

CHINA SUN GROUP HIGH-TECH CO

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 29, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: **333-118259**

CHINA SUN GROUP HIGH-TECH CO.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

54-2142880
(I.R.S. Employer Identification No.)

1 Hutan Street, Zhongshan District
Dalian, The People's Republic of China
(Address of principal executive offices) (Zip Code)

011 – 86- (411) 8288 9800/ 8289 2736
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There are presently 56,212,971 shares of common stock, \$0.001 par value, issued and outstanding as of February 29, 2012.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CHINA SUN GROUP HIGH-TECH CO.

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(UNAUDITED)

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CHINA SUN GROUP HIGH-TECH CO.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF FEBRUARY 29, 2012 AND MAY 31, 2011
(Currency expressed in United States Dollars (“US\$”), except for number of shares)

	February 29, 2012 (Unaudited)	May 31, 2011 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,796,238	\$ 21,810,394
Accounts receivable, trade	4,550,321	2,465,862
Inventories	841,589	610,025
Deposits and prepayments	4,228	1,026
	<u>33,192,376</u>	<u>24,887,307</u>
Total current assets		
Non-current assets:		
Technical know-how, net	2,351,772	2,420,278
Property, plant and equipment, net	29,659,122	27,805,208
	<u>32,010,894</u>	<u>30,225,486</u>
TOTAL ASSETS	<u>\$ 65,203,270</u>	<u>\$ 55,112,793</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 1,081,287	\$ -
Income tax payable	539,315	536,647
Other payables and accrued liabilities	1,117,602	1,163,324
	<u>2,738,204</u>	<u>1,699,971</u>
Total liabilities		
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; none of shares issued and outstanding	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized; 56,212,971 and 55,962,971 shares issued and outstanding, respectively	56,213	55,963
Additional paid-in capital	11,858,039	11,790,789
Accumulated other comprehensive income	7,176,336	5,457,233
Statutory reserve	4,396,344	3,342,358
Deferred compensation	(96,000)	(96,000)
Retained earnings	39,074,134	32,862,479
	<u>62,465,066</u>	<u>53,412,822</u>
Total stockholders' equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 65,203,270</u>	<u>\$ 55,112,793</u>

See accompanying notes to condensed consolidated financial statements.

CHINA SUN GROUP HIGH-TECH CO.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2012
AND FEBRUARY 28, 2011
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

	Three months ended February		Nine months ended February	
	29, 2012	28, 2011	29, 2012	28, 2011
Revenues, net	\$ 11,268,804	\$ 13,359,930	\$ 33,471,067	\$ 37,753,217
Cost of revenue (inclusive of depreciation and amortization)	7,366,419	8,753,182	22,120,626	25,367,854
Gross profit	3,902,385	4,606,748	11,350,441	12,385,363
Operating expenses:				
Sales and marketing	41,624	47,493	122,663	116,266
Research and development	33,798	33,838	101,470	87,285
General and administrative	529,005	858,580	1,379,469	3,454,394
Total operating expenses	604,427	939,911	1,603,602	3,657,945
INCOME FROM OPERATIONS	3,297,958	3,666,837	9,746,839	8,727,418
Other income:				
Subsidy income	-	291	-	44,722
Interest income	20,550	14,240	54,111	38,091
INCOME BEFORE INCOME TAXES	3,318,508	3,681,368	9,800,950	8,810,231
Income tax expense	(869,765)	(1,021,688)	(2,535,309)	(2,779,817)
NET INCOME	\$ 2,448,743	\$ 2,659,680	\$ 7,265,641	\$ 6,030,414
Other comprehensive income:				
- Foreign currency translation gain	678,626	650,847	1,719,103	1,702,407
COMPREHENSIVE INCOME	\$ 3,127,369	\$ 3,310,527	\$ 8,984,744	\$ 7,732,821
Net income per share – Basic and diluted	\$ 0.04	\$ 0.05	\$ 0.13	\$ 0.11
Weighted average common stock outstanding – Basic and diluted	55,998,685	55,639,638	55,974,964	54,693,341

See accompanying notes to condensed consolidated financial statements.

