

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.  
Form 10-Q  
May 16, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

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

Commission File Number 000-04494

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

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(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-5661446  
(I.R.S. Employer Identification No.)

Wenyang Town, Feicheng City, ShanDong,  
China  
(Address of principal executive offices)

271603  
(Zip Code)

(86) 538 3850 703  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company   
(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 12, 2011, there were outstanding 26,000,000 shares of the registrant's common stock, par value \$0.001 per share.

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China Ruitai International Holdings Co., Ltd.

FORM 10-Q

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## PART I—FINANCIAL INFORMATION

The statements contained in this quarterly report on Form 10-Q, including under the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our or our management’s expectations, hopes, beliefs, intentions or strategies regarding the future. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this quarterly report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Unless the content otherwise requires, all references to “we,” “us,” the “Company” or “China Ruitai” in this Quarterly Report on Form 10-Q refers to China Ruitai International Holdings Co., Ltd.

## ITEM 1.

## Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Balance Sheets

	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 15,764,161	\$ 25,286,619
Restricted cash	15,311,791	10,254,394
Accounts receivable, net	7,835,553	4,896,665
Notes receivable	2,814,074	2,736,496
Advances to suppliers, net	2,367,966	1,171,477
Inventories	10,758,530	9,468,211
Other receivables, net	898,932	1,023,337
Total current assets	55,751,007	54,837,199
Property and equipment, net	13,813,051	14,014,923
Commercial leasing assets, net	37,092,812	37,079,584
Advance payment for equipment purchase, net	222,020	-
Land use rights, net	5,049,759	5,045,883
	\$ 111,928,649	\$ 110,977,589
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term bank loans	\$ 42,608,179	\$ 42,339,454
Accounts payable	6,742,824	7,691,017
Notes payable	11,567,556	15,124,474
Notes payable- related party	7,914,644	3,024,895
Advances from customers	974,372	687,408
Due to related party	1,288,680	2,526,474
Income tax payable	4,662,831	4,336,457
Other payables	4,026,099	3,872,549
Loan from employees	1,303,551	1,470,138
Total current liabilities	81,088,736	81,072,866
Total Liabilities	81,088,736	81,072,866
Commitments and contingencies		
Equity		
Shareholders' equity:		
Common stock (\$.001 par value; 50,000,000 shares authorized shares issued and outstanding 26,000,000 as of March 31, 2011 and December 31, 2010)	26,000	26,000
Additional paid-in capital	2,908,171	2,908,171
Statutory reserve	1,369,652	1,369,652
Retained earnings	23,779,280	23,043,387
Accumulated other comprehensive income	2,453,880	2,264,049
Total China Ruitai Shareholders' Equity	30,536,983	29,611,259

Non-controlling interest	302,930	293,464
Total Equity	30,839,913	29,904,723
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 111,928,649</b>	<b>\$ 110,977,589</b>

See notes to consolidated financial statements.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Income and Comprehensive Income  
(Unaudited)

	Three months ended March 31,	
	2011	2010
Sales	\$ 9,586,817	\$ 10,238,256
Cost of sales (See note below)	6,784,133	6,929,872
Gross margin	2,802,684	3,308,384
Operating expenses:		
General and administrative expenses	721,495	284,252
Selling expenses	528,529	359,075
Total operating expenses	1,250,024	643,327
Income from operations	1,552,660	2,665,057
Other income/(expense)		
Interest income	87,441	391,180
Interest expense	(739,953 )	(578,487 )
Commercial leasing income	368,783	303,183
Cost of commercial leasing	(221,462 )	(214,007 )
Other income/(expense)	(6,166 )	38,295
Total other income/(expense), net	(511,357 )	(59,836 )
Income before income tax expense	1,041,303	2,605,221
Income taxes expense	297,976	646,302
Net income before allocation to non-controlling interests	743,327	1,958,919
Less: Net income attributable to the non-controlling interest	7,434	19,389
Net income attributable to China Ruitai	735,893	1,939,530
Comprehensive income		
Net Income before allocation to non-controlling interest	743,327	1,958,919
Foreign Currency Translation Adjustment	191,863	67,027
Comprehensive income	935,190	2,025,946
Less: Comprehensive income attributable to non-controlling interests	9,466	19,389
Comprehensive income attributable to China Ruitai	\$ 925,724	\$ 2,006,557
Earnings per share-Basic and diluted	\$ 0.03	\$ 0.07
Weighted average number of common shares outstanding		
-Basic and diluted	26,000,000	26,000,000

(Note: The cost of sales includes hot steam purchased from a related party, but the precise amount could not reasonably be determined, see Note 12)

See notes to consolidated financial statements.



CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

	Three months ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income before allocation to non-controlling interests	\$ 743,327	\$ 1,958,919
Adjustments to reconcile net income before non-controlling interests to net cash provided by/(used in) operating activities		
Depreciation	612,956	564,625
Amortization of land use rights	28,067	27,122
Bad debt provision	134,208	(280,793 )
<b>Changes in operating assets and liabilities:</b>		
Restricted cash	(4,977,691 )	879,900
Accounts receivable	(2,917,333 )	(3,477,901 )
Notes receivable	(60,033 )	(556,011 )
Advances to suppliers	(1,212,063 )	201,892
Inventories	(1,226,621 )	575,753
Other receivables	104,922	(284,794 )
Accounts payable	(994,087 )	770,749
Notes payable	(3,642,213 )	(1,613,150 )
Other payables	128,592	1,191,228
Advances from customers	281,773	491,841
Income taxes payable	297,976	281,188
Net cash (use in)/provided by operating activities	(12,698,220 )	730,568
<b>Cash flows from investing activities:</b>		
Advanced payment to purchase equipment	(285,451 )	-
Purchase of property and equipment	(101,520 )	(609,265 )
Net cash used in investing activities	(386,971 )	(609,265 )
<b>Cash flows from financing activities:</b>		
Proceeds from bank loans	10,158,740	6,003,851
Repayment of bank loans	(10,158,740 )	(7,910,301 )
Proceeds from loan from a related party	4,856,285	-
Repayment in loan from a related party	(1,250,157 )	(347,609 )
Repayment in loan from employee	(175,403 )	(118,513 )
Net cash provided by/(used in) financing activities	3,430,725	(2,372,572 )
Effect of foreign exchange rate fluctuation on cash and cash equivalents	132,008	29,931
Net decrease in cash and cash equivalents	(9,522,458 )	(2,221,338 )
Cash and cash equivalents- beginning of period	25,286,619	10,174,528
Cash and cash equivalents-end of period	\$ 15,764,161	\$ 7,953,190

Supplementary disclosure of cash flow information:

Cash paid for interest expense	\$ 739,953	\$ 578,487
Cash paid for income tax	\$ -	\$ 365,239

See notes to consolidated financial statements

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CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

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 changed its name to Parker-Levitt Corporation, and in 1997 changed its name to Commercial Property Corporation. In 2006, the Company changed its name to Shandong Ruitai Chemical Co., Ltd. On March 12, 2007, the Company changed its name to China Ruitai International Holdings Co., Ltd. Since February 26, 2007, the Company’s fiscal year end is December 31.

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 Shareholders of Pacific Capital Group (the “Shareholders”). Pursuant to the Share Exchange Agreement, the Shareholders 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, thereby causing Pacific Capital Group to become a wholly-owned subsidiary of the Company and TaiAn RuiTai Cellulose Co., Ltd. (“TaiAn Ruitai”), Pacific Capital Group’s majority-owned operating subsidiary, a Chinese limited liability company, to become a majority owned subsidiary of the Company. The parties closed the share exchange contemplated by the Share Exchange Agreement on November 8, 2007.

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 People’s Republic of China (the “PRC”), Pacific Capital Group acquired a 99% ownership interest in TaiAn Ruitai, which was formed in the PRC on November 10, 1999 with registered capital of \$2,391,840. As a result of the transaction, TaiAn Ruitai became a 99% majority-owned subsidiary of Pacific Capital Group.

TaiAn Ruitai 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 Ruitai. TaiAn Ruitai is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. TaiAn Ruitai’s assets exist solely in the PRC, and its revenues are derived from its operations therein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

In addition, the Company’s unaudited consolidated financial statements have been prepared on a going-concern basis which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As of March 31, 2011 and December 31, 2010, the Company had significant negative working capital, which raises substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining necessary financing or achieving a consistently profitable

level of operations. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The accompanying unaudited consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and 2010 have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X applicable to smaller reporting companies. In the opinion of management, all adjustments necessary for a fair statement of the results for the interim periods have been made, and all adjustments are of a normal recurring nature (or a description of the nature and amount of any adjustments other than normal recurring adjustments). The unaudited consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010 that are included in the Company's 2010 Annual Report on 10-K filed with the Securities and Exchange Commission.

#### Principle of consolidation

The consolidated financial statements include China Ruitai, Pacific Capital Group and TaiAn RuiTai. All inter-company transactions and balances have been eliminated in consolidation.

Non-controlling interest represents the ownership interests in the subsidiary that are held by owners other than the parent. In December 2007, the Financial Accounting Standards Board ("FASB") issued "Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51", ASC Topic 810-10. ASC 810-10 requires that the non-controlling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity and that net income or loss and comprehensive income or loss are attributed to the parent and the non-controlling interest. If losses attributable to the parent and the non-controlling interest in a subsidiary exceed their interests in the subsidiary's equity, the excess, and any further losses attributable to the parent and the non-controlling interest, is attributed to those interests.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. Management evaluates the estimates on an ongoing basis, including those related to accounts receivable and useful lives of property and equipment, fair values of warrant to purchase our common stock, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

#### Accounts Receivable

Accounts receivable represent amounts earned and are collectible from customers. Accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and uses the specific identification method to record such allowances. Management of the Company considers the following factors when determining the collectability of accounts receivable: a customer's credit-worthiness, past collection history, and changes in a customer's payment terms. Allowance for doubtful accounts is made based on any specifically identified accounts receivable that may become uncollectible.

## 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 using the weighted-average-cost method. Elements of costs in finished good and work-in-progress include raw materials, direct labor, and manufacturing overhead. Provision for diminution in value on inventories is made using specific identification method.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

### Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This generally occurs when products are shipped to unaffiliated customers or picked up by unaffiliated customers in the Company's warehouse, title and risk of loss have been transferred, collectability 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 its customers. Sales returns and other allowances have been immaterial in our operation.

