

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

Form 10-K

April 15, 2009

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, 2008

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 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. [X]

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 [X]

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. \$11,869,632

As of December 31, 2008, 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 20% of TaiAn's total sales in 2007, and approximately 30% in 2008; and 2) through sales agents working at sales offices throughout the PRC, which accounted for approximately 80% of TaiAn's total sales in 2007, and approximately 70% in 2008. 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 1,700 tons of ether products in 2007 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 623 full time employees.

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 40000 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.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the security holders of the Company during the fourth quarter of the fiscal year which ended December 31, 2008.

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 OTCBB under the symbol CRUI. On March 12, 2007 the Company name change from Shandong Ruitai Chemical Co., Ltd. to China RuiTai International Holdings Co., Ltd. became effective and the stock ceased trading under the symbol "CPRY" and began trading 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. \$)	
	HIGH	LOW
2007		
Quarter Ended March 31	N/A	N/A
Quarter Ended June 30	N/A	N/A
Quarter Ended September 30	N/A	N/A
Quarter Ended December 31	\$4.70	\$2.50
2008		
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

Holders.

As of December 31, 2008 there were 26,000,000 shares of common stock issued and outstanding and approximately 735 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, 2008 or 2007. 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

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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, 2008. 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, 2008 Compared to the Fiscal Year Ended December 31, 2007.

Revenue

Revenue. During the fiscal year ended December 31, 2008, the Company had revenues of \$ 41,135,497 as compared to revenues of \$38,407,800 during the fiscal year ended December 31, 2007, an increase of approximately 7.1%. The increase in revenue experienced by the Company was primarily attributable to the following two factors: i) *Increased Sales of Premium Priced Products* the sales of higher unit price products, specifically, the pharmaceutical grade products increased in 2008, as compared to the same period in 2007; ii) *Changes in Exchange Rates* in addition to the foregoing, some of the growth in the Company s revenue was attributable to changes in the foreign exchange rate, which increased from 7.61 RMB to \$1.00 USD in 2007 to 6.96 RMB to \$1.00 USD in 2008.

Cost of Sales. During the fiscal year ended December 31, 2008, the Company s cost of sales was \$28,124,549, as compared to Costs of Sales of \$26,489,964 for the fiscal year ended December 31, 2007, an increase of approximately 6.1 %. This increase in cost of sales experienced by the Company was primarily attributable to an overall increase in sales revenue, as well as an increase price for raw materials. For the fiscal year ended December 31, 2007 the price of raw materials utilized by the Company was \$3,561 per ton, as compared to \$3,886 per ton for the fiscal year ended December 31, 2008, a increase of \$325, or approximately 9.1% 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 \$2,002,852 for the fiscal year ended December 31, 2008, as compared to \$2,189,488 for the fiscal

year ended December 31, 2007, a decrease of approximately \$186,636 or 8.5%. This decrease was primarily attributable to decreased spending by the Company on advertising expenses. For the fiscal year ended December 31, 2008, the Company spent \$52,338 on advertising expenses as compared to \$188,761 for the fiscal year ended December 31, 2007, a decrease of approximately 72.3%.

General and Administrative Expenses. General and administrative expenses totaled \$2,741,567 for the fiscal year ended December 31, 2008, as compared to \$1,627,505 for the fiscal year ended December 31, 2007, an increase of \$1,114,062, or approximately 68.4%. This increase in general and administrative expenses is primarily attributable to one-time warrant expenses relating to warrants that the Company issued to an investor relation firm and exclusive investment banking firm as compensation for work performed by the foregoing firms.

Income From Operations

For the fiscal year ended December 31, 2008, the Company had income from operations in the amount of \$8,266,529

as compared to income from operations of \$8,100,843 for the fiscal year ended December 31, 2007, an increase of \$165,686, or approximately 2.0%. The increase in income from operations experienced by the Company was primarily attributable to an increase in sales by the Company.

