless otherwise provided, the terms included in this Contract shall be defined as below:

1.1 Loan Term: includes the total term for all loans and single term for each loan. The total term indicates the period dated from the release of first loan to the pay off of all principals and interests as prescribed in the Contract; single term indicates the period from date of releasing of single loan out of separate withdrawals to paying off of such single loan.

1.2 Line of Credit: indicates the limited amount of principal provided by the Lender to the Borrower within the valid period of line of credit as prescribed in the Contract. The Borrower is permitted for the recycle use of loan within the valid period of line of credit and the permitted amount of loan. However, the total amount of applied loan and unpaid loan under this Contract should not exceed the line of credit. The unused line of credit shall become invalid automatically upon the expiration of line of credit.

1.3 Electronic Self-service Channels: indicate the electronic channels of E-banking, Telephone banking or cash management channel be available for withdrawal provided by the Lender under the loan form of recycled self-service current capital.

1.4 Day/Date: indicates business day; where the last day/date of expiration falls on the public holiday or weekend, the last day/date will be extended to the first business day upon the end of public holiday or weekend.

1.5 LIBOR/HIBOR: indicates the inter bank offered rate of London/Hong Kong announced by Reuters for the corresponding term two working days prior to the interest bearing date.

1.6 Laws and Regulations: including laws, administrative regulations, local code and regulation, judicial interpretation and rules with legal effect.

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2. Representations and Warranties of the Borrower

The Borrower represents and warrants that:

2.1 Loan application submitted complies with legal requirements: The Borrower is a legal entity which is duly incorporated and registered upon the approval of authorities concerned, or other organization. It meets the state requirements of being a Borrower; it possesses good credit history, no material bad record; it clearly states the use of the loan and resource for repayment; it conducts no illegal activity.

2.2 Conduct no defect in the course of contract execution: The Borrower has performed all necessary procedures according to law or articles of incorporation, in order to execute this Contract or fulfill its obligations under this Contract; it is the Borrower's legal representative or authorized agent who signs this Contract; the Borrower will actively handle produces of obtaining contract approval, contract registration or filing, or assist the Lender for this purpose; there is no other conditions making the Loan Contract defect in effective due to the Borrower.

2.3 To provide legal and effective guarantee: The Borrower assures that the Guarantor has performed all necessary procedures according to law or articles of incorporation in order to sign the Guaranty Contract or fulfill its obligations under the Guaranty Contract; The Guarantor has the right to set up guaranty by secured property; it is the authorized person who will sign the Guaranty Contract; The Borrower will urge the Guarantor to actively handle all procedures relating to Guaranty Contract approval, registration and filing, or assist the Lender for this purpose; it assures of no other conditions making the contract defect in effectiveness or causing material adverse changes.

2.4 To perform rights and obligations under the Contract with good faith: The Borrower will use the loan as per prescribed term, purpose and method, conducting no activity violated laws or regulations; it will actively assist concerned state authorities and the Lender in management of loan payment, management after loan releasing and related examinations; it will repay the loan at full amount and in a timely manner as required by the Contract, no escaping of debts by any method; it will obtain the Lender's consent on significant events of outbound investment, substantial increase of debt financing and conducts of merger, dismantlement and share transfer; the Lender may choose to withdraw the loan ahead of schedule according to the Borrower's condition of capital collection; the Borrower shall inform the Lender timely for material adverse event which could affect its ability of debt repayment; there is no other conditions of violating the obligations under this Contract.

2.5 The information relates to the Borrower, Guarantor and Shareholder provided by the Borrower are authentic, full, precise, legal and effective

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3. Basic Provisions

3.1. Type of Loan:

Lender provide loan as type (1) to Borrower.

(1) Ordinary Loan toward current capital

- i. Currency and amount of loan (in Capital): RMB THIRTY FIVE MILLION YUAN
- ii. Term of loan: One year
- iii. Amount and term for single loan:

Loan Amount	Loan Date	Term of loan
RMB35,000,000		

(if the table is not enough to fill in, please add additional table. The additional table is part of this contact.)