Commercial leasing income is recognized ratably over the period of the commercial leasing asset rent contract. The commercial leasing asset is Taishan Building, which is located in Beijing and is entirely rented to Beijing Shengmei Hotel Management Company.

### Impairment of long-lived assets

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of ASC Subtopic 360-10, Property, Plant, and Equipment - Overall, long-lived assets, such as property, plant and equipment, and purchased intangible asset subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment of long-lived assets was recognized for the three months ended March 31, 2011 and 2010.

### 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable are recognized and carried at original sales amounts less an allowance for uncollectible accounts, as needed. Accounts receivable as of March 31, 2011 and December 31, 2010 were:

	March 31, 2011 (Unaudited)	December 31, 2010
Accounts receivable	\$ 9,322,449	\$ 6,356,204
Less: Allowance for doubtful accounts	(1,486,896 )	(1,459,539 )
	\$ 7,835,553	\$ 4,896,665

Allowance for doubtful accounts movement for the three months ended March 31, 2011:

December 31, 2010	Provision	Reverse	Write- off	March 31, 2011
\$ (1,459,539)	\$ (203,998 )	\$ 176,641	\$ -	\$ (1,486,896)

Allowance for doubtful  
accounts

4.

#### NOTES RECEIVABLE

Notes receivable of \$2,814,074 as of March 31, 2011 and \$2,736,496 as of December 31, 2010 represents bank acceptance notes the Company received from customers for sales of products. The notes have a maturity of 3 to 6 months, and are accepted by banks.

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CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

5. OTHER RECEIVABLES, NET

Other receivables are recognized and carried at original amounts less an allowance for uncollectible accounts, as needed. Other receivables as of March 31, 2011 and December 31, 2010 were:

	March 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)
Other receivables	\$ 2,015,065	\$ 2,106,923
Less: Allowance for doubtful accounts	(1,116,133 )	(1,083,586 )
	\$ 898,932	\$ 1,023,337

Most of the balances were petty cash to salesmen and outside agents for business development.

Allowance for doubtful accounts movement for the three months ended March 31, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	March 31, 2011
Allowance for doubtful accounts	\$ (1,083,586)	\$ (206,651 )	\$ 174,104	\$ -	\$ (1,116,133)

6. ADVANCES PAYMENT, NET

Advances payment are recognized and carried at original amounts less an allowance for uncollectible accounts, as needed. Advances payment as of March 31, 2011 and December 31, 2010 were:

(1) Short term

	March 31, 2011 (Unaudited)	December 31, 2010 (Unaudited)
Advances payment to suppliers	\$ 6,016,070	\$ 4,770,170
Less: Allowance for doubtful accounts	(3,648,104 )	(3,598,693 )
	\$ 2,367,966	\$ 1,171,477

Allowance for doubtful accounts movement for the three months ended March 31, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	March 31, 2011
Allowance for doubtful accounts	\$ (3,598,693)	\$ (237,961 )	\$ 188,550	\$ -	\$ (3,648,104)

(2) Long term

March 31, 2011    December 31, 2010

(Unaudited)

Advances payment for equipment purchase	\$ 1,372,190	\$ 1,079,052
Less: Allowance for doubtful accounts	(1,150,170 )	(1,079,052 )
	\$ 222,020	\$ -

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CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

Allowance for doubtful accounts movement for the three months ended March 31, 2011 was:

	December 31, 2010	Provision	Reverse	Write- off	March 31, 2011
Allowance for doubtful accounts	\$ (1,079,052)	\$ (71,118 )	\$ -	\$ -	\$ (1,150,170)

7. INVENTORIES

Inventories as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011 (Unaudited)	December 31, 2010
Raw materials	\$ 3,499,806	\$ 3,791,070
Work in progress	1,578,437	977,302
Finished goods	5,680,287	4,699,839
	\$ 10,758,530	\$ 9,468,211

8. PROPERTY AND EQUIPMENT, NET

Property and equipment as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011 (Unaudited)	December 31, 2010
Buildings	\$9,213,109	\$ 9,109,630
Machinery and equipment	11,685,047	11,565,294
Office equipment and furniture	95,715	85,364
Motor vehicles	560,703	557,167
	21,554,574	21,317,455
Less: Accumulated depreciation	(7,744,232 )	(7,305,224 )
	13,810,342	14,012,231
Construction in progress	2,709	2,692
	\$13,813,051	\$ 14,014,923

The depreciation expenses were \$391,493 and \$350,618 for the three months ended March 31, 2011 and 2010 respectively.

9. LAND USE RIGHTS, NET

Land use rights as of March 31, 2011 and December 31, 2010 consist of the following:

	March 31, 2011 (Unaudited)	December 31, 2010
Land use right	\$5,629,888	\$ 5,594,381

Less: Accumulated amortization	(580,129 )	(548,498 )
	\$5,049,759	\$ 5,045,883

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

Amortization expenses were \$28,067 and \$27,122 for the three months ended March 31, 2011 and 2010, respectively.

