

China Sky One Medical, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
As of December 31, 2006
(Expressed in US Dollars)

13. Short-Term Loan (Continued)

Promissory Note Conversion

On August 3, 2006, ACPG signed a convertible promissory note (the "Note") with Luminus Capital Management, Ltd. ("Luminus"), in the amount of \$200,000. The Note bears interest at 6.5% per annum with a maturity date of August 3, 2007, and is payable upon maturity or conversion of the Note. On October 3, 2006, the Company announced that Luminus served notice to convert the Note into common shares at a price of \$2.00 per share. The note (including accrued interest) was converted on October 3, 2006, into a total of 102,166 shares of common stock.

14. Taxes Payable

As of December 31, 2006, taxes payable consists of the following:

<i>Taxes Payable</i>	12/31/2006
Value Added Tax	\$ 236,605
Enterprise Income Tax	320,750
City Tax	4,426
Payroll Tax	4,635
Total Taxes Payable	<u>\$ 566,416</u>

15. Deferred Revenue – Government Grant

The Company received several federal government grants supporting the facility construction, research, development, and production of medicines. These grants were nonrefundable to the State once awarded as long as the grants are used in the areas requested by the grants. First used these federal grants to fund research and development projects, build infrastructure for development and/or manufacturing of medicines, and other activities that are within the scope of grants. The remainder of the grants is deferred to the following years for qualified research and development activities. All the completed projects and activities funded by the government grants were reported to and approved by the funding agencies for qualification of future grants. For the year ended December 31, 2006, the Company has recognized \$112,755 federal grant, with the balance \$67,541 deferred. For the year ended December 31, 2005, the Company has recognized \$202,706 federal grant, with the balance \$55,782 deferred.