(2) Recyclable Liquid Capital

- i. Currency and amount of loan (in Capital): ____/
- ii. Term of loan: month / date / year to month / date / year

(3) Self-Service Recyclable Liquid Capital

- i. Currency and amount of loan (in Capital): ____/
- ii. Term of loan: month / date / year to month / date / year

3.2 Use of Loan: Research and development of new drugs, and purchase of raw materials

3.3 Interest Rate, Penalty Interest and Compound Interest

3.3.1 Loan Interest Rate

3.3.1.1 The interest rate of loans in RMB is determined as per Method (2) below:

(2) Floating Interest Rate: the interest will float by 5% based on the benchmark RMB interest rate for the same term announced by the People's Bank of China in accordance with the date of each withdrawal and each term for single loan. Adjustment to the floating interest rate shall be made once in every THREE-month period. In case of adjustment made to benchmark RMB interest rate by the People's Bank of China, the Borrower shall, starting from the corresponding day of loan in the first month of the next 3-month period after the adjustment, pay interest according to the adjusted benchmark interest rate for the relevant term and the new interest rate determined as per the above calculation method, without further notice. If there is no corresponding day of loan, the last day of such month shall be deemed as the corresponding day of loan.

3.3.2 Method of Interest Calculation, Interest Settlement

3.3.2.1 The interest on the loan hereunder shall be settled on a monthly basis, with the date of settlement falling on the 20th day of each month. The Borrower shall pay up the interest on every interest settlement day. If the last repayment day of the loan principal is not an interest settlement day, the outstanding interest shall be paid up immediately together with the principal.

3.3.2.2 For the loan being subject to fixed interest rate, the interest will be calculated as per agreed interest rate. For the loan being subject to floating interest rate, the interest will be calculated as per the interest rate determined on each floating period; if the interest rate floats frequently within a single period of interest settlement, it may calculate the interest for each floating period at first, and then calculate them in total. If the loan is subject to other interest rate, the interest shall be calculated as agreed method.

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3.3.2.3 Where the date of loan maturity comes to the public holiday or weekend, the normal date of repayment shall be extended to the first business day after the public holiday or weekend, and the interest will be collected as per agreed method of interest calculation during the extension period.

3.3.3 Penalty Interest

3.3.3.1 Where the Borrower fails to return the principal on specified period as prescribed in this Contract, the Lender will collect a penalty interest at the rate of floating by 30% based on the specified loan interest rate dated from the over due period against the matured loan, until the principal and interest been paid off.

3.3.3.2 Where the Borrower fails to use the loan as per the prescribed purpose, the Lender will collect a penalty interest at a rate of floating by 50% based on the specified loan interest rate dated from the default period against the wrong used loan, until the principal and interest been paid off.

3.3.3.3 For the loan both overdue and fails to be used according to the proposed purpose as agreed in the Contract, the calculation of penalty interest rate will be subject to the highest rate.

3.3.4 Compound Interest

Where the Borrower fails to pay interest on due, the Lender will collect monthly compound interest for this purpose dated from the failure of paying interest matured. For those interests unpaid prior to the maturity of loan, a compound interest will be collected according to the loan interest rate as agreed in the Contract; for those interests afterwards, a compound interest will be collected according to the penalty interest rate as agreed in the Contract; Where the loan usage constitutes a breach of contract or the interests were not paid during the over due period, a compound interest will be collected according to correspondent penalty interest rate as agreed in the Contract.

3.4 Loan Withdrawal and Payment

3.4.1 Conditions on Loan Withdrawal

The Borrower shall meet all the requirements as below for application of withdrawal:

- 1) The Borrower possesses the subject qualification for loan application ; the correspondent decision making or authorization institutions have approved the resolution on loan application according to law and concerned authorities have issued the necessary approval;
 - 2) Related procedures for guarantee have been done as per the requirement of the Lender, and the guarantee becomes legal and effective;
-

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3) The loan usage meets the requirements of laws and regulations, and the provisions of the loan contract and business contract corresponding to the loan use.

4) The commitments made by the Borrower at the time of contract execution shall remain true and effective, no existing of significant or material adverse changes, no happening of other material adverse events which could affect the performance of this Contract;

5) Other agreement: The loan usage shall be consistent with the proposed usage in the application.

