

CHINA SKY ONE MEDICAL, INC.  
Form 10QSB  
May 15, 2007

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

**FORM 10-QSB**

(Mark one)

[ X ]

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

For the quarterly period ended March 31, 2007

[ ]

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_to

Commission File Number: 0-26059

CHINA SKY ONE MEDICAL, INC.

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other Jurisdiction of  
Incorporation or Organization)

87-0430322  
(IRS Employer ID Number)

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Room 1706, No. 30 Di Wang Building, Gan Shui Road,

Nandang District, Harbin, People's Republic of China 150001

(Address of principal executive offices)

86-451-53994073 (China)

(Issuer's telephone number)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of the date of this report, there were 12,036,696 shares of common stock outstanding.

Transitional Small Business Format: Yes  No

**CHINA SKY ONE MEDICAL, INC.**

**Form 10-QSB for the quarter ended March 31, 2007**

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**PART I FINANCIAL INFORMATION**

**Item 1 Financial Statements**

**China Sky One Medical, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheet**

**March 31, 2007**

**(Unaudited)**

**ASSETS**

Current Assets			
	Cash and cash equivalents	\$	6,710,247
	Accounts receivable		4,430,084
	Other receivables		138,391
	Inventories		788,451
	Prepaid expenses		89,170
	Total Current Assets		12,156,343
	Property and equipment, net		5,168,537
	Intangible assets, net		1,997,878
	Total Assets	\$	19,322,758

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current Liabilities			
	Accounts payable and accrued expenses	\$	1,587,919
	Wages Payable		299,210
	Welfare Payable		154,636
	Taxes Payable		596,191
	Notes payable		516,796
	Total current liabilities		3,154,752

Stockholders Equity

-

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Preferred stock (\$0.001 par value, 5,000,000 shares authorized, none issued and outstanding)	
Common Stock (\$0.001 par value, 20,000,000 shares authorized, 12,036,696 shares issued and outstanding)	12,037
Additional Paid In Capital	7,919,234
Accumulated other comprehensive income	738,671
Retained Earnings	7,498,064
Total stockholders' equity	16,168,006
Total Liabilities and Stockholders' Equity	\$ 19,322,758

The accompanying notes are an integral part of these financial statements.

**China Sky One Medical, Inc. and Subsidiaries****Condensed Consolidated Statement of Operations****For the Three Months Ended March 31, 2007 and 2006****(Unaudited)**

	For the Three Months Ended March 31,	
	2007	2006
Revenues	\$ 5,179,116	\$ 3,979,119
Cost of Goods Sold	1,126,695	949,598
Gross Profit	4,052,421	3,029,521
Operating Expenses		
Selling, general and administrative	2,043,776	1,895,966
Depreciation and amortization	83,355	6,156
Research and development	15,210	23,146
Total operating expenses	2,142,341	1,925,268
Other Income (Expense)		
Interest expense	(16,494)	(9,152)
Total other (expense)	(16,494)	(9,152)
Net Income Before Provision for Income Tax	1,893,586	1,095,101
Provision for Income Taxes		
Current	344,265	203,468
Deferred	-	-
	344,265	203,468
Net Income	\$ 1,549,321	\$ 891,633

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Basic Earnings Per Share	\$	0.13	\$	0.08
Basic Weighted Average Shares Outstanding		12,036,524		10,929,370
Diluted Earnings Per Share	\$	0.12	\$	0.08
Diluted Weighted Average Shares Outstanding		12,498,303		10,929,370
The Components of Other Comprehensive Income				
Net Income	\$	1,549,321	\$	891,633
Foreign currency translation adjustment		258,766		19,067
Comprehensive Income	\$	1,808,087	\$	910,700

The accompanying notes are an integral part of these financial statements.



## China Sky One Medical, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2007 and 2006

(Unaudited)

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net Income	\$ 1,549,321	\$ 891,633
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	87,579	9,415
Share-based compensation expense	10,117	-
Net change in assets and liabilities		
Accounts receivables and other receivables	(1,369,449)	(1,066,224)
Inventories	(509,889)	(17,977)
Prepaid expenses and other	14,564	7,154
Accounts payable and accrued liabilities	765,133	634,261
Wages payable	38,920	138,789
Welfare payable	13,147	5,643
Taxes payable	29,775	363,738
Deferred revenue	-	(9,152)
Advances by customers	(67,541)	(10,199)
Net cash provided by operating activities	561,677	947,081
Cash flows from investing activities		
Purchases of fixed assets	(693,667)	(5,844)
Purchase of intangible assets	(66,239)	-
Net cash (used in) investing activities	(759,906)	(5,844)
Cash flows from financing activities		
Proceeds on short-term loans, net	5,124	-

Net cash provided by financing activities	5,124	-
Effect of exchange rate	316,552	26,795
Net increase in cash	123,447	968,032
Cash and cash equivalents at beginning of year	6,586,800	2,937,333
Cash and cash equivalents at end of year	\$ 6,710,247	\$ 3,905,365
Supplemental disclosure of cash flow information		
Interest paid	\$ 5,940	\$ 9,152
Taxes paid	\$ -	\$ -
Share-based compensation expense	\$ 10,117	\$ -

The accompanying notes are an integral part of these financial statements.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**1.**

**Description of Business**

China Sky One Medical, Inc. ("China Sky One" or the Company), a Nevada corporation, was formed on February 7, 1986, and was formerly known as Comet Technologies, Inc. (Comet). On July 26, 2006, the change in the name of the reporting company from "Comet Technologies, Inc." to "China Sky One Medical, Inc.," became effective.

Effective May 30, 2006 and pursuant to a plan of reorganization, American California Pharmaceutical Group, Inc. (ACPG) completed a Stock Exchange Agreement (the Exchange Agreement) with Comet. Under the terms of the Exchange Agreement, all of ACPG's outstanding stock was exchanged for 10,193,377 shares of Comet common stock. The closing of the Exchange Agreement (Closing), resulted in a change in voting control of Comet. At the Closing, the original shareholders of ACPG held approximately 93% of the outstanding common stock of Comet, and the former Comet shareholders held a total of 735,993 shares of common stock, or 7% of the outstanding common stock, including stock granted under a consulting agreement to Comet's two current officers, who resigned as officers and directors at the Closing. The common shares were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933 as amended and Regulation D thereunder. The transaction was treated as a recapitalization of ACPG for financial reporting purposes.

