

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

Form 10-K

April 15, 2010

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the Fiscal Year Ended December 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation)

**000-04494**  
(Commission File Number)

**13-5661446**  
(IRS Employer Identification  
Number)

**Wenyang Town**

**Feicheng City**

**Shandong, China 271603**

(Address of principal executive offices)

Registrant's telephone number, including area code: **86 538 3850 703**

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$0.001

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the [ ]  
Yes  No

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 past 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Not Applicable.

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

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  (Do not check if a smaller reporting company)

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of the last business day of the registrant's most recently completed second fiscal quarter. \$1,928,815

As of April 14, 2009, the Company had 26,000,000 shares issued and outstanding.

## PART I

### ITEM 1.

#### BUSINESS.

##### Business Development

China RuiTai International Holdings Co., Ltd. (hereinafter referred to as we, us, our, the Company, or the Registrant) was organized under the laws of the State of Delaware on November 15, 1955, under the name "Inland Mineral Resources Corp." We were formed for the purpose of engaging in all lawful businesses. Our initial authorized capital consisted of 2,000,000 shares of \$0.01 par value common voting stock. Currently, the Registrant, through its wholly-owned subsidiary, Pacific Capital Group Co., Ltd., ( Pacific Capital Group ) a corporation incorporated under the laws of the Republic of Vanuatu and its majority-owned subsidiary, TaiAn RuiTai Cellulose Co., Ltd., ( TaiAn ) a Chinese limited liability company, is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products in the Peoples Republic of China ( PRC ).

##### Charter Amendments and Re-capitalizations

The following amendments and/or re-capitalizations were effected by us in accordance with the Delaware General Corporations Code:

- \* On May 8, 1968 our authorized shares were increased to 5,000,000 shares of \$0.01 par value common voting stock.
- \* On April 25, 1969, our name was changed to "Parker-Levitt Corporation," and we also increased our authorized capital to 20,000,000 shares, comprised of 15,000,000 shares of \$0.01 par value common voting stock, and 5,000,000 shares of \$0.01 par value preferred stock.
- \* On November 19, 1976, we changed our name to "Commercial Property Corp."
- \* On December 13, 1976, our name was changed back to "Parker-Levitt Corporation."
- \* On June 23, 1977, we changed our name to "Commercial Property Corporation."
- \* On October 18, 1982, our authorized capital was reduced to 3,000,000 shares of \$0.01 par value common voting stock only.

\* On April 1, 1998 the Registrant effected a 1-for-100 reverse stock split of the Registrant's outstanding common stock. The Board of Directors determined that no shareholder should have their share holdings reduced to less than 50 shares; therefore, an additional 56,632 shares of common stock were issued in conjunction with the reverse stock split.

\* On December 23, 2004, we filed Amended and Restated Articles of Incorporation with the State of Delaware to: (i) authorize 10,000,000 shares of preferred stock with \$0.001 par value; (ii) authorize 50,000,000 shares of common stock with \$0.001 par value; (iii) change the common stock par value from \$0.01 par value to \$0.001; (iv) allow for forward and reverse pro rata stock splits without stockholder approval; (v) allow the Board of Directors to change our name without stockholder approval; and (vi) to opt out of Delaware corporate law control share acquisition provisions.

\* In March 2005, the Registrant effected a two for one dividend with a mandatory exchange of stock certificates resulting in a two for one forward stock split while retaining our authorized capital and par

value, with appropriate adjustments in our stated capital and capital surplus accounts.

\* On November 15, 2006, as reported on the Form 8-K Current Report filed with the Securities and Exchange Commission on November 20, 2006, we changed our name from Commercial Property Corporation to Shandong Ruitai Chemical Co. Ltd. The change of the name was made pursuant to Section 253 of the Delaware General Corporation Law after the wholly-owned subsidiary of the Registrant merged with and into the Registrant with the Registrant surviving the merger.

\* Effective, March 12, 2007, pursuant to Amended and Restated Articles of Incorporation filed with the State of Delaware, the Registrant changed its name from Shandong RuiTai Chemical Co. Ltd. to China RuiTai International Holdings Co., Ltd.

All computations herein take into account all of the foregoing re-capitalizations.

### **Historical Business Operations**

Subsequent to our inception, we entered into several business acquisitions with subsidiaries and held various limited partnership interests related to real property development. These operations were not successful, and we discontinued the majority of our operations by 1981. We were dormant as the result of the revocation of our corporate charter by the State of Delaware due to our failure to pay the required franchise taxes from 1984 until 1997. In 1997, our corporate charter was reinstated. From 1997 until November 2007 we did not conduct any material business operations.

As disclosed on Forms 8-K filed with the Securities and Exchange Commission on September 5, 2007 and November 9, 2007, on August 29, 2007, the Registrant entered into a Share Exchange Agreement (the Exchange Agreement) with Pacific Capital Group, and the shareholders of Pacific Capital Group (the Shareholders). Pursuant to the terms of the Exchange Agreement, the Shareholders agreed to transfer all of the issued and outstanding shares of common stock in Pacific Capital Group to the Registrant in exchange for the issuance of an aggregate of 22,645,348 shares of the Registrant's common stock to the Shareholders, thereby causing Pacific Capital Group to become a wholly-owned subsidiary of the Registrant (the Share Exchange). Upon closing of the Share Exchange on November 8, 2007, the Shareholders of Pacific Capital Group delivered all of their equity capital in Pacific Capital Group to the Registrant in exchange for 22,645,348 shares of common stock of the Registrant. The Share Exchange resulted in Pacific Capital Group, and Pacific Capital Group's operating subsidiary, TaiAn becoming wholly and majority owned subsidiaries, respectively, of the Registrant.

As a result of the Share Exchange described above, on November 8, 2007, Pacific Capital Group became a wholly-owned subsidiary of the Registrant. Pacific Capital Group was incorporated on November 23, 2006 under the

laws of the Republic of Vanuatu as a holding company, for the purposes of seeking and consummating a merger or acquisition with a business entity. On April 26, 2007, following the approval by the relevant governmental authorities in the PRC, Pacific Capital Group acquired a 99% ownership interest in TaiAn, which was formed in the PRC on November 10, 1999. As a result of the transaction, TaiAn became a majority-owned subsidiary of Pacific Capital Group. Pacific Capital Group, through TaiAn, engages in the development, manufacturing, and distribution of cellulose ether.

Prior to the closing of the Share Exchange, the Registrant was a shell company with no or nominal business operations. As a result of the closing of the Share Exchange, the Registrant succeeded to the business of TaiAn as its sole line of business. TaiAn is based in Feicheng City, Shandong Province, PRC.

The Chart below depicts the corporate structure of the Registrant. As depicted below, the Registrant owns 100% of the capital stock of Pacific Capital Group and has no other subsidiaries. Pacific Capital Group

owns 99% of the capital stock of TaiAn and has no other subsidiaries. TaiAn has no subsidiaries.

### **Business of the Issuer**

As noted above, the Registrant does not directly carry on business operations. All of the business operations of the Registrant are conducted through its wholly-owned and majority owned subsidiaries. As used in this Form 10-K, unless otherwise specifically noted, from this point forward all references to the Company, we, our and us refer to Registrant, and its wholly owned subsidiaries, Pacific Capital Group and TaiAn.

The Registrant, through its wholly-owned subsidiary, Pacific Capital Group and its majority-owned subsidiary, TaiAn, is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. Cellulose ether is an organic chemical that dissolves in water and other organic solvents. Due to the surface-active properties of cellulose ether, it acts as a thickener and stabilizer in aqueous solutions, making it a beneficial additive in a wide variety of commercial industries and products, including, but not limited to the pharmaceutical industry, the construction industry, PVC products, food and beverage products, petroleum, and cosmetics. Specific examples of applications in which cellulose ether products are used include: as a stabilizer and thickener in latex paint; in mortar dry mix for building materials; to improve the performance of resin in PVC production; as a membrane reagent, stabilizer, and thickener in pharmaceuticals; and to improve jam, ice cream,



toothpaste and lipsticks in the food and cosmetic industries. TaiAn is one of the largest non-ionic cellulose ether producers in China.

### **Products**

TaiAn has twelve major product lines which are marketed under its brand name RuiTai. TaiAn's product lines, which are all focused around and related to cellulose ether, include: 1) Hydroxypropyl Methyl Cellulose (HPMC); 2) Methyl Cellulose (MC); 3) Ethyl Cellulose Aqueous Dispersion (EAD); 4) Ethyl Cellulose (EC); 5) Hydroxyethyl Cellulose (HEC); 6) CMC; 7) Microcrystalline Cellulose (MCC); 8) HEMC; 9) Hypromellose Phthalate (HPMCP); 10) Hydroxypropyl Cellulose (HPC); and 11) Film Coating Pre-Mixed Reagent. Cellulose ether is an organic chemical that dissolves in water and other organic

solvents. Due to the surface-active properties of cellulose ether, it acts as a thickener and stabilizer in aqueous solutions, making it a beneficial additive in a wide variety of commercial industries and products, including, but not limited to the pharmaceutical industry, the construction industry, PVC products, food and beverage products, petroleum, and cosmetics. Specific examples of applications in which TaiAn's products are used include: as a stabilizer and thickener in latex paint; in mortar dry mix for building materials; to improve the performance of resin in PVC production; as a membrane reagent, stabilizer, and thickener in pharmaceuticals; and to improve jam, ice cream, toothpaste and lipsticks in the food and cosmetic industries.

### **Research and Development and New Products**

Research and development of new products and innovation has been emphasized throughout TaiAn's corporate existence. TaiAn has a scientific research center equipped with sophisticated experimental facilities and testing instruments for conducting preliminary and pilot processes for the development of new products. New products that the Company has introduced over the last few years as a result of its research and development include HPMC, MC, HPC, and EAD.

### **Distribution Methods**

TaiAn distributes its products through two primary methods of distribution: 1) through distributors to gain access to overseas customers, which accounted for approximately 30% of TaiAn's total sales in 2008, and approximately 34.00% in 2009; and 2) through sales agents working at sales offices throughout the PRC, which accounted for approximately 70% of TaiAn's total sales in 2008, and approximately 66.00% in 2009. Additionally, TaiAn operates thirty sales offices throughout China. TaiAn currently operates two offices in both Beijing and Shanghai, and operates a single office in each of the following cities: Guangzhou, Qingdao, Nanjing, Chongqing, ChengDu, Shenyang, and Wulumuqi.

### **Customers and Marketing**

#### **Customers**

TaiAn's customers include the following companies, Changsha Xiangtai Technology Co., Ltd., Bang and Bonsomer Co., Ltd., and Viscochem Reselg and Development Ltd. TaiAn also exports approximately 1,862 tons of ether products in 2009 and 1,950 tons in 2008, to foreign markets in the United States, Europe, India, and the Middle East.

## **Marketing**

TaiAn employs a sales manager who is in charge of organizing and overseeing the Company's marketing and advertising program which is designed to promote the RuiTai brand through commercial advertisements, sales record tracking, customer consultations, service quality improvements, pricing scheme decisions, and participation at industry conferences, all of which are designed to enhance the Company's brand name recognition and popularity. In addition to the operation of its marketing department, TaiAn also focuses on customer service and has established internal controls and procedures as well as employee training focused on meeting its customers' needs. In an effort to maximize its customer satisfaction, TaiAn maintains user profiles of its customers and compiles and responds to customer requests, suggestions, and complaints. Post-sales support is provided to TaiAn's customers, and if necessary sales representatives will visit customers' businesses to respond to and address any issues relating to the quality of TaiAn's products.

## **Sources and Availability of Raw Materials**

The two major raw materials required for the production of cellulose ether products are: 1) purified cotton; and 2) etherifying epoxy propane. China is a predominantly agricultural country that produces significant amounts of purified cotton. TaiAn is located in Feicheng City in the Shandong Province, a region known for its cotton production. As a result of its location, it is convenient for TaiAn to obtain adequate supplies of high-quality cotton at competitive prices to facilitate the production of its products. In addition to our need for cotton, we also utilize large amounts of etherifying epoxy propane in the production of our products. Within the Shandong Province, Qilu Petrochemical Company, Shandong Insecticide Factory, and Shandong Dongda Company all produce large quantities of etherifying epoxy propane each year. Thus, the assurance of an adequate supply of this raw material is also expected for the near future.

### **Intellectual Property**

The Company has registered the trademark RuiTai with the Trademark Bureau, State Administration for Industry and Commerce, People's Republic of China. The Company does not own any other trademarks or patents.

Other parties are actively developing cellulose ether products. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and cover significant parts of our technology, business methods or services. We cannot be certain that our products do not or will not infringe on any valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims, from time to time, relating to the intellectual property of others in the ordinary course of our business.

In addition, we may license technology from third parties. The market is evolving and we may need to license additional technologies to remain competitive. We may not be able to license these technologies on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our services. Our inability to obtain any of these licenses could delay product and service development until alternative technologies can be identified, licensed and integrated.

### **Government Regulation**

The Company is subject to regulation by both the PRC central government and local governmental agencies located in Feicheng City. In the ordinary course of its business, the Company is subject to numerous environmental laws and regulations covering compliance matters or imposing liability for the costs of, and damages resulting from, cleaning

up sites, past spills, disposals and other releases of hazardous substances. Changes in environmental laws and regulations may have a material adverse effect on the Company's financial position and results of operations. Any failure by the Company to adequately comply with such laws and regulations could subject the Company to significant future liabilities.

### **Employees**

The Company currently employs 555 full time employees. The following table sets forth the number of our employees categorized by function as of that date:

| <b>Category of Employees</b> | <b>Numbers of Employees</b> |
|------------------------------|-----------------------------|
| Management Level             | 43                          |
| Finance Department           | 15                          |
| Security                     | 12                          |
| Statistic Department         | 13                          |

|                              |     |
|------------------------------|-----|
| Sales Department             | 82  |
| Quality Control Department   | 35  |
| General Administrative Staff | 30  |
| Export Supply                | 15  |
| General Factory Workers      | 310 |
| Total                        | 555 |

**Reports to Security Holders**

We are required to file reports with the SEC under section 13(a) of the Securities Act. The reports will be filed electronically. You may read copies of any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that will contain copies of the reports we file electronically. The address for the SEC Internet site is <http://www.sec.gov>.

**ITEM 1A.**

**RISK FACTORS**

Not Applicable.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not Applicable.

**ITEM 2.**

**PROPERTIES.**

TaiAn's headquarters are located in Wenyang Town, in the Feicheng City in the Shandong Province of China. In the PRC, all land belongs to the State. Enterprises and Individuals can pay the State a fee to obtain the rights to use a parcel of land for either commercial or residential purposes for initial periods of either 50 or 70 years. The Company currently owns the use rights of two parcels of adjoining land, totaling approximately 56.76 acres, on which its manufacturing plant and office building are located. Specifically, the Company's land use rights are for: i) approximately a 20 acre parcel for a 50 year period ending on December 2, 2055; and ii) a 36 acre parcel ending on June 5, 2054. The Company's manufacturing plant encompasses approximately 40,000 square meters of space and includes ten workshops with over 3,000 pieces of manufacturing equipment. The Company also maintains a 322,920 square foot office building on its property.

**ITEM 3.**

**LEGAL PROCEEDINGS.**

The Company is not a party to any significant pending legal proceedings, and no such proceedings are known to be contemplated. No director, officer or affiliate of the Company, and no owner of record or beneficial owner of more than 5.0% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

**ITEM 4.**

**(REMOVED AND RESERVED).**

**PART II****ITEM 5.****MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information.**

The Company's shares trade on the Over the Counter Bulletin Board under the symbol CRUI. Very limited trading activity has occurred during the past two years with our common stock; therefore, only limited historical price information is available. The following table sets forth the high and low bid prices of our common stock (USD) for the last two fiscal years and subsequent interim period, as reported by the National Quotation Bureau and represents inter dealer quotations, without retail mark-up, mark-down or commission and may not be reflective of actual transactions:

|                            | (U.S. \$)   |            |
|----------------------------|-------------|------------|
|                            | <b>HIGH</b> | <b>LOW</b> |
| <b>2008</b>                |             |            |
| Quarter Ended March 31     | \$4.25      | \$2.50     |
| Quarter Ended June 30      | \$10.00     | \$3.50     |
| Quarter Ended September 30 | \$6.00      | \$3.80     |
| Quarter Ended December 31  | \$4.84      | \$0.40     |
| <b>2009</b>                |             |            |
| Quarter Ended March 31     | \$1.20      | \$.51      |
| Quarter Ended June 30      | \$1.01      | \$.20      |
| Quarter Ended September 30 | \$1.05      | \$.33      |
| Quarter Ended December 31  | \$1.25      | \$.55      |

 **Holders.**

As of December 31, 2009 there were 26,000,000 shares of common stock issued and outstanding and approximately 737 shareholders of record.



**Dividends.**

The Company has not declared or paid any cash dividends on its common stock during the fiscal years ended December 31, 2009 or 2008. There are no restrictions on the common stock that limit the ability of us to pay dividends if declared by the Board of Directors and the loan agreements and general security agreements covering the Company's assets do not limit its ability to pay dividends. The holders of common stock are entitled to receive dividends when and if declared by the Board of Directors, out of funds legally available therefore and to share pro-rata in any distribution to the stockholders. Generally, the Company is not able to pay dividends if after payment of the dividends, it would be unable to pay its liabilities as they become due or if the value of the Company's assets, after payment of the liabilities, is less than the aggregate of the Company's liabilities and stated capital of all classes

**ITEM 6.**

**SELECTED FINANCIAL DATA.**

Not Applicable.