3.4.2 Method of Withdrawal

3.4.2.1 General Loan for Liquid Capital

The Borrower shall withdraw the loan on agreed amount and at specified date. It is required to submit application to the Lender one day earlier for intention of adjusting the withdrawal plan and shall obtain the Lender's consent. Where the Borrower fails to go through the withdrawal procedures as prescribed by the Contract and further fails to submit an application for delaying the withdrawal, the Lender may request the Borrower to handle the procedures within specified period; otherwise, the Lender may cancel part of or the entire loan which has not been withdrawn and collect compensation for the cancelled amount of loan, the Lender could further re-determine whether to release the loan or not, as well as the conditions for loan withdrawal.

3.4.2.2 Recyclable liquid capital

3.4.2.2.1 The Borrower may submit separate loan applications to the Lender within the line of credit. Upon review and approval by the Lender, the Borrower may start the withdrawal procedures. But the term of each loan shall not exceed one year. In addition, the maturity date of each loan shall be within six months of the maturity date of the line of credit.

3.4.2.2.2 When the Borrower applies for withdrawal, it must submit a written withdrawal application, the contract in connection with the use of the loan, invoice and other relevant documents to the Lender.

3.4.2.3 Self-Service Recyclable Liquid Capital

Depending on its needs, the Borrower may initiate separate withdrawals within the line of credit through the sales counters or the electronic self-service channels provided by the Lender. However, the amount of each loan shall not be lower than RMB 50,000 and shall be multiples of RMB 10,000. The term of each loan shall not exceed one year and the maturity date of each loan shall not exceed the maturity date of the line of credit.

3.4.3 Loan Payment

3.4.3.1 Entrusted Payment

3.4.3.1.1 if adopting one of under distribution, the Borrower shall authorize the Lender to pay the loan funds to Borrower's transaction parties whose transaction contracts meet the condition described in this contract and business contracts' the agreed purpose;

(1) The payment objects are clear and single withdrawal amount is more than 1% of loan amount,

(2) The payment objects are clear and single withdrawal amount is more than 5 million RMB (include equal value foreign currency)

(3) Other cases the two parties agree: /

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3.4.3.1.2 If adopting the entrusted payment, the Borrower shall submit an application for withdrawal and the notice on entrusted payment to the Lender one day earlier, who is also required to provide related materials, such as business contract corresponding to the withdrawal, invoices and other certificates. Upon confirmation, the Lender will pay the loan directly to the Borrower's trading partner through the Borrower's account. Where the application for withdrawal is inconsistent with the provisions for withdrawal as prescribed in the Contract, or the application for entrusted payment is inconsistent with the Contract, existing incomplete or false trading information, the Lender may choose not to release or pay the loan; **and the Lender shall not be liable for breaching of contract by the Borrower to its trading partners or other damages hereunder.** The Lender shall not bear responsibility for the delay of or failure in loan release due to incorrect and incomplete payment information provided by the Borrower.

3.4.3.1.3 If the Borrower applies for payment suspension or abandon the payment entrustment, it shall submit the application in written prior to the payment by the Lender. Upon the Lender's confirmation, the entrusted payment will be suspended and the correspondent loan could be collected back; however, the interest for correspondent loan shall be collected pursuant to the Contract during this period. Where the Borrower applies to resume the entrusted payment afterward, it shall handle the procedures according to provision 3.4.3.1.2.

3.4.3.1.4 **No condition shall be attached to the entrusted payment. If there is condition attached to the Notice of Entrusted Payment, no obligation shall be created to the Lender hereof. Unless otherwise specified in written, the Borrower is not obligated to inform the Lender for issues of payment entrustment, suspension, abandonment and resuming.**

3.4.3.1.5 If adopting the entrusted payment, the Lender will be entitled to restrict the Borrower's relevant account in functions of payments and automatic withdrawals through off-counter channels such as internet banking, telephone banking, cash management channel and etc.

3.4.3.2 Independent Payment

Excluding conditions as agreed in provisions 3.4.3.1.1 and 4.1.1, the Borrower may choose independent payment according to the Contract when the loan has been issued to its account. The Borrower shall inform the Lender of the loan using progress, and further provide business contracts, invoices and other notes corresponding to the record of loan using in a timely manner as per its requirement. The Lender may confirm whether the loan has been used for specified purpose through account analysis, notes examination and field investigation.