ACPG was incorporated in the State of California on December 16, 2003. On December 8, 2005, ACPG completed its merger with Harbin TDR Medical Science & Technology Developing Co., Ltd (TDR) by exchanging 100% of its issued and outstanding common stock for 100% of the issued and outstanding shares of common stock of TDR and its subsidiaries. TDR, formerly known as Harbin City Tian Di Ren Medical Co., was originally formed in 1994 and maintained its principal executive office in Harbin City of Heilongjiang Province, the People's Republic of China (PRC). TDR was reorganized and incorporated as a limited liability company on December 29, 2000 pursuant to the Corporation Laws and Regulations of the People's Republic of China. Originally it had two wholly-owned subsidiaries, Harbin First Bio-Engineering Company Limited (First) and Kangxi Medical Care Product Factory (Kangxi). Kangxi merged with First on July 31, 2006.

On October 16, 2006, the Company successfully entered into the field of research and development of tissue and stem cell banks, with the establishment of Harbin Tian Qing Biotech Application Company (Harbin Biotech). The Health

Department of Heilongjiang Province, on the basis of the evaluation of results from experts, issued a document approving and authorizing the Company to enter into the above-mentioned development areas. Harbin Biotech, now a wholly-owned subsidiary of the Company, obtained legal operation rights in these fields, which precludes other companies from entering the same fields in Heilongjiang Province.

TDR and First are leading producers and distributors of external-Chinese medicine products in China. The principal activities of TDR and First are the research, manufacture and sale of over-the-counter non-prescription health care products. TDR commenced its business in the sale of branded nutritional supplements and over-the-counter pharmaceutical products in Heilongjiang Province. TDR has subsequently evolved into an integrated manufacturer, marketer, and distributor of external use natural Chinese medicine products sold primarily to and through China domestic pharmaceutical chain stores.

China Sky One is a holding company whose principal operations are conducted through its subsidiaries; it has no revenues separate from its subsidiaries, and has nominal expenses related to its status as a public reporting company and to its ownership interest in ACPG, TDR and TDR's subsidiaries.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**2.**

**Basis of Preparation of Financial Statements**

**Principles of Consolidation** The consolidated financial statements include the accounts of the Company and its subsidiaries, ACPG, TDR, First and Harbin Biotech. All inter-company transactions and balances were eliminated.

These financial statements are stated in U.S. Dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America. This basis of accounting differs from that used under applicable accounting requirements in the PRC. Certain amounts in prior years have been reclassified to conform to current year's classification.

The accompanying condensed consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, but do not include all of the information and disclosures required for audited financial statements. These statements should be read in conjunction with the condensed consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-KSB for the year ended December 31, 2006. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**3.**

**Summary of Significant Accounting Policies**

**Use of estimates** The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial

statements, and the reported amounts of revenues and expenses during the reported periods.

Significant estimates included values and lives assigned to acquire intangible assets, reserves for customer returns and allowances, uncollectible accounts receivable, and slow moving and/or obsolete/damaged inventory. Actual results may differ from these estimates.

**Earnings per share** - The Company computes net income per share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*. Net income per share is based upon the weighted average number of common shares outstanding during the period. Diluted income per share is equivalent to basic net income per share for all periods presented herein because common equivalent shares from unexercised stock options.

**Cash and cash equivalents** The Company considers all highly liquid debt instruments purchased with maturity period of three months or less to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for cash and cash equivalents approximate their fair value.

**Accounts receivable** Accounts receivable are stated at net realizable value, net of an allowance for doubtful accounts. Provision of allowance is made for estimated bad debts based on a periodic analysis of individual customer balances including an evaluation of days of sales outstanding, payment history, recent payment trends, and perceived credit worthiness.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**3.**

**Summary of Significant Accounting Policies (Continued)**

**Prepaid Account** The Company records the balance of the amortized slotting fee not used in the current period as prepaid expenses. Prepaid account as well includes advances to employees that include cash prepaid to employees for their travel, entertainment and transportation expenditures.

**Inventories** Inventories are stated at the lower of cost or market with cost being determined using a moving weighted average. Provisions were made for slow moving, obsolete and/or damaged inventory based on a periodic analysis of individual inventory items including an evaluation of historical usage and/or movement, age, expiration date, and general conditions.

**Property and equipment** Property and equipment are stated at the historical cost less accumulated depreciation. Depreciation on property, plant, and equipment is provided using the straight-line method over the estimated useful lives of the assets. An estimated residual value of 5% of cost or valuation was made for each item for both financial and income tax reporting purposes. The estimated lengths of useful lives are as follows:

Buildings

30 years

Land use rights

50 years

Furniture & Equipments

5 to 7 years

Motor vehicles

5 to 15 years

Machineries

7 to 14 years

Expenditures for renewals and betterments were capitalized while repairs and maintenance costs were normally charged to the statement of operations in the year in which they were incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset were removed from their respective accounts, and any gain or loss was recorded in the Consolidated Statements of Operations.

Property and equipment are evaluated for impairment in value annually or whenever an event or change in circumstances indicates that the carrying values may not be recoverable. If such an event or change in circumstances occurs and potential impairment is indicated because the carrying values exceed the estimated future undiscounted cash flows of the asset, the Company would measure the impairment loss as the amount by which the carrying value of the asset exceeds its fair value.

**Intangible assets** Intangible assets consist of patents, distribution rights, and customer lists. Patent costs are being amortized over the remaining term of the patent. Distribution rights and customer lists are being amortized over 10 years.

Intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). Intangible assets with finite useful lives are amortized while intangible assets with indefinite useful lives are not amortized. As prescribed by SFAS 142, goodwill and intangible assets are tested periodically for impairment. The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long- Lived Assets," effective January 1, 2002. Accordingly, the Company reviews its long-lived assets, including property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment costs, if any, are measured by comparing the carrying amount of the related assets to their fair value.





**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

3.