**ITEM 7.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.**

**SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

CERTAIN STATEMENTS IN THIS REPORT, INCLUDING STATEMENTS IN THE FOLLOWING DISCUSSION, ARE WHAT ARE KNOWN AS "FORWARD LOOKING STATEMENTS", WHICH ARE BASICALLY STATEMENTS ABOUT THE FUTURE. FOR THAT REASON, THESE STATEMENTS INVOLVE RISK AND UNCERTAINTY SINCE NO ONE CAN ACCURATELY PREDICT THE FUTURE. WORDS SUCH AS "PLANS," "INTENDS," "WILL," "HOPES," "SEEKS," "ANTICIPATES," "EXPECTS "AND THE LIKE OFTEN IDENTIFY SUCH FORWARD LOOKING STATEMENTS, BUT ARE NOT THE ONLY INDICATION THAT A STATEMENT IS A FORWARD LOOKING STATEMENT. SUCH FORWARD LOOKING STATEMENTS INCLUDE STATEMENTS CONCERNING OUR PLANS AND OBJECTIVES WITH RESPECT TO THE PRESENT AND FUTURE OPERATIONS OF THE COMPANY, AND STATEMENTS WHICH EXPRESS OR IMPLY THAT SUCH PRESENT AND FUTURE OPERATIONS WILL OR MAY PRODUCE REVENUES, INCOME OR PROFITS. NUMEROUS FACTORS AND FUTURE EVENTS COULD CAUSE THE COMPANY TO CHANGE SUCH PLANS AND OBJECTIVES OR FAIL TO SUCCESSFULLY IMPLEMENT SUCH PLANS OR ACHIEVE SUCH OBJECTIVES, OR CAUSE SUCH PRESENT AND FUTURE OPERATIONS TO FAIL TO PRODUCE REVENUES, INCOME OR PROFITS. THEREFORE, THE READER IS ADVISED THAT THE FOLLOWING DISCUSSION SHOULD BE CONSIDERED IN LIGHT OF THE DISCUSSION OF RISKS AND OTHER FACTORS CONTAINED IN THIS REPORT ON FORM 10-K AND IN THE COMPANY'S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION. NO STATEMENTS CONTAINED IN THE FOLLOWING DISCUSSION SHOULD BE CONSTRUED AS A GUARANTEE OR ASSURANCE OF FUTURE PERFORMANCE OR FUTURE RESULTS.

**Company Overview**

The Registrant was originally incorporated in Delaware on November 15, 1955, under the name "Inland Mineral Resources Corp." and was formed for the purpose of engaging in all lawful businesses. On March 12, 2007, the Registrant changed its name to China RuiTai International Holdings Co., Ltd. On November 8, 2007, the Registrant acquired Pacific Capital Group Co., Ltd., and its majority-owned subsidiary, TaiAn RuiTai Cellulose Co., Ltd., pursuant to the terms of the Exchange Agreement discussed above. This transaction was accounted for as a reverse merger with Pacific Capital Group deemed to be the accounting acquirer and the Registrant as the legal acquirer. Consequently, the assets and liabilities and the historical operations that are reflected in the financial statements for periods prior to the Share Exchange are those of Pacific Capital Group and its subsidiary and are recorded at the historical cost basis of Pacific Capital Group. For the period subsequent to the completion of the Share Exchange, the Registrant's consolidated financial statements include the assets and liabilities of both the Registrant and Pacific

Capital Group, the historical operations of Pacific Capital Group and the operations of the Registrant and its subsidiaries from the closing date of the Share Exchange.

The Registrant, through its wholly-owned subsidiary, Pacific Capital Group and its majority-owned subsidiary, TaiAn, is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. Cellulose ether is an organic chemical that dissolves in water and other organic solvents.

Due to the surface-active properties of cellulose ether, it acts as a thickener and stabilizer in aqueous solutions, making it a beneficial additive in a wide variety of commercial industries and products, including, but not limited to the pharmaceutical industry, the construction industry, PVC products, food and beverage products, petroleum, and cosmetics. Specific examples of applications in which cellulose ether products are used include: as a stabilizer and thickener in latex paint; in mortar dry

mix for building materials; to improve the performance of resin in PVC production; as a membrane reagent, stabilizer, and thickener in pharmaceuticals; and to improve jam, ice cream, toothpaste and lipsticks in the food and cosmetic industries. TaiAn is one of the largest non-ionic cellulose ether producers in China.

## **Results of Operations**

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operation and financial condition for the fiscal year ended December 31, 2009. The following discussion should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Form 10-K.

Our financial statements are stated in US Dollars and are prepared in accordance with generally accepted accounting principals of the United States ( GAAP ).

### ***Consolidated Results of Operation for China RuiTai International Holdings Co., Ltd. and Subsidiaries for the Fiscal Year Ended December 31, 2009 Compared to the Fiscal Year Ended December 31, 2008.***

#### **Revenue and Cost of Sales**

**Revenue.** During the fiscal year ended December 31, 2009, the Company had revenues of \$35,736,104 as compared to revenues of \$41,135,497 during the fiscal year ended December 31, 2008, a decrease of \$5,399,393 or approximately 13%. The decrease in revenue experienced by the Company was primarily attributable to the following two factors: i) due to the International financial crisis, the sales volume of our products decreased by approximately 3.47%; specifically, our sales volume decrease by a total of 222.41 metric tons during the fiscal year ended December 31, 2009 compared with the fiscal year ended December 31, 2008; and ii) due to the economic decline of China's real estate industry during the fiscal year ended December 31, 2009 our competitors adopted aggressive price reduction strategies. We were not as aggressive as our competitors in reducing our prices and as a result, we experienced a decrease in our sales revenue in our lower margin products designed for the construction industry. Our average price decrease during the fiscal year ended December 31, 2009 was \$808 per metric tons, approximately a 12.65% reduction per metric ton. However, the price decrease and sales volume decrease reflect the company's adjustments in response to the overall market conditions.

Notwithstanding the foregoing, our decreased sales revenues in lower margin products was offset by increases in sales revenue in our higher margin products. Specifically, our sales revenue from low margin products designed for the construction industry decreased during the fiscal year ended December 31, 2009 as compared with the fiscal year

ended December 31, 2008. The foregoing decreases were offset by increases in sales revenue of our premium priced products with high profit margins. Sales revenue from our pharmaceutical grade products increased by approximately 32% during the fiscal year ended December 31, 2009. During the fiscal year ended December 31, 2009, we decreased the sales price of our pharmaceutical products by approximately 11% compared with fiscal year ended December 31, 2008; this decrease in sales price led to approximately a 51% increase in the sales volume from our products sold to the pharmaceutical industry and an increase of approximately 32% in revenue from the pharmaceutical industry.

The following chart illustrates the changes in our revenue generated by sales of our products for the fiscal year ended December 31, 2008, as compared to the fiscal year ended December 31, 2009:

| Products                              | Fiscal Year ended December 31, |                   |                  |             |
|---------------------------------------|--------------------------------|-------------------|------------------|-------------|
|                                       | 2009                           | 2008              | \$ Change        | % Change    |
| Methyl Cellulose (MC)                 | \$ 2,274,357                   | \$ 3,428,160      | \$ 1,153,803     | (33.7)      |
| Hydroxypropyl Methyl Cellulose (HPMC) | 26,310,460                     | 31,359,201        | 5,048,741        | (16.1)      |
| Hydroxypropyl Cellulose (HPC)         | 1,097,669                      | 902,214           | 195,455          | 21.7        |
| Ethyl Cellulose (EC)                  | 2,130,407                      | 2,072,955         | 57,452           | 4           |
| Hydroxyethyl Cellulose (HEC)          | 1,027,284                      | 1,088,684         | 61,400           | (5.6)       |
| HEMC                                  | 270,333                        | 331,220           | 60,887           | (18.4)      |
| Hydroxypropyl Cellulose (HPC)         | 5,090                          | 5,162             | 72               | (1.4)       |
| HP                                    | 381,372                        | 236,790           | 144,582          | 61          |
| Microcrystalline Cellulose (MCC)      | 254,400                        | 53,945            | 200,455          | 372         |
| CMC                                   | 20,939                         | 101,356           | 80,417           | (79.3)      |
| Film Coating Pre-Mixed Reagent        | 742,341                        | 637,731           | 104,610          | 16.4        |
| Raw materials                         | 1,221,452                      | 918,079           | 303,373          | 33          |
| <b>Total Sales</b>                    | <b>35,736,104</b>              | <b>41,135,497</b> | <b>5,399,393</b> | <b>(13)</b> |

Cost of Sales. During the fiscal year ended December 31, 2009, the Company's cost of sales was \$23,865,156, as compared to Costs of Sales of \$28,124,549 for the fiscal year ended December 31, 2008, a decrease of \$4,259,393, or approximately 15%. This decrease in cost of sales experienced by the Company was primarily attributable to an overall decrease in sales revenue, as well as a decrease price for raw materials. The global financial crisis lead to a decrease in sale volume of 222.41 tons at the ratio of 3.47% in year 2009 compared with 2008. For the fiscal year ended December 31, 2008 the price of raw materials utilized by the Company was \$3,884 per ton, as compared to \$3,280 per ton for the fiscal year ended December 31, 2009, a decrease of \$604, or approximately 14.14% per ton.

### Operating Expenses

The operating expenses for the Company are divided into Selling Expenses and General and Administrative Expenses, both of which are discussed below:

Selling Expenses. Selling expenses which consist of sales commission, freight charges, advertising and promotion expenses totaled \$1,547,688 for the fiscal year ended December 31, 2009, as compared to \$2,002,852 for the fiscal year ended December 31, 2008, a decrease of \$455,164, or approximately 22.7%. This decrease was primarily attributable to decreases in our sales commission and freight-out.

*Sales Commission:* During the fiscal year ended December 31, 2009, due to the global financial crisis, the Company experienced a decrease in sales revenue. As a result of the decrease in sales revenue, the Company experienced a decrease in the amount of sales commissions that the Company was required to pay to its sales staff. The amount of sales commission paid by the Company decreased from \$720,686 in 2008 to \$539,838 in 2009, a decrease of \$180,848, or approximately 25%.

*Freight Out:* During the fiscal year ended December 31, 2009, the Company decreased our freight turnover frequency thereby lowering the Company's freight out expense. The Company's freight out expense decreased from \$987,399 in 2008 to \$775,406 in 2009, a decrease of \$211,993, or approximately 21%.

The following chart illustrates the changes in our Selling Expenses for the fiscal year ended December 31, 2009, as compared to the fiscal year ended December 31, 2008:

| Selling Expenses         | Fiscal Year Ended December 31, |                  | \$ Change      | Change%      |
|--------------------------|--------------------------------|------------------|----------------|--------------|
|                          | 2009                           | 2008             |                |              |
| Sales commission         | \$ 539,838                     | \$ 720,686       | \$ 180,848     | 25.09        |
| Freight-out              | 775,406                        | 987,399          | 211,993        | 21.47        |
| Advertising              | 31,868                         | 52,338           | 20,470         | 39.11        |
| Travel and entertainment | 133,025                        | 138,542          | 5,517          | 3.98         |
| Office expenses          | 48,451                         | 92,232           | 43,781         | 47.47        |
| Other selling expenses   | 19,100                         | 11,655           | 7,445          | 63.88        |
| <b>TOTAL</b>             | <b>1,547,688</b>               | <b>2,002,852</b> | <b>455,164</b> | <b>22.73</b> |

**General and Administrative Expenses.** General and administrative expenses totaled \$2,611,721 for the fiscal year ended December 31, 2009, as compared to \$2,741,567 for the fiscal year ended December 31, 2008, a decrease of \$129,846, or approximately 4.74%. This decrease in general and administrative expenses is primarily attributable to the following five reasons: i) The Company increased its research and development input on new products, preparing to penetrate into the new markets; ii) due to the overall instability of the economy during the fiscal year ended December 31, 2009, the Company reduced its spending in certain financial markets, for example the Company minimized spending regarding consulting firms that were previously engaged to promote the Company's products; iii) the Company increased its employees' salaries by approximately 13.98%; iv) the Company improved its control over the accounts receivable and established a more efficient processes of soliciting financially sound clients, thereby decreasing the Company's bad debt expense by approximately 66.15%; and v) the decrease in sales volume lead to a decrease of the tax expenses, office expenses, travel expenses and other general and administrative expenses accordingly.

The following chart illustrates the changes in our General and Administrative Expenses for the fiscal year ended December 31, 2009, as compared to the fiscal year ended December 31, 2008:

| General and administrative expenses    | Fiscal Year Ended December 31, |            | \$ Change | Change % |
|--|--------------------------------|------------|-----------|----------|
|  | 2009                           | 2008       |           |          |
| Payroll and employees benefits         | \$ 559,285                     | \$ 511,452 | \$ 47,833 | % 9.35   |
| Insurance                              | 196,965                        | 172,805    | 24,160    | 13.98    |
| Consultant fees                        | 269,785                        | 473,775    | 203,990   | (43.06)  |
| Professional fees                      | 129,480                        | 104,041    | 25,439    | 24.45    |
| Research and development expenses      | 306,891                        | 0          | 306,891   | 100      |
| Depreciation and amortization expenses | 145,555                        | 134,920    | 10,635    | 7.88     |
| Taxes                                  | 158,149                        | 270,552    | 112,403   | (41.54)  |
| Office expenses                        | 433,562                        | 478,381    | 44,819    | (9.36)   |
| Travel and entertainment               | 308,443                        | 307,703    | 740       | 2.40     |
| Repair and Maintenance                 |                                |            |           |          |
| Other general and administrative       | 24,214                         | 70,982     | 46,768    | (65.89)  |



Bad debt expense

|  |                  |                  |                |               |
|--|------------------|------------------|----------------|---------------|
| <b>Total general and<br/>administrative expenses</b> | <b>2,611,721</b> | <b>2,741,567</b> | <b>129,846</b> | <b>(4.73)</b> |
|--|------------------|------------------|----------------|---------------|

### **Income From Operations**

For the fiscal year ended December 31, 2009, the Company had income from operations in the amount of \$7,731,539 as compared to income from operations of \$8,266,529 for the fiscal year ended December 31, 2008, a decrease of \$534,990, or approximately 6.7%. The decrease in income from operations experienced by the Company was primarily attributable to a decrease in sales experienced by the Company.

### **Interest Expense**

For the fiscal year ended December 31, 2009, the Company incurred interest expense in the amount of \$2,473,370, as compared to interest expense of \$2,840,105 for the fiscal year ended December 31, 2008, a decrease of approximately 12.9%. The decrease in interest expense incurred by the Company resulted from a decrease in interest expense rates on bank loans and loans from our employees. The average interest rate on bank loans decreased from approximately 8.14% from 2008 to approximately 6.37% in 2009. Accordingly, the interest expenses experienced by the Company on bank loans decreased by \$294,920, or approximately 16.4%. The interest expenses on loans from employees decreased by \$69,568, or approximately 38.5% as the interest rate paid to employees decreased from 7.2% in 2008 to 6% in 2009. In addition, our interest expenses on discount on bank checks decreased slightly from \$854,434 in 2008 to 852,187 in 2009, a decrease of \$2,247, or approximately 0.26%.

### **Net Income**

The Company had a net income of \$5,675,861 for the fiscal year ended December 31, 2009 as compared to net income of \$5,238,939 for the fiscal year ended December 31, 2008, an increase of \$436,922, or approximately 8.34%. The increase in net income is attributable to both the Company's strategy of increasing sales on high margin pharmaceutical products, and the Company's successful efforts to control sales expenses, as well as other operating expenses, during the recent economic downturn.

### **Inventories**

As of December 31, 2009, the Company had Inventories of \$8,132,681, as compared to inventories of \$8,157,592 as of December 31, 2008, a decrease of \$24,911 or approximately 3.05%. The decrease in inventories from 2008 to 2009 was primarily attributable to the fact that the Company maintained less raw materials due to the reduction in sales volume during the fiscal year ended December 31, 2009. The Company's ending inventory of finished goods decreased by a total of 142.72 metric tons during the fiscal year ended December 31, 2009.

### **Liquidity and Capital Resources**

The Company anticipates that the existing cash and cash equivalents on hand, together with the net cash flows generated from its business activities will be sufficient to meet the working capital requirements for its on-going projects and to sustain the business operations for the next twelve months.

### **Total Current Assets & Total Assets**

As of December 31, 2009, our audited balance sheet reflects that we have: i) total current assets of \$64,390,196, as compared to total current assets of \$57,279,375 at December 31, 2008, an increase of \$7,110,821, or approximately 12.4%; and ii) total assets of \$120,183,732 as compared to total assets of \$82,119,175 at December 31, 2008, an increase of \$38,064,557, or approximately 46%; The increase in the Company's total current assets is due primarily to changes in: i) the Company's Cash and Cash

Equivalents; ii) the Company's Accounts Receivable; and iii) the Company's Restricted Cash; and iv) Company's Due from Related Party.

Cash and Cash Equivalents. As of December 31, 2009, our audited balance sheet reflects that we have cash and cash equivalents of \$10,174,528, as compared to \$5,319,456, at December 31, 2008, an increase of \$4,855,072, approximately 91%. The increase in the Company's cash and cash equivalents from 2008 to 2009 was primarily attributable to increases experienced by the Company in its bank Loans. During the fiscal year ended December 31, 2009, the Company experienced an increase in bank loans which the Company uses to fund its business operations. The Company's bank loans increased by \$5,173,196, or approximately 23.49%, during the fiscal year ended 2009. As a result the Company experienced an increase in its cash and cash equivalents.