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3.4.3.3 The Borrower shouldn't avoid entrusted payment by the Lender by means of breaking up the whole into parts or providing false information, etc.

3.4.3.4 Should the conditions of 1) degrading of credit status, 2) poor performance in main business, 3) abnormality in loan usage and 4) failing to use the loan on specified purpose happen to the Borrower, the Lender may choose to stop loan releasing and payment.

3.4.4 Return of Withdrawal

3.4.4.1 Where the loan been withdrawn exceeds the amount been actually paid for related transactions or the traded amount has been returned due to the failure in performing the entire business contract in correspondent to the loan under this Contract, or the business contract is terminated or becomes ineffective, though not contributed to the fault of Borrower, it shall return correspondent withdrawn loan back to the Lender.

3.4.4.2 Where the Borrower fails to spend the loan on specified purpose, the Lender is entitled to collect the loan back.

3.4.4.3 Before the loan was returned to the Lender as required by provisions 3.4.4.1 and 3.4.4.2, the interest shall be calculated and collected pursuant to provisions 3.3.1 and 3.3.2.

3.5 Financial Index Monitoring

N/A

3.6 Account Supervision

3.6.1 The Borrower's account for capital collection is as below:

The bank settlement account opened in Agricultural Bank of China, Shuanglong Branch, account number: 24219201040002355

3.6.2 The Lender is entitled to supervise the capital collection account by taking actions as below:

(1) Request the Borrower providing the flow in and out conditions of the capital collection account from time to time.

(2) Others. _____/

3.7 Loan Repayment

3.7.1 Method of Loan Repayment

3.7.1.1 The Borrower shall deposit the matured principal and interest into the account for repayment designated by the Lender prior to the date of repayment, and it shall irrevocably authorize the Lender to collect money from this account. If the balance of account for repayment is not sufficient, the Lender may collect money from other accounts which are opened by the Borrower in each institutions affiliated to the Agricultural Bank of China according to law.

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3.7.1.2 If the Lender exercises its right of offset according to law or contract, the Borrower may raise a dispute within 7 days which is dated from the Lender informing the Borrower by written, oral or other methods.

3.7.2 Order of Repayment

3.7.2.1 Unless otherwise specified, the loan shall be repaid according to the order as below:

1) **If there are several debts matured between the Lender and Borrower, and the amount of repayment is not sufficient to pay off the entire debts on due, it will be the Lender to decide the order of loan repayment and offset;**

2) Where the Lender exercises its right of offsetting according to law or contract, it will be the Lender to decide the order of offsetting; When the Lender exercises its right of subrogation, it will be the Lender to decide the order of secondary debtor paying off the debts.

3.7.2.2 Where the Borrower's balance is not sufficient to pay off the loan on due, the Lender can choose to treat the repayment as principal, interest, penalty interest, compound interest or expenditure on the realization of creditor's right.

3.7.3 Repayment ahead of Schedule

3.7.3.1 The Borrower shall inform the Lender in written three days in advance for intention of repayment ahead of schedule and shall obtain its approval. The orders of repayment please refer to the provision 3.7.2.

3.7.3.2 For loan repayment ahead of schedule, the interest will be collected by the method as below and the interest will end with the last payment of principal:

- (1) The interest will be collected according to the loan term and interest rate as agreed.
- (2) The interest will be collected according to the loan term and the rate rise /% upon agree interest rate in the contract
- (3) Others /

3.7.3.3 Where the Borrower repays the loan in advance, returned capital shall only be more than /RMB and is the integer multiples of /RMB.

3.7.3.4 Where the Borrower repays the loan in advance, the Borrower can charge fees from the lender, the fee is calculated according as /

- (1) Remaining term of the loan (in months, Less than one month calculate by a month) × amount of repays the loan in advance × 1‰
- (2) others

3.7.3.5 Where the Borrower only repays part of the loan in advance, it shall pay interest for remaining part of the loan

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3.7.4 Term Extension

Where the Borrower of ordinary current capital fails to repay the loan in specified date, it may apply for extension to the Lender. The application shall be submitted 15 days prior to the maturity date and an agreement on term extension will be executed upon the Lender's consent.