**Summary of Significant Accounting Policies (Continued)**

**Foreign currency translation** -These financial statements have been prepared in U.S. dollars. China Sky One is only a holding company; it has no revenues and only nominal expenses, which are related to its status as a public reporting company and its ownership interest in TDR and subsidiaries. The functional currency for TDR and its subsidiaries is denominated in Renminbi ( RMB ) or Yuan . TDR maintains its books and accounting records in RMB, the currency of the primary economic environment in which the entities operate. FASB Statement of Financial Accounting Standards No. 52, Foreign Currency Translation requires differentials to be calculated and allocated using the current rate method if the foreign entity's functional and local currencies are the same. Non-monetary assets and liabilities are translated at historical exchange rates. Monetary assets and liabilities are translated at the exchange rates in effect at the end of the year. The income statement accounts are translated at average exchange rates. The conversion gains and losses are not recognized in the income statement under the functional currency approach. They are accumulated in a separate account in stockholders' equity (i.e., the cumulative foreign exchange translation adjustments account). This treatment is based on the FASB's view that translation gains or losses are not directly related to the foreign entities' operating cash flows.

**Revenue recognition** Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied upon shipment from its facilities. Revenue is reduced by provisions for estimated returns and allowances as well as specific known claims, if any, which are based on historical averages that have not varied significantly for the periods presented.

The Company occasionally applies to various government agencies for research grants. Revenue from such research grants is recognized when earned. In situations where TDR receives payment in advance for the performance of research and development services, such amounts are deferred and recognized as revenue as the related services are performed.

Interest income is recognized when earned, taking into account the average principal amounts outstanding and the interest rates applicable.

**Research and development** Research and development expenses include the costs associated with the Company's internal research and development as well as research and development conducted by third parties. These costs primarily consist of salaries, clinical trials, outside consultants, and materials. All research and development costs discussed above are expensed as incurred.

For the three months ended March 31, 2007, the Company incurred \$15,210 in research and development expenditures, as compared to \$23,146 for the three months ended March 31, 2006.

**Advertising** The Company expensed advertising costs the first time the respective advertising took place. The total advertising expenses incurred for the three months ended March 31, 2007 and 2006, was \$478,776 and \$312,504, respectively.

**Slotting fees** From time to time, the Company enters into arrangements with customers in exchange for obtaining rights to place our products on customers' shelves for resale at retail. The Company also engages in promotional discount programs in order to enhance sales in specific channels. These payments, discounts and allowances reduce our reported revenue in accordance with the guidelines set forth in EITF 01-9 and SEC Staff Accounting Bulletin No. 104.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**3.**

**Summary of Significant Accounting Policies (Continued)**

**Taxation** The Company uses the asset and liability method of accounting for deferred income taxes. The Company's provision for income taxes includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The Company records liabilities for income tax contingencies based on our best estimate of the underlying exposures.

The Company periodically estimates its probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the Company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations. The Company adjusts income tax expense in the period in which these events occur.

Provision for the PRC's enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward.

**Enterprise income tax**

Under the Provisional Regulations of The People's Republic of China Concerning Income Tax on Enterprises promulgated by the PRC, income tax is payable by enterprises at a rate of 33% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council.

According to Enterprise Income Tax and Certain Preferential Policies Notice published by the Ministry of Finance and the National Tax Affairs Bureau, if the enterprise is authorized by the State Council as a special entity, the

enterprise income tax rate is reduced to 15%. The income tax rate for TDR is 15% based on State Council approval.

The High-Tech Industrial Development District was established in China to accelerate the development and industrialization of high-tech industries in some economic zones of the PRC. In order to create unique incentives for companies to locate in the High-Tech Industrial Development District, favorable corporate income tax rates have been established.

First has chosen to locate in the High-Tech Industrial Development District is levied at 15 percent annually.

Enterprise income tax ( EIT ) is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

**Value added tax**

The Provisional Regulations of The People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**3.**

**Summary of Significant Accounting Policies (Continued)**

According to Agriculture Product Value Added Tax Rate Adjustment and Certain Items Value Added Tax Waiver published by the Ministry of Finance and the National Tax Affairs Bureau, the value added tax for agriculture related products is to be taxed at 13%. Furthermore, traditional Chinese medicine and medicinal plant are by definition agriculture related products.

**Contingent liabilities and contingent assets** A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, they will then be recognized.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

**Related companies** A related company is a company in which the director has beneficial interests in and in which the Company has significant influence.

**Retirement benefit costs** According to the PRC regulations on pension plans, the Company contributes to a defined contribution retirement plan organized by municipal government in the province in which the Company was registered and all qualified employees are eligible to participate in the plan.

Contributions to the pension or retirement plan are calculated at 23.5% of the employees' salaries above a fixed threshold amount. The employees contribute 2% to 8% to the pension plan, and the Company contributes the balance contribution of 21.5% to 15.5%. The Company has no other material obligation for the payment of retirement benefits beyond the annual contributions under this plan.

**Fair value of financial instruments** The carrying amounts of certain financial instruments, including cash, accounts receivable, commercial notes receivable, other receivables, accounts payable, commercial notes payable, accrued expenses, and other payables approximate their fair values as at March 31, 2007, because of the relatively short-term maturity of these instruments.

**Recent accounting pronouncements** In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( Statement No. 157 ). The standard provides enhanced guidance for using fair value to measure assets and liabilities and also responds to investors' requests for expanded information about the extent to which company's measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. While the standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, it does not expand the use of fair value in any new circumstances. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management of the Company is evaluating the impact of this standard, but does not anticipate that it will have a significant impact on its financial statements.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**3.**

**Summary of Significant Accounting Policies (Continued)**

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB No. 108 ). This bulletin expresses the Staff's views regarding the process of quantifying financial statement misstatements. The interpretations in this bulletin were issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice for the accumulation of improper amounts on the balance sheet. SAB No. 108 was effective on January 1, 2007, and its adoption did not have a material impact on its financial statements.

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* ( FIN No. 48 ). This interpretation creates a single model to address uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The interpretation also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for years beginning after December 15, 2006 and was adopted on January 1, 2007. Its adoption did not have a material impact on its financial statements.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ( SFAS No. 158 ), an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer's statement of financial position, (b) measurement of the funded status as of the employer's fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. This Statement has no current applicability to the Company's financial statements. Management plans to adopt this Statement on December 31, 2006 and it is anticipated the adoption of SFAS No. 158 will not have a material impact to the Company's financial position, results of operations, or cash flows.