Interest Expense

For the fiscal year ended December 31, 2008, the Company incurred interest expense in the amount of \$2,840,105, as compared to interest expense of \$1,996,479 for the fiscal year ended December 31, 2007, an increase of approximately 42.3%. The increase in interest expense incurred by the Company resulted from increase in interest expenses on bank loans and discount on bank checks received from customers. The interest expenses on bank loans increased by \$623,910, or 52.83%. The increase in interest on bank loans was primarily a result of an increase of average outstanding balance, which increased from \$17,227,303 in 2007 to \$22,390,850 in 2008, or approximately 30%. Our interest expenses on discount on bank checks increased from \$784,649 in 2007 to \$854,434 in 2008, an increase of \$69,785, or approximately 8.9%. The increase in our interest expenses was due to the increase in amount of bank checks discounted as we needed additional cash resources for our business operations. Additionally, The interest payments to employees for their loans to the Company also increase from \$31,008 in 2007 to \$180,938 in 2008, as the Company began to pay interest to employees in July 2007. Before July 2007, the Company did not incur any interest expense from the employee loans.

Net Income

The Company had a net income of \$5,186,550 for the fiscal year ended December 31, 2008 as compared to net income of \$4,875,834 for the fiscal year ended December 31, 2007, an increase of \$310,716 or approximately 6.37%. The increase in net income is attributable to an increase in sales during the fiscal year ended December 31, 2008. Management believes that net income will continue to increase as the Company introduces new products, increases sales, and expands its production capacity.

Inventories

As of December 31, 2008, the Company had Inventories of \$8,157,592, as compared to inventories of \$6,656,028 as of December 31, 2007, an increase of \$1,501,564 or approximately 22.6%. The increase in inventories from 2007 to 2008 was primarily the result of an increase in fluctuation of our overseas orders. As a result, the Company increased the inventory of finished goods in order to meet its customers demands.

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, 2008, our audited balance sheet reflects that we have: i) total current assets of \$57,279,375, as compared to total current assets of \$37,787,747 at December 31, 2007, an increase of \$19,491,628, or approximately 51.6%; and ii) total assets of \$82,119,175 as of December 31, 2008, compared to \$65,165,337 as of December 31, 2007, an increase of \$16,953,838, or approximately 26%. The increase in the Company's total current assets is due primarily to an increase in bank checks and commercial paper, as well as the current portion due from a related party. The Company's total assets increased substantially due to increases that the Company experienced in bank checks and commercial paper, restricted cash, and amounts due from a related party, all of which are discussed below.

Cash and Cash Equivalents. As of December 31, 2008, our audited balance sheet reflects that we have cash and cash equivalents of \$5,319,456, as compared to \$4,166,713, at December 31, 2007, an increase of \$1,152,743, approximately 27.7%. The increase in the Company's cash and cash equivalents from 2007 to 2008 was primarily

attributable to the slowdown in production and reduce in raw material purchase due to the economic slowdown.

Bank Checks and Commercial Paper. As of December 31, 2008, our audited balance sheet reflects that we have bank checks and commercial paper of \$8,244,207, as compared to bank checks and commercial paper of \$621,204 at December 31, 2007, an increase of \$7,623,003, or approximately 1,227.1%. The increase in the Company's bank checks and commercial paper from 2007 to 2008 was primarily attributable to loan repayment from a related party.

Inventory. As of December 31, 2008, the Company had Inventories of \$8,157,592, as compared to inventories of \$6,656,028 as of December 31, 2007, an increase of \$1,501,564 or approximately 22.6%. The increase in inventories from 2007 to 2008 was primarily the result of the increase in fluctuation of our overseas orders. As a result, the Company has increased the inventory of finished goods in order to meet its customers' demands.