10. COMMERCIAL LEASING ASSETS, NET

On December 31, 2009, Shandong Ruitai Chemicals Co., Ltd. (“Shandong Ruitai”), a related party, and TaiAn Ruitai, entered into a Set-Off Agreement to settle the outstanding balance Shandong Ruitai owed to TaiAn Ruitai. Pursuant to the terms of the Set-Off Agreement, TaiAn Ruitai agreed to permit Shandong Ruitai to repay a total of \$31,745,649 by transferring 100% of Shandong Ruitai’s ownership interest in real estate 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 the 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.

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 ending March 31, 2028. The Company treats the Taishan Building as commercial leasing assets and provides depreciation over 43 years.

Commercial lease assets as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
	(Unaudited)	
Buildings	\$38,203,376	\$ 37,940,688
Less: Accumulated depreciation	(1,110,564 )	(861,104 )
	\$37,092,812	\$ 37,079,584

The depreciation expenses were \$221,463 and \$214,007 for the three months ended March 31, 2011 and 2010, respectively.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements

11. SHORT-TERM BANK LOANS

Short-term bank loans as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011 (unaudited)	December 31, 2010
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 19, 2011	\$ -	\$ 1,155,510
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 19, 2011.	-	1,255,331
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Matured on January 18, 2011.	-	1,512,447
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on May 28, 2011.	-	1,058,713
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on May 1, 2011.	-	1,361,203
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on April 14, 2011.	-	1,512,447
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Matured on March 9, 2011.	-	2,268,671
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. maturing on October 14, 2011.	1,522,047	1,512,447
Loan from Bank of China Taian Branch with interest rate of 5.31%, guaranteed by Feicheng Acid Chemicals Co. Ltd. maturing on September 18, 2011.	1,978,661	1,966,182
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 6.06%, guaranteed by Feicheng Golden Dragon Co., Ltd., Maturing on May 16, 2011.	3,044,093	3,024,895
Loan from Agricultural Bank of China Wenyang Branch with interest rate of 6.67%, guaranteed by Feicheng Golden Dragon Co., Ltd., Maturing on October 19, 2011.	1,522,047	1,512,448

Loan from Agricultural Bank of China Wenyang Branch with interest rate of 0%, guaranteed by Feicheng Golden Dragon Co., Ltd., Maturing on December 28, 2011.	608,819	604,979
Loan from Shanghai Pudong Development Bank Jinan Branch with interest rate of 6.06%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Maturing on September 2, 2011.	6,088,187	6,049,790
Loan from Citic Bank Qingdao Branch with interest rate of 6.67%, guaranteed by Mr. Lu Xingfu., Maturing on September 28, 2011.	3,044,093	3,024,896
Loan from Weihai Commercial Bank with interest rate of 6.06%, guaranteed by Shandong RunYin Biological Co., Ltd., Maturing on June 8, 2011.	3,044,093	3,024,896
Loan from Shenzhen Development Bank Jinan Branch with interest rate of 6.06%, guaranteed by Shangdong Ruitai Cellulose Co., Ltd., Maturing on November 26, 2011.	4,566,141	4,537,342
Loan from Qingdao Bank Jinan Branch with interest rate of 6.67%, guaranteed by Feicheng Acid Chemicals Co. Ltd., Maturing on August 27, 2011.	4,566,141	4,537,342
Loan from Feicheng Rural Credit Union with interest rate of 5.31%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on May 17, 2011.	913,228	907,468
Loan from Feicheng Rural Credit Union with interest rate of 6.67%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on June 18, 2011.	1,522,047	1,512,447
Loan from Feicheng Rural Credit Union with interest rate of 6.06%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 21, 2012.	1,162,844	-
Loan from Feicheng Rural Credit Union with interest rate of 6.06%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 21, 2012.	1,263,299	-
Loan from Bank of China Taian Branch with interest rate of 6.06%, guaranteed by Feicheng Acid Chemicals Co. Ltd. Maturing on February 15, 2012.	4,870,550	-
Loan from Bank of China Taian Branch with interest rate of 6.06%, guaranteed by Shangdong Acid Chemicals Co. Ltd. Maturing on February 16, 2012.	1,369,842	-
Loan from Feicheng Rural Credit Union with interest rate of 7.27%, guaranteed by Shandong Juyuan Mining Group Co. Ltd. & Mr. Lu Xingfu. Maturing on January 29, 2011.	1,522,047	-

\$ 42,608,179 \$ 42,339,454



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The interest expenses for the bank loans were \$627,166 and \$387,503 for the three months ended March 31, 2011 and 2010, respectively. The weighted average interest rates for bank loans were 5.97% and 5.62% for three months ended March 31, 2011 and 2010, respectively. The Company paid off all matured short-term bank loans as of March 31, 2011.

12. RELATED PARTY BALANCE TRANSACTIONS AND BALANCES

Purchase

The Company purchases hot steam from Shandong Ruitai, which is owned by Mr. Xingfu Lu, the President of the Company, and Mr. Dian Min Ma, the CEO of the Company. The Company purchased hot steam aggregating \$735,484 and \$1,158,975 from Shandong Ruitai for the three months ended March 31, 2011 and 2010, respectively. The cost of sales includes steam purchased from a related party but the precise amount could not reasonably be determined.