Accounts Receivable. As of December 31, 2009, our audited balance sheet reflects that we have accounts receivable of \$4,098,729, as compared to accounts receivable of \$3,295,341 at December 31, 2008, an increase of \$803,388, or approximately 24%. The increase in the Company's accounts receivable from 2008 to 2009 was primarily attributable to the fact that the Company extend the accounts receivable collection period in our overseas market from 45 days to 60 days due to the global financial crisis. The total effect of the extension period provided for overseas accounts lead to an increase of accounts receivable in the amount of \$1,243,352. Notwithstanding the forgoing, the increase in accounts receivable was slightly offset by the Company's implementation of a policy of soliciting domestic clients with enhanced financial credibility. For example, the accounts receivable relating to PVC products sales decreased by \$175,935 during the fiscal year ended December 31, 2009 as compared to the same period in 2008, and the account receivable relating to construction product sales decreased by \$263,929 during the fiscal year ended December 31, 2009 as compared to the same period in 2008.

Restricted Cash. As of December 31, 2009, our audited balance sheet reflects that we have Restricted Cash of \$33,054,466, as compared to restricted cash of \$19,112,900 at December 31, 2008, an increase of \$13,941,566, or approximately 73%. The increase in the Company's restricted cash from 2008 to 2009 was primarily attributable to the increase of bank check payable of \$20,840,746, or approximately 71.42%.

Due From Related Party. Due from a related party represents loans to Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"), a former majority owner of TaiAn. Shandong Ruitai had owned 75% equity ownership interest of TaiAn from January 2000 through February 2007. On March 20, 2007, Shandong sold a 74% equity ownership interest of TaiAn to Pacific Capital Group Co., Ltd. Mr. Xingfu Lu, our President, and Mr. Dianmin Ma, our CEO, collectively own 100% of equity ownership interest in Shandong Ruitai.

TaiAn has been extending loans to Shandong Ruitai. Prior to December 2007, these loans were unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. As TaiAn became the only operating subsidiary of a public company, TaiAn signed a loan agreement with Shandong Ruitai in December

2007. Pursuant to the loan agreement, Shandong Ruitai will pay 7% interest on the outstanding balance monthly. The Management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans. Shandong Ruitai pledges its power plant as collateral for the loans and Mr. Lu and Mr. Ma guarantee the loans. In addition, Shandong Ruitai agrees to gradually pay off these loans in a three-year period ended December 31, 2010, with 30% in 2008, 30% in 2009, and the rest of 40% in 2010.

As disclosed on Form 8-K filed with the SEC on April 15, 2010, on December 31, 2009, when the balance of the loans extended to Shandong Ruitai reached \$31,745,649 Shandong Ruitai and TaiAn entered into a Set-Off Agreement to settle the outstanding balance due and owing to TaiAn. On December 31, 2009, TaiAn executed a Set-Off Agreement with Shandong Ruitai for the purpose of satisfying outstanding debts

owed by Shandong Ruitai to TaiAn. Pursuant to the terms of the Set-Off Agreement, TaiAn agreed to allow Shandong Ruitai satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in return for Shandong Ruitai's transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China (the Property). In conjunction with the Set-Off Agreement, the parties engaged the firm of CB Richard Ellis Consultant Services (Beijing), Ltd. (CB Richard Ellis) to perform an independent appraisal of the Property. CB Richard Ellis appraised the fair market value of the Property as of December 31, 2009 to be \$36,710,934. Due to the fact that the appraised value of the Property is more than the outstanding debt owed by Shandong Ruitai, TaiAn has agreed to repay the difference which is a total of \$4,965,285, to Shandong Ruitai over a period of two years. The outstanding principal due and owing to Shandong Ruitai pursuant to the Set-Off Agreement will accrue interest at a monthly interest rate of 6%. The Company's management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans.

The following is a summary of due to Shandong Ruitai:

|   | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---|-----------------------------|-----------------------------|
| Due to Shangdong Ruitai-current portion   | \$ 2,979,171                | \$ -                        |
| Due to Shangdong Ruitai-long-term portion | 1,986,114                   | -                           |
| Total due from Shandong Ruitai            | \$ 4,965,285                | \$ -                        |

Imputed interest income recognized from due from Shangdong Ruitai amounted to \$1,729,708 and \$1,236,191 for the year ended December 31, 2009 and 2008, respectively

### **Total Current Liabilities**

As of December 31, 2009, our audited balance sheet reflects that we have total current liabilities of \$96,152,147, as compared to total current liabilities of \$65,958,991 at December 31, 2008, an increase of \$30,193,156 or approximately 46%. The increase in the Company's total current liabilities from 2008 to 2009 was primarily attributable to: i) increases in bank loans; ii) increases in bank checks payable; and iii) increases in Due to a Related Party

**Bank Loans.** As of December 31, 2009, our audited balance sheet reflects that we have bank loans of \$27,195,342, as compared to bank loan of \$22,022,146 as of December 31, 2008, an increase of \$5,173,196, or approximately 23.5%. The increase in our bank loans was primarily attributable to the fact that the Company needs to borrow additional short term funds from certain banks to fund the Company's business operations.

Bank Checks Payable. As of December 31, 2009, our audited balance sheet reflects that we have bank checks payable of \$50,020,476, as compared to a bank checks payable of \$29,180,000 as of December 31, 2008, an increase of \$20,840,476, or approximately 71.4%. The increase in our bank checks payable was primarily attributable to our need to take out bank checks to pay our suppliers and make loans to a related-party. In order to take out these bank checks, we increased \$13,941.566 in restricted cash deposited in bank to secure these bank checks.

Due to a Related Party Due to a related party represents funds due and owing to Shandong Ruitai. Mr. Xingfu Lu, our President, and Mr. Dianmin Ma, our CEO, collectively own 100% of equity ownership interest in Shandong Ruitai. During the fiscal year ended December 31, 2009, the amount Due to a Related

Party increased 100% from \$0.00 dollars during the fiscal year ended December 31, 2008 to \$4,965,285 during the fiscal year ended December 31, 2009. As noted above, as disclosed on Form 8-K filed with the SEC on April 15, 2010, on December 31, 2009, Shandong Ruitai and TaiAn entered into a Set-Off Agreement to settle the outstanding balance due and owing to TaiAn. On December 31, 2009, TaiAn executed a Set-Off Agreement with Shandong Ruitai for the purpose of satisfying outstanding debts owed by Shandong Ruitai to TaiAn. Pursuant to the terms of the Set-Off Agreement, TaiAn agreed to allow Shandong Ruitai satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in return for Shandong Ruitai's transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China (the Property). In conjunction with the Set-Off Agreement, the parties engaged the firm of CB Richard Ellis Consultant Services (Beijing), Ltd. (CB Richard Ellis) to perform an independent appraisal of the Property. CB Richard Ellis appraised the fair market value of the Property as of December 31, 2009 to be \$36,710,934. Due to the fact that the appraised value of the Property is more than the outstanding debt owed by Shandong Ruitai, TaiAn has agreed to repay the difference which is a total of \$4,965,285, to Shandong Ruitai over a period of two years. The outstanding principal due and owing to Shandong Ruitai pursuant to the Set-Off Agreement will accrue interest at a monthly interest rate of 6%. The Company's management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans.

The following is a summary of due to Shandong Ruitai:

|  | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|--|-----------------------------|-----------------------------|
| Due to Shandong Ruitai-current portion   | \$ 2,979,171                | \$ -                        |
| Due to Shandong Ruitai-long-term portion | 1,986,114                   | -                           |
| Total due from Shandong Ruitai           | \$ 4,965,285                | \$ -                        |

Imputed interest income recognized from due from Shandong Ruitai amounted to \$1,729,708 and \$1,236,191 for the year ended December 31, 2009 and 2008, respectively

## Operating Activities

Net cash of \$30,487,787 was provided by operating activities during the fiscal year ended December 31, 2009, compared to net cash provided by operating activities of \$4,010,538 during the fiscal year ended December 31, 2008, representing an increase of \$26,477,249 or approximately 660%. The increase in net cash provided by our operating activities was primarily attributable to a decrease in bank checks and increases in bank checks payable, accounts payable, and accrued expenses.



### **Investing Activities**

During the fiscal year ended December 31, 2009, the net cash used in investing activities was \$16,642,249, as compared to \$1,559,685 for the fiscal year ended December 31, 2008, an increase of \$15,082,564, or approximately 967%. The increase in net cash used in investing activities was primarily attributable to the increase in loans to related-party as offset by decreases in the purchase of fixed assets and.

### **Financing Activities**

During the fiscal year ended December 31, 2009, the net cash used by financing activities was \$9,005,964 as compared to net cash provided by financing activities of \$1,544,820 for the fiscal year ended December

31, 2008. The change in net cash provided by financing activities was primarily attributable to increase in restricted cash of 13,877,102 to secure bank checks payable and it partially offset by increase in bank loans of \$5,116,300.

**Off Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**ITEM 7A.**

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

Not Applicable.

**ITEM 8.**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The financial statements of the Company required by Article 8 of Regulation S-X are attached to this report.

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES**

**FINANCIAL REPORT**

**At December 31, 2009 and 2008 and  
For the Year Ended December 31, 2009 and 2008**

|   | <b>PAGE</b>  |
|---|--------------|
| <b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b>        | <b>20</b>    |
| <b>CONSOLIDATED BALANCE SHEETS</b>                                    | <b>21-22</b> |
| <b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>                          | <b>23-24</b> |
| <b>CONSOLIDATED STATEMENTS OF CHANGES IN<br/>SHAREHOLDERS' EQUITY</b> | <b>25-26</b> |
| <b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>                          | <b>27-28</b> |
| <b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>                     | <b>29-57</b> |

*KEITH K. ZHEN, CPA*

*CERTIFIED PUBLIC ACCOUNTANT*

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:KEITHZHEN@GMAIL.COM*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

China Ruitai International Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of China Ruitai International Holdings Co., Ltd. and subsidiaries as of December 31, 2009 and 2008, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2009. China Ruitai International Holdings Co., Ltd.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of China Ruitai International Holdings Co., Ltd. and subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/Keith K. Zhen, CPA

Keith K. Zhen, CPA

Brooklyn, New York

April 15, 2010

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|  | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|--|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                    |                             |                             |
| Current Assets:                                  |                             |                             |
| Cash and cash equivalents                        | \$ 10,174,528               | \$ 5,319,456                |
| Bank checks and commercial paper                 | 7,153,450                   | 8,244,207                   |
| Accounts receivable, net (Note 4)                | 4,098,729                   | 3,295,341                   |
| Due from unaffiliated suppliers (Note 5)         | 9,703                       | 346,976                     |
| Prepaid expenses (Note 6)                        | 1,649,685                   | 2,330,898                   |
| Inventory (Note 7)                               | 8,132,681                   | 8,157,592                   |
| Advance to employees (Note 14)                   | 116,954                     | 150,294                     |
| Restricted cash (Note 10)                        | 33,054,466                  | 19,112,900                  |
| Due from a related party-current portion         | -                           | 10,321,711                  |
| Total current assets                             | 64,390,196                  | 57,279,375                  |
| Property and Equipment, net (Note 8)             | 13,204,825                  | 12,936,668                  |
| Taishan Building in Beijing City (Note 15)       | 36,710,934                  | -                           |
| Land use right, net (Note 9)                     | 4,988,817                   | 5,084,515                   |
| Long-term investment                             | 888,960                     | 886,780                     |
| Due from a related party (Note 15)               | -                           | 5,931,837                   |
| Total Assets                                     | \$ 120,183,732              | \$ 82,119,175               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>      |                             |                             |
| Current Liabilities:                             |                             |                             |
| Bank loan (Note 15)                              | \$ 27,195,342               | \$ 22,022,146               |
| Bank checks payable (Note 11)                    | 50,020,476                  | 29,180,000                  |
| Accounts payable and accrued expenses            | 6,684,943                   | 6,247,060                   |
| Taxes payable                                    | 6,611,506                   | 5,411,445                   |
| Deferred revenue                                 | 127,419                     | 418,776                     |
| Due to a related party-current portion (Note 15) | 2,979,171                   | -                           |
| Due to employees (Note 14)                       | 1,476,292                   | 1,707,383                   |
| Employee security deposit                        | 1,056,998                   | 972,181                     |



|  |                |               |
|--|----------------|---------------|
| Total Current Liabilities  | 96,152,147     | 65,958,991    |
| Due to a related party-long-term portion (Note 15)   | 1,986,114      | -             |
| Total Liabilities  | 98,138,261     | -             |
| Commitments and Contingencies (Note 21)  | -              | -             |
| Shareholders' Equity:  |                |               |
| China Ruitai International Holdings Co., Ltd. Shareholders' Equity   |                |               |
| Preferred stock, par value \$0.001, 10,000,000 shares authorized,<br>no shares outstanding as of December 31, 2009 and 2008                    | -              | -             |
| Common stock, par value \$0.001, 50,000,000 shares authorized,<br>26,000,000 shares issued and outstanding as of<br>December 31, 2009 and 2008 | 26,000         | 26,000        |
| Additional paid-in capital   | 2,908,171      | 2,908,171     |
| Unamortized contractual services costs   | -              | (165,978)     |
| Statutory Reserves   | 1,369,652      | 1,369,652     |
| Retained earnings  | 16,179,230     | 10,560,128    |
| Accumulated other comprehensive income   | 1,347,371      | 1,304,357     |
| Total China Ruitai International Holdings Co., Ltd.  |                |               |
| Shareholders' equity   | 21,830,424     | 16,002,330    |
| Noncontrolling Interest  | 215,047        | 157,854       |
| Total Shareholders' Equity   | 22,045,471     | 16,160,184    |
| Total Liabilities and Shareholders' Equity   | \$ 120,183,732 | \$ 82,119,175 |

**See Notes to Consolidated Financial Statements**



**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | For the Years Ended<br>December 31, |               |
|--|-------------------------------------|---------------|
|  | <u>2009</u>                         | <u>2008</u>   |
| Revenues                                     |                                     |               |
| Sales  | \$ 35,736,104                       | \$ 41,135,497 |
| Costs of Sales                               | 23,865,156                          | 28,124,549    |
| Gross Profit                                 | 11,870,948                          | 13,010,948    |
| Operating Expenses                           |                                     |               |
| Selling expenses                             |                                     |               |
| Sales commission                             | 539,838                             | 720,686       |
| Freight-out                                  | 775,406                             | 987,399       |
| Advertising                                  | 31,868                              | 52,338        |
| Travel and entertainment                     | 133,025                             | 138,542       |
| Other selling expenses                       | 67,551                              | 103,887       |
| Total selling expenses                       | 1,547,688                           | 2,002,852     |
| General and administrative expenses          |                                     |               |
| Payroll and employees benefits               | 559,285                             | 511,452       |
| Insurance                                    | 196,965                             | 172,805       |
| Professional fees                            | 129,480                             | 104,041       |
| Various Taxes                                | 158,149                             | 270,552       |
| Consultant fees                              | 269,785                             | 473,775       |
| Bad debt expenses                            | 45,893                              | 135,600       |
| Office expenses                              | 433,562                             | 478,381       |
| Depreciation and amortization                | 145,555                             | 134,920       |
| Repair and maintenance                       | 33,499                              | 81,356        |
| Travel and entertainment                     | 308,443                             | 307,703       |
| Research and development expenses            | 306,891                             | -             |
| Other general and administrative             | 24,214                              | 70,982        |
| Total General and<br>Administrative Expenses | 2,611,721                           | 2,741,567     |



|   |              |              |
|---|--------------|--------------|
| Total Operating Expenses  | 4,159,409    | 4,744,419    |
| Income (Loss) from Operation  | 7,711,539    | 8,266,529    |
| Other Income (Expense)  |              |              |
| Interest income (Note 12)   | 2,370,482    | 1,721,419    |
| Interest expense (Note 13)  | (2,473,370)  | (2,840,105)  |
| Government subsidies  | -            | 172,787      |
| Gain (Loss) on foreign currency transactions                                | (60,185)     | (296,435)    |
| Other income (expense)  | 19,350       | (38,942)     |
| Total other income (expense)  | (143,723)    | (1,281,276)  |
| Income (Loss) before Provision<br>for Income Tax                            | 7,567,816    | 6,985,253    |
| Provision for Income Tax  | 1,891,955    | 1,746,314    |
| Net Income  | 5,675,861    | 5,238,939    |
| Less: Net income attributable to noncontrolling<br>interest                 | (56,759)     | (52,389)     |
| Net Income attributable to<br>China Ruitai International Holdings Co., Ltd. | \$ 5,619,102 | \$ 5,186,550 |

**See Notes to Consolidated Financial Statements**

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

|   | Common Stock      |                     | Additional<br>Paid-in<br>Capital<br>(Registered) | Unamortized<br>contractual<br>services<br>costs | Statutory<br>Reserves | Retained<br>Earnings<br>(Deficit) | Accumulated                           |                                 |
|---|-------------------|---------------------|--|---|-----------------------|-----------------------------------|---------------------------------------|---------------------------------|
|   | \$0.001<br>Shares | Par Value<br>Amount |  |   |                       |                                   | Other<br>Comprehen-<br>sive<br>Income | Noncontrol-<br>ling<br>Interest |
| Balances at<br>December 31,<br>2007                                       | 26,000,000        | \$ 26,000           | \$ 2,366,171                                     | \$ -  | \$ 1,042,355          | \$ 5,700,875                      | \$ 570,712                            | \$ 98,053                       |
| 150,000 shares<br>of warrants<br>issued<br>for<br>contractual<br>services | -                 | -                   | 174,000  | (29,000)  | -                     | -                                 | -                                     | -                               |
| 200,000 shares<br>of warrants<br>issued<br>for<br>contractual<br>services | -                 | -                   | 368,000  | (136,978)                                       | -                     | -                                 | -                                     | -                               |
| Comprehensive<br>income   |                   |                     |  |   |                       |                                   |                                       |                                 |
| Net income  | -                 | -                   | -  | -   | -                     | 5,186,550                         | -                                     | 52,389                          |
| Other<br>comprehensive<br>income, net of<br>tax:                          |                   |                     |  |   |                       |                                   |                                       |                                 |
| Effects<br>of foreign<br>currency<br>conversion                           |                   |                     |  |   |                       |                                   | 733,645                               | 7,412                           |