3.8 Loan Note

3.8.1 The loan note constitutes a part of this Contract. All those information, including amount of loan, amount of loan withdrawal, amount of repayment, date of loan release and loan maturity, loan term, loan interest, loan usage shall be subject to the record of loan note when they are inconsistency with those information recorded or not yet recorded information.

3.8.2 Under the loan form of recycled self-service current capital, if the Borrower withdraws the loan through electronic self-service channel, all those information, including amount of loan, amount of loan withdrawal, amount of repayment, date of loan release and loan maturity, loan term, loan interest, loan usage shall be subject to the electric record.

3.9 Guaranty

3.9.1 The method of guaranty for the loan under this Contract is the Maximum Pledge Contract. Contract No: 53100720110000041

3.9.2 The guaranty contract will be executed among the Lender, Borrower and Guarantor separately.

3.10 Rights and Obligations

3.10.1 Lender's Rights and Obligations

- 1) Withdraw the loan as agreed in this Contract;
 - 2) Repay the principal and interest at full amount and in a timely manner;
 - 3) Shall use the loan by law or by the purpose and method as prescribed in the contract, and may neither use the loan for fixed assets or equity investment nor manufacturing or business operation prohibited by the state;
 - 4) Accept the supervision and examination by the Lender or its trustee over the Borrower's financial activities and loan usage; Submit materials related to the loan usage, financial information or other information as required by the Lender;
 - 5) **The Borrower shall inform the Lender in written and obtain its consent to put following activities into practice; the Lender may also participate in activities as below:**
 - i. Activities about contracting, leasing, shareholding reform, jointing operation, merging, separating, registered capital reducing, jointing venture, assert transferring, major outbound investment, bond issuing, large amount of financing, material associated transaction, applying for stopping operation for correction, applying for dissolving, applying for bankrupting, etc.
-

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ii. Provide large amount of guarantee or mortgage, pledge with its major asset to third party, which may affect the Borrower's ability of loan repaying;

iii. Other adverse conditions may cause significant change to the debt relationship under this Contract or affect the realization of creditor's right;

6) The Borrower shall inform the Lender in written within 5 days upon the happening of following events:

i. The Borrower and its legal representative, person in charge or actual controller are involved in illegal activities;

ii. Stop production or operation, cancellation or forced cancellation of business license;

iii. Deterioration of financial status, material difficulty in production and operation or significant adverse dispute;

iv. Other issues may affect adversely the realization of creditor's right.

7) The Borrower shall inform the Lender in written within 7 days upon the happening of following events:

i. Changes in affiliated relationships, major changes in management, major adjustments in organizational structure;

ii. Major changes in registered names, place of residence and scope of business or in franchised issues;

iii. Increase in registered capital, material amendment to the articles of incorporation;

iv. Changes in other issues which may affect the Borrower's performance of debt;

8) The Borrower may not escape from debt by means of withdrawing funds, transferring assets or, may not participate in other activities that could damage the Lender's benefit;

9) The Borrower shall be liable for expenditures on legal service, insurance, transportation, evaluation, registration, custody, identification or notarization related to this Contract or guarantee under this Contract;

10) Other rights and obligations as regulated by law or as agreed by both parties.

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3.10.2 The Lender's Rights and Obligations

- 1) Shall release the loan at full amount and in timely manner, provided that the delay of loan release is caused by the Borrower itself or other causes beyond the Borrower's fault;
- 2) Be entitled to supervise or examine over the Borrower's conditions on production and operation, financial status, supplies storage and loan usage, also to request providing with relevant documents and information;
- 3) If the following events happen: i) the loan security or debt performance may be affected, or ii) the Guarantor encounters production or operation halts, cancellation of business license, bankruptcy, revocation or major loss in operation which could cause losing part of or entire ability of guaranty; or iii) the value reduce, accidental damage or loss of collateral which could jeopardizes the realization of guaranty. The Lender may request the Borrower to improve its protection on creditor's right and provide other effective guaranty; the Lender may also reduce or cancel the line of credit, stop releasing the loan, announcing that the loan under this Contract and other contracts matures ahead of schedule, therefore needs to be collected in advance.
- 4) Other rights and obligations as regulated by law or as agreed by both parties.

