CHINA SKY ONE MEDICAL, INC.
Form 10QSB
November 13, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: September 30, 2007

o 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: 000-26059

CHINA SKY ONE MEDICAL, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	87-0430322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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)

(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 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 x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of November 9, 2007, the issuer had 12,114,196 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format (Check one): Yes o No x

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QUARTERLY REPORT ON FORM 10-QSB
OF CHINA SKY ONE MEDICAL INC. AND SUBSIDIARIES
FOR THE PERIOD ENDED SEPTEMBER 30, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

China Sky One Medical, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet
September 30, 2007
(Unaudited)

ASSETS

Current Assets		
Cash and cash equivalents	$	6,982,621
Accounts receivable, net		7,778,992
Other receivables		29,691
Inventories		978,314
Prepaid expenses		20,559
Total current assets		15,790,177
Property and equipment, net		4,658,655
Construction in progress		2,056,063
Intangible assets, net		1,929,362
Deposit on land use rights		7,780,234
	$	32,214,491

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	$	3,064,393
Wages payable		383,831
Welfare payable		197,821
Taxes Payable		1,813,278
Total current liabilities		5,459,323
Stockholders' Equity		
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, 12,114,196 issued and outstanding)		12,114
Additional paid-in capital		9,163,027
Accumulated other comprehensive income		1,296,923
Retained earnings		16,283,104
Total stockholders' equity		26,755,168
	$	32,214,491

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

China Sky One Medical, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006 (Restated)	2007	2006 (Restated)
Revenues	$ 16,770,570	$ 6,772,575	$ 36,594,933	$ 15,940,929
Cost of Goods Sold	3,669,012	2,207,373	8,104,355	4,402,127
Gross Profit	13,101,558	4,565,202	28,490,578	11,538,802
Operating Expenses				
Selling, general and administrative	5,100,408	2,618,421	12,798,383	7,684,244
Depreciation and amortization	55,565	30,381	276,507	135,394
Research and development	1,355,784	56,086	1,751,624	1,989,461
Total operating expenses	6,511,757	2,704,888	14,826,514	9,809,099
Other Income (Expense)				
Interest income and other income	2,282	-	14,309	-
Interest expense	-	(10,952)	(16,494)	(28,284)
Total other income (expense)	2,282	(10,952)	(2,185)	(28,284)
Net Income Before Provision for Income Tax	6,592,083	1,849,362	13,661,879	1,701,419
Provision for Income Taxes				
Current	1,145,812	-	2,433,964	468,666
Deferred	-	-	-	(468,666)
	1,145,812	-	2,433,964	-
Net Income	$ 5,446,271	$ 1,849,362	$ 11,227,915	$ 1,701,419
Basic Earnings Per Share	$ 0.45	$ 0.16	$ 0.93	$ 0.15
Basic Weighted Average Shares Outstanding	12,110,201	11,240,905	12,077,491	11,033,215
Diluted Earnings Per Share	$ 0.44	$ 0.16	$ 0.90	$ 0.15
Diluted Weighted Average Shares Outstanding	12,502,332	11,240,905	12,468,186	11,033,215

The Components of Other Comprehensive Income				
Net Income	$ 5,446,271	$ 1,849,362	$ 11,227,915	$ 1,701,419
Foreign currency translation adjustment	288,267	14,489	874,804	43,468
Comprehensive Income	$ 5,734,538	$ 1,863,851	$ 12,102,719	$ 1,744,887

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 Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006 (Restated)
Cash flows from operating activities		
Net Income	$ 11,227,915	$ 1,701,419
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	355,811	148,251
Share-based compensation expense	225,351	1,252,585
Deferred income tax benefit	-	(468,666)
Net change in assets and liabilities		
Accounts receivables and other receivables	(4,562,183)	(55,741)
Inventories	(695,618)	(18,672)
Prepaid expenses and other	84,714	63,023
Accounts payable and accrued liabilities	2,229,397	135,560
Wages payable	119,678	16,832
Welfare payable	54,232	14,675
Taxes payable	1,238,456	52,136
Deferred revenue	-	17,227
Advances by customers	(67,541)	-
Net cash provided by operating activities	10,210,212	2,858,629
Cash flows from investing activities		
Purchases of fixed assets	(280,168)	(14,706)
Purchase of intangible assets	(54,095)	(1,090,231)
Deposit on land use rights	(7,780,234)	-
Increase in construction in progress	(2,056,063)	-
Net cash (used in) investing activities	(10,170,560)	(1,104,937)
Cash flows from financing activities		
Sale of common stock for cash	-	1,658,871
Short-term borrowings		329,988
Excersice of warrants	116,256	-
Payment on short-term loans	(511,672)	-
Net cash (used in) provided by financing activities	(395,416)	1,988,859
Effect of exchange rate	751,585	43,468
Net increase in cash	395,821	3,786,019
Cash and cash equivalents at beginning of year	6,586,800	1,965,864