Total other  
comprehensive  
income  
Total  
comprehensive  
income

Appropriation  
to  
statutory  
reverse funds  
Balances at

|   |   |   |   |         |           |   |   |
|---|---|---|---|---------|-----------|---|---|
| - | - | - | - | 327,297 | (327,297) | - | - |
|---|---|---|---|---------|-----------|---|---|

December 31, 2008  
 26,000,000 \$ 26,000 \$ 2,908,171 \$ (165,978) \$ 1,369,652 \$ 10,560,128 \$ 1,304,357 157,854 \$ 16,

150,000 shares  
 of warrants  
 issued  
 for  
 contractual  
 services

- - - 29,000 - - -

200,000 shares  
 of warrants  
 issued  
 for  
 contractual  
 services

- - - 136,978 - - -

Comprehensive  
 income

Net income

- - - - - 5,619,102 - 56,759 5,

Other  
 comprehensive  
 income, net of  
 tax:

Effects  
 of foreign  
 currency  
 conversion

43,013 434

Total other  
 comprehensive  
 income

Total  
 comprehensive  
 income

Balances at

December 31, 2009  
 26,000,000 \$ 26,000 \$ 2,908,171 \$ - \$ 1,369,652 \$ 16,179,230 \$ 1,347,370 215,047 \$ 22,

**See Notes to Consolidated Financial Statements**

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | For the Years Ended<br>December 31, |              |
|---|-------------------------------------|--------------|
|   | <u>2009</u>                         | <u>2008</u>  |
| <u>Operating Activities</u>   |                                     |              |
| Net income (loss)   | \$ 5,619,102                        | \$ 5,186,550 |
| Adjustments to reconcile net income (loss) to<br>net cash provided (used) by operating<br>activities: |                                     |              |
| Minority interest   | 56,759                              | 52,389       |
| Depreciation  | 1,301,926                           | 1,141,132    |
| Amortization of land use rights   | 107,112                             | 107,501      |
| Amortization of contractual service costs   | 165,978                             | 376,022      |
| Changes in operating assets and liabilities:  |                                     |              |
| (Increase)/Decrease in bank checks and<br>commercial paper  | 1,110,428                           | (7,463,338)  |
| (Increase)/Decrease in accounts receivable  | (794,858)                           | (36,458)     |
| (Increase)/Decrease in prepaid expenses   | 686,574                             | 727,586      |
| (Increase)/Decrease in inventory  | 44,943                              | (1,038,240)  |
| (Increase)/Decrease in advance to employees   | 33,691                              | (28,932)     |
| Increase/(Decrease) in accounts payable<br>and accrued expenses                                       | 422,297                             | (1,894,589)  |
| Increase/(Decrease) in bank checks payable  | 20,757,563                          | 5,551,300    |
| Increase/(Decrease) in taxes payable  | 1,186,118                           | 1,586,359    |
| Increase/(Decrease) in deferred revenue   | (292,229)                           | (362,017)    |
| Increase/(Decrease) in employee security<br>deposit   | 82,383                              | 105,274      |
| Net cash provided (used) by operating<br>activities   | 30,487,786                          | 4,010,538    |
| <u>Investing Activities</u>   |                                     |              |
| Purchase of fixed assets  | (1,536,365)                         | (1,965,739)  |
| Loans to unaffiliated suppliers   | -                                   |              |
| Payback of loans to unaffiliated suppliers  | 337,944                             | 827,620      |
| Loans to a related party  | (15,443,828)                        | (421,566)    |
| Net cash (used) by investing activities   | (16,642,249)                        | (1,559,685)  |
| <u>Financing Activities</u>   |                                     |              |





|  |               |    |             |
|--|---------------|----|-------------|
| Bank loans   | 5,116,300     |    | 1,436,300   |
| Decrease (Increase) in restricted cash to secure bank checks | (13,887,102)  |    | (3,332,061) |
| Loans from employees   |               |    | 350,940     |
| Payback of loans from employees                              | (235,162)     |    |             |
| Net cash provided (used) by financing activities             | (9,005,964)   |    | (1,544,820) |
| Increase (decrease) in cash                                  | 4,839,573     |    | 906,033     |
| Effects of exchange rates on cash                            | 15,499        |    | 246,710     |
| Cash at beginning of period                                  | 5,319,456     |    | 4,166,713   |
| Cash at end of period  | \$ 10,174,528 | \$ | 5,319,456   |
| <b>Supplemental Disclosures of Cash Flow Information:</b>    |               |    |             |
| Cash paid (received) during year for:                        |               |    |             |
| Interest   | \$ 2,473,370  | \$ | 2,307,952   |
| Income taxes   | \$ 515,890    | \$ | 394,386     |

**See Notes to Consolidated Financial Statements.**

## CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1- ORGANIZATION AND BUSINESS BACKGROUND

China Ruitai International Holdings Co., Ltd. ("China Ruitai" or the "Company") was initially organized under the laws of the State of Delaware on November 15, 1955 as Inland Mineral Resources Corp. The Company subsequently changes its name to Parker-Levitt Corporation, and in 1997 changed its name to Commercial Property Corporation, and in 2006 changed its name to Shangdong Ruitai Chemical Co., Ltd. On March 12, 2007, the Company changed its name to China Ruitai International Holdings Co., Ltd. On February 26, 2007, the Company changed its fiscal year end from October 31 to December 31.

The Company was engaged in various real estate and development projects. The Company was not successful and discontinued the majority of its operations by 1981. On November 19, 1997, the Company issued common stock that resulted in a change in control and entered into a new development stage as defined in FASB ASC 915.

On August 29, 2007, the Company entered into a Share Exchange Agreement with Pacific Capital Group Co., Ltd., ( Pacific Capital Group ) a corporation incorporated under the laws of the Republic of Vanuatu, and the stockholders of Pacific Capital Group (the Stockholders ). Pursuant to the terms of the Share Exchange Agreement, the Stockholders agreed to transfer all of the issued and outstanding shares of common stock in Pacific Capital Group to the Company in exchange for the issuance of an aggregate of 22,645,348 shares of the Company's common stock to the Stockholders, thereby causing Pacific Capital Group's and Pacific Capital Group's majority-owned operating subsidiary, TaiAn RuiTai Cellulose Co., Ltd. ( TaiAn ), a Chinese limited liability company, to become wholly-owned and majority owned-subsiidiaries, respectively of the Company. The parties closed the share exchange contemplated by the Share Exchange Agreement on November 8, 2007.

The Share Exchange is being accounted for as a reverse merger, since the stockholders of Pacific Capital Group own a majority of the outstanding shares of the Company's common stock immediately following the Share Exchange. Pacific Capital Group is deemed to be the acquirer in the reverse merger. Consequently, the assets and liabilities and the historical operations that will be reflected in the financial statements for periods prior to the Share Exchange will be those of Pacific Capital Group and its subsidiary and will be recorded at the historical cost basis. After completion of the Share Exchange, the Company's consolidated financial statements will include the assets and liabilities of both China Ruitai and Pacific Capital Group, the historical operations of Pacific Capital Group and the operations of the Company and its subsidiaries from the closing date of the Share Exchange.

Pacific Capital Group was incorporated on November 23, 2006 under the laws of the Republic of Vanuatu as a holding company, for the purposes of seeking and consummating a merger or acquisition with a business entity. On April 26, 2007, following the approval by the relevant governmental authorities in the PRC, Pacific Capital Group acquired a 99% ownership interest in TaiAn, which was formed in the PRC on November 10, 1999. As a result of the transaction, TaiAn became a majority-owned subsidiary of Pacific Capital Group.

TaiAn is the only one of these affiliated companies that is engaged in business operations. China RuiTai and Pacific Capital Group are holding companies, whose business is to hold an equity ownership interest in TaiAn. TaiAn is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. TaiAn's assets exist solely in the PRC, and its revenues are derived from its operations therein.

China Ruitai, Pacific Capital Group, and TaiAn are hereafter referred to as the Company.

## **Note 2- CONTROL BY PRINCIPAL OWNERS**

The directors, executive officers, their affiliates, and related parties own, directly or indirectly, beneficially and in the aggregate, the majority of the voting power of the outstanding capital of the Company. Accordingly, directors, executive officers and their affiliates, if they voted their shares uniformly, would have the ability to control the approval of most corporate actions, including approving significant expenses, increasing the authorized capital and the dissolution, merger or sale of the Company's assets.

## **Note 3- SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and all its majority-owned subsidiaries which require consolidation. Inter-company transactions have been eliminated in consolidation.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This basis of accounting differs from that used in the statutory accounts of the Company, which are prepared in accordance with the "Accounting Principles of China ("PRC GAAP"). Certain accounting principles, which are stipulated by US GAAP, are not applicable in the PRC GAAP.

Certain amounts in the prior year's consolidated financial statements and notes have been revised to conform to the current year presentation.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results when ultimately realized could differ from those estimates.

### **Subsequent Events**

The Company evaluated subsequent events through the time of filing this Annual Report on Form 10-K on April 15, 2010. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our financial statements.

### **Foreign Currencies Translation**

The Company maintains its books and accounting records in PRC currency "Renminbi" ("RMB"), which is determined as the functional currency. Transactions denominated in currencies other than RMB are

translated into RMB at the exchange rates quoted by the People's Bank of China ( PBOC ) prevailing at the date of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. Exchange differences are included in the statements of changes in owners' equity. Gain and losses resulting from foreign currency transactions are included in operations.

The Company's financial statements are translated into the reporting currency, the United States Dollar ( US\$ ). Assets and liabilities of the Company are translated at the prevailing exchange rate at each reporting period end. Contributed capital accounts are translated using the historical rate of exchange when capital is injected. Income and expense accounts are translated at the average rate of exchange during the reporting period. Translation adjustments resulting from translation of these financial statements are reflected as accumulated other comprehensive income (loss) in the owners' equity.

Translation adjustments resulting from this process are included in accumulated other comprehensive income (loss) in the consolidated statement of changes in shareholders' equity and amounted to \$1,347,371 as of December 31, 2009, and \$1,304,357 as of December 31, 2008. The balance sheet amounts with the exception of equity at December 31, 2009 were translated at 6.837 RMB to \$1.00 USD as compared to 6.854 RMB at December 31, 2008. The equity accounts were stated at their historical rate. The average translation rates applied to income statement accounts for the year ended December 31, 2009 and 2008 were 6.840 RMB and 6.962 RMB, respectively.

### **Statement of Cash Flows**

In accordance with FASB guidance, Statement of Cash Flows, cash flows from the Company's operations is calculated based upon the functional currency. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

### **Fair Value of Measurements**

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

**Level 1:**

Unadjusted quoted prices in active markets for identical assets or liabilities

**Level 2:**

Input other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

**Level 3:**

Unobservable inputs. Unobservable inputs reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.



### **Revenue Recognition**

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to unaffiliated customer or picked up by unaffiliated customers in the Company's warehouse, title and risk of loss have been transferred, collectibility is reasonably assured and pricing is fixed or determinable. The corresponding freight-out and handling costs are included in the selling expenses.

The Company does not provide an unconditional right of return, price protection or any other concessions to our customers. Sales returns and other allowances have been immaterial in our operation.

### **Deferred Revenue**

Deferred revenue consists of prepayments to the Company for products that have not yet been delivered to the customers. Payments received prior to satisfying the Company's revenue recognition criteria are recorded as deferred revenue.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits in banks with maturities of three months or less, and all highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less at the time of purchase.

### **Bank checks and commercial paper**

Bank checks and commercial paper include bank checks and commercial paper with original maturities of approximately 180 days or less at the time of issuance. Book value approximates fair value because of the short maturity of those instruments. The Company receives these financial instruments as payments from its customers in the ordinary course of business. The Company also takes out bank checks from financial institutions to pay its suppliers or pay off its bank loans due.

### **Accounts Receivable**

Accounts receivable are recorded at the invoiced amount and do not bear interest. We generally grant new customers a one-month period in which to pay for goods that we have delivered to them, and we grant existing customers a two to three month period in which to pay for goods that we have delivered to them. We used an indirect method of accounting to write off any accounts receivable which exceeded the allotted three month time period which we provide to our customers. In circumstances in which we receive payment for accounts receivable which have previously been written off, we reverse the allowance and bad debt expenses.

### **Concentrations of Credit Risk**

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash and cash equivalents with high-quality institutions. Deposits held with banks in PRC may not be insured or exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and therefore bear minimal risk.

### **Fair Value of Financial Instruments**

The carrying value of financial instruments including cash and cash equivalents, bank checks and commercial paper, receivables, accounts payable and accrued expenses, approximates their fair value due to the relatively short-term nature of these instruments.

### **Inventory**

Inventories are stated at the lower of cost or market value. Actual cost is used to value raw materials and supplies. Finished goods and work-in-progress are valued on the weighted-average-cost method. Elements of costs in finished good and work-in-progress include raw materials, direct labor, and manufacturing overhead.

### **Due from unaffiliated suppliers**

The Company has been extending temporally short-term loans to some unaffiliated suppliers. These loans are unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. Cash flows from due from unaffiliated suppliers are classified as cash flows from investing activities.

The Management believes the loans can help theses suppliers run their business, and in turn these suppliers can provide raw materials and services to the Company in a stable price. The Managements evaluates the financial resources of the borrowers on a regular basis, to make sure the suppliers have the capability to pay back these loans. Also, the Company has never had any bad debt with these suppliers. Therefore, the Management believes that these loans are collectable.

### **Long-term investment**

The long-term investment represents monetary investments in the Wenyang Xinyong Bank, a local state owned bank in Wenyang County, Shandong Province, PRC. The investments are transferable in accordance with the laws of the PRC. The investments are carried at cost which approximates fair value. The Company did not purchase any such long-term investment in the year ended December 31, 2009 and 2008, respectively. Dividend income on these investment is recorded when received. There were no dividend received in the year ended Decemer 31, 2009 and 2008, respectively. The Company may sell these investments back to the bank at the book value.

### **Valuation of Long-Lived assets**

The Company accounts for impairment of plant and equipment and amortizable intangible assets in accordance with SFAS No. 144, Accounting for Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of . Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### **Restricted cash, and Bank checks payable**

The Company pays its suppliers with bank checks in its ordinary business transactions. Generally, the Company deposits 50% to 100% of the bank check amount into a restricted bank account, the bank then issues a bank check payable to a supplier in 180 days or less. The Company delivers the bank check as

payment to the supplier, who can discount the bank check before its maturity. When the bank check reaches maturity, the bank takes the deposit in the restricted bank accounts and the balance, if any, from other bank account(s) that the Company has with the bank. While the bank does not charge interest expenses on the balance, the bank pays interest on the deposit in the restricted bank account to the Company. The bank generally charges 0.0005% of the bank check amount as service fee for issuance of the bank check.

### **Property, Plant and Equipment**

Property, plant and equipment are carried at cost. Maintenance, repairs and minor renewals are expensed as incurred; major renewals and improvements that extend the lives or increase the capacity of plant assets are capitalized.

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the reporting period of disposition.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets with residual value of 5%. The percentages or depreciable life applied are:

|                                |               |
|--------------------------------|---------------|
| Building and warehouses        | 20 years      |
| Machinery and equipment        | 7 to 10 years |
| Office equipment and furniture | 5 years       |
| Motor vehicles                 | 5 years       |

### **Land Use Right**

All land belongs to the State in PRC. Enterprises and individuals can pay the State a fee to obtain a right to use a piece of land for commercial purpose or residential purpose for an initial period of 50 years or 70 years, respectively. The land use right can be sold, purchased, and exchanged in the market. The successor owner of the land use right will reduce the amount of time which has been consumed by the predecessor owner.

The Company owns the right to use a piece of land, approximately 23 acre, located in the Wenyang County, Shandong Province for a fifty-year period ended December 2, 2055; and a piece of land, approximately 36 acre, also located in the Wenyang County, Shanxi Province for a forty-eight-year period ended June 5, 2054. The costs of these land use

rights are amortized over their prospective beneficial period, using the straight-line method with no residual value. The Company's production facilities and headquarters building are located in these two pieces of land.

### **Government Subsidies**

The Company records government grants as current liabilities upon reception. A government subsidy revenue is recognized only when there is reasonable assurance that the Company has complied with all conditions attached to the grant. The Company recognized government subsidy of \$0.00 and \$172,787 for the year ended December 31, 2009 and 2008, respectively.

### **Research and Development Costs**

Research and development costs relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed when incurred. The major components of these research and development costs include experimental materials and labor costs. The

Research and development cost was immaterial for the Company in the year ended December 31, 2009 and 2008, respectively, and was included into general and administration expenses.

### **Advertising Costs**

Advertising costs are expensed as incurred and included as part of selling and marketing expenses. The advertising costs was \$31,868 and \$52,338 for the year ended December 31, 2009 and 2008, respectively.

### **Value-added Tax (VAT)**

Sales revenue represents the invoiced value of goods, net of a value-added tax (VAT). All of the Company's products that are sold in PRC are subject to a Chinese value-added tax at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by VAT paid on purchase of raw materials included in the cost of producing the finished goods. The Company presents the VAT on a net base.