3.10.3 Other Obligations

3.10.3.1 Each party shall bear its confidential obligation for another party for trade secrets and other interest-related information during the course of contract execution and performance; Neither party shall disclose the above mentioned information to third party without obtaining consent from another party, unless otherwise specified by laws and regulations.

3.10.3.2 Upon the termination of rights and obligation under this Contract, each party is required to perform its duty of noticing and assisting as necessary as per the principle of good faith.

4. Supplemental Provisions

All provisions as below are applicable to the loan under this Contract and is binding to both parties

4.1 Conditions on Loan Usage

4.1.1 The interest shall be collected as agreed during the period of being limited to use the loan.

4.1.2 Before the condition for loan usage is satisfied, the Borrower shall inform the Lender immediately when such activities happen: 1) been inquired by concerned authorities; 2) accounts been frozen or deducted or 3) been claimed the right by third party.

4.2 Other Provisions

None.

5. Legal Liability

5.1 The following actions conducted by the Borrower shall constitute breach of contract:

- 1) Violate the obligations as prescribed in this Contract;
 - 2) Fails in performing the promise as made in Provision 2 under this Contract;
 - 3) Clearly express its willing by words or actions of neither paying off the debts on due nor debts unexpired;
 - 4) The Lender announces that the Borrower's act has constituted breach of Contract due to failure in performing or fulfilling the obligations as agreed in other contracts between the two parties;
 - 5) Other conditions that the Borrower fails in performing or fulfilling the Contract.
-

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5.2 The Lender may terminate this Contract or other contracts between the two parties if the following conditions happen:

- 1) The actions of the Borrower or its Guarantor have constituted breach of contract;
- 2) Significant adverse changes may happen to the Borrower's or its Guarantor's ability of repaying the loan ;
- 3) The mortgage or pledge may have suffered from significant damage or value impairment;
- 4) Adjustment to state policies may have significant adverse effect to security of loan;
- 5) The Borrower conducts act of material breach of contract to other creditors.
- 6) Other conditions that could terminate the Contract by law or as per the agreement between the two parties.

If the Contract is terminated by the Lender, the Borrower may raise a dispute within 7 days which is dated from the Lender informing the Borrower by written, oral or other methods.

5.3 Should conditions mention in the Provisions 5.1 and 5.2 really happen, the Lender may take following remedy measures:

- 1) Request the Borrower or Guarantor to correct its act of breach or other acts of undermining the security of loan, putting other measures of debt guarantee into practice or proving other effective guarantee.
- 2) Should the Borrower fail in using, repaying the loan or paying interest as agreed in this Contract, the Lender may levy penalty interest and compound interest for this purpose, until the Borrower pays off the principal and interest;
- 3) Reduce or cancel the Borrower's line of credit in loan borrowing, stop releasing the loan, **collect the already released loan ahead of schedule, announcing that the loan under other loan contracts between the two parties has expired.**
- 4) Exercise legal or prescribed right of offset to the Borrower;
- 5) Request the Borrower to bear liability of damage or other legal liabilities;
- 6) Take measure of asset protection or other legal measures accordingly;
- 7) May disclose the Borrower's act of breach of contract;
- 8) Other remedies.

5.4 Where the Lender is forced to realize its creditor's right through litigation or arbitration due to the Borrower's breach of contract, it shall be liable for expenses on lawyer, business travel, enforcement, evaluation and other expenditures necessary to realize the creditor's right.

5.5 On condition that the Borrower has performed its obligations under this Contract, if the Lender fails in releasing the loan in full amount at specified period, it shall be liable for all actual damages suffered by the Borrower.

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6. Other Matters

6.1 Notice

All notices and communication under this Contract shall be delivered to the other party as per the mailing address, telex No. or other ways of contact recorded in this Contract, and one party shall inform the other party timely for changes in method of contact.

6.2 Settlement of Dispute

6.2.1 If there is any dispute in the process of implementing this contract, the two parties can negotiate to settle it, and also can settle it as per the method 1 below:

1. Lawsuit. The People's Court in the Lender's residence has the jurisdiction.
2. Arbitration. Submit the dispute to / (the name of the arbitration organization) and arbitrate it according to its arbitration rules.

