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The China Sky Show Continues in Its Third Quarter 2009 Earnings Release.

China Sky One Medical, Inc. (NASDAQ: CSKI) released its third-quarter earnings on November 17, 2009. The financial irregularities that asensio.com began reporting on in April 2009 continued to be evident in CSKI’s third-quarter financial statements.

China Sky continues to report a questionably low inventory level. asensio.com compared CSKI to three U.S.-listed competitors (AOB, TCM, and TPI) in terms of days of inventory on hand. The three comparables have at least double CSKI's inventory level relative to sales.

China Sky's gross profit margin also continues to be questionably high in contrast to its competitors. CSKI reported third-quarter gross margin of 75%, while the three comps averaged 55% - a full 20% lower than CSKI.

As discussed in a <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=937&CompanyId=165&CompanyName=China+Sky+
asensio.com report, CSKI's reported gross margin has remained relatively constant, despite dramatic changes in reported product mix. The third-quarter continues the same trend. While gross margin was 75%, within one percent of gross margin for the prior quarter and the prior-year period, CSKI’s 10-Q states, "Due to the Company’s acquisitions of Tianlong and Peng Lai, there have been material changes to its product portfolio in the three months ended September 30, 2009."

CSKI has not shown any significant intellectual property for its products that would suggest any barriers to entry to make such high margins possible. Indeed, CSKI’s CFO, Stanley Hao, recently did an interview with the Wall Street Transcript, in which he identifies at least two other companies as competitors for one of CSKI's new best-selling products, "Compound Camphor Cream" for the treatment of dermatitis. Hao states that the competition is "running red hot."

Hao also makes questionable statements in the interview concerning distribution of CSKI’s slim patch product in the U.S. Hao states, "…during a roadshow in Los Angeles in the middle of September, we signed another distribution agreement with a distributor in Los Angeles for our Slim Patch product." The ability of CSKI to distribute its slim patch in the U.S. lawfully seems doubtful. As noted in a <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=951&CompanyId=165&CompanyName=China+Sky+
asensio.com report, the U.S. Federal Trade Commission (FTC) as recently as 2007 obtained a court order banning a company from selling patches for weight-loss. The FTC stated, "Products worn or rubbed on the skin do not cause weight loss."

Most importantly, CSKI has apparently not addressed two issues that should be principal concerns for all CSKI shareholders: financial statements filed with the China State Administration for Industry and Commerce vastly different from CSKI's SEC filings, and the suspension of the subsidiary supposedly holding all of CSKI's operating assets.

Today asensio.com released a separate report on CSKI's SAIC filings; <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=1004&CompanyId=165&CompanyName=China+Sky
here to view the report.

CSKI still has not corrected the suspension of its main subsidiary, American California Pharmaceutical Group, Inc. (ACPG). ACPG was organized in California, and according to CSKI, ACPG owns 100% of TDR, CSKI’s Chinese operating subsidiary. However, ACPG's status with the California Secretary of State is shown as "suspended." According to website for the California Secretary of State, suspension means that "the business entity's powers, rights and privileges were suspended or forfeited in California 1) by the Franchise Tax Board for failure to file a return and/or failure to pay taxes, penalties, or interest; and/or 2) by the Secretary of State for failure to file the required Statement of Information and, if applicable, the required Statement by Common Interest Development Association."

It appears problematic for CSKI shareholders to have any claim on assets held through a business whose status is "suspended," and at the very least suggests continuing negligence on the part of CSKI management.