### **Comprehensive Income**

FASB guidance establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income, as presented in the accompanying statements of changes in owners' equity consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

### **Segment Reporting**

FASB guidance establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company currently operates in one principal business segment.

### **Related parties**

For the purposes of these financial statements, parties are considered to be related if one party has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### **Pension and Employee Benefits**

Full time employees of the PRC entities participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Company to accrue for these benefits based on certain percentages of the employees' salaries. The Management believes full time employees who have passed the probation period are entitled to such benefits. The total provisions for such employee benefits was \$103,615 and \$115,308 for the year ended December 31, 2009 and 2008, respectively.

### **Statutory Reserves**



Pursuant to the applicable laws in PRC, PRC entities are required to make appropriations to three non-distributable reserve funds, the statutory surplus reserve, statutory public welfare fund, and discretionary surplus reserve, based on after-tax net earnings as determined in accordance with the PRC GAAP, after offsetting any prior years' losses. Appropriation to the statutory surplus reserve should be at least 10% of the after-tax net earnings until the reserve is equal to 50% of the Company's registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of the after-tax net earnings. The statutory public welfare fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. Beginning from January 1, 2006, enterprise is no more required to make appropriation to the statutory public welfare fund. No appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The Company's operating subsidiary, TaiAn contributed \$218,198 to the statutory surplus reserve fund, and \$109,099 to the statutory public welfare fund in 2008. After the contribution made in 2008, the statutory reserves reach 50% of TaiAn's registered capital. Therefore, TaiAn is not required to make appropriations to its statutory reserve funds any more.

### **Income Taxes**

The Company accounts for income tax in accordance with FASB ASC 740-10-25, which requires the asset and liability approach for financial accounting and reporting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company adopted a new FASB guidance, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The new FASB guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB guidance also provides guidance on de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. In accordance with the new FASB guidance, the Company performed a self-assessment and concluded that there were no significant uncertain tax positions requiring recognition in its consolidated financial statements.

### **Earnings (Loss) Per Share**

The Company reports earnings per share in accordance with the provisions of SFAS No. 128, Earnings Per Share. SFAS No. 128 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There were 350,000 shares of warrants issued and outstanding as of December 31, 2009 and 2008, as more fully disclosed in Note 17.

## Recent Accounting Pronouncements

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issues Task Force, that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements. As a result of these amendments, multiple-deliverable revenue arrangements will be separated in more circumstances than under existing U.S. GAAP. The ASU does this by establishing a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This ASU also eliminates the residual method of allocation and will require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the overall arrangement proportionally to each deliverable based on its relative selling price. Expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance are also required under the ASU. The ASU does not apply to arrangements for which industry specific allocation and measurement guidance exists, such as long-term construction contracts and software transactions. The ASU is effective beginning January 1, 2011. We are currently evaluating the impact of this standard on our financial position and results of operations.

In October 2009, the FASB issued ASU No. 2009-14, *Certain Revenue Arrangements That Include Software Elements* a consensus of the FASB Emerging Issues Task Force, that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product's essential functionality, and undelivered components that relate to software that is essential to the tangible product's functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). The ASU is effective beginning January 1, 2011. We are currently evaluating the impact of this standard on our financial position and results of operations.

In December 2007, the FASB amended its guidance on accounting for business combinations. The new accounting guidance resulted in a change in our accounting policy effective January 1, 2009, and is being applied prospectively to all business combinations subsequent to the effective date. Among other things, the new guidance amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. It also

establishes new disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries (previously referred to as "minority interests"), which resulted in a change in our accounting policy effective January 1, 2009. Among other things, the new guidance requires that a

noncontrolling interest in a subsidiary be accounted for as a component of equity separate from the parent's equity, rather than as a liability. The new guidance is being applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued new accounting guidance that defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. It also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to those arrangements. This new accounting guidance was effective for our Company on January 1, 2009, and its adoption did not have a significant impact on our consolidated financial statements.

In February 2007, the FASB issued new accounting guidance that permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. This new accounting guidance was effective for our Company on January 1, 2008. The Company did not elect the fair value option for any financial instruments or other items permitted under this guidance; therefore, its adoption had no impact on our consolidated financial statements.

In September 2006, the FASB issued new accounting guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. However, in February 2008, the FASB delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The accounting guidance related to recurring fair value measurements was effective for our Company on January 1, 2008. The adoption of this accounting guidance did not have a significant impact on our consolidated financial statements.

**Note 4- ACCOUNTS RECEIVABLE**

Accounts receivable consists of the following:

|                     | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---------------------|-----------------------------|-----------------------------|
| Accounts receivable | \$ 5,705,298                | \$ 4,867,649                |

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|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Less: Allowance for doubtful accounts | (1,606,569)  | (1,572,308)  |
| Accounts receivable, net              | \$ 4,098,729 | \$ 3,295,341 |

Bad debt expense charged to operations was \$45,893 and \$135,600 for the year ended December 31, 2009 and 2008, respectively.

**Note 5- DUE FROM UNAFFILIATED SUPPLIERS**

Due from unaffiliated suppliers consist of following:

|                                 | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---------------------------------|-----------------------------|-----------------------------|
| Fengcheng Yingbo Food Co., Ltd. | \$ -                        | \$ 291,800                  |
| Other companies                 | 9,703                       | 55,176                      |
|                                 | \$ 9,703                    | \$ 346,976                  |

**Note 6- PREPAID EXPENSES**

Prepaid expenses consist of following:

|                              | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|------------------------------|-----------------------------|-----------------------------|
| Machinery and parts          | \$ 464,198                  | \$ 308,325                  |
| Raw materials and supplies   | 1,129,491                   | 1,811,725                   |
| Packing and supply materials | 5,493                       | 1,610                       |
| Freight-out                  | 9,227                       | 1,268                       |
| Consultancy fees             | 8,805                       | 207,123                     |
| Office expenses              | 10,396                      | 847                         |
| Entertainment                | 22,075                      | -                           |
|                              | \$ 1,649,685                | \$ 2,330,898                |

**Note 7- INVENTORIES**

Inventories consist of following:

|                                | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Finished goods                 | \$ 4,733,684                | \$ 5,492,366                |
| Work-in-progress               | 931,629                     | 1,044,048                   |
| Raw materials                  | 2,125,739                   | 1,576,534                   |
| Supplies and packing materials | 341,629                     | 44,644                      |
|                                | \$ 8,132,681                | \$ 8,157,592                |

**Note 8- PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of property, plant and equipment:



|                                | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Building and warehouses        | \$ 8,296,979                | \$ 7,835,356                |
| Machinery and equipment        | 9,653,846                   | 8,743,251                   |
| Office equipment and furniture | 76,589                      | 63,597                      |
| Motor vehicles                 | 465,069                     | 463,928                     |
|                                | 18,492,483                  | 17,106,132                  |
| Less: Accumulated depreciation | (5,626,814)                 | (4,315,364)                 |
| Add: Construction in progress  | 339,156                     | 145,900                     |
| Total                          | \$ 13,204,825               | \$ 12,936,668               |

Depreciation expense charged to operations was \$1,301,926 and \$1,141,132 for the year ended December 31, 2009 and 2008, respectively.

#### **Note 9- LAND USE RIGHT**

The following is a summary of land use right, less amortization:

|                     | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---------------------|-----------------------------|-----------------------------|
| Land use right      | \$ 5,409,952                | \$ 5,396,684                |
| Less: Amortization  | (421,135)                   | (312,169)                   |
| Land use right, net | \$ 4,988,817                | \$ 5,084,515                |

Amortization expense charged to operations was \$107,112 and \$107,501 for the year ended December 31, 2009 and 2008, respectively.

#### **Note 10- RESTRICTED CASH**

Restricted cash consists of following:

| <u>Financial Institutions</u>                    | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|--|-----------------------------|-----------------------------|
| Jinan Branch of Shanghai Pudong Development Bank | \$ -                        | \$ 4,377,000                |
| Feicheng Branch of Bank of China                 | 3,071,433                   | 1,459,000                   |
| Wenyang Branch of Agriculture Bank               | 1,755,104                   | 1,750,800                   |
| Wenyang Credit Bank                              | 3,510,209                   | 3,501,600                   |

|   |               |               |
|---|---------------|---------------|
| Feicheng Branch of Construction Bank              | 5,850,348     | -             |
| Feicheng Branch of Transportation Bank            | 1,462,587     | 2,188,500     |
| Jinan Wendong Branch of Shenzhen Development Bank | 8,775,522     | 5,836,000     |
| Wen-yang Branch of Agricultural Bank of China     | 1,316,328     | -             |
| Jinan Branch of Qingdao Bank                      | 5,850,348     | -             |
| Nanjing Road Branch of China CITIC Bank           | 1,462,587     | -             |
|   | \$ 33,054,466 | \$ 19,112,900 |

**Note 11- BANK CHECKS PAYABLE**

Bank checks payable consists of following:

| <u>Financial Institutions</u>                     | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---|-----------------------------|-----------------------------|
| Feicheng Branch of Bank of China                  | \$ 6,142,866                | \$ 2,918,000                |
| Feicheng Branch of Transportation Bank            | 2,925,174                   | 4,377,000                   |
| Wenyang Credit Bank                               | 5,850,348                   | 5,836,000                   |
| Jinan Branch of Shanghai Pudong Development Bank  | -                           | 4,377,000                   |
| Feicheng Branch of Construction Bank              | 5,850,348                   | -                           |
| Wenyang Branch of Agriculture Bank                | 5,850,348                   | 2,918,000                   |
| Jinan Wendong Branch of Shenzhen Development Bank | 13,163,283                  | 8,754,000                   |
| Jinan Branch of Bank of Qingdao                   | 8,775,522                   | -                           |
| Qingdao Branch of China CITIC Bank                | 1,462,587                   | -                           |
|   | \$ 50,020,476               | \$ 29,180,000               |

**Note 12- INTEREST INCOME**

Interest income consists of following:

For the Year Ended  
December 31,

|  | <u>2009</u>  |    | <u>2008</u> |
|--|--------------|----|-------------|
| Interest income from loans to Shangdong Ruitai | \$ 1,729,708 | \$ | 1,236,191   |
| Interest income from deposits in banks         | 636,473      |    | 434,705     |
| Other interest income                          | 4,302        |    | 50,523      |
|  | \$ 2,370,482 | \$ | 1,721,419   |

**Note 13- INTEREST EXPENSES**

Interest expenses consist of following:

|   | For the Year Ended<br>December 31, |              |
|---|------------------------------------|--------------|
|   | <u>2009</u>                        | <u>2008</u>  |
| Interest expenses for bank loans              | \$ 1,509,814                       | \$ 1,804,733 |
| Interest expenses for discount on bank checks | 852,187                            | 854,434      |
| Interest expenses for due to employees        | 111,370                            | 180,938      |
|   | \$ 2,473,370                       | \$ 2,840,105 |

**Note 14- BANK LOANS**

**Bank loans consist of the following as of December 31, 2009:**

| <u>Financial Institutions</u>    | <u>Loan Amount</u> | <u>Duration</u>           | <u>Monthly Interest Rate</u> | <u>Guaranteed By</u>                          |
|----------------------------------|--------------------|---------------------------|------------------------------|---|
|                                  |                    | 02/04/2009-               |                              |   |
| Feicheng Branch of Bank of China | \$ 438,776         | 01/28/2010<br>02/27/2009- | 4.868                        |   |
| Feicheng Branch of Bank of China | 1,462,587          | 02/26/2010<br>03/18/2009- | 4.368                        |   |
| Feicheng Branch of Bank of China | 702,042            | 03/17/2010<br>03/18/2009- | 4.868                        |   |
| Feicheng Branch of Bank of China | 614,287            | 03/17/2010<br>03/25/2009- | 4.868                        |   |
| Feicheng Branch of Bank of China | 877,552            | 03/24/2010<br>04/23/2009- | 4.868                        | Shangdong<br>Ashide<br>Chemicals<br>Co., Ltd. |
| Feicheng Branch of Bank of China | 1,462,587          | 04/22/2010<br>05/26/2009- | 6.848                        |   |
| Feicheng Branch of Bank of China | 1,023,811          | 05/25/2010                | 4.425                        |   |
| Feicheng Branch of Bank of China | 1,316,328          | 06/02/2009-               | 4.425                        |   |

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|  |           |                           |        |  |
|--|-----------|---------------------------|--------|--|
|  |           | 06/01/2010<br>10/14/2009- |        |  |
| Feicheng Branch of Bank of China       | 1,462,587 | 10/13/2010<br>10/13/2009- | 5.310% |  |
| Feicheng Branch of Transportation Bank | 1,462,587 | 06/11/2010                | 5.841% |  |
|  |           | 05/28/2009-               |        | Shandong<br>Ashide<br>Chemicals<br>Co., Ltd. |
| Wenyang Branch of Feicheng Credit Bank | 877,552   | 05/28/2010<br>01/24/2009- | 4.4250 |  |
| Wenyang Branch of Feicheng Credit Bank | 1,213,947 | 01/24/2010<br>01/24/2009- | 4.4250 | Shandong<br>Zhuiyuan                         |
| Wenyang Branch of Feicheng Credit Bank | 1,117,416 | 01/24/2010<br>01/17/2009- | 4.4250 | Mining Group<br>Co., Ltd                     |
| Wenyang Branch of Feicheng Credit Bank | 1,462,587 | 01/17/2010                | 4.4250 |  |

|                                      |               |             |        |  |
|--------------------------------------|---------------|-------------|--------|--|
|                                      |               | 08/20/2009- |        |  |
| Jinan Branch of Shanghai Pudong Bank | 2,925,174     | 08/20/2010  | 5.310% | Feicheng<br>Ashide<br>Chemicals<br>Co., Ltd.     |
|                                      |               | 08/20/2009- |        |  |
| Jinan Branch of Shanghai Pudong Bank | 2,925,174     | 08/20/2010  | 5.310% |  |
|                                      |               | 05/31/2009- |        |  |
| Wenyang Branch of Agriculture Bank   | 1,462,587     | 05/28/2010  | 5.800% | Shandong<br>Zhuiyuan<br>Mining Group<br>Co., Ltd |
|                                      |               | 05/31/2009- |        |  |
| Wenyang Branch of Agriculture Bank   | 1,462,587     | 05/28/2010  | 5.800% |  |
|                                      |               | 09/21/2009- |        |  |
| Jinan Branch of Bank of Qingdao      | 2,925,174     | 09/21/2010  | 5.841% |  |
| Total                                | \$ 27,195,342 |             |        |  |

Interest expense charged to operations for these bank loans was \$1,509,814 for the year ended December 31, 2009. The weighted-average outstanding bank loan balance is \$24,108,867, and the weighted-average monthly interest rate is 5.23 .

Bank loans consist of the following as of December 31, 2008:

| <u>Financial Institutions</u>    | <u>Loan Amount</u> | <u>Duration</u> | <u>Monthly Interest Rate</u> | <u>Guaranteed By</u>                         |
|----------------------------------|--------------------|-----------------|------------------------------|--|
|                                  |                    | 02/28/2008-     |                              |  |
| Feicheng Branch of Bank of China | \$ 437,700         | 01/27/2009      | 7.47                         |  |
|                                  |                    | 02/28/2008-     |                              |  |
| Feicheng Branch of Bank of China | 1,459,000          | 02/27/2009      | 7.47                         |  |
|                                  |                    | 03/19/2008-     |                              |  |
| Feicheng Branch of Bank of China | 700,320            | 03/18/2009      | 7.47                         |  |
|                                  |                    | 03/19/2008-     |                              |  |
| Feicheng Branch of Bank of China | 612,780            | 03/18/2009      | 7.47                         | Shandong<br>Ashide<br>Chemicals Co.,<br>Ltd. |

|                                  |           |                           |        |
|----------------------------------|-----------|---------------------------|--------|
|                                  |           | 03/26/2008-               |        |
| Feicheng Branch of Bank of China | 875,400   | 03/25/2009<br>04/24/2008- | 6.8475 |
| Feicheng Branch of Bank of China | 1,459,000 | 04/23/2009<br>05/26/2008- | 6.8475 |
| Feicheng Branch of Bank of China | 1,021,300 | 05/25/2009<br>06/03/2008- | 6.8475 |
| Feicheng Branch of Bank of China | 1,313,100 | 06/02/2009<br>10/24/2008- | 6.8475 |
| Feicheng Branch of Bank of China | 1,459,000 | 10/23/2009                | 6.3525 |



|  |               |                           |        |   |
|--|---------------|---------------------------|--------|---|
|  |               | 07/28/2008-               |        |   |
| Taian Branch of Transportation Bank    | 729,500       | 01/28/2009                | 6.0225 |   |
|  |               | 05/28/2008-               |        | Shandong<br>Ashide<br>Chemicals Co.,<br>Ltd.            |
| Wenyang Branch of Feicheng Credit Bank | 875,400       | 05/28/2009<br>01/31/2008- | 6.225  |   |
| Wenyang Branch of Feicheng Credit Bank | 1,210,970     | 01/31/2009<br>01/30/2008- | 6.225  | Shandong<br>Zhuiyuan<br>Mining Group<br>Co., Ltd        |
| Wenyang Branch of Feicheng Credit Bank | 1,114,676     | 01/30/2009<br>01/29/2008- | 6.225  |   |
| Wenyang Branch of Feicheng Credit Bank | 1,459,000     | 01/29/2009<br>08/12/2008- | 6.225  |   |
| Jinan Branch of Shanghai Pudong Bank   | 2,918,000     | 08/12/2009<br>08/01/2008- | 6.8475 | Feicheng<br>Ashide<br>Chemicals Co.,<br>Ltd.            |
| Jinan Branch of Shanghai Pudong Bank   | 1,459,000     | 08/01/2009                | 6.8475 |   |
|  |               | 11/28/2007-               |        | Shandong<br>Suolide<br>Welding<br>Materials Co.,<br>Ltd |
| Wenyang Branch of Agriculture Bank     | 1,459,000     | 05/24/2009                | 5.460  | Shandong<br>Ashide<br>Chemicals Co.,<br>Ltd.            |
|  |               | 01/24/2008-               |        |   |
| Wenyang Branch of Agriculture Bank     | 1,459,000     | 01/22/2009                | 8.0925 | Ltd.  |
| Total                                  | \$ 22,022,146 |                           |        |   |

Interest expense charged to operations for these bank loans was \$1,804,733 for the year ended December 31, 2008. The weighted-average outstanding bank loan balance is \$22,390,850; and the weighted-average monthly interest rate is 6.78 .