Cash and cash equivalents at end of year	$	6,982,621	$	5,751,883
Supplemental disclosure of cash flow information				
Interest paid		$ 5,940	$	9,221
Taxes paid		$ -	$	-
Construction in Progress transferred to fixed assets		$ -	$	2,776,700

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

China Sky One Medical, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2007
(Unaudited)

1. Description of Business

China Sky One Medical, Inc. ("China Sky One"), a Nevada corporation, was formed on February 7, 1986, and 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 with Comet Technologies, Inc., ("Comet"). Under the terms of the agreement, all of the 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. The original shareholders of ACPG hold approximately 93% of the outstanding common stock of Comet, and the former Comet shareholders hold 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 is treated as a reverse merger for accounting purposes.

American California Pharmaceutical Group, Inc. (“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 has 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 prevents 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 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.

2. Basis of Preparation of Financial Statements

The accompanying condensed consolidated financial statements have been prepared in compliance with Rule 310 of Regulation S-B 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 interim 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 and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

China Sky One Medical, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2007
(Unaudited)

The accompanying financial statements differ from the financial statements used for statutory purposes in PRC in that they reflect certain adjustments, recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP.

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. No material adjustment was required. Certain amounts in prior years have been reclassified to conform to current year's classification.

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.

Inventories - Inventories were accounted for using the first-in, first-out method and included finished goods, raw materials, freight-in, packing materials, labor, and overhead costs. Values stated were at the lower of cost or market while cost was determined by 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 items 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

China Sky One Medical, Inc. and Subsidiaries
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(Unaudited)

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 obtain 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 vale.

Construction-in-progress - Properties currently under development are accounted for as construction-in-progress. Construction-in-progress is recorded at acquisition cost, including land rights cost, development expenditure, professional fees, and the interest expenses for the purpose of financing the project capitalized during the course of construction.

Upon completion and readiness for use of the project, the cost of construction-in-progress is to be transferred to the facility. In the case of construction-in-progress, management takes into consideration the estimated cost to complete the project when making the lower of cost or market calculation.

Intangible assets - Intangible assets consists 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.

Foreign Currency - The Company’s principal country of operations is in The People’s Republic of China. The financial position and results of operations of the Company are recorded in RMB as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency (“US Dollars”) are dealt with as a separate component within

shareholders' equity.

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.

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(Unaudited)

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 and nine months ended September 30, 2007, the Company incurred $1,355,784 and $1,751,624 in research and development expenditures, and $56,086 and $1,989,461 for the three and nine months ended September 30, 2006.

Advertising—The Company expensed advertising costs the first time the respective advertising took place. The total advertising expenses incurred for the three and nine months ended September 30, 2007 and 2006 was $1,517,697, $3,939,645, $502,668 and $1,170,237, respectively.

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
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(Unaudited)

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.

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. Contributions to the pension and retirement plan for the three and nine month periods ended September 30, 2007 and 2006 were $28,042, $40,589, $30,311, and $35,681 respectively.

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 September 30, 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.

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 is effective for annual financial statements starting with the year ending December 31, 2006. Implementation of this Staff Accounting Bulletin had no impact on the Company's financial statements.

China Sky One Medical, Inc. and Subsidiaries
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(Unaudited)

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. Implementation of FIN 48 had no material effect on the Company's financial position, results of operations or cash flows.

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. Implementation of this statement had no impact on the Company's financial position, results of operations or cash flow.

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 amortization patent rights and covenants not to compete, the misclassification of stock compensation as a liability rather than as contributed capital and the failure to recognize the effect of a preferential conversion feature associated with a short term note issued in 2006.. The September 30, 2007 financial statements have been adjusted assuming the prior years financial statements had been properly prepared. The Company has recently filed an amended 10 KSB for the year ended December 31, 2006 to reflect the correction of these errors.

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.