In February 2007, the FASB issued Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

**Corrections of Errors** During the process of preparing the first quarter financial statements, management determined that certain significant accounting errors had been made in prior quarters. Errors noted included the capitalization of research and development costs which should have been charged to operations when incurred; the failure to amortize patent rights and covenants not to compete, the incorrect valuation of shares issued for consulting services, and the misclassification of stock compensation as a liability rather than as contributed capital. The March 31, 2007 financial statements have been adjusted assuming the prior years financial statements had been properly prepared. It is management's intention to amend prior filings as soon as practical to correct for the errors mentioned above. The net effect of these corrections will be a reduction of \$2,864,525 in the Company's December 31, 2006 retained earnings.

**China Sky One Medical, Inc. and Subsidiaries****Notes to the Consolidated Financial Statements****As of March 31, 2007****(Unaudited)****4.****Earnings per Share**

We have applied SFAS No. 128, *Earnings Per Share* in its calculation and presentation of earnings per share - basic and diluted. Basic earnings per share are computed by dividing income available to common shareholders (the numerator) by the weighted average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued and is computed using the treasury stock method.

Stock warrants and options to purchase 1,813,500 shares of common stock, all but 113,500 of which were exercisable during the three months ended March 31, 2007, were included in the computation of diluted earnings per share because the option exercise prices were less than the average market price of our common stock during these periods.

The following table sets forth our computation of basic and diluted net income (loss) per share:

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Numerator:		
Net income (loss) used in calculation of basic earnings (loss) per share	\$ 1,549,321	\$ 891,633
Net income (loss) used in calculation of diluted earnings (loss) per share	1,549,321	891,633

Denominator:

Weighted-average common shares outstanding used in calculation of basic earnings (loss) per share	12,036,524	10,929,370
Effect of dilutive securities:		
Stock options and equivalents	461,779	-
Weighted-average common shares used in calculation of diluted earnings (loss) per share	12,498,303	10,929,370

Net income (loss) per share:

Basic	\$	0.13	\$	0.08
Diluted	\$	0.12	\$	0.08

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**5.**

**Share-Based Compensation**

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment ( SFAS No. 123R ), for options granted to employees and directors, using the modified prospective transition method, and therefore have not restated results from prior periods. Compensation cost for all stock-based compensation awards granted after December 31, 2005, is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the fair value recognition provisions of SFAS No. 123R, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line prorated basis over the requisite service period of the award. In March 2005, the SEC issued Staff Accounting Bulletin ( SAB ) No. 107, Share-Based Payment ( SAB No. 107 ), regarding the SEC's guidance on SFAS No. 123R and the valuation of share-based payments for public companies. We have applied the provisions of SAB No. 107 in the adoption of SFAS No. 123R. The Company uses the Black-Scholes model to value stock-based compensation expense. The risk-free interest rate is based on the U.S. Treasury zero coupon issues with an equivalent remaining term at the time of the option grant. Expected volatility is based on the historical volatility of the Company's stock price and the volatility of public companies that the Company considered comparable. The effect of adoption of the new standard for the year ended December 31, 2006 related to stock options to employees were additional non-cash expenses of \$65,604. Compensation expense from these employee stock option for the three months ended March 31, 2007, was \$10,177 and the remaining unrecognized compensation expense is \$112,291. As of March 31, 2007, stock options to acquire 113,500 shares of common stock are held by employees and begin to vest in June, 2007. None of these options have been exercised.

Options or stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with SFAS No. 123R and EITF No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services , and recognized over the related vesting or service period. In connection with Closing of the Exchange Agreement, the Company agreed to grant warrants to advisors for the services they already performed for reverse merger, entitling them to purchase up to 500,000 shares on or before July 31, 2009, at a price of \$2.00 per share, and an option to purchase 50,000 shares on or before December 20, 2008 at a price of \$3.00 per share. The fair value of these warrants were determined to be \$772,275 and deducted as expenses using the Black-Scholes option-pricing model with the following assumptions: no dividends; risk-free interest rate of 4%; the contractual life of 2.5-3.5 years and volatility of 39%. The Company based its estimate of expected volatility on the historical, expected or implied volatility of similar entities whose share or option prices are publicly available. In addition, on May 11, 2006, a total of 219,212 shares were issued to the two former officers of Comet, under a consulting agreement for a two year term, in connection with the merger

transaction, the fair value of these shares at the time of issuance was \$657,636 and were reflected as an expense during the year ended December 31, 2006.

On October 17, 2006, the Company paid the placement agent and its sub-agents \$270,000 (9%) in cash as fees for services performed in conjunction with the private placement that was completed on October 17, 2006. The Company also issued a warrant to purchase 150,000 shares of common stock of the Company at an exercise price of \$3.00 per share for 100,000 shares and \$3.50 per share for 50,000 shares to the placement agent and its sub-agents in the private placement. The warrants at \$3.50 per share are not exercisable, and will expire, unless the warrants at \$3.00 are first exercised. The warrants issued to the placement agent are exercisable commencing on October 17, 2006, and ending on October 10, 2008. The Company also issued 500,000 warrants to the investors in the October 2006 private placement. The warrants have an exercise price of \$3.50 and expire on October 10, 2008. In addition the Company granted to two advisors an additional 500,000 warrants in connection with services performed for the private placement, entitling the advisor and agent to purchase up to 500,000 shares on or before July 31, 2009, at a price of \$2.00 per share. The fair value of above warrants were computed as \$916,622 as of December 31, 2006 based on the Black-Scholes option-pricing model.

As of March 31, 2007, stock options and warrants to acquire approximately 1,700,000 shares of common stock are held by non-employee consultants and remained unexercised.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**6.**

**Concentrations of Business and Credit Risk**

Substantially all of the Company's bank accounts are in banks located in the PRC and are not covered by any type of protection similar to that provided by the FDIC on funds held in U.S banks. The Company places its cash in high credit quality financial institutions.

The Company obtains detailed credit evaluations of customers generally without requiring collateral, and establishes credit limits as required. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company continuously monitors collections and payments from its customers and maintains an allowance for estimated credit losses based on the creditworthiness of each customer as well as any specific customer collection issues are identified. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of diverse customers in different locations in China. Ninety percent (90%) of the Company's accounts receivable are less than 60 days in arrears. While such credit issues have not been significant, there can be no assurance that the Company will continue to experience the same level of credit losses in the future. The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between U.S. dollars and the Chinese currency RMB.

For the three months ended March 31, 2007 and 2006 no individual customer accounted for more than 10% of sales revenues.