#### Note 15- RELATED PARTY TRANSACTIONS

**Advance to employees**

Advance to employee are advances to employees who are working on projects on behalf of the Company. After the work is finished, they will submit expense reports with supporting documents to the accounting department. Then, the expenses are debited into the relevant accounts and the advances are credited out. Cash flows from these activities are classified as cash flows from operating activities.

**Due from a related party**

Due from a related party" represents loans to Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"),

from China RuiTai's majority-owned subsidiary, TaiAn. Shandong Ruitai had owned 75% equity ownership interest of TaiAn from January 2000 through February 2007, prior to the closing of the Share Exchange. On March 20, 2007, Shandong Ruitai sold 74% equity ownership interest of TaiAn to Pacific Capital Group Co., Ltd and complete the Share Exchange. Mr. Xingfu Lv, our President, and Mr. Dianming Ma, our CEO, collectively own 100% of equity ownership interest in Shandong Ruitai.

TaiAn has been extending loans to Shandong Ruitai. Prior to December 2007, these loans were unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed to be payable on demand. As TaiAn became the only operating subsidiary of a public company, TaiAn entered into a loan agreement for the repayment of the outstanding balance of the loans with Shandong Ruitai in December 31, 2007. Pursuant to the loan agreement, Shandong Ruitai will pay 7% interest of the outstanding balance monthly. The Management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans. Shandong Ruitai pledges its thermal power plant as collateral for the loans and Mr. Lv and Mr. Ma personally guaranteed the loans repayment obligations. In addition, Shandong Ruitai agrees to gradually pay off these loans in a three-year period ended December 31, 2010, with 30% in 2008, 30% in 2009, and the rest of 40% in 2010.

On December 31, 2009, when the balance of the loans extended to Shandong Ruitai reached \$31,745,649, Shandong Ruitai and TaiAn entered into a Set-Off Agreement to settle the outstanding balance due and owing to TaiAn. Pursuant to the terms of the Set-Off Agreement, TaiAn agreed to allow Shandong Ruitai satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in return for Shandong Ruitai's transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Taishan Building or Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China ( Taishan Building or the Property ). In conjunction with the Set-Off Agreement, the parties engaged an appraisal firm certified by local government to perform an independent appraisal of the Property. The firm appraised the fair market value of the Property as of December 31, 2009 to be \$36,710,934. Due to the fact that the appraised value of the Property is more than the outstanding debt owed by Shandong Ruitai, TaiAn has agreed to repay the difference which is a total of \$4,965,285, to Shandong Ruitai over a period of two years. The outstanding principal due and owing to Shandong Ruitai pursuant to the Set-Off Agreement will accrue interest at a monthly interest rate of 6%. The Company's management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans.

The following is a summary of due to Shandong Ruitai:

|   | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---|-----------------------------|-----------------------------|
| Due to Shangdong Ruitai-current portion   | \$ 2,979,171                | \$ -                        |
| Due to Shangdong Ruitai-long-term portion | 1,986,114                   | -                           |
| Total due to Shandong Ruitai              | \$ 4,965,285                | \$ -                        |

Taishan Building is a residential building with 47 apartments and is entirely rented to Beijing Shengmei Hotel Management Company, operated as a budget hotel, for a period ended March 31, 2028. Taishan Building is held under a land use rights for residential use while the building is currently used as a budget hotel. TaiAn has not obtained approval from local government for the change in the use of the land use rights. If the local government disapproves the change, the Management believes the cost to restore the building for residential use is immaterial and the restoration does not materially affect the fair value of the building.

**Purchase from a related party**

TaiAn purchases hot steam from Shandong Ruitai' power plant. Hot steam is one of the major raw material for TaiAn's production and TaiAn records the costs of hot steam into its manufacturing costs. The Management believes the transaction is on terms no less favorable to the Company than those reasonably obtainable from third parties. TaiAn purchase hot steam of \$2,417,037 and \$ 2,075,317 from Shandong Ruitai in the year ended December 31, 2009 and 2008, respectively.

#### **Due to employees**

Due to Employees represents loans from employees to finance the Company's operations due to a lack of cash resources. There are no formal loan agreements for these loans, therefore, these loans were unsecured, and have no fixed terms of repayment. The employees can inject or withdraw funds as they wish. The Company pays 6% interest on these loans monthly for the period July 1, 2007 through March 31, 2009. Beginning from April 1, 2009, the Company pays 5% interest on these loans monthly. Cash flows from these activities are classified as cash flows from financing activities. The Company paid interest of \$111,370 and \$180,938 for the year ended December 31, 2009 and 2008, respectively.

#### **Land use right transaction**

On October 25, 2006, the Company purchase the use right of a piece of land, approximately 36 acre, located in Wenyang County, Shandong Province, from its then majority shareholder, Shandong Ruitai, for \$3,352,840. The local government approved the transaction and certified that the purchase price is at the fair market value. The consideration has been paid to the seller, and the title transfer is on going. The Management believes the transaction is on terms no less favorable to the Company than those reasonably obtainable from third parties. The Company's headquarters building and a production facility are located in this piece of land.

#### **Note 16- PRC INCOME TAX**

The Company's operating subsidiary, TaiAn, is governed by the Income Tax Law of PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws ("the Income Tax Laws").

Beginning January 1, 2008, the new Enterprise Income Tax ( EIT ) law has replaced the old laws for Domestic Enterprises ( DES ) and Foreign Invested Enterprises ( FIEs ).

The key changes are:

a.

The new standard EIT rate of 25% replaces the 33% rate applicable to both DES and FIEs, except for High Tech companies that pay a reduced rate of 15%;

b.

Companies established before March 16, 2007 continue to enjoy tax holiday treatment approved by local government for a grace period of either for the next 5 years or until the tax holiday term is completed, whichever is sooner.

In addition, the new EIT also grants tax holidays to entities operating in certain beneficial industries, such as the agriculture, fishing, and environmental protection. Entities in beneficial industries enjoy a three-year period tax exempt and a three-year period with 50% reduction in the income tax rates.

The Company's operating subsidiary, TaiAn, is subject to effective income tax rate of 25% beginning from January 1, 2008.

The provision for income taxes consisted of the following:

|                                       | For the Year Ended<br>December 31, |              |
|---------------------------------------|------------------------------------|--------------|
|                                       | <u>2009</u>                        | <u>2008</u>  |
| Provision for US Income Tax           | \$ -                               | \$ -         |
| Provision for PRC national income tax | 1,891,955                          | 1,746,314    |
| Provision for PRC local income tax    | -                                  | -            |
| Total provision for income taxes      | \$ 1,891,955                       | \$ 1,746,314 |

The following table reconciles the PRC statutory rates to the Company's effective tax rate:

|                                      | For the Year Ended<br>December 31, |             |
|--------------------------------------|------------------------------------|-------------|
|                                      | <u>2008</u>                        | <u>2007</u> |
| U.S. Statutory rate                  | 34.00%                             | 34.00%      |
| Foreign income not recognized in USA | -34.00%                            | -34.00%     |
| PRC national income tax rate         | 25.00%                             | 25.00%      |
| PRC local income tax rate            | 0.00%                              | 0.00%       |
| Effective income tax rate            | 25.00%                             | 25.00%      |

The provision for income taxes consisted of the following:

|                                  | For the Year Ended<br>December 31, |              |
|----------------------------------|------------------------------------|--------------|
|                                  | <u>2009</u>                        | <u>2008</u>  |
| Current Income Tax               | \$ 1,891,955                       | \$ 1,746,314 |
| Deferred Income Tax              | -                                  | -            |
| Total provision for income taxes | \$ 1,891,955                       | \$ 1,746,314 |

The components of deferred tax assets and deferred tax liabilities consisted of the following:

For the Year Ended  
December 31,

|                                  | <u>2009</u> |    | <u>2008</u> |
|----------------------------------|-------------|----|-------------|
| Deferred Tax Assets              |             |    |             |
| Net operating loss carry-forward | \$ 284,651  | \$ | 284,651     |
| Less: valuation allowance        | (284,651)   |    | (284,651)   |
| Net deferred tax assets          | \$ -        | \$ | -           |



|                          | For the Year Ended<br>December 31, |             |
|--------------------------|------------------------------------|-------------|
|                          | <u>2009</u>                        | <u>2008</u> |
| Deferred Tax Liabilities | \$ -                               | \$ -        |

At December 31, 2009 and 2008, the Company had net operating losses of approximately \$1,138,602 carried from prior years. . Although the PRC Income Tax Law allows the enterprises to offset their future taxable income with operating losses carried forward in a 5-year period, enterprises need approval from local tax authority before they can claim such tax benefit, and the outcome of the application is generally uncertain. Therefore, the Management established a 100% valuation allowance for the operation losses carried forward and no deferred tax assets have been recorded as a result of these losses.

#### Note 17- WARRANT

During March 2008 the Company engaged a consultant to conduct a program of investor relations activities, for a primary period of twelve months ended February 28, 2009, and continue on a month-to-month basis thereafter upon mutual consent. The terms of the agreement are for the consultant to receive a cash payment per month plus a warrant to purchase 150,000 shares of the Company's restricted common stock at a price of \$3.05 per share. The warrant has a term of four (4) years and is vested 50% on March 1, 2008 and 50% on September 30, 2008. The Management valued the warrant at \$1.16 per share using the Black-Schole pricing model with assumptions summarized below, for a total of \$174,000, which will be amortized over the prospective beneficial period.

|   |                                 |                     |  |                                      |
|---|---------------------------------|---------------------|--|--------------------------------------|
| <u>Grant Date</u><br><u>Stock Price</u> | <u>Exercise</u><br><u>Price</u> | <u>Warrant Life</u> | <u>Risk Free</u><br><u>Interest Rate</u> | <u>Expected</u><br><u>Volatility</u> |
| \$2.90                                  | \$4.00                          | 4.0 years           | 2.00%                                    | 51%                                  |

Risk free interest rate: Current interest rate of short-dated government bonds such as discount rate on U.S. Government Treasury Bills with 30 days left until maturity.

Volatility: 51% is the volatility of our common stock price October 9, 2007 through March 3, 2008, which is the only available period for our common stocks price quoted in the OTCBB at the time when we valued the cost of the warrant.

Warrant costs charged to operation as consultant fees for the year ended December 31, 2009 and 2008 were \$29,000 and \$145,000, respectively.

On May 19, 2008, the Company engaged a consultant to as its exclusive investment banker and agent for a one-year period ended May 19, 2009, and subject to cancellation by thirty (30) days written notice by certified mail. One of the compensation to the consultant is to issue the consultant a warrant to purchase 200,000 shares of the Company's common stock at a price of \$4.00 per share. The warrant has a term of five (5) years and was issued on May 19, 2008.

The Management valued the warrant at \$1.84 per share using the Black-Schole pricing model with assumptions summarized below, for a total of \$368,000, which will be amortized over the prospective beneficial period.

|   |                                 |                     |  |                                      |
|---|---------------------------------|---------------------|--|--------------------------------------|
| <u>Grant Date</u><br><u>Stock Price</u> | <u>Exercise</u><br><u>Price</u> | <u>Warrant Life</u> | <u>Risk Free</u><br><u>Interest Rate</u> | <u>Expected</u><br><u>Volatility</u> |
| \$4.00                                  | \$4.00                          | 5.0 years           | 2.00%                                    | 51%                                  |

Risk free interest rate: Current interest rate of short-dated government bonds such as discount rate on U.S. Government Treasury Bills with 30 days left until maturity.

Volatility: 51% is the volatility of our common stock price October 9, 2007 through May 19, 2008, which is the only available period for our common stocks price quoted in the OTCBB at the time when we valued the cost of the warrant.

Warrant costs charged to operation as consultant fees for the year ended December 31, 2009 and 2008 were \$136,978 and \$231,022, respectively.

#### Note 18- EARNINGS PER SHARE

The following is information of net income per share:

|   | For the Year Ended<br>December 31, |              |
|---|------------------------------------|--------------|
|   | <u>2009</u>                        | <u>2008</u>  |
| Net income attributable to<br>China Ruitai International Holdings<br>Co., Ltd. Shareholders | \$ 5,619,102                       | \$ 5,186,550 |
| Weighted average shares<br>used in basic computation  | 26,000,000                         | 26,000,000   |
| Effect of dilutive securities:<br>Warrants  | 350,000                            | 244,608      |
| Weighted average shares<br>used in diluted computation                                      | 26,350,000                         | 26,244,608   |
| Earnings per share:   |                                    |              |

|         |    |      |    |      |
|---------|----|------|----|------|
| Basic   | \$ | 0.22 | \$ | 0.20 |
| Diluted | \$ | 0.21 | \$ | 0.20 |

**Note 19- STATEMENT OF CONSOLIDATED COMPRESENTATIVE INCOME**

|   | For the Year Ended<br>December 31, |              |
|---|------------------------------------|--------------|
|   | <u>2009</u>                        | <u>2008</u>  |
| Net income  | \$ 5,675,861                       | \$ 5,238,939 |
| Other comprehensive income, net of tax:   |                                    |              |
| Effects of foreign currency conversion  | 43,448                             | 741,057      |
| Total other comprehensive, not of tax   | 43,448                             | 741,057      |
| Comprehensive income  | 5,719,309                          | 5,979,996    |
| Comprehensive income attributable to<br>the noncontrolling interest                   | (57,193)                           | (59,801)     |
| Comprehensive income attributable to<br>China Ruitai International Holdings Co., Ltd. | \$ 5,662,116                       | \$ 5,920,195 |

**Note 20- COMMON STOCK**

In December 2004, the Company amended its articles of incorporation to authorize 50,000,000 shares of common stock at a par value of \$.001 per share. Previous thereto, the authorized shares consisted of 3,000,000 at \$0.01 par value per share.

On June 11, 2007, the Company issued 1,300,000 shares of common stock to a related party as more fully disclosed in NOTE 15 to these consolidated financial statements.

On November 8, 2007, as more fully disclosed in Note 1, the Company issued 22,645,348 shares of restricted shares of common stock to the stockholders of Pacific Capital Group pursuant to the terms of the Share Exchange Agreement.

**Note 21- SEGMENT REPORTING**

The major products consist of following

For the Year Ended

|  | December 31, |             |
|--|--------------|-------------|
|  | <u>2009</u>  | <u>2008</u> |
| <b>Revenue</b>                         |              |             |
| 1Methyl Cellulose (MC)                 | 2,274,357    | 3,428,160   |
| 2Hydroxypropyl Methyl Cellulose (HPMC) | 26,310,460   | 31,359,201  |
| 3Hydroxypropyl Cellulose (HPC)         | 1,097,669    | 902,214     |
| 4Ethyl Cellulose (EC)                  | 2,130,407    | 2,072,955   |
| 5Hydroxyethyl Cellulose (HEC)          | 1,027,284    | 1,088,684   |
| 6HEMC                                  | 270,333      | 331,220     |
| 7Hydroxypropyl Cellulose (HPC)         | 5,090        | 5,162       |

|                                   |           |         |
|-----------------------------------|-----------|---------|
| 8HP                               | 381,372   | 236,790 |
| 9Microcrystalline Cellulose (MCC) | 254,400   | 53,945  |
| 10CMC                             | 20,939    | 101,356 |
| 11Film Coating Pre-Mixed Reagent. | 742,341   | 637,731 |
| 12Raw materials                   | 1,221,452 | 918,079 |

**Cost of Sales**

|  |            |            |
|--|------------|------------|
| 1Methyl Cellulose (MC)                 | 1,943,864  | 2,865,474  |
| 2Hydroxypropyl Methyl Cellulose (HPMC) | 17,024,703 | 20,825,061 |
| 3Hydroxypropyl Cellulose (HPC)         | 684,875    | 448,767    |
| 4Ethyl Cellulose (EC)                  | 1,205,350  | 1,351,825  |
| 5Hydroxyethyl Cellulose (HEC)          | 884,801    | 935,748    |
| 6HEMC                                  | 221,676    | 274,879    |
| 7Hydroxypropyl Cellulose (HPC)         | 4,768      | 5,498      |
| 8HP                                    | 116,717    | 96,148     |
| 9Microcrystalline Cellulose (MCC)      | 176,219    | 42,687     |
| 10CMC                                  | 23,333     | 142,987    |
| 11Film Coating Pre-Mixed Reagent.      | 209,132    | 183,943    |
| 12Raw materials                        | 1,369,718  | 951,532    |