6.2.2 During the lawsuit or the arbitration, the terms under this contract which have not been involved in the dispute still need to be executed.

6.3 Contract Effectiveness

6.3.1 This Contract shall come into force as of the date of execution and sealing by both parties.

6.3.2 Place of execution:

6.3.3 Where part of the Contract or the entire Contract are required to be enforced in accordance with newly announced laws and regulation prior to the complete implementation due to changes in laws and regulations, the Lender may put relevant provisions into practice accordingly. Unless otherwise agreed upon by both parties.

6.3.4 Anything not covered in this Contract will be discussed separately by both parties.

6.3.5 This Contract shall be executed in three original copies, each for both parties, each for Guarantor, which shall have equal force and effect.

Declaration by the Borrower: The Lender has reminded us paying attention to relevant provisions (especially those provisions in black) hereof by law and, at our request, explained the provisions as necessary. We have read and understood the provisions here above.

Borrower (Seal & Signature):

“KUNMING SHENG HUO PHARMACEUTICS (GROUP) CO., LTD.” (Seal)

Legal Representative or Authorized Agent: Gui Hua Lan (Signature)

Lender (Seal & Signature):

“AGRICULTURAL BANK OF CHINA KUNMING SHUANGLONG BRANCH” (Seal)

Principal or Authorized Agent: Wei Li (Signature)

Date of Execution: August 26, 2011

Place of Execution: Agricultural Bank of China Kunming Shuanglong Branch

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Exhibit 10.2

Lease Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden

Party A: The Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre

Party B: Kunming Shenghuo Pharmaceutical (Group) Co., Ltd.

In connection with the construction of the project in the Kunming Shilin Taiwan Farmer Entrepreneur Centre (the "Entrepreneur Centre") located at the Stone Forest County, Kunming, Yunnan Province, Party A and Party B signed the Project Investment Agreement on May 12, 2010. Party B is entitled to begin the development and construction of the project of Shilin Shenghuo TCM Cultural Garden within the Entrepreneur Centre. In order to coordinate the use of land and protect mutual benefits, Party A and Party B hereby have reached the following lease agreement (the "Agreement") through negotiation.

1. Lease area: 2,658 mu, of which 2485 mu is dry land and 173 mu is the Heishiqing Stone Forest land. The red line map for land use is attached.
2. Project location: the leased land for the project is located in the center of the Entrepreneur Centre, which is south to the Xishi highway, north to the Modern Agriculture Traveling Centre (included), east to the main street of the Entrepreneur Centre and west to the right side of a pool on the railway bridge of Xishi highway; and the land used for the Xintian Food Project is excluded. The practical land area will be subject to the red line of four boundaries of this land.
3. Term of Lease: 20 years dated from August 1, 2010 to July 31, 2030.
4. Fee and Method of Payment:
 - 1) Fee: 600 yuan per mu each year for dry land; 800 yuan per mu each year for paddy field. The land rental fee for 173 mu-Heishiqing Stone Forest land for the entire period of 20 years is RMB 800,000 in total.
 - 2) Method of Payment:
 - i) Party B shall pay the annual rental fee for the first five years (the payment will be settled before July 15 of each year), and thereafter Party B shall pay the remaining rental fee for the rest of 15 years in a lump sum. The rental fee for Heishiqing Stone Forest land shall be paid off in full in the first payment;
 - ii) Party B is required to pay the rental fee on time during the lease period. If the rental fee is overdue as a result of Party B's poor operation, a 5% late fees shall be charged for each month;

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If Party B suffers any serious loss which eventually results in irreversible crisis due to force majeure, such as market environment and policy changes, etc, Party B may apply to Party A to terminate the Agreement. Party A shall not indemnify Party B for any loss caused by the termination of the Agreement, and Party B shall bear all the responsibilities on its own.

5. Upon the execution of this Agreement, Party A shall clearly define the scope of the leased land to Party B before July 31, 2010 and complete the affirmation of the land survey, then transfer it to Party B for use. Meanwhile, Party A shall assist Party B in handling issues related to water, power, and road etc.