Land use right transaction

On October 25, 2006, the Company purchased the use right of a piece of land, approximately 36 acres, located in Wenyang County, Shandong Province, from Shandong Ruitai, for the original cost of \$3,920,264. 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 ongoing. 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 on this piece of land.

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Due to related party

As of March 31, 2011 and December 31, 2010, the Company had balance due to Shandong Ruitai of \$1,288,680 and \$2,526,474, respectively. The balance included the payable to purchase hot steam and the non-interest bearing loans for the purpose of financing the Company's operations due to a lack of working capital.

Notes payable to related party

For the three months ended March 31, 2011, the Company received loans of \$14,002,831 from Shandong Ruitai in the form of issuing notes which are guaranteed by the Company's banks (see note 13). As of March 31, 2011, the balance of notes payable to Shandong Ruitai is \$7,914,644. The loans were non-interest bearing for the purpose of financing the Company's operations due to a lack of working capital, and have no fixed terms of repayment.

13. NOTES PAYABLE

The Company issues notes to certain suppliers which are guaranteed by the Company's banks in lieu of payment of accounts payable. Terms of these notes payable vary depending on the negotiations with individual suppliers. Typical terms are six months. On the maturity dates, the note holders present these notes to the banks to draw cash based on the notes amounts. The Company is subject to a bank fee of 0.05% on the outstanding notes.

The Company is required to make a restricted security deposit between 50% and 100% of the face amount of the notes in the banks until the notes are settled. Restricted cash for this purpose amounted to \$15,311,791 and \$10,254,394 as of March 31, 2011 and December 31, 2010, respectively.

14. OTHER PAYABLES

Other payables as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
	(Unaudited)	
Other taxes payable	\$ 1,739,921	\$ 1,458,147
Payroll	161,796	149,210
Employee security deposit	26,765	28,638
Loan from third party	62,617	540,473
Sales commission payable	1,759,855	1,260,692
Accrued expenses	155,592	317,037
Others	119,553	118,352
	\$ 4,026,099	\$ 3,872,549

Other taxes payable include VAT payable, real estate tax payable, individual income tax payable and other tax payables. Loans from third parties were non-interest bearing loans for the purpose of working capital, payable upon Company's discretion.

15. LOAN FROM EMPLOYEES

Loan from employee represents loans from employees to finance the Company's operations due to a lack of working capital. The Company paid 0.6% interest on these loans monthly for the period July 1, 2007 through March 31, 2009. Beginning from April 1, 2009, the Company pays 0.5% interest on these loans monthly. Cash flows from these activities are classified as cash flows from financing activities. Loan from employee was \$1,303,551 as of March 31, 2011 and \$1,470,138 as of December 31, 2010. The Company paid interest of \$22,931 and \$22,052 for the three months ended March 31, 2011 and 2010, respectively.

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16. INCOME TAXES

The tax payables balance of \$4,662,831 and \$4,336,457 as of March 31, 2011 and December 31, 2010 represents the income tax accrual of TaiAn Ruitai. TaiAn Ruitai is subject to PRC income tax at a rate of 25%.

Income tax expenses were \$297,976 and \$646,302 for the three months ended March 31, 2011 and 2010, respectively, which represents PRC current income taxes.

The Company has not recorded tax provision for U.S. and Vanuatu tax purposes as they have no assessable profits arising in or derived from the United States or Vanuatu and intends to permanently reinvest accumulated earnings in the PRC operations.

The Company has a deferred tax asset on net operating losses of approximately \$184,280 as of March 31, 2011 and December 31, 2010, respectively. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those net operating losses are available. The Company considers projected future taxable income and tax planning strategies in making its assessment. At present, the Company does not have sufficient operations in the United States to conclude that it is more-likely-than-not that the Company will be able to realize all of its tax benefits in the near future and therefore a valuation allowance of \$184,280 was established for the full value of the deferred tax asset.

A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance. Should the Company start operations in the United States in future periods with a supportable trend, the valuation allowance will be reversed accordingly.

17. STATUTORY RESERVES

Under PRC law, TaiAn Ruitai is required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. The entity is required to allocate at least 10% of its after tax profits on an individual company basis as determined under PRC GAAP to the general reserve and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of the entity. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

Both of the balances of statutory reserves as of March 31, 2011 and December 31, 2010 were \$1,369,652, and for the three months ended March 31, 2011 and 2010, the Company did not make appropriation in its statutory reserves since such reserve had reached 50% of registered capital.

18. CONCENTRATIONS AND CREDIT RISKS

At March 31, 2011 and December 31, 2010, the Company had a credit risk exposure of cash in banks of \$15,764,161 and \$25,286,619, respectively, that is uninsured by the government authority. To limit exposure to credit risk relating to deposits, the Company primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings.

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC as well as by the general state of the PRC's economy. The business may be influenced by, among other things, changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

#### Major Customers

During the three months ended March 31, 2011 and 2010, the Company's largest customer accounted for 18% and 10%, respectively, of the Company's net revenue. The outstanding account receivable balance for this customer was \$102,627 and \$191,287 as of March 31, 2011 and December 31, 2010, respectively.