**Gross Profit**

|  |           |            |
|--|-----------|------------|
| 1Methyl Cellulose (MC)                 | 330,493   | 562,686    |
| 2Hydroxypropyl Methyl Cellulose (HPMC) | 9,285,757 | 10,534,140 |
| 3Hydroxypropyl Cellulose (HPC)         | 412,794   | 453,447    |
| 4Ethyl Cellulose (EC)                  | 925,057   | 721,130    |
| 5Hydroxyethyl Cellulose (HEC)          | 142,483   | 152,936    |
| 6HEMC                                  | 48,657    | 56,341     |
| 7Hydroxypropyl Cellulose (HPC)         | 322       | (336)      |
| 8HP                                    | 264,655   | 140,642    |
| 9Microcrystalline Cellulose (MCC)      | 78,181    | 11,258     |
| 10CMC                                  | (2,394)   | (41,631)   |
| 11Film Coating Pre-Mixed Reagent.      | 533,209   | 453,788    |
| 12Raw materials                        | (148,266) | (33,453)   |

## Geographic Areas Information

While all of the Company's assets and production are located in the PRC, the Company sales products to customers located in the South Korea, United Arab Emirates, Finland, Germany, United States, Spain, and other countries, as summarized in the following:

| Geographic<br>Areas     | For the Year Ended December 31, |                      |                |                      |
|-------------------------|---------------------------------|----------------------|----------------|----------------------|
|                         | <u>2009</u>                     | <u>Percentage of</u> | <u>2008</u>    | <u>Percentage of</u> |
|                         | <u>Revenue</u>                  | <u>Total Revenue</u> | <u>Revenue</u> | <u>Total Revenue</u> |
| PRC                     | \$ 23,995,991                   | 67.15%               | \$ 28,546,455  | 69.40%               |
| South Korea             | 4,371,252                       | 12.23%               | 269,865        | 0.66%                |
| United Arab<br>Emirates | 1,691,873                       | 4.73%                | 1,990,819      | 4.84%                |
| Finland                 | 1,008,195                       | 2.82%                | 2,319,224      | 5.64%                |
| Germany                 | 1,830,244                       | 5.12%                | 1,979,915      | 4.81%                |
| U.S.A.                  | 1,616,520                       | 4.52%                | 2,415,285      | 5.87%                |
| Spain                   | 230,902                         | 0.65%                | -              |                      |
| Other Countries         | 991,127                         | 2.77%                | 3,613,934      | 8.79%                |
| Total                   | \$ 35,736,104                   | 100.00%              | \$ 41,135,497  | 100.00%              |

## Major Customers

The Company has a diversified customer base. There were four major customers who made sales approximately 5% or more of the Company's total sales as summarized in the following:

| Major<br>Customer | For the Year Ended December 31, |                      |                |                      |
|-------------------|---------------------------------|----------------------|----------------|----------------------|
|                   | <u>2009</u>                     | <u>Percentage of</u> | <u>2008</u>    | <u>Percentage of</u> |
|                   | <u>Revenue</u>                  | <u>Total Revenue</u> | <u>Revenue</u> | <u>Total Revenue</u> |
|                   | \$ 4,379,486                    | 12.26%               | \$ 3,729,352   | 9.07%                |



ChangSha XiangTai Science  
and Technology Developing  
Co., Ltd.

Viscochem Research &  
Development Co., Ltd.

Bang and Bonsomer Co., Ltd.

Total

1,691,873

1,350,702

\$ 7,422,061

4.73%

3.78%

20.77%

1,990,819

2,037,967

\$ 7,758,137

4.84%

4.95%

18.86%

### Major Suppliers

The Company has a diversified Supplier base. There were eight major suppliers from which we purchased approximately 5% or more of the Company's total purchase as summarized in the following:

| Major<br>Suppliers  | For the Year Ended December 31, |  |                         |  |
|---|---------------------------------|--|-------------------------|--|
|   | <u>2009</u><br>Purchase         | Percentage of<br><u>Total Purchase</u> | <u>2008</u><br>Purchase | Percentage of<br><u>Total Purchase</u> |
| Tianjun Changda Technology Co., Ltd.                          | \$ 3,657,151                    | 16.94%                                 | \$ 4,085,990            | 12.89%                                 |
| Nantong Jiangshan Pesticide Chemical Co., Ltd.                | 2,800,219                       | 12.97%                                 | 2,863,359               | 9.03%                                  |
| Nantong (Xinyi) Chemical Transportation Co., Ltd.             | 1,842,063                       | 8.53%                                  | 2,127,936               | 6.71%                                  |
| Zhongyang Jinhanjiang Cellulose Co., Ltd.                     | 2,308,499                       | 10.69%                                 | 317,211                 | 1.00%                                  |
| JiNing XingChi Chemical Company                               | 2,150,156                       | 9.96%                                  | 947,910                 | 2.99%                                  |
| Dongxian Tianyuan Cellulose Co., Ltd.                         | 2,394,987                       | 11.09%                                 | -                       | -                                      |
| ZiBo HuiLi Cellulose Co., Ltd.                                | -                               | -                                      | 7,958,641               | 25.11%                                 |
| ChangSha XiangTai Science and Technology Developing Co., Ltd. | -                               | -                                      | 3,672,563               | 11.59%                                 |
| Total   | \$15,153,076                    | 70.20%                                 | \$ 21,973,610           | 69.32%                                 |

## Note 22- ASSET RETIREMENT OBLIGATIONS

The Company operates within the requirements of numerous regulations at the local, province, and national levels regarding issues such as the handling and disposal of hazardous chemicals, waste-water treatment and effluent and emissions limitations among others. From a practical standpoint, certain environmental contamination cannot be reasonably determined until a facility or asset is retired or an event occurs that otherwise requires the facility to be tested and monitored. In the absence of such requirements to test for environmental contamination prior to an asset or facility retirement, the Company has concluded that it cannot reasonably estimate the cost associated with such environmental-related asset retirement obligations ( ARO ).

In addition, the Company anticipates operating its manufacturing facilities indefinitely into the future thereby rendering the potential range of settlement dates as indeterminate. Therefore, the Company has not recorded any AROs to recognize legal obligations associated with the retirement of tangible long-lived assets, as contemplated by FASB guidance.

**Note 23- COMMITMENTS AND CONTINGENCIES**

**PRC's political and economic system**

The Company faces a number of risks and challenges not typically associated with companies in North America and Western Europe, since its assets exist solely in the PRC, and its revenues are derived from its operations therein. The PRC is a developing country with an early stage market economic system, overshadowed by the state. Its political and economic systems are very different from the more developed countries and are in a state of change. The PRC also faces many social, economic and political challenges that may produce major shocks and instabilities and even crises, in both its domestic arena and in its

relationships with other countries, including the United States. Such shocks, instabilities and crises may in turn significantly and negatively affect the Company's performance.

## **Environmental**

In the ordinary course of its business, the Company is subject to numerous environmental laws and regulations covering compliance matters or imposing liability for the costs of, and damages resulting from, cleaning up sites, past spills, disposals and other releases of hazardous substances. Currently, our environmental compliance costs principally include the costs to run our waste water treatment facility and routine inspection fees paid to the local environmental department. These amounts are immaterial to our operating costs. However, changes in these laws and regulations may significantly increase our environmental compliance costs and therefore have a material adverse effect on the Company's financial position and results of operations. Also, any failure by the Company to adequately comply with such laws and regulations could subject the Company to significant future liabilities.

## **Governmental control of currency conversion**

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Company receives most of its revenues in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict the Company's ability to remit sufficient foreign currency to satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currency to satisfy its currency demands, the Company may not be able to pay certain of its expenses as they come due.

## **Contingent liabilities**

Prior to the merger with Pacific Capital Group on November 8, 2007, the Company has not been active since discontinuing its real estate operations in 1981. Management believes that there are no valid outstanding liabilities from prior operations. If a creditor were to come forward and claim a liability, the Company has committed to contest such claim to the fullest extent of the law. No amount has been accrued in the financial statements for this contingent liability.

### **Guaranteed Bank Loans**

The Company has guaranteed certain loans for third-party enterprises, which, in turn, have guaranteed loans for the Company. These guarantees require payment from the Company in the event of default on payment by the respective debtor and, if the debtor defaults, the Company may be required to pay amounts outstanding under the related agreements in addition to the principal amount guaranteed, including accrued interest and related fees.

The Company and these third-party enterprises have been guaranteeing loans for each other in the day-to-day operation. Both these enterprises and the Company are considered good reputation debtors by

local banks. The banks allow these companies guarantee loans for each other instead of requiring the loans be secured by collateral. None of the enterprises, for which the Company has guaranteed loans, has defaulted on any loan repayments, and accordingly, the Company has not recorded any liabilities or losses on such guarantees.

Bank loans that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2009:

| <u>Borrower</u>                     | <u>Financial Institutions</u>       | <u>Loan Amount</u> | <u>Duration</u>       | <u>Monthly Interest Rate</u> | <u>Guaranteed By</u>                |
|-------------------------------------|-------------------------------------|--------------------|-----------------------|------------------------------|-------------------------------------|
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | \$ 1,170,070       | 08/16/2009-07/23/2010 | 4.868                        | Shandong RuiTai Cellulose Co., Ltd. |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 1,170,070          | 08/16/2009-07/23/2010 | 4.868                        | Shandong RuiTai Cellulose Co., Ltd. |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 351,021            | 08/16/2009-07/23/2010 | 4.868                        | Shandong RuiTai Cellulose Co., Ltd. |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 219,388            | 01/12/2007-01/08/2012 | 8.34                         | TaiAn RuiTai Cellulose Co., Ltd.    |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 117,007            | 02/02/2007-01/08/2011 | 8.34                         | TaiAn RuiTai Cellulose Co., Ltd.    |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 130,170            | 12/30/2006-01/08/2010 | 8.33                         | TaiAn RuiTai Cellulose Co., Ltd.    |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China    | 102,381            | 12/30/2006-01/08/2011 | 8.33                         | TaiAn RuiTai Cellulose Co., Ltd.    |
| Shandong Taipeng Co., Ltd.          | Feicheng Branch of Agriculture Bank | 2,340,139          | 05/10/2009-05/10/2010 | 4.425                        | Shandong Yinbao Food Co., Ltd.      |
| Shandong Yinbao Co.,Ltd.            | Feicheng Branch of Agriculture Bank | 2,486,398          | 11/01/2009-11/01/2010 | 4.425                        | Shandong Taipeng Shiye Co., Ltd.    |
|                                     | Total                               | \$8,086,644        |                       |                              |                                     |



Bank loans that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2008:

| <u>Borrower</u>                     | <u>Financial Institutions</u>          | <u>Loan Amount</u> | <u>Duration</u>       | <u>Monthly Interest Rate</u> | <u>Guaranteed By</u>             |
|-------------------------------------|--|--------------------|-----------------------|------------------------------|----------------------------------|
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | \$1,093,760        | 09/18/2008-09/17/2009 | 7.2                          |                                  |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 1,093,760          | 10/20/2008-09/30/2009 | 6.93                         |                                  |
| Shangdong Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 328,128            | 05/14/2008-05/13/2009 | 7.47                         |                                  |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 1,500,000          | 01/12/2007-01/08/2012 | 8.34                         | TaiAn RuiTai Cellulose Co., Ltd. |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 800,000            | 02/02/2007-01/08/2011 | 8.41                         |                                  |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 890,000            | 12/30/2006-01/08/2010 | 8.32938                      |                                  |
| Fei Cheng Ashide Chemical Co., Ltd. | Feicheng Branch of Bank of China       | 700,000            | 08/10/2008-01/08/2011 | 8.32938                      |                                  |
| Shandong Lulong Co., Ltd.           | Jinan Branch Shenzhen Development Bank | 1,459,000          | 08/09/2009            | 5.531                        |                                  |
|                                     | <b>Total</b>                           | <b>\$7,864,648</b> |                       |                              |                                  |

### Guaranteed Bank Checks

The Company has guaranteed bank checks for third-party enterprises. Generally, these companies deposit 40% to 100% of the bank check amount into a restricted bank account, the bank then issues a bank check to these companies



or their assignees. The Company guaranteed on the balance of the bank check amounts. These guarantees require payment from the Company in the event of default on payment by the respective debtor and, if the debtor defaults, the Company may be required to pay amounts outstanding under the related agreements in addition to the amount guaranteed, including accrued interest and related fees.

Both these enterprises and the Company are considered good reputation debtors by local banks. None of the enterprises, for which the Company has guaranteed bank checks, has defaulted on any bank check repayments, and accordingly, the Company has not recorded any liabilities or losses on such guarantees.

Bank checks that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2009:

| <u>Borrower</u>                   | <u>Financial Institutions</u>             | <u>Bank Check Amount</u> | <u>Duration</u>       | <u>Amount in Restricted Bank Account</u> | <u>Amount Guaranteed By the Company</u> |
|-----------------------------------|---|--------------------------|-----------------------|--|---|
| Shangdong Yinbao Food Co., Ltd.   | Jinan Branch of Shenzhen Development Bank | 2,925,002                | 01/10/2009-07/10/2010 | 1,462,501                                | 1,462,501                               |
| Shangdong Taipeng Shiye Co., Ltd. | Jinan Branch of Shenzhen Development Bank | 2,340,002                | 01/10/2009-07/10/2010 | 1,170,001                                | 1,170,001                               |
|                                   | Total                                     | \$5,265,004              |                       |  |   |

Bank checks that the Company has guaranteed for third-party enterprises consist of the following as of December 31, 2008:

| <u>Borrower</u>                   | <u>Financial Institutions</u>             | <u>Bank Check Amount</u> | <u>Duration</u>       | <u>Amount in Restricted Bank Account</u> | <u>Amount Guaranteed By the Company</u> |
|-----------------------------------|---|--------------------------|-----------------------|--|---|
| Shangdong Yinbao Food Co., Ltd.   | Jinan Branch of Shenzhen Development Bank | 2,917,536                | 07/10/2008-01/10/2009 | 1,458,768                                | 1,458,768                               |
| Shangdong Taipeng Shiye Co., Ltd. | Jinan Branch of Shenzhen Development Bank | 2,334,029                | 07/10/2008-01/10/2009 | 1,167,014                                | 1,167,014                               |
|                                   | Total                                     | \$5,251,565              |                       |  |   |



**ITEM 9.**

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

As reported on Form 8-K filed with the SEC on January 9, 2008, the Company changed auditors. For the fiscal year ended December 31, 2009, there were no disagreements with our accountants on accounting and financial disclosure.

**ITEM 9A(T). CONTROLS AND PROCEDURES.**

**Disclosure Controls and Procedures**

The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures of an issuer that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company maintains such a system of controls and procedures in an effort to ensure that all information which it is required to disclose in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified under the SEC's rules and forms and that information required to be disclosed is accumulated and communicated to principal executive and principal financial officers to allow timely decisions regarding disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed to provide reasonable assurance of achieving the objectives of timely alerting them to material information required to be included in our periodic SEC reports and of ensuring that such information is recorded, processed, summarized and reported with the time periods specified. Our chief executive officer and chief financial officer also concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance of the achievement of these objectives.

## **Internal Control Over Financial Reporting**

The management of the Company is responsible for the preparation of the financial statements and related financial information appearing in this Annual Report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States of America. The management of the Company also is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. A company's internal control over financial reporting is defined as a process designed 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. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and

that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and internal controls will prevent all error and all fraud. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable, not absolute, assurance that the objectives of the control system are met and may not prevent or detect misstatements. Further, over time control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2009 based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

There was no change in the Company's internal control over financial reporting during the year ended December 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III**

**ITEM 10.**

**DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.**

**Directors and Executive Officers**

The following table sets forth, as of March 31, 2009, the names and ages of the directors and executive officers of the Registrant, the principal positions with the Registrant held by such persons and the date such persons became a director or executive officer. The executive officers are elected annually by the Board of Directors. The directors serve one year terms or until their successors are elected.

| <u>Name</u> | <u>Age</u> | <u>Position Held and Tenure</u>                                |
|-------------|------------|--|
| Dian Min Ma | 42         | Director since August 2007; CEO, Secretary since November 2007 |
| Xing Fu Lu  | 56         | Director August 2007; President since November 2007            |
| Gang Ma     | 35         | Chief Financial Officer since November 8, 2007                 |
| Jin Tian    | 36         | Director since November 2007                                   |

### **Biographical Information**

Dian Min Ma. Dian Min Ma has been a director of the Registrant since August 2007 and has been the CEO of the Registrant since November 8, 2007. His primary responsibilities are focused on the general management of the Company. In addition to his work with China RuiTai International Holdings Co., Ltd., Mr. Ma serves as the Finance Manager for TaiAn; he has served in this position since August 2004. Mr. Ma is a Professional Accountant with close to 20 years of experience. He has formerly served as Finance Manager for FeiCheng JinTai Company, FeiCheng Oil Chemical Plant, and FeiCheng RuiTai Fine Chemical Company, Ltd.

Xing Fu Lu. Xing Fu Lu has been a director of the Registrant since August 2007 and has been the President of the Registrant since November 8, 2007. In addition to his work with China RuiTai International Holdings Co., Ltd., Mr. Lu is the Chief Executive Officer of TaiAn. Mr. Lu is a Professional Engineer with over 25 years of experience. Prior to accepting his position as CEO with TaiAn, he was General Manager in FeiCheng Oil Chemical Plant, and FeiCheng RuiTai Fine Chemical Company, Ltd.

Gang Ma. Gang Ma has been the Chief Financial Officer of the Registrant since November 8, 2007. In addition to his work with China RuiTai International Holdings Co., Ltd., Mr. Ma works as the Director of the Financial Department for TaiAn, a position that he has held since July 1999. Prior to working for TaiAn, Mr. Ma worked for Shangdong GMB Company from August 1995 to July 1999 in the company's financial and accounting department.

Jin Tian. Jin Tian has been a director of the Registrant since November 8, 2007. In addition to his work with China RuiTai International Holdings Co., Ltd., Jin Tian works as an accountant for TaiAn, a position he has held since approximately October 2002.