CHINA SUN GROUP HIGH-TECH CO.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
AND FEBRUARY 28, 2011
(Currency expressed in United States Dollars ("US\$"))
(Unaudited)

	Nine months ended February	
	29, 2012	28, 2011
Cash flows from operating activities:		
Net income	\$ 7,265,641	\$ 6,030,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	1,679,459	1,223,915
Amortization of technical know-how	139,258	132,679
Shares issued for services, non-cash	67,500	2,064,125
Changes in operating assets and liabilities:		
Accounts receivable, trade	(1,984,158)	(125,965)
Inventories	(210,471)	586,798
Deposits and prepayments	(3,129)	(536,805)
Accounts payable, trade	1,067,124	(1,999,474)
Customer deposits	-	187,520
Income tax payable	(13,254)	(892,542)
Other payables and accrued liabilities	(10,154)	(54,348)
Net cash provided by operating activities	7,997,816	6,616,317
Cash flows from investing activities:		
Purchase of plant and equipment	(2,750,564)	(52,513)
Net cash used in investing activities	(2,750,564)	(52,513)
Effect of exchange rate changes on cash and cash equivalents	738,592	819,493
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,985,844	7,383,297
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,810,394	18,017,266
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 27,796,238</u>	<u>\$ 25,400,563</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 2,548,564	\$ 3,742,036
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to condensed consolidated financial statements.

CHINA SUN GROUP HIGH-TECH CO.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars ("US\$"), except for number of shares)
(Unaudited)

	Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Statutory reserve	Deferred compensation	Retained earnings	Total stockholders' equity
	No. of share	Amount	No. of share	Amount						
Balance as of June 1, 2011	-	\$ -	55,962,971	\$ 55,963	\$ 11,790,789	\$ 5,457,233	\$ 3,342,358	\$ (96,000)	\$ 32,862,479	\$ 53,412,822
Net income for the period	-	-	-	-	-	-	-	-	7,265,641	7,265,641
Stock-based compensation	-	-	250,000	250	67,250	-	-	-	-	67,500
Appropriations to statutory reserve	-	-	-	-	-	-	1,053,986	-	(1,053,986)	-
Foreign currency translation adjustment	-	-	-	-	-	1,719,103	-	-	-	1,719,103
Balance as of February 29, 2012	-	\$ -	56,212,971	\$ 56,213	\$ 11,858,039	\$ 7,176,336	\$ 4,396,344	\$ (96,000)	\$ 39,074,134	\$ 62,465,066

See accompanying notes to condensed consolidated financial statements.

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

NOTE - 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with both accounting principles generally accepted in the United States (“GAAP”) and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

In the opinion of management, the consolidated balance sheet as of May 31, 2011 which has been derived from audited financial statements and these unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary to state fairly the results for the periods presented. The results for the period ended February 29, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending May 31, 2012 or for any future periods.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Management’s Discussion and the audited financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended May 31, 2011.

NOTE - 2 ORGANIZATION AND BUSINESS BACKGROUND

China Sun Group High-Tech Co. (the “Company” or “CSGH”) was organized under the laws of the State of North Carolina on February 2, 2004 as a subchapter S-Corporation. On August 24, 2007, the Company was reincorporated in the State of Delaware and changed its name from “Capital Resource Funding, Inc.” to “China Sun Group High-Tech Co.”

The Company, through its operating subsidiaries in the People Republic of China (the “PRC”), mainly engages in the production and sales of cobaltosic oxide and lithium iron phosphate, both cathode materials used in lithium ion rechargeable batteries in the PRC.

CSGH and its subsidiaries are hereinafter referred to as (the “Company”).

NOTE - 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying condensed consolidated financial statements and notes.

- Use of estimates

In preparing these condensed consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the periods reported. Actual results may differ from these estimates.