Property and Equipment. As of December 31, 2008, our audited balance sheet reflects that we have property and equipment of \$12,936,668, as compared to property and equipment of \$11,306,271 at December 31, 2007, an increase of \$1,630,397, or approximately 14.4%. The increase in the Company's property and equipment from 2007 to 2008 was primarily attributable to Company's continued expansion in production capacity, namely, the construction of a new manufacturing plant in 2008.

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 and the balance amounted to \$14,738,564 and \$12,244,755 as of December 31, 2007 and 2006, respectively. These loans were unsecured, non-interest bearing and have no fixed terms of repayment, therefore, deemed payable on demand. Cash flows from due from a shareholder are classified as cash flows from investing activities. The total loans to the shareholder were \$111,429,218, and \$82,904,688 for the year ended December 31, 2007 and 2006, respectively.

As TaiAn became the only operating subsidiary of a public company, subsequent to the closing of the Share Exchange, on December 31, 2007, Shandong Ruitai entered into a Loan Contract with TaiAn for the repayment of the outstanding balance of the loans. Pursuant to the terms of the Loan Contract, Shandong Ruitai will repay the principal outstanding balance of the loan and interest which is accruing monthly at 7% over a three-year period ending December 31, 2010, with 30% of the principal and interest due as of the fiscal year ending 2008, 30% of the principal and interest due as of the fiscal year ending 2009, and 40% of the principal and interest due as of the fiscal year ending 2010. The repayment obligations of Shandong Ruitai under the Loan Contract are secured by a thermal power plant owned by Shandong Ruitai. Additionally, Shandong Ruitai's repayment obligations are personally guaranteed by Shandong Ruitai's principals, Mr. Dian Min Ma and Mr. Xingfu Lu. The foregoing description of the loan contract is

qualified in its entirety by reference to the Loan Contact which was filed as Exhibit 10.7 to the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 15, 2008, and is hereby incorporated by reference.

As of December 31, 2008, our audited balance sheet reflects that we have an amount due from related party of \$ 16,253,548, as compared to an amount due from related party of \$14,829,593 at December 31, 2007, an increase of \$ 1,423,955. The increase in the amount due from related party from 2007 to 2008 was primarily attributable to the fact that Shandong Ruitai did not meet its payment obligations under the Loan Contract and as a result, Shandong Ruitai is in default under the terms of the Loan Contract. The Management of the Company is negotiating with Shandong Ruitai regarding the potential restructuring of the debt and is also considering the take over of the power plant which was pledged as security under the Loan Contract.

Restricted Cash. As of December 31, 2008, our audited balance sheet reflects that we have restricted cash of \$19,112,900, as compared to restricted cash of \$14,738,564, at December 31, 2007, an increase of \$4,374,336, or approximately 29.7%. The increase in restricted cash from 2007 to 2008 was primarily attributable to an increase in

bank checks payable.

Total Current Liabilities

As of December 31, 2008, our audited balance sheet reflects that we have total current liabilities of \$65,958,991, as compared to total current liabilities of \$55,361,171 at December 31, 2007, an increase of \$10,597,820, or approximately 19.1%. The increase in the Company's total current liabilities from 2007 to 2008 was primarily attributable to an increase in bank loan and bank checks payable.

Bank Loans. As of December 31, 2008, our audited balance sheet reflects that we have a bank loan of \$22,022,146, as compared to a bank loan of \$19,269,317 as of December 31, 2007, an increase of \$2,752,829, or approximately 14.3%. The increase in our bank loan was primarily attributable to additional funds borrowed by the Company to expand its business operations in anticipation of future growth.

Accounts Payable and Accrued Expenses. As of December 31, 2008, our audited balance sheet reflects that we have accounts payable and accrued expenses of \$6,247,060, as compared to accounts payable and accrued expenses of \$7,567,437 as of December 31, 2007, a decrease of \$1,410,377, or approximately 18.4%. The decrease in our accounts payable and accrued expenses was attributable to global financial slowdown in 2008 which caused some of our suppliers to reduce output or cease operation entirely. In order to stabilize the relationship with our suppliers, the Company increased the cash proportion of our payment.