Numerator used in basic net income per share:	(unaudited)	(unaudited)
Net income attributable to China Ruitai Shares	\$ 735,893	\$ 1,939,530
Weighted average common shares outstanding	26,000,000	26,000,000
Weighted average common shares outstanding used in computing diluted earnings per ordinary share		
Weighted average common shares outstanding used in computing diluted earnings per ordinary share	26,000,000	26,000,000
Earnings per common share-basic and diluted	\$ 0.03	\$ 0.07

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21. COMMITMENTS AND CONTINGENCIES

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.

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 their day-to-day operations. Both of these enterprises and the Company are considered good reputation debtors by local banks. The banks allow these companies to 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 March 31, 2011:

Bank loans:

Financial institutions	Amount	Duration	Borrower
Agriculture development bank of China Feicheng branch	\$ 2,435,275	May 10, 2010 to May 10, 2011	Taipeng Group
Bank of China Feicheng branch	1,430,724	October 21, 2010 to October 8, 2011	Shandong Acid Chemicals Ltd., Co.
Bank of China Feicheng branch	890,000	October 23, 2010 to October 23, 2011	Feicheng Acid Chemicals Ltd., Co.



Bank of China Feicheng branch	2,587,480	October 13, 2010 to September 13, 2011	Taipeng Household Items Ltd., Co.
Bank of China Feicheng branch	1,019,771	October 13, 2010 to September 13, 2011	Taipeng Nonwoven Ltd., Co.

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Financial institutions	Amount	Duration	Borrower
Bank of China Feicheng branch	456,614	October 13, 2010 to September 13, 2011	Shandong Acid Chemicals Ltd., Co.
Bank of China Feicheng branch	2,748,817	October 13, 2010 to September 13, 2011	Taipeng New Material Ltd., Co.
Bank of China Feicheng branch	2,587,480	November 12, 2010 to November 12, 2011	Feicheng Jinlong Textile Ltd., Co.
Bank of China Feicheng branch	2,283,070	January 20, 2011 to January 20, 2012	Shandong Yinbao Food Ltd., Co.
Shenzhen development bank Jinan branch	1,522,047	February 2, 2011 to February 2, 2012	Shandong RunYin Biological Chemicals Co., Ltd.
Shenzhen development bank Jinan branch	3,805,117	May 10, 2010 to May 10, 2011	Shandong Yinbao Food Ltd., Co.
Bank of Communication Taian Branch	3,805,117	May 21, 2010 to May 21, 2011	Shandong Yinbao Food Ltd., Co.
Agriculture bank of China Feicheng branch	3,500,708	October 27, 2010 to October 26, 2011	Shandong Yinbao Food Ltd., Co.
	\$ 29,072,220		
Bank acceptable notes:			
Financial institutions	Amount	Duration	Borrower
Shenzhen development bank	\$ 4,566,141	August 24, 2010 to August 24, 2011	Taipeng Nonwoven Ltd., Co.
Industrial bank	6,088,187	March 20, 2011 to September 20, 2011	Feicheng Acid Chemicals Ltd., Co.
Shenzhen development bank	3,044,094	October 26, 2010 to October 26, 2011	Shandong Lulong Group Ltd., Co.
	\$ 13,698,422		

22.

## SUBSEQUENT EVENTS

Management has considered all events occurring through the date the financial statements have been issued, and has determined that there are no such events that are material to the financial statements, or all such material events have been fully disclosed.



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

### Results of Operations

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition for the three months ended March 31, 2011. The following discussion should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Form 10-Q.

### Results of Operations for the Three Month Period Ended March 31, 2011 Compared to the Three Month Period Ended March 31, 2010

#### Revenue

Revenue. During the three month period ended March 31, 2011, we had revenues of \$ 9,586,817 as compared to revenues of \$10,238,256 during the three month period ended March 31, 2010, a decrease of approximately 6.4%. The decrease in revenue was primarily attributable to: (i) as a result of the increase in the costs of raw material and labor, management made a decision to increase the unit product's price. As major products, "HPMC" & "EC" constitute about 90% of the total sales. These two products' average unit price increased about RMB16K per ton and RMB7K per ton, respectively; and (ii) for the 2010 year, management reduced prices to sell some storage products. However, this year, as a result of the increase in the costs of raw material and labor, revenue was decreased.

Cost of Sales. During the three month period ended March 31, 2011, our cost of sales was \$6,784,133 as compared to costs of sales of \$6,929,872 for the three month period ended March 31, 2010, a decrease of approximately 2.1%. This decrease in cost of sales resulted primarily from a decrease in sales.

#### Operating Expenses

Our operating expenses are divided into selling expenses and general and administrative expenses, both of which are discussed below:

Selling Expenses. Selling expenses, which consist of sales commissions, freight charges, travel and other selling expenses, totaled \$528,529 for the three month period ended March 31, 2011 as compared to \$359,075 for the three month period ended March 31, 2010, an increase of approximately 47.2%. This increase results primarily from: 1) the increase of sales commissions of about \$80,692, which is the bonus to a salesperson for the year 2010 and is typically awarded in the first quarter of 2011; 2) the increase of freight out expense of \$91,155, which resulted from the increase in fuel prices, and we covered the freight charges as a promotion to our new pharmaceutical customers.