Stock warrants and options to purchase 1,791,000 shares of common stock, all but 113,500 of which were exercisable during the nine months ended September 30, 2007, were included in the computation of diluted earnings per share because the option exercise prices were more than the average market price of our common stock during these periods.

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

	Three months ended September 30,	
	2007	**2006**
Numerator:		
Net income (loss) used in calculation of basic earnings (loss) per share	$ 5,446,271	$ 1,849,362
Net income (loss) used in calculation of diluted earnings (loss) per share	5,446,271	1,849,362
Denominator:		
Weighted-average common shares outstanding used in calculation of basic earnings (loss) per share	12,110,201	11,240,905
Effect of dilutive securities:		
Stock options and equivalents	392,131	-
Weighted-average common shares used in calculation of diluted earnings (loss) per share	12,502,332	11,240,905
Net income (loss) per share:		
Basic	0.45	0.16
Diluted	0.44	0.16

	Nine months ended September 30,	
	2007	**2006**
Numerator:		
Net income (loss) used in calculation of basic earnings (loss) per share	$ 11,227,915	$ 1,701,419
Net income (loss) used in calculation of diluted earnings (loss) per share	11,227,915	1,701,419
Denominator:		
Weighted-average common shares outstanding used in calculation of basic earnings (loss) per share	12,077,491	11,033,215
Effect of dilutive securities:		
Stock options and equivalents	390,695	-
Weighted-average common shares used in calculation of diluted earnings (loss) per share	12,468,186	11,033,215
Net income (loss) per share:		
Basic	0.93	0.15
Diluted	0.90	0.15

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5. Share-base 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 options for the nine months ended September 30, 2007 was $30,531. As of September 30, 2007, stock options to acquire 113,500 shares of common stock are held by employees and began 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 Stock 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 US$2.00 per share and 50,000 shares on or before December 20, 2008 at a price of US$3 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 as of December 31, 2006, were determined to be $657,636 and deducted as expenses 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. In addition to the 500,000 warrants awarded for the reverse merger services, described above, 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 US$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 September 30, 2007, stock options and warrants to acquire approximately 1,660,000 shares of common stock are held by non-employee consultants and remained unexercised.

Information related to outstanding warrants at September 30, 2007:

Exercise Price	Outstanding December 31, 2006	Granted	Expired or Exercised	Outstanding September 30, 2007	Expiration Date
$1.50	25,000	-0-	25,000	-0-	
$2.00	1,000,000	-0-	-0-	1,500,000	7/31/2009
$3.00	100,000	-0-	-0-	100,000	10/10/2008
$3.50	550,000	-0-	22,500	571,950	10/10/2008

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Information related to outstanding options at September 30, 2007:

Exercise Price	Outstanding December 31, 2006	Granted	Expired or Exercised	Outstanding September 30, 2007	Expiration Date
$3.00	50,000	-0-	-0-	50,000	12/20/2008
$3.65	113,500	-0-	-0-	113,500	

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 and nine months ended September 30, 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 and 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 September 30, 2007, inventories consist of the following:

Inventory		
Raw Material	$	285,606
Supplemental Material		46,596
Work-in-Process		234,746
Finished Products		411,366
Total Inventory	$	978,314

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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 September 30, 2007, Property and Equipment consist of the following

Property and Equipment		
Buildings	$	2,782,657
Automobiles		310,049
Furniture and Equipments		88,915
Plant and Machinery		1,489,663
Land Use Right		552,738
Total Property and Equipment		5,224,022
Less: Accumulated Depreciation		(565,367)
Property and Equipment, Net	$	4,658,655

For the nine months ended September 30, 2007 and 2006, depreciation expenses totaled $191,740 and $57,109 respectively. In addition depreciation included in cost of goods sold for the nine months ended September 30, 2007 and 2006 was $67,339 and $12,857, respectively.

For the three months ended September 30, 2007 and 2006 depreciation expenses total $98,329 and $12,852 respectively. In addition depreciation included in cost of goods sold for the three months ended September, 2007 and 2006 was $36,026 and $0, respectively.

9. Intangible Assets

As of September 30, 2007, the Company's intangible assets consist of:

Intangible Assets		
Patents	$	1,950,400
Distribution rights and customer lists		370,198
Accumlated amortization		(391,236)
Total Intangible Assets	$	1,929,362

Amortization expense for the three and nine months ended September 30, 2007 and 2006 was $37,354, $164,071, $30,381 and $91,142 respectively.

Patents are amortized over the life of the patent and the distribution rights and customer lists are amortized over ten years.