Operating Activities

Net cash of \$ 4,010,538 was provided by operating activities during the fiscal year ended December 31, 2008, compared to net cash provided by operating activities of \$7,142,071 during the fiscal year ended December 31, 2007, representing a decrease of \$3,131,533 or approximately 43.8%. The decrease in net cash provided by our operating activities was primarily attributable to an increase in bank checks and commercial paper, as well as a decrease in accounts payable and accrued expenses.

Investing Activities

During the fiscal year ended December 31, 2008, the net cash used in investing activities was \$ 1,559,685, as compared to \$9,989,901 for the fiscal year ended December 31, 2007, a decrease of \$ 8,430,216, or approximately 84.4%. The decrease in net cash used in investing activities was primarily attributable to decreases in the purchase of fixed assets and loans to related-party.

Financing Activities

During the fiscal year ended December 31, 2008, the net cash used by financing activities was \$1,544,820, as compared to net cash provided by financing activities of \$593,503 for the fiscal year ended December 31, 2007. The change in net cash provided by financing activities was primarily attributable to increase in restricted cash to secure bank checks payable.

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, 2008 and 2007 and
For the Year Ended December 31, 2008 and 2007**

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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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008 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 3, 2009

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

	December 31, <u>2008</u>	December 31, <u>2007</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,319,456	\$ 4,166,713
Bank checks and commercial paper	8,244,207	621,204
Accounts receivable, net (Note 4)	3,295,341	3,053,295
Due from unaffiliated suppliers (Note 5)	346,976	1,112,948
Prepaid expenses (Note 6)	2,330,898	2,876,820
Inventory (Note 7)	8,157,592	6,656,028
Advance to employees (Note 15)	150,294	113,297
Restricted cash (Note 10)	19,112,900	14,738,564
Due from a related party-current portion (Note 15)	10,321,711	4,448,878
Total current assets	57,279,375	37,787,747
Property and Equipment, net (Note 8)	12,936,668	11,306,271
Land use right, net (Note 9)	5,084,515	4,859,620
Long-term investment	886,780	830,984
Due from a related party (Note 15)	5,931,837	10,380,715
Total Assets	\$ 82,119,175	\$ 65,165,337

LIABILITIES AND SHAREHOLDERS'
EQUITY

Current Liabilities:

Bank loan (Note 14)	\$	22,022,146	\$	19,269,317
Bank checks payable (Note 11)		29,180,000		22,059,772
Accounts payable and accrued expenses		6,247,060		7,657,437
Taxes payable		5,411,445		3,560,918
Deferred revenue		418,776		737,027
Due to employees (Note 15)		1,707,383		1,265,898
Employee security deposit		972,181		810,802
Total Current Liabilities		65,958,991		55,361,171

Minority Interest	157,854	98,053
Shareholders' Equity:		
Preferred stock, par value \$0.001, 10,000,000 shares authorized, authorized, no shares outstanding	-	-
Common stock, par value \$0.001, 50,000,000 shares authorized, 26,000,000 shares issued and outstanding as of December 31, 2008 and December 31, 2007, respectively	26,000	26,000
Additional paid-in capital	2,908,171	2,366,171
Unamortized contractual services costs	(165,978)	-
Statutory Reserves	1,369,652	1,042,355
Retained earnings	10,560,128	5,700,875
Accumulated other comprehensive income	1,304,357	570,712
Shareholders' Equity	16,002,330	9,706,113
Total Liabilities and Shareholders' Equity	\$ 82,119,175	\$ 65,165,337