General and Administrative Expenses. General and administrative expenses totaled \$721,495 for the three month period ended March 31, 2011 as compared to \$284,252 for the three month period ended March 31, 2010, an increase of approximately 153.8%. There were three primary drivers behind this increase. First, payroll increase due to the bonus awarded to employees in the first quarter of 2011. Second, in 2010, we had collected some of the accounts receivable which we previously perceived as bad debt, but no similar events happened in the first quarter of 2011, leading to a \$415,001 increase in bad debt expense in the first quarter of 2011 compared with the first quarter of 2010.

### Income from Operations

For the three month period ended March 31, 2011, our income from operations was \$1,552,660 as compared to income from operations of \$2,665,057 for the three month period ended March 31, 2010, a decrease of approximately 41.7%. This decrease was primarily attributable to a dramatic increase in selling, marketing expenses and general and administrative expenses, combined with a decrease in sales.

### Commercial Leasing Income and Cost

For the three month period ended March 31, 2011, our commercial leasing income was \$368,783 as compared to \$303,183 for the three month period ended March 31, 2010, an increase of approximately 21.6%. The increase was due to the appreciation of RMB. Rental income was from a newly acquired commercial property in Beijing. On December 31, 2009, we entered into a Set-Off Agreement with our related party, Shandong Ruitai Chemicals Co., Ltd. ("Shandong Ruitai"). TaiAn, our subsidiary, agreed to permit Shandong Ruitai to satisfy a total of \$31,745,649 in debt owed by Shandong Ruitai in exchange 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 (the "Taishan Building").

### Interest Income

For the three month period ended March 31, 2011, our interest income was \$87,441 as compared to \$391,180 for the three month period ended March 31, 2010, a decrease of approximately \$303,739, or 77.7%. This decrease resulted primarily from the decrease of our average cash and restricted cash deposit in the bank.

### Interest Expense

For the three month period ended March 31, 2011, we incurred interest expense in the amount of \$739,953 as compared to \$578,487 for the three month period ended March 31, 2010, an increase of approximately 27.9%. The increase in interest expense resulted primarily from the increase of the weighted-average interest rate for the bank loan from 5.62% at March 31, 2010 to 5.97% at March 31, 2011, as well as the increase of the interest paid for discounted notes receivable.

### Income Tax Expense

Our income tax expense was \$297,976 for the three month period ended March 31, 2011 as compared to \$646,302 for the three month period ended March 31, 2010, a decrease of \$348,326, or approximately 53.9%. This decrease is primarily attributable to a decrease in profits before income taxes decreased from \$2,605,221 in the three month period ended March 31, 2010 to \$1,041,303 for the three month period ended March 31, 2011, a decrease of approximately 60%.

### Net Income attributable to China RuiTai

We had net income attributable to China RuiTai of \$735,893 for the three month period ended March 31, 2011 as compared to \$1,939,530 for the three month period ended March 31, 2010, a decrease of \$1,203,637, or approximately 62.1%. This decrease is primarily attributable to a decrease in sales revenue and an increase in selling and marketing expenses and general and administrative expenses net of a decrease in income tax expense.

### Liquidity and Capital Resources

The Company anticipates obtaining additional financing to meet the working capital requirements for its on-going projects and to sustain the business operations for the next twelve months. The Company is exposed to certain risks for significant negative working capital as indicated on the balance sheet, which increases the concern for management's ability to fulfill the Company's working capital requirements as well as the ability to continue as a going concern. The risk is mainly the result of a high level of short-term bank borrowings pursuant to which China RuiTai has a proven record of excellent credit history with the local bank for the past ten years. We do not believe additional debt financing from the bank to fulfill the working capital requirements will be an issue due to the track record of the Company's credit history and the solid relationship with the local bank. In the event of a default under the bank borrowings, the Company has a \$37,092,812 commercial leasing asset, "Taishan Building", located at Building No. 36, Xibahe Dongli, Chaoyang District, Beijing, which can be sold in the open market. As a result, management's view of our going concern risk is low.

#### Total Current Assets & Total Assets

As of March 31, 2011: (i) our total current assets were \$55,751,007 as compared to total current assets of \$54,837,199 at December 31, 2010, an increase of \$913,808, or approximately 1.7%; and (ii) our total assets were \$111,928,649 as of March 31, 2011 compared to \$110,977,589 as of December 31, 2010, an increase of \$951,060, or approximately 0.9%. Our total assets increased due to changes that we experienced in cash and cash equivalents, restricted cash, accounts receivable and advance to suppliers, and all of which are discussed below.

**Cash and Cash Equivalents.** As of March 31, 2011, our cash and cash equivalents were \$15,764,161 as compared to \$25,286,619 at December 31, 2010, a decrease of \$9,522,458, or approximately 37.7%. This decrease was primarily attributable to payment to the related party for outstanding debt, additional spending on working capital and an additional \$5,057,397 cash required to be deposited as restricted in the bank to serve as collateral for increased notes payable.

**Restricted Cash.** As of March 31, 2011, our restricted cash was \$15,311,791 as compared to \$10,254,394 at December 31, 2010, an increase of \$5,057,397, or approximately 49.32%. The Company is required to make restricted security deposits between 50% and 100% of the face amount of the notes with the banks until the notes are settled. This increase was primarily attributable to an overall increase in notes payable.