Schedule of amortization expense for the next five years:

2007	$	266,419
2008		266,419
2009		266,419
2010		266,419

2011		266,419
	$	1,332,095

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10. Taxes Payable

As of September 30, 2007, taxes payable consists of the following:

Taxes Payable		
Value Added Tax	$	670,503
Enterprise Income Tax		1,131,637
Other Taxes		11,138
Total Taxes Payable	$	1,813,278

11. 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 September 30, 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%.

The special entities tax rate resulted in tax savings as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Tax savings	$ 1,186,575	$ 332,885	$ 2,459,138	$ 306,255
Benefit per share				
Basic	$ .10	$ .03	$ .20	$ .03
Diluted	$ .09	$ .03	$ .20	$ .03

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.

Significant components of the Company's deferred tax assets are shown below. A valuation allowance has been established to offset the deferred tax assets, as realization of such assets is uncertain per the management valuation. The tax benefit has not been reported in the September 30, 2007 consolidated financial statements since the potential tax benefit is offset by a valuation allowance.

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Net deferred tax assets consist of the following components as of September 30, 2007:

Deferred tax assets:

NOL Carryover from China Sky One (formerly known as Comet)	$	75,966
Share-based compensation expenses based on 123R		645,640
Deferred Tax at 15% tax rate		721,606
Deferred tax liabilities:		
Valuation allowance		721,606
Net deferred tax asset	$	-

12. Effect of Adoption of FASB Interpretation No. 48 (Fin 48), "Accounting for Uncertainly in Income Taxes"

In 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, which clarifies the application of SFAS 109 by defining a criterion that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transition provisions, the company adopted FIN 48 effective January 1, 2007.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes by the state. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current state officials.

Based on all known facts and circumstances and current tax law, the company believes that the total amount of unrecognized tax benefits as of September 30, 2007, is not material to its results of operations, financial condition or cash flows. The company also believes that the total amount of unrecognized tax benefits as of September 30, 2007, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the company's results of operations, financial condition or cash flows.

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 September 30, 2007, non-qualified options to purchase a total of 113,500 shares were granted and reserved for issuance under the 2006 Stock Incentive Plan.

14. Land Purchase Agreement

During the second quarter TDR entered into an agreement with the Development and Construction Administration Committee of Harbin Song Bei New Development district to purchase the land use rights for 50 years for development of a new biotech engineering project. Terms of the agreement called for a deposit of 30% of the total land price within 15 days after signing the agreement, 40% payment 7 days prior to the start of construction and the balance 7 days after getting the formal land use right.

The project consists of two phases:

(1) Main workshop, R&D center and office using land area of 30,000 square meters, construction started in May 2007 projected to be completed by June 2008.

(2) Second workshop and show room using land area of 20,000 square meters, Construction starting in September 2008 to be completed by December 2009.

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TDR has committed to the Development and Construction Administration Committee of Harbin Song Bei New Development District that the minimum investment per square meter will be $394.

AS of September 30, 2007, the Company had made deposits totaling $7,780,234 related to the acquisition of these land use rights.

15. 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 involve 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," "intends," "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 is 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 nine months ended September 30, 2007, total revenue was $36,594,933, or a 130% increase over 2006, and 2007 net income was $11,227,915, or $0.90 per share on a diluted basis compared to net income of $1,701,419, or $0.15 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.

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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.

During the second quarter TDR entered into an agreement with the Development and Construction Administration Committee of Harbin Song Bei New Development district to purchase the land use rights for 50 years for development of a new biotech engineering project. Terms of the agreement called for a deposit of 30% of the total land price within 15 days after signing the agreement, 40% payment 7 days prior to the start of construction and the balance 7 days after getting the formal land use right.

The project consists of two phases:

(1) Main workshop, R&D center and office using land area of 30,000 square meters, construction started in May 2007 projected to be completed by June 2008.

(2) Second workshop and show room using land area of 20,000 square meters, Construction starting in September 2008 to be completed by December 2009.

TDR has committed to the Development and Construction Administration Committee of Harbin Song Bei New Development District that the minimum investment per square meter will be $394.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2007 as compared to Three Months Ended September 30, 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 148% in the quarter ended September 30, 2007 compared to the quarter ended September 30, 2006. The $10 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:

	Three months ended September 30, 2007	Variance	Three months ended September 30, 2006
Total sales	$ 16,770,570	148%	$ 6,772,575
Cost of goods sold	$ 3,669,012	66%	$ 2,207,373
Gross margin	78%		67%

Our product gross margin for 2007 was 78%, compared to 67% 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 $10 million in the three months ended September 30, 2007, and corresponding selling, general and administrative expenses (“SG&A”) for 2007 increased by $2,481,987 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.