**7.**

**Inventories**

The Company values its inventories at the lower of cost or market method. Inventories are accounted for using the first-in, first-out method. Inventories in the balance sheet include packing materials, raw materials, supplemental materials, work-in-process, and finished products.

As of March 31, 2007, inventories consist of the following:

*Inventory*

Raw Material	\$	231,499
Supplemental Material		132,716
Work-in-Process		252,816
Finished Products		171,420
Total Inventory	\$	788,451

**China Sky One Medical, Inc. and Subsidiaries****Notes to the Consolidated Financial Statements****As of March 31, 2007****(Unaudited)****8. Property and Equipment**

All of TDR and its subsidiaries' buildings and fixed assets are located in the PRC and the land is used pursuant to a land use right granted by the PRC for 50 years commencing in 2004. As of March 31, 2007, Property and Equipment consist of the following:

***Property and Equipment***

Buildings	\$ 2,696,373
Automobiles	273,411
Furniture and Equipments	69,443
Plant and Machinery	1,417,229
Land Use Right	546,529
Deposit on land right acquisition	562,242
Total Property and Equipment	5,565,227
Less: Accumulated Depreciation	(396,690)
Property and Equipment, Net	\$ 5,168,537

For the three months ended March 31, 2007 and 2006, depreciation expenses totaled \$31,131 and \$9,415 respectively. Depreciation included in cost of goods sold for the three months ended March 31, 2007 and 2006 was \$4,224 and \$3,259, respectively.

**9. Intangible Assets**

As of March 31, 2007, the Company's intangible assets consist of:



*Intangible Assets*

Patents	\$	1,873,385
Distribution rights and customer lists		385,559
Less accumulated amortization		(261,066)
Total Intangible Assets	\$	1,997,978

Amortization expense for the three months ended March 31, 2007 was \$56,448.

**10. Short-Term Loan**

TDR has secured a loan with a bank in the amount of \$516,796, which bears monthly interest at a rate of 0.6825%, and is secured by real property that has an estimated value of \$619,988. The loan is also personally guaranteed by Yanqing Liu, the Company's President and a principal shareholder. The loan is due on its maturity date on June 22, 2007.

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**11. Taxes Payable**

As of March 31, 2007, taxes payable consists of the following:

<i><b>Taxes Payable</b></i>	
Value Added Tax	\$ 243,223
Enterprise Income Tax	345,157
Payroll Tax	7,811
Total Taxes Payable	\$ 596,191

**12. Income Taxes**

TDR was incorporated in the PRC which is governed by the Income Tax Law of the PRC concerning Enterprises and various local income tax laws (the "Income Tax Laws"). Under the Income Tax Laws, enterprises generally are subject to an income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions or cities for which more favorable effective rates apply.

First elected to locate in the province designated as the High-Tech Industrial Development District, which is levied at 15 percent annually.

As of March 31, 2007, TDR has attained profitable operations for tax purposes. TDR and First are the enterprises authorized by the State Council as special entities; consequently, the enterprise income tax rate is reduced to 15%.

We record a full valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

A portion of the deferred tax assets related to net operating loss carryforwards of China Sky One US operation as of December 31, 2006 include amounts related to share-based stock option deductions. Pursuant to Sections 382 and 383 of the Internal Revenue Code ( IRC ), annual use of the Company's net operating losses and tax credit carryforwards may be limited because of cumulative changes in ownership of more than 50% that have occurred.

Net deferred tax assets consist of the following components as of March 31, 2007:

**Deferred tax assets:**

NOL Carryover from China Sky One (formerly known as Comet)	\$ 223,430
Share-based compensation expenses	1,878,583
Deferred Tax at 15% tax rate	315,302
Less valuation allowance	(315,302)
Net deferred tax asset	\$ -

**China Sky One Medical, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**As of March 31, 2007**

**(Unaudited)**

**13. Stock Compensation Plan**

In July 2006, the Company's stockholders approved the 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan provides for the grant of stock options, restricted stock awards, and performance shares to qualified employees, officers, directors, consultants and other service providers. The 2006 Plan originally authorized the Company to grant options and/or rights to purchase up to an aggregate of 1,500,000 shares of common stock. As of March 31, 2007, non-qualified options to purchase a total of 113,500 shares were granted and reserved for issuance under the 2006 Plan.

**14. Commitments and Contingencies**

The formulation, manufacturing, processing, packaging, labeling, advertising, distribution and sale of external use Chinese medicine such as those sold by the Company are subject to regulations by one or more federal agencies. The principal federal agencies include the State Food and Drug Administration of the Government of the Peoples Republic of China, the Food and Drug Administration (the "FDA"), Heilongjiang Provincial Food and Drug Administration of the People's Republic of China (PFDA), National Biology Products Inspection Institute (NBPI) and the National Food and Drug Administration (NFDA) of the People's Republic of China and, to a lesser extent, the Consumer Product Safety Commission. These activities are also regulated by various governmental agencies for the countries, states and localities in which the Company's products are sold.

Although management believes that the Company is in material compliance with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with the applicable statutes, laws, rules and regulations will not be challenged by governing authorities or private parties, or that such challenges will not lead to material adverse effects on the Company's financial position, results of operations, or cash flows.

The Company, like any other distributor or manufacturer of products that are designed to be ingested, exposes the Company to the inherent risk of product liability claims in the events of possible injuries caused by the use of its products. The Company does not have liability insurance with respect to product liability claims; the insurance

environment of China is neither sufficient nor mature. Inadequate insurance or lack of contractual indemnification from parties supplying raw materials or marketing its products, and product liabilities related to defective products could have material adverse effects on the Company.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might be involved in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

## Item 2 Management's Discussion and Analysis or Plan of Operation

### FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements that involve substantial risks and uncertainties. You can identify such statements by forward looking words such as may, expect, plans, intend, anticipate, believe, estimate, and continue or similar words. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of China Sky One Medical, Inc. (the Company) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. The Company's plans and objectives are based, in part, on assumptions involving the continued growth and expansion of the Company's business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance the forward-looking statements included in this Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

### OVERVIEW

The following management's discussion and analysis (MD&A) is intended to assist the reader in understanding the business of China Sky One Medical, Inc, including its subsidiaries (referred to as CSKI, we, our and us). MD&A provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and accompanying notes. References below to the Company, we, our and us, refer to the Company and its subsidiaries combined.