**Accounts Receivable.** As of March 31, 2011, our accounts receivable were \$7,835,553 as compared to \$4,896,665 at December 31, 2010, an increase of \$2,938,888, or approximately 60.02%. This increase was primarily attributable to a better credit policy for our newly targeted pharmaceutical customers.

**Advance to suppliers.** As of March 31, 2011, we have an advance to suppliers of \$2,367,966 as compared to \$1,171,477 at December 31, 2010, an increase of \$1,196,489, or 102.14%. This increase was primarily attributable to our prepayments to our suppliers to secure favorable raw material prices.

**Inventories.** As of March 31, 2011, we had inventories of \$10,758,530 as compared to \$9,468,211 as of December 31, 2010, an increase of \$1,290,319, or approximately 13.6%. The increase in inventories from 2011 to 2010 was the result of the anticipation of an increase in demand for the second quarter sales.

#### Total Current Liabilities

As of March 31, 2011, our total current liabilities were \$81,088,736 as compared to \$81,072,866 at December 31, 2010, an increase of \$15,870, or approximately 0.02%. This increase was primarily attributable to changes in accounts payable, notes payable, and due to related parties as discussed below.

**Accounts Payable.** As of March 31, 2011, our accounts payable was \$6,742,824 as compared to \$7,691,017 as of December 31, 2010, a decrease of \$948,193, or approximately 12.33%. The decrease in our accounts payable was attributable to different ways of purchasing the raw material.

**Notes Payable.** As of March 31, 2011, our notes payable were \$11,567,556 as compared to \$15,124,474 as of December 31, 2010, a decrease of \$3,556,918, or approximately 23.52%. This decrease was attributable to the changes in the suppliers' preference of payment method.

Due to related parties. As of March 31, 2011, due to related parties were \$1,288,680 as compared to \$2,526,474 as of December 31, 2010, a decrease of \$1,237,794, or approximately 48.99%. The decreases in due to related parties were attributable to continued repayment of the money owed to the related parties to lower interest expense.

#### Operating Activities

Net cash of \$12,698,220 was used by operating activities during the three month period ended March 31, 2011 compared to net cash provided by operating activities of \$730,568 during the three month period ended March 31, 2010, representing a decrease of \$13,428,788. The decrease in net cash provided by our operating activities was primarily attributable to the following five reasons: (i) a \$4,977,691 increase in restricted cash for the three month period ended March 31, 2011 and a \$ 879,900 decrease in restricted cash for three month period ended March 31, 2010, a net change of \$5,857,591. The increase in restricted cash is in proportion to the increase in notes payable; (ii) there was a \$1,226,621 increase in inventories for the three month period ended March 31, 2011 and a \$575,753 decrease in inventories for the three month period ended March 31, 2010, a net change of \$1,802,374. The increase of inventories is a result of an increase in the price of raw materials; (iii) there was a \$1,212,063 increase in advance to suppliers for the three month period ended March 31, 2011 and a \$201,892 decrease in advance to suppliers for the three month period ended March 31, 2010, a net change of \$1,413,955; (iv) there was a \$994,087 decrease in accounts payable for the three month period ended March 31, 2011 and a \$770,749 increase in accounts payable for the three month period ended March 31, 2010, a net change of \$1,764,836, and was due to our prompt payment to our supplier to secure favorable raw material prices in 2011; and (v) there was a \$3,642,213 decrease in the notes payables for the three month period ended March 31, 2011 and a \$1,613,150 decrease in notes payables for the three month period ended March 31, 2010, a net change of \$2,029,063, which reflects the Company's flexibility in choosing the payment method to our suppliers which will be most favorable to the Company.

#### Investing Activities

During the three month period ended March 31, 2011, the net cash used in investing activities was \$386,971 as compared to net cash used in investing activities of \$609,265 for the three month period ended March 31, 2010, a decrease of \$222,294. This decrease was primarily attributable to the increase in the purchase of fixed assets.

#### Financing Activities

During the three month period ended March 31, 2011, the net cash provided by financing activities was \$3,430,725 as compared to net cash used in financing activities of \$2,372,572 for the three month period ended March 31, 2010, an increase of \$5,803,297. This change in financing activities was primarily attributable to the increase in loans from a related party.

#### Off Balance Sheet Arrangements

As of March 31, 2011, the Company has unconditionally guaranteed certain loans and notes for third-party enterprises in the aggregate amount of approximately \$42,770,642. These third-party enterprises, in turn, have guaranteed loans for the Company in the aggregate amount of approximately \$23,439,521 as of March 31, 2011. The unconditional guarantees made by the Company 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.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

The Securities and Exchange Commission defines the term “disclosure controls and procedures” to mean the 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.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the three months ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings, and no such proceedings are known to be contemplated. None of our directors, officers or affiliates, and no owner of record or beneficial owner of more than 5.0% of our securities, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

ITEM 1A. RISK FACTORS

Not Applicable.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

Date: May 16, 2011

By:

/s/ Dian Min Ma  
Dian Min Ma, Chief Executive Officer  
(Principal Executive Officer)

Date: May 16, 2011

By:

/s/ Gang Ma  
Gang Ma, Chief Financial Officer  
(Principal Financial Officer and Chief Accounting  
Officer)