Research and Development expense increased by $1,299,698 to $1,355,784 in the three months ended September 30, 2007 as compared to $56,086 in 2006. This was primarily due to an increased level of product development in 2007 as compared to 2006 when the focus was on integrating new product lines.

Finance costs decreased by $10,952 from 2006, associated with the payoff of bank loans of $511,672.

Nine Months Ended September 30, 2007 as compared to Nine Months Ended September 30, 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 130% in the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The $20.7 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:

	Nine months ended September 30, 2007	Variance	Nine months ended September 30, 2006
Total sales	$ 36,594,933	130%	$ 15,940,929
Cost of goods sold	$ 8,104,355	84%	$ 4,402,127
Gross margin	78%		72%

Our product gross margin for 2007 was 78%, compared to 72% 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 $20.7 million in the nine months ended September 30, 2007, and corresponding selling, general and administrative expenses (“SG&A”) for 2007 increased by $5,114,139 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.

Research and Development expense decreased by $237,837 to $1,751,624 in the nine months ended September 30, 2007 as compared to $1,989,461 in 2006. This was primarily due increased level of product development in 2006 as compared to 2007 when the focus was on integrating new product lines

Finance costs decreased by $11,790, from 2006, associated with the payoff of bank loans of $511,672.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, cash and cash equivalents were $6,982,621, an increase of 6% from December 31, 2006. The increase of $395,821 in 2007 was primarily due to:

§ Increases in net income and accounts payable partially offset by higher receivables and inventory balances which resulted in an increase in cash from operations of $10,210,212.

§ Cash used in investing activities of $10,170,560 for the purchase of the land use agreement in Song Bei District of Harbin and start of construction of new biotech engineering project.

§ The effects of a positive currency translation in the quarter of $751,585 resulting from a strengthening of the Yuan compared to the US Dollar.

The Company’s current ratio at September 30, 2007, was 2.89, and quick ratio was 2.71. 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 September 30, 2007. Therefore, the Company did not have to maintain any minimum balance in the relevant deposit account as security.

Our total outstanding liabilities were $5.4 million as of September 30, 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 September 30, 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.

During the first quarter of 2007, the Company became aware of certain issues pertaining to the Company's financial statements. In the first quarter of 2007, the Company engaged an accountant in the United States, who has assisted the Company in preparing its financial statements, and in administering the Company's controls and procedures. As a result of this involvement, the Company believes it is now more effectively administering its disclosure 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.

We are not a party to any pending legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the three-month period ended September 30, 2007, and subsequent periods through the date hereof, we issued unregistered securities, as follows:

On or around July 26, 2007, an unaffiliated party exercised warrants to purchase 2,500 shares of the Company's Common Stock at an aggregate exercise price of $8,750.

On or around August 29, 2007, an unaffiliated party exercised warrants to purchase 5,000 shares of the Company's Common Stock at an aggregate exercise price of $17,500.

We believe that these transactions are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), or Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering.

Item 3. Defaults Upon Senior Securities.

In the three-month period ended September 30, 2007, and subsequent period through the date hereof, we did not default upon any senior securities.

Item 4. Submission of Matters to a Vote of Security Holders.

In the three-month period ended September 30, 2007, and subsequent period through the date hereof, the we did not submit any matters to a vote of our stockholders:

Item 5. Other Information.

There was no information we were required to disclose in a report on Form 8-K during the three-month period ended September 30, 2007, or subsequent period through the date hereof, which was not so reported.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of principal executive officer pursuant to Section 13a-14(a) -- filed herewith
31.2	Certification of principal financial and accounting officer pursuant to Section 13a-14(a) -- filed herewith
32.1	Certification of principal executive officer pursuant to Section 1350 -- filed herewith
32.2	Certification of principal financial and accounting officer pursuant to Section 1350 -- filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 SKY ONE MEDICAL, INC.

Dated: November 13, 2007	By:	/s/ Liu Yan-Qing Liu Yan-Qing President and Chief Executive Officer
Dated: November 13, 2007	By:	/s/ Han Xiao-Yan Han Xiao-Yan Chief Financial Officer