We primarily generate revenues and income and generate cash from sales of products in the areas of external-Chinese medicine and over-the counter non-prescription health care products in the People's Republic of China (PRC). Our principal products include six (6) product lines: spray, ointment, powder, patch, cream, and miscellaneous health and beauty products.

The Company achieved continuing growth on the sale of both our own product line and a contract service line of manufacturer's products which we sell through our distribution channel. For the three months ended March 31, 2007, total revenue was \$5,179,116, or a 30% increase over 2006, and 2007 net income was \$1,549,321, or \$0.12 per share on a diluted basis compared to net income of \$891,633, or \$0.08 per share on a diluted basis in 2006.

On May 11, 2006, American California Pharmaceutical Group, Inc. ( ACPG ) entered into a Stock Exchange Agreement (the Exchange Agreement ) with the shareholders of Comet Technologies, Inc., a Nevada corporation ( Comet ). The terms of the Exchange Agreement were consummated and the transaction was closed on May 30, 2006.

As a result of the transaction, at Closing, Comet issued a total of 10,193,377 shares of its common voting stock to the stockholders of ACPG, or approximately 93% of the outstanding common stock of Comet, in exchange for 100% of the capital stock of ACPG, and the former Comet shareholders held a total of 735,993 shares of common stock, or 7% of the outstanding common stock, including stock granted under a consulting agreement to Comet's two of the then officers, who resigned as officers and directors at the Closing. The common shares were issued in reliance on the

exemption from registration set forth in Section 4(2) of the Securities Act of 1933 as amended and Regulation D there under. Prior to the transaction, there were no material relationships between the Company and Comet or any of their respective affiliates, directors or officers or any associates of such offices or directors.

On July 26, 2006, the change in the name of the reporting company from Comet Technologies, Inc. to China Sky One Medical, Inc., became effective. The name change was previously disclosed through an Information Statement distributed to the stockholders of the reporting company pursuant to Regulation 14C adopted under the Securities Exchange Act of 1934. At the time of the name change, the trading symbol of the reporting company on the OTC Bulletin Board changed to CSKI.

Our Company, a Nevada corporation, is a holding company that conducts its principal operations through its subsidiaries, which are engaged in the manufacture, marketing and distribution of over-the-counter pharmaceutical and medicinal products. Our subsidiaries are American California Pharmaceutical Group, Inc. ( ACPG ), a wholly-owned California corporation; Harbin Tian Di Ren Medical Science and Technology Company ( TDR ), Harbin First Bio-Engineering Company Limited ( First ) and Harbin Tian Qing Biotech Application Company ( Tian Qing Biotech ), subsidiaries of ACPG.

ACPG, a wholly-owned subsidiary of the Company, operates as a holding company for the other subsidiaries. TDR's principal business is the manufacture and sale of branded nutritional supplements and over-the-counter plant and herb-based medicinal products. Its manufacturing facilities are in the City of Harbin, in Heilongjiang Province. It has evolved into an integrated manufacturer, marketer, and distributor of external use natural Chinese medicinal products sold primarily to and through domestic pharmaceutical chain stores in China through its subsidiary, First (formerly Kangxi Medical Care Product Factory ( Kangxi )). First's principal business activity is to manufacture and sell branded external use Chinese medicine and other natural products under the registered trademark Kangxi. First has six (6) product lines: spray, ointment, powder, patch, cream, and miscellaneous health and beauty products. First has become one of the leading external use Chinese medicine factories with a full range of product lines and development capacity. First is also engaged in the research and development of natural medicinal plants and biological technology products such as New Endothelin-1. First is one of the first companies in Heilongjiang Province conducting research and development of high technology biological products. Its facility is now under final inspection by the Chinese State Food and Drug Administration ( SFDA ) for the qualification as a certified GMP production facility. On July 31, 2006, Kangxi merged with First, with Kangxi's existing business activities continuing under First.

In October, 2006, we entered into the field of research and development of tissue and stem cell banks, with the establishment of Harbin Tian Qing Biotech ( Harbin Biotech ), as a wholly-owned subsidiary. The Health Department of Heilongjiang Province, on the basis of the evaluation of results from experts, issued a document approving and authorizing Harbin Biotech to enter into the above-mentioned development areas, and precluding other companies from entering the same fields in the Heilongjiang Province.



In December, 2006, we acquired all of the products, dealership, and marketing network of the Beijing office of Heilongjiang Tianlong Pharmaceutical Company ( Tianlong ), and the Beijing office staff for US\$381,700. We have historically been competitors with Tianlong. We had certain sales advantages over Tianlong in most cities in China, except in Beijing. Facing the continuous increase of sales power of our company in China, including Beijing, Tianlong changed its strategy and decided to close its branches in all areas of China except its Beijing office, and plans to focus on the research and manufacturing of drugs. In contrast, we have devoted our efforts to realizing the maximum utilization of our sales network by selling drugs from domestic and overseas suppliers as well as the development of

pharmaceuticals with the ownership of the related intellectual property. The two companies entered into the agreement as a means of combining the efforts, resources and product offerings of both companies.

Tianlong's Beijing office had revenues of approximately US\$1.5 million from January to November of 2006, with 20% in net profits. We expect sales to increase by 30% in 2007, which means the purchase of Tianlong would increase 2007 sales to approximately US\$1.98 million.

Through our subsidiaries, we have established several long term partnerships with well-known universities and enterprises in the PRC. We have built a gene medicine laboratory through a collaborative effort with Harbin Medical University; established a cell laboratory with North East Agricultural University; and founded a monoclonal antibody laboratory with Jilin University. As a result of one of these collaborations with Harbin Medical University, a product known as "Endothelin-1" is currently under development. At such time as development is successfully completed, we will commence efforts to market Endothelin-1 as a new anti-cancer medicine. There can be no assurance, of course, that these development efforts, or that any subsequent efforts to obtain SFDA approval of the product, will be successful.

In collaboration with Harbin Medical University, we have completed a laboratory experimental study pertaining to Endothelin-1, which is required prior to clinical trials, and we are currently applying for approval to enter clinical experiments. This medicine has been recognized by the PRC as the Top Category in New Medicine. In order to qualify as the Top Category in New Medicine, a company must have intellectual property rights, high technology involvement, strong innovation, and the medicine must be the first of its kind to be introduced to the PRC. We hold the intellectual property rights pertaining to this technology, and we have obtained an invention patent to this intellectual property in the PRC. Under our partnership arrangements with other universities and research institutions, we will generally hold the intellectual property rights to any developed technology.