6. Party A shall represent and warrant that it is the owner of the land use right of the designated land and that no other parties or individuals shall challenge the ownership of the designated land during the term of lease. Otherwise, Party A shall be responsible for solving the dispute and bearing the compensation for any economic damages of Party B. Party A shall also assist Party B to in connection with the land related procedures.

7. Party B shall perform legal operations in the leased land and is required to conduct the construction in accordance with the planned proposal accepted by both parties. Party B is not allowed to sublease or change land use without the permission of Party A.

8. During the term of the lease, if the leased land encounters the government requisition under national macro control policy, Party B is entitled to the compensation for the annex in land invested by Party B and related damages; Party A shall provide assistance to Party B in relevant work. And the Agreement shall be terminated automatically hereto.

9. If Party B intends to renew the lease upon expiration of the lease term, it shall have the right of priority to lease the land under the same conditions.

10. According to the development and construction needs, Party B is allowed to purchase land at the market price, and the land purchasing price shall be offset by the rental fee that has already been paid.

11. Where the term of lease expires or both parties agree to terminate the Agreement, Party B shall remove all the buildings (or structures) on the land within 60 days. Should any of them have not been removed upon expiration of the lease, they shall be considered as abandoned by Party B and shall belong to Party A.

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12. Party B shall employ the local workers under the same wage conditions when hiring service workers, but the workers shall follow the arrangement of Party B.

13. Any other issues unmentioned in this agreement shall be resolved through negotiation between two parties.

14. This Agreement has 6 duplicate copies, three copies for each party. This agreement comes into effect upon being signed by Party A and Party B with stamps affixed.

Party A: The Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre

Legal representative (Signature): Yu Chun

Party B: Kunming Shenghuo Pharmaceutical (Group) Co., Ltd.

Legal representative (Signature): Lan Guihua

Date: September 8, 2010

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Exhibit 10.3

Supplemental Agreement on the Project of Construction of Shilin Shenghuo TCM Cultural Garden

Party A: The Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre

Party B: Kunming Shenghuo Pharmaceutical (Group) Co., Ltd.

Through friendly negotiations, Party A and Party B have reached the following supplemental agreements with respect to the purchase price of certain land of Shinlin Shenghuo TCM Cultural Garden that Party B will invest in, develop and construct:

1. The land to be purchased covers an area of 210 mu and the purchase price is RMB 180,000 per mu.
2. Party A is entitled to terminate the Agreement and take back the land used for purpose of this project for free if Party B fails to start construction in time upon acquiring the land, fails to inject investment as agreed upon or fails to implement the project in accordance with the standards that have been agreed upon.
3. Party B shall make a lump sum pre-payment of RMB 12 million to Party A prior to December 20, 2010.
4. Party A shall provide Party B with a topographic map in scale of 1:500 within 5 days since the date of the execution of this Agreement. This topographic map is intended to be made for the convenience of Party B's project plan and design, therefore, the land survey fee shall be born by Party B.
5. This Agreement has 6 duplicate copies, three copies for each party. This Agreement comes into effect upon being signed by Party A and Party B.

Party A: The Management Commission of Kunming Shilin Taiwan Farmer Entrepreneur Centre
Legal representative (Signature): Yu Chun

Party B: Kunming Shenghuo Pharmaceutical (group) Co., Ltd.
Legal representative (Signature): Lan Guihua

Date: September 8, 2010

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EXHIBIT 31.1

CERTIFICATION

I, Feng Lan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of China Shenghuo Pharmaceutical Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Feng Lan
Name: Feng Lan
Title: Chief Executive Officer and President (Principal Executive Officer)

November 14, 2011

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EXHIBIT 31.2

CERTIFICATION

I, Raymond Wang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of China Shenghuo Pharmaceutical Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Raymond Wang

Name: Raymond Wang
Title: Chief Financial Officer (Principal Financial Officer)

November 14, 2011

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Vintage Filings

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32.1 **Pg:** 1 of 1

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of China Shenghuo Pharmaceutical Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Feng Lan

Name: Feng Lan

Title: Chief Executive Officer and President

/s/ Raymond Wang

Name: Raymond Wang

Title: Chief Financial Officer

November 14, 2011

A signed original of this written statement required by Section 906 has been provided to China Shenghuo Pharmaceutical Holdings, Inc. and will be retained by China Shenghuo Pharmaceutical Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