### **Family Relationships**



There are no family relationships between any of the current directors or officers of the Company.

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

None of our officers, directors, promoters or control persons has been involved in the past five (5) years in any of the following:

(1)

Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(2)

Any conviction in a criminal proceedings or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3)

Being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, or any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

(4)

Being found by a court of competent jurisdiction (in a civil action), the SEC or the U.S. Commodity Futures Trading Commission to have violated a federal or state securities laws or commodities law, and the judgment has not been reversed, suspended, or vacated.

### **Directorships**

None of the Company's executive officers or directors is a director of any company with a class of equity securities registered pursuant to Section 12 of the Securities exchange Act of 1934 (the Exchange Act) or subject to the requirements of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

### **Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of

ownership of Form 3 and changes in ownership on Form 4 or Form 5 with the Securities and Exchange Commission. Such officers, directors and 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, the Company believes that, during the fiscal year ended December 31, 2009, all Section 16(a) filing requirements applicable to its officers, directors and 10% stockholders were satisfied.

### **Code of Ethics**

The Company has not yet adopted a code of ethics. The Company intends to adopt a code of ethics in the near future.

## **ITEM 11.**

### **EXECUTIVE COMPENSATION.**

#### **Executive Compensation**

The following table sets forth, for the years indicated, all compensation paid, distributed or accrued for services, including salary and bonus amounts, rendered in all capacities by the Company's chief executive officer, chief financial officer and all other executive officers who received or are entitled to receive remuneration in excess of \$100,000 during the stated periods; the information contained below represents compensation paid to the Registrant's officers for their work related to the Registrant and the Registrant's subsidiary, TaiAn. These officers are referred to herein as the named executive officers.

#### **Summary Compensation Table**

| Name and<br>P r i n c i p a l<br>Position  | Year | Salary       | Bonus | Stock<br>Award(s) | Option<br>Award(s) | Non-Equity<br>Incentive<br>Plan<br>Compensation | Non-qualified<br>Deferred<br>Compensation<br>Earnings | All other<br>Compensation | Total     |
|--|------|--------------|-------|-------------------|--------------------|---|---|---------------------------|-----------|
|  |      | (\$)         | (\$)  | (\$)              | (\$)               | (#)   | (\$)  | (\$)                      | (\$)      |
| Dian Min Ma,<br>CEO                        | 2009 | \$8,662(1)   | --    | --                | --                 | --  | --  | --                        | \$8,662   |
|  | 2008 | \$8,297(1)   | --    | --                | --                 | --  | --  | --                        | \$8,297   |
|  | 2007 | \$185,185(1) | --    | --                | --                 | --  | --  | --                        | \$185,185 |
| Xing Fu Lu,<br>President                   | 2009 | \$8,231(2)   | --    | --                | --                 | --  | --  | --                        | \$8,231   |
|  | 2008 | \$9,313(2)   | --    | --                | --                 | --  | --  | --                        | \$9,313   |
|  | 2007 | \$198,000(2) | --    | --                | --                 | --  | --  | --                        | \$198,000 |
| Gang Ma,<br>Chief<br>Accounting<br>Officer | 2009 | \$4,081(3)   | --    | --                | --                 | --  | --  | --                        | \$4,081   |
|  | 2008 | \$4,328(3)   | --    | --                | --                 | --  | --  | --                        | \$4,328   |
|  | 2007 | \$67,000(3)  | --    | --                | --                 | --  | --  | --                        | \$67,000  |

(1)

This figure includes compensation paid to Dian Min Ma for services rendered to the Registrant's majority owned subsidiary, TaiAn.

(2)

This figure includes compensation paid to Xing Fu Lu for services rendered to the Registrant's majority owned subsidiary, TaiAn.

(3)

This figure includes compensation paid to Gang Ma for services rendered as the Registrant's CFO and for services rendered to the Registrant's majority owned subsidiary, TaiAn.

### **Option Grants in Last Fiscal Year**

There were no options granted to any of the named executive officers during the fiscal year ended December 31, 2009.

### **Majority-Owned Subsidiary Employment Agreements**

The Company's subsidiary TaiAn has entered into employment agreements with its executive officers. The following discussion identifies and summarizes the employment agreements that TaiAn has entered into with its executive officers:

Employment Agreement - Dian Min Ma - TaiAn has entered into an employment agreement with Dian Min Ma, its general manager for a ten-year term beginning on October 6, 2000 and ending on October 6, 2010. The agreement establishes the working relationship between TaiAn and Dian Min Ma. A copy of the agreement was filed as Exhibit 10.1 on Form 8-K filed with the SEC on November 9, 2007, and is hereby incorporated by reference.

Employment Agreement - Xing Fu Lu - TaiAn has entered into an employment agreement with Xing Fu Lu, its president for a ten-year term beginning on October 6, 2000 and ending on October 6, 2010. The agreement establishes the working relationship between TaiAn and Xing Fu Lu. A copy of the agreement was filed as Exhibit 10.2 on Form 8-K filed with the SEC on November 9, 2007, and is hereby incorporated by reference.

Employment Agreement - Gang Ma - TaiAn has entered into an employment agreement with Gang Ma, its chief financial officer for a ten-year term beginning on October 6, 2000 and ending on October 6, 2010. The agreement establishes the working relationship between TaiAn and Gang Ma. A copy of the agreement was filed as Exhibit 10.3 on Form 8-K filed with the SEC on November 9, 2007, and is hereby incorporated by reference.

Aside from the foregoing, we have no written employment agreements with our officers and directors. Compensation was determined after discussion about expected time commitments, remuneration paid by comparable organizations and the flexibility provided to the Company by not having extended terms and other terms typical of employment agreements. We have no plans or packages providing for compensation of officers after resignation or retirement.

### **Equity Compensation Plan Information**

The Company currently does not have any equity compensation plans.

### **Director Compensation**

We do not currently compensate our directors for their services as directors. Directors are reimbursed for their reasonable out-of-pocket expenses incurred with attending board or committee meetings.

### **ITEM 12.**

### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, as of March 31, 2009, certain information with respect to the common stock beneficially owned by (i) each director, nominee to the Board of Directors and executive officer of the Company; (ii) each person who owns beneficially more than 5% of the common stock; and (iii) all directors and executive officers as a group:

| <b><u>Title and Class</u></b> | <b><u>Name and Address of Beneficial Owner</u></b> | <b><u>Amount and Nature of Beneficial Ownership</u></b> | <b><u>Percent of class</u></b> |
|-------------------------------|--|---|--------------------------------|
| Common                        | Dian Min Ma(1)                                     | 11,936,372  | 45.90%                         |

Director, Chief Executive Officer,  
Secretary

Wenyang Town

Feicheng City

|        |   |            |        |
|--------|---|------------|--------|
| Common | ShanDong, China 270016<br>Xing Fu Lu(1) | 11,096,220 | 42.70% |
|--------|---|------------|--------|

President, Director  
Wenyang Town

Feicheng City

|        |                                      |   |       |
|--------|--------------------------------------|---|-------|
| Common | ShanDong, China 270016<br>Gang Ma(1) | 0 | 0.00% |
|--------|--------------------------------------|---|-------|

Chief Financial Officer

Wenyang Town

Feicheng City

|        |  |   |       |
|--------|--|---|-------|
| Common | ShanDong, China 270016<br>Jin Tian (1) | 0 | 0.00% |
|--------|--|---|-------|

Director

Wenyang Town

Feicheng City

ShanDong, China 270016

|        |                                      |            |        |
|--------|--------------------------------------|------------|--------|
| Common | All Directors and executive officers | 23,032,592 | 88.60% |
|--------|--------------------------------------|------------|--------|

(4 persons)

(1)

this person is an officer and/or director

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

#### **Related Transactions**

The following are transactions with related parties:

#### **Advance to Employees**

TaiAn has a process of making advances to employees. Advances to Employees are advances to employees who are working on projects on behalf of TaiAn. After the work is finished, they will submit expense reports with supporting documents to the accounting department. Then, the expenses are debited into the relevant accounts and the advances are credited out. Cash flows from these activities are classified into operating activities. The total advance to employees was \$116,954 and \$150,294 for the years ended December 31, 2009 and 2008, respectively.

#### **Due From/To Related Party**

Prior to the closing of the Share Exchange, Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"), owned a 75% equity ownership interest in TaiAn. Mr. Xingfu Lu, our President, and Mr. Dian Min Ma, our CEO, collectively own 100% of capital stock of Shandong Ruitai. On March 20, 2007, Shandong Ruitai sold 74% of its equity interest in TaiAn to Pacific Capital Group Co., Ltd. From January 2000 through February 2007, prior to the closing of the Share Exchange, TaiAn would periodically make loans to Shandong Ruitai.



Prior to December 2007, these loans were unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. As TaiAn became the only operating subsidiary of a public company, TaiAn signed a loan agreement with Shandong Ruitai in December 2007. Pursuant to the loan agreement, Shandong Ruitai will pay 7% interest on the outstanding balance monthly. The Management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans. Shandong Ruitai pledges its power plant as collateral for the loans and Mr. Lv and Mr. Ma guarantee the loans. In addition, Shandong Ruitai agrees to gradually pay off these loans in a three-year period ended December 31, 2010, with 30% in 2008, 30% in 2009, and the rest of 40% in 2010.

As disclosed on Form 8-K filed with the SEC on April 15, 2010, on December 31, 2009, when the balance of the loans extended to Shandong Ruitai reached \$31,745,649 Shandong Ruitai and TaiAn entered into a Set-Off Agreement to settle the outstanding balance due and owing to TaiAn. On December 31, 2009, TaiAn executed a Set-Off Agreement with Shandong Ruitai for the purpose of satisfying outstanding debts owed by Shandong Ruitai to TaiAn. Pursuant to the terms of the Set-Off Agreement, TaiAn agreed to allow Shandong Ruitai satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in return for Shandong Ruitai's transfer of 100% of its ownership interest in real property located in Beijing, China, commonly known as Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, China (the Property). In conjunction with the Set-Off Agreement, the parties engaged the firm of CB Richard Ellis Consultant Services (Beijing), Ltd. (CB Richard Ellis) to perform an independent appraisal of the Property. CB Richard Ellis appraised the fair market value of the Property as of December 31, 2009 to be \$36,710,934. Due to the fact that the appraised value of the Property is more than the outstanding debt owed by Shandong Ruitai, TaiAn has agreed to repay the difference which is a total of \$4,965,285, to Shandong Ruitai over a

period of two years. The outstanding principal due and owing to Shandong Ruitai pursuant to the Set-Off Agreement will accrue interest at a monthly interest rate of 6%. The Company's management believes that the interest rate approximates the fair market interest rate as compared to the Company's bank loans.

The following is a summary of due to Shandong Ruitai:

|   | December 31,<br><u>2009</u> | December 31,<br><u>2008</u> |
|---|-----------------------------|-----------------------------|
| Due to Shangdong Ruitai-current portion   | \$ 2,979,171                | \$ -                        |
| Due to Shangdong Ruitai-long-term portion | 1,986,114                   | -                           |
| Total due to Shandong Ruitai              | \$ 4,965,285                | \$ -                        |

Imputed interest income recognized from due from Shangdong Ruitai amounted to \$1,729,708 and \$1,236,191 for the year ended December 31, 2009 and 2008, respectively

### **Due To Employees**

Due to Employees represents loans from employees to finance the Company's operations due to a lack of cash resources. There are no formal loan agreements for these loans, therefore, these loans were unsecured, and have no fixed terms of repayment. The employees can inject or withdraw funds as they wish. The Company pays 8% interest on these loans monthly beginning from July 1, 2007. Cash flows from these activities are classified as cash flows from financing activities. The total borrowing from employees was \$1,476,292 and \$1,707,383 for the years ended December 31, 2009 and 2008, respectively. The Company paid interest of \$ 111,370 and \$180,938 for the years ended December 31, 2009 and 2008, respectively.

### **Land Use Right Transaction**

On October 25, 2006, the Company purchased the use right of a piece of land, approximately 36 acre, located in Wenyang County, Shandong Province, from its majority shareholder, Shandong Ruitai, for \$3,352,840, a copy of the Land Transfer Agreement was filed as an exhibit to the Form 8-K filed with the Securities and Exchange Commission on November 9, 2007, and is hereby incorporated by reference. The local government approved the transaction and certified that the purchase price is at the fair market value. The consideration has been paid to the seller, and the title transfer is under going. The Management believes the transaction is on terms no less favorable to the Company than

those reasonably obtainable from third parties.

### **Director Independence**

The NASDAQ Stock Market has instituted director independence guidelines that have been adopted by the Securities & Exchange Commission. These guidelines provide that a director is deemed independent only if the board of directors affirmatively determines that the director has no relationship with the company which, in the board's opinion, would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities. Significant stock ownership will not, by itself, preclude a board finding of independence.

For NASDAQ Stock Market listed companies, the director independence rules list six types of disqualifying relationships that preclude an independence filing. The Company's board of directors may not find independent a director who:

1.

is an employee of the company or any parent or subsidiary of the company;

2.

accepts, or who has a family member who accepts, more than \$60,000 per year in payments from the company or any parent or subsidiary of the company other than (a) payments from board or committee services; (b) payments arising solely from investments in the company's securities; (c) compensation paid to a family member who is a non-executive employee of the company (d) benefits under a tax qualified retirement plan or non-discretionary compensation; or (e) loans to directors and executive officers permitted under Section 13(k) of the Exchange Act;

3.

is a family member of an individual who is employed as an executive officer by the company or any parent or subsidiary of the company;

4.

is, or has a family member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the company made, or from which the company received, payments for property or services that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than (a) payments arising solely from investments in the company's securities or (b) payments under non-discretionary charitable contribution matching programs;

5.

is employed, or who has a family member who is employed, as an executive officer of another company whose compensation committee includes any executive officer of the listed company; or

6.

is, or has a family member who is, a current partner of the company's outside auditor, or was a partner or employee of the company's outside auditor who worked on the company's audit.

Based upon the foregoing criteria, our Board of Directors has determined that Dian Min Ma and Xing Fu Lu are not independent directors under these rules as they are also employed by the Company as its Chief Executive Officer and President, respectively.

**ITEM 14.**

**PRINCIPAL ACCOUNTING FEES AND SERVICES**

**Audit Fees**

(1)

The aggregate fees billed by Keith K. Zhen, CPA for audit of the Company's annual financial statements were \$98,000.00 for the fiscal year ended December 31, 2009, and \$88,000 for the fiscal year ended December 31, 2008.

**Audit Related Fees**

(2)

Keith K. Zhen, CPA did not bill the Company any amounts for assurance and related services that were related to its audit or review of the Company's financial statements during the fiscal years ended 2009 and 2008.

**Tax Fees**

(3)

The aggregate fees billed by Keith K. Zhen, CPA for tax compliance, advice and planning were \$0.00 for the fiscal year ended December 31, 2009 and 2008.

**All Other Fees**



(4)

Keith K. Zhen, CPA did not bill the Company for any products and services other than the foregoing during the fiscal years ended 2009 and 2008.

**Audit Committee's Pre-approval Policies and Procedures**

(5)

China RuiTai International Holdings Co., Ltd. does not have an audit committee per se. The current board of directors functions as the audit committee.

**ITEM 15.**

**EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a)

Exhibits.

- 3.1(i) Articles of Incorporation, dated November 11, 1955 (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)
- 3.1.1(i) Articles of Amendment to Articles of Incorporation, dated December 8, 1955 (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)
- 3.1(ii) Bylaws of China RuiTai International Holdings Co., Ltd. (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)
- 10.1 Labor Contract dated October 6, 2000, by and between TaiAn RuiTai Cellulose Co., Ltd. and Ma Dianmin (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)
- 10.2 Labor Contract dated October 6, 2000, by and between TaiAn RuiTai Cellulose Co., Ltd. and Lu Xingfu (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)

- 10.3 Labor Contract dated October 6, 2000, by and between TaiAn RuiTai Cellulose Co., Ltd. and Ma Gang (incorporated by reference from exhibit to Form 8-K filed with the Securities and Exchange Commission on November 9, 2007)
- 10.7 Loan Contact dated December 31, 2007, by and between Shandong Ruitai Chemicals Co., Ltd. and TaiAn RuiTai Cellulose Co., Ltd.( incorporated by reference from Exhibit Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2008)
- 10.8 Set-Off Agreement dated December 31, 2009 by and between TaiAn Ruitai Cellulose Co., Ltd. and Shandong Ruitai Chemical Co., Ltd. (incorporated by reference from Exhibit to Form 8-K filed with the Securities and Exchange Commission on April 15, 2010)
- 10.9 House Lease Agreement dated January 1, 2010 by and between TaiAn Ruitai Cellulose Co., Ltd. and Beijing Shengmei Hotel Management Co., Ltd. (incorporated by reference from Exhibit to Form 8-K filed with the Securities and Exchange Commission on April 15, 2010)



- 31.1 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed Herewith

**CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.**

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.

By: /S/ Dian Min Ma

Dian Min Ma, Chief Executive Officer

Date: April 15, 2010

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: /S/ Dian Min Ma

Dian Min Ma, Chief Executive Officer

Date: April 15, 2010

By: /S/ Gang Ma

Gang Ma, Chief Financial Officer, Principal Accounting Officer

Date: April 15, 2010

By: /S/ Dian Min Ma

Dian Min Ma, Director

Date: April 15, 2010

By: /S/ Xing Fu Lu

Xing Fu Lu, Director

Date: April 15, 2010

By: /S/ Jin Tian

Jin Tian, Director

Date: April 15, 2010