At present, our ongoing research is divided into four areas: (1) the development of an enzyme-linked immune technique to prepare extraneous diagnostic kits; (2) the development of an enzyme linked gold colloid technique to prepare an extraneous rapid diagnostic test strip; (3) the development of a gene recombination technique to prepare gene drug; and (4) the development of a biology protein chip for various tumor diagnostic applications. In 2006, we became engaged in research and development related to tissue and stem cell banks as reported in our 2006 Annual Report on Form 10-KSB under Item 1 Business.

We currently have ten biological products under development: a human urinary albumin elisa kit; an AMI detection kit; an HIV detection kit; a uterus cancer diagnostic kit; a breast cancer diagnostic kit; a liver cancer diagnostic kit; a rectum cancer diagnostic kit; a gastric cancer diagnostic kit; a gene recombination drug; and a multi-tumor marker protein chip detection kit. The development of these products will be completed as early as 2007 for some products, and is expected to continue through 2008 or beyond for other products. We are also working to establish two sales

networks and cell banks covering domestic and international markets.

Our AMI Diagnostic Kit, Human Urinary Albumin Elisa Kit and Early Pregnancy Diagnostic Kit have passed the final stages of national inspection. These diagnostic kits will be issued new drug certificates and sold through drug stores, hospitals, examination stations and independent sales agents throughout the PRC. We also plan to market these products in Vietnam, Indonesia, Philippines and eventually in Africa.

Our AMI Diagnostic Kit is used for early diagnosis of Myocardial Infarction (MI), also known as heart disease. All the test kits require users to place a blood or urine sample on the marker and a positive (+) or negative (-) reaction signal will result, showing if a user should consult his or her doctor for further

testing. According to the China Medical Newspaper, several million people die from MI every year. MI often occurs to people who are, but is not limited to, smokers, over-weight and diabetic. There are approximately 8 million new MI patients in China every year. Recent medical studies have shown that heart failure or heart attacks are increasing among younger people in China. This is a result from a more modern life style, the fast pace of city life and increased pressure from work or school. The use of AMI Diagnostic Kits will help in early detection that can help in reducing these statistics.

Our Human Urinary Albumin Elisa Kit is used for early diagnosis of nephropathy, or kidney problems. According to the China Medical Newspaper, early kidney impairment does not present obvious symptoms, but causes irreversible impairments to the kidney. There are billions of people who suffer from diabetes, hypertension, cardiovascular disease and nephritis all over the world. We developed this diagnostic kit to inform users of any major changes their kidney may be experiencing.

Our Early Pregnancy Diagnostic Kit uses monoclonal antibody technology to inform users if they are pregnant. With this type of technology, a monoclonal antibody is created to specifically bind to a hormone, Human Chorionic Gonadotropin (HCG), that a pregnant woman produces after conception. This process allows for the detection of pregnancy. The ability to determine early pregnancy is important in avoiding the absorption of harmful chemicals or drugs that can directly affect an infant.

In March, 2007, we entered into a strategic agreement with Takasima Industries ( Takasima ). As a result of this agreement, Takasima has been engaged as the sole agent of the Company's patch products in Malaysia. Takasima has commenced marketing and sales efforts of the Company's Slim Patch product line. The Slim Patch is a weight loss product that is currently sold in China under the "Tian Di Ren" brand. The Slim Patch will be repackaged and sold in Malaysia under the "Takasima" brand name. The strategic agreement also requires that Takasima will generate sales revenue of approximately US\$1.0 million per month. Since the signing of the agreement, Takasima has fulfilled its monthly obligation. Management anticipates that this strategic agreement could result in up to US\$12 million in additional annual sales revenue in 2007, with a net profit margin of approximately 20%. The agreement also provides that Takasima has a first right of refusal to become the sole distributor of the Slim Patch in all of Southeast Asia.

## **RESULTS OF OPERATIONS**

### ***Three Months Ended March 31, 2007 as compared to Three Months Ended March 31, 2006***

Our principal business operations are conducted through our wholly owned subsidiary, Harbin Tian Di Ren Medical Science and Technology Company ( TDR ), and TDR 's subsidiaries. The results of operations of TDR have been

included in the below financial statements since the acquisition date.

*Revenues*

Total sales increased by 30% in the quarter ended March 31, 2007 compared to the quarter ended March 31, 2006. The \$1.2 million increase in sales is attributable to strong performances from our sales distribution channel, as well as the addition of a new line of contract sale service in 2006 to sell other manufactured brands through our distribution channel.

***Cost of Goods Sold and Product Gross Margin***

The following table summarizes the period over period changes in our product sales and cost of goods sold and product gross margin:

	<b>2007</b>	<b>Variance</b>	<b>2006</b>
Total sales	\$ 5,179,116	30 %	\$ 3,979,119
Cost of goods sold	\$ 1,126,695	19 %	\$ 949,598
Gross margin	78%		76%

Our product gross margin for 2007 was 78%, compared to 76% for 2006. The higher gross margin was primarily due to a stronger dealer network in 2007 with a corresponding impact to our product gross profit.

***Selling, General and Administrative Expenses.***

Gross sales increased approximately \$1.2 million in the three months ended March 31, 2007, and corresponding selling, general and administrative expenses ( SG&A ) for 2007 increased by \$147,810 over 2006. Higher expenses were primarily driven by higher headcount which increased compensation and benefits. In addition, this increase is attributable to an increase related to a general expansion of our sales and marketing activities; our promotional program relating to our business growth; business development activities; and the sales force expansion planned for the anticipated launch in our new contract service line.

Finance costs increased by \$7,342 from 2006, associated with bank loans of \$516,796.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2007, cash and cash equivalents were \$6,710,247, an increase of 2% over December 31, 2006. The increase of \$123,447 in 2007 was primarily due to:

§

Increases in net income and accounts payable partially offset by higher receivables and inventory balances which resulted in a increase in cash from operations of \$561,677.

§

Cash used in investing activities of \$759,906 for the purchase of new assets.

§

The effects of currency translation in the quarter of \$316,552 resulting from a strengthening of the Yuan compared to the US Dollar.