See Notes to Consolidated Financial Statements

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

	For the Years Ended	
	December 31,	
	<u>2008</u>	<u>2007</u>
Revenues		
Sales	\$ 41,135,497	\$ 38,407,800
Costs of Sales	28,124,549	26,489,964
Gross Profit	13,010,948	11,917,836
Operating Expenses		
Selling expenses		
Sales commission	720,686	670,364
Freight-out	987,399	893,530
Advertising	52,338	188,761
Travel and entertainment	138,542	250,230
Other selling expenses	103,887	186,603
Total selling expenses	2,002,852	2,189,488
General and administrative expenses		
Payroll and employees benefits	511,452	267,673
Insurance	172,805	151,437
Professional fees	104,041	86,303
Various Taxes	270,552	124,951
Consultant fees	473,775	134,011
Bad debt expenses	135,600	-
Office expenses	478,381	278,651
Depreciation and amortization	134,920	55,855
Repair and maintenance	81,356	167,014
Travel and entertainment	307,703	206,675
	70,982	68,680

Other general and administrative		
Total General and Administrative Expenses	2,741,567	1,541,250
Total Operating Expenses	4,744,419	3,730,738
Income (Loss) from Operation	8,266,529	8,187,098

Other Income (Expense)		
Interest income (Note 12)	1,721,419	267,989
Interest expense (Note 13)	(2,840,105)	(1,996,479)
Government subsidies	172,787	556,627
Gain (Loss) on foreign currency transactions	(296,435)	(86,255)
Other income (expense)	(38,942)	106,855
Total other income (expense)	(1,281,276)	(1,151,263)
Income (Loss) before Provision		
Income Tax and Minority Interest	6,985,253	7,035,835
Provision for Income Tax	1,746,314	2,110,750
Income before Minority Interest	5,238,939	4,925,085
Minority Interest	(52,389)	(49,251)
Net Income	5,186,550	4,875,834
Other Comprehensive Income (Loss)		
Effects of Foreign Currency Conversion	733,645	490,336
Comprehensive Income (Loss)	\$ 5,920,195	\$ 5,366,170

See Notes to Consolidated Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Common Stock \$0.001 Par Value Shares	Par Value Amount	Additional Paid-in Capital	Unamortized Contractual Services Costs	Retained Earnings	Statutory Reserve	Accumulated Other Comprehensive Income	Total Owners' Equity
Balances at December 31, 2006	100	100	2,392,071	-	1,594,417	272,979	80,376	4,339,943
Common stock issued for acquisition of Pacific Capital Group (2007 merger)	22,645	22,645	(22,645)	-	-	-	-	-
Pacific Capital Group share (100) exchange	(100)	(100)	100	-	-	-	-	-
Reverse merger adjustment*	3,355	3,355	(3,355)	-	-	-	-	-
Net Income	-	-	-	-	4,875,834	-	-	4,875,834

(Loss)

Appropriation
to

statutory - reverse funds	-	-	-	769,376)	769,376.00	-	-
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Other
comprehensive
income

effects - of exchange rates	-	-	-	-	-	490,336	490,336
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Balances
at

December 31, 2007	26,000 \$	2,366,171 \$	-	5,700,875 \$	1,042,355 \$	570,712 \$	9,706,113
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350,000
shares of
warrants
issued for

Contractual service	-	542,000	(165,978)	-	-	-	376,022
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Net Income (Loss)	-	-	-	5,186,550	-	-	5,186,550
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Appropriation
to

statutory - reverse funds	-	-	-	(327,297)	327,297	-	-
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Other comprehensive income effects of exchange rates	-	-	-	-	-	-	733,645	733,645
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Balances at								
December 31, 2008	\$ 26,000	\$ 2,908,171	\$ (165,978)	\$ 10,560,128	\$ 1,369,652	\$ 1,304,357	\$ 16,002,330	

* The reverse merger adjustment represents the recording of the minority shareholders shares outstanding at the time of the reverse merger.

See Notes to Consolidated Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	<u>2008</u>	<u>2007</u>
<u>Operating Activities</u>		
Net income (loss)	\$ 5,186,550	\$ 4,875,834
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Minority interest	52,389	49,251
Depreciation	1,141,132	726,969
Amortization of land use rights	107,501	95,940
Amortization of contractual service costs		