The Company's current ratio at March 31, 2007, was 3.85, and quick ratio was 3.60. Its primary sources of funds include cash balances, cash flow from operations, and potentially the proceeds of borrowing and sales of equity. Management endeavors to ensure that funds are available to take advantage of new investment opportunities and that funds are sufficient to meet future liquidity and capital needs. Management considers current working capital and borrowing capabilities adequate to cover the Company's current operating and capital requirements.

There was no restrictive bank deposit pledged as of March 31, 2007. Therefore, the Company did not have to maintain any minimum balance in the relevant deposit account as security.

Our total outstanding liabilities were \$3.2 million as of March 31, 2007.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to our financial position or results of operations.

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

As of March 31, 2007, the Company had no material derivative instruments. The Company may enter into derivative financial instrument transactions in order to mitigate its interest rate risk on a related financial instrument in the future.

The Company's balance sheet includes the amount of assets and liabilities whose fair values are subject to market risk. Market risk is the risk of loss arising from adverse changes in market prices or interest rates. Generally, the Company's borrowing is short to medium term in nature and therefore approximates fair value. The Company currently has interest rate risk as it relates to its fixed maturity mortgage participation interest. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs by closely monitoring its interest rate debt.

The Company has certain equity risks as it relates to its marketable equity securities, and foreign currency risks as it relates to investments denominated in foreign currencies. The Company and its subsidiaries are mainly located in China, and there were no significant changes in exchange rates, during the reported periods. However, unforeseen developments may cause a significant change in exchange rates. The Company is subject to commodity price risks arising from price of construction materials.

The Company is subject to market and channel risks. Over 90% of the Company's sales are made in the PRC, where the Company primarily sells its products through drug chain stores. Because of this, the Company is dependent to a large degree upon the success of that distribution channel as well as the success of specific retailers in the distribution channel. Many of the drug stores are individual stores or very small chains, and only a few are large chain drug stores. The Company relies on these distribution channels to purchase, market, and sell its products. The Company's success is dependent, to a large degree, on the growth and success of the drug stores, which may be outside its control. There can be no assurance that the drug store distribution channels will be able to grow or prosper as it faces price and service pressure from other channels, including the mass market. There can be no assurance that retailers in the drug store distribution channel, in the aggregate, will respond or continue to respond to the Company's marketing commitment in these channels.



The Company is highly dependent upon the public perception and quality of its products, consumers' perception of the safety and quality of its products, as well as similar products distributed by other companies. Thus, the mere publication of reports asserting that such products may be harmful could have a material adverse effect on the Company, regardless of whether these reports are scientifically supported. Adverse publicity may have a material adverse effect on the Company's business, financial condition, and results of operations. There can be no assurance of future favorable scientific results and media attention, or of the absence of unfavorable or inconsistent findings.

### **Item 3 - Controls and Procedures**

Under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures as such term is defined under Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure and procedures were effective as of the end of the period covered by this quarterly report.

There was no change in the Company's internal controls over financial reporting or in other factors during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

## **PART II - OTHER INFORMATION**

### **Item 1 - Legal Proceedings**

None.

### **Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds**

On January 3, 2007, an unaffiliated party exercised an outstanding warrant granted in March, 1999, to purchase a total of 6,250 shares, using the cashless exercise provision of the warrant, resulting in the issuance of a total of 5,160 shares. This was a private transaction and was entered into in reliance upon an exemption from the registration provisions of the Securities Act, under Section 4(2), as a transaction not involving a public offering.

### **Item 3 - Defaults on Senior Securities**

None.

**Item 4 - Submission of Matters to a Vote of Security Holders**

None.

**Item 5 - Other Information**

As reported in a Current Report on Form 8-K dated April 16, 2007, and incorporated herein by reference, the Company reported that on April 12, 2007, e-Fang Accountancy Corp. ( e-Fang ), the firm that audited the financial statements of China Sky One Medical, Inc. and its subsidiaries (the Company ) for the year ended December 31, 2006, was dismissed by the Company as its independent registered accounting firm, due to the engagement of the new auditors, as described below.

Effective April 12, 2007, the Company engaged Murrell, Hall, McIntosh & Co., PLLP ( Murrell ), as its independent registered accounting firm to audit the financial statements of the Company and its subsidiaries for the fiscal year ended December 31, 2007. The decision to change the Company s independent accountants was made by the Company s board of directors.

e-Fang performed an audit of the Company's financial statements for the year ended December 31, 2006. Its audit report did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. e-Fang has also performed audit work for the Company's subsidiary, American California Pharmaceutical Group, Inc., a California corporation (ACPG), which the Company acquired in 2006. HJ & Associates, LLC (HJ), the firm that audited the financial statements of the Company for the year ended December 31, 2005, was previously dismissed by the Company, as the independent accountant at the time e-Fang was engaged as the independent accountant in July, 2006, as reported in a Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 26, 2006, and incorporated herein by reference.

During the year ended December 31, 2006, and from that date through the date of this Report, there have been no disagreements between the Company and e-Fang on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which would have caused e-Fang to make reference to the subject matter of such disagreements in connection with their report for the year ended December 31, 2006. Similarly, during the two-year period ended December 31, 2006, and from that date through the date of this Report, there have been no disagreements between the Company or its subsidiaries, as applicable, and e-Fang, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which would have caused e-Fang to make reference to the subject matter of such disagreements in connection with their report for the year ended December 31, 2006. In connection with its audit for the fiscal year ended December 31, 2006, and through the date of this Report, there were no reportable events (as defined in Regulation S-B Item 304(a)(1)(iv)(B)).

During the two most recent fiscal years and through the date hereof, neither the Company nor any one on behalf of the Company has consulted with Murrell regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any other matters required to be disclosed under Item 304(a)(1)(iv) of Regulation S-B.

## Item 6 - Exhibits

Exhibit	Description
31.1	Principal Executive Officer Certification*
31.2	Principal Financial Officer Certification*
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

\*Included herein pursuant to Item 601(b) 31 of Regulation SB.

\*\*Included herein pursuant to Item 601(b) 32 of Regulation SB.



**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CHINA SKY ONE MEDICAL, INC.**

Date: May 15, 2007

By:

/s/ Liu Yan-Qing

Liu Yan-Qing, President, CEO

Date: May 15, 2007

By:

/s/ Han Xiao-Yan

Han Xiao-Yan, CFO