- Basis of consolidation

The condensed consolidated financial statements include the financial statements of CSGH and its subsidiaries. All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

- Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

The Company maintains cash balances at one financial institution in the PRC, which are maintained by China Citic Bank. The Company has cash concentration risk of \$27,794,214 as of February 29, 2012.

- Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements’ assessment of known requirements, aging of receivables, payment history, the customers’ current credit worthiness and the economic environment.

- Inventories

Inventories include material, labor and manufacturing overhead and are stated at lower of cost or market value, cost being determined on a weighted average method. The Company periodically reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand. As of February 29, 2012, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

- Technical know-how

Technical know-how represents the developed product technology acquired from a third party and is carried at its purchase cost, net of accumulated amortization. The Company determined that the estimated useful life of the acquired technology is 15 years and subject to amortization using a straight-line basis over the estimated useful life when its developed products are approved by the government agency.

Amortization expense for the three months ended February 29, 2012 and February 28, 2011 were \$46,811 and \$44,803, respectively, which was recorded in cost of revenue.

Amortization expense for the nine months ended February 29, 2012 and February 28, 2011 were \$139,258 and \$132,679, respectively, which was recorded in cost of revenue.

- Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over the following expected useful lives from the date on which they become fully operational and after taking into account their estimated residual values:

	<u>Expected useful lives</u>	<u>Residual value</u>
Building	20-40 years	5 %
Plant and machinery	5-40 years	5%
Office equipment	5 years	5 %
Motor vehicle	5 years	5 %

Expenditure for repairs and maintenance is expensed as incurred. When assets have been retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

Depreciation expense for the three months ended February 29, 2012 and February 28, 2011 were \$593,509 and \$413,766, which included \$531,486 and \$277,271 in cost of revenue, respectively.

Depreciation expense for the nine months ended February 29, 2012 and February 28, 2011 were \$1,679,459 and \$1,223,915, which included \$1,494,239 and \$1,020,584 in cost of revenue, respectively.

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

- Valuation of long-lived assets

Long-lived assets primarily include technical know-how and property, plant and equipment. In accordance with Accounting Standards Codification (“ASC”) Topic 360-10-5, “*Impairment or Disposal of Long-Lived Assets*,” the Company periodically reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. Determining the fair value of long-lived assets includes significant judgment by management, and different judgments could yield different results. There has been no impairment charge for the periods presented.

- Revenue recognition

In accordance with the ASC Topic 605, “*Revenue Recognition*”, the Company recognizes revenue when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectibility is reasonably assured.

Revenue is recognized when products are delivered to customers. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. In instances where products are configured to customer requirements, revenue is recorded upon the successful completion of the Company’s final test procedures and the customer’s acceptance.

Revenue represents the invoiced value of goods, net of value-added tax (“VAT”). All of the Company’s products that are sold in the PRC are subject to VAT which is levied at the rate of 17% on the invoiced value of sales. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales.

- Comprehensive income

ASC Topic 220, “*Comprehensive Income*” establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during the period from non-owner sources. Accumulated comprehensive income consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

- Income taxes

The provision for income taxes is determined in accordance with the provisions of ASC Topic 740, “*Income Taxes*” (“ASC 740”). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in the financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

For the nine months ended February 29, 2012 and February 28, 2011, the Company did not have any interest and penalties associated with tax positions. As of February 29, 2012, the Company did not have any significant unrecognized uncertain tax positions.

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

The Company conducts major businesses in the PRC and is subject to tax in this jurisdiction. As a result of its business activities, the Company files tax returns that are subject to examination by the foreign tax authority.

- Net income per share

The Company calculates net income per share in accordance with ASC Topic 260, “*Earnings per Share*.” Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

- Foreign currencies translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the condensed consolidated statement of operations.

The reporting currency of the Company is United States Dollar (“US\$”). The Company's subsidiaries in the PRC, maintain their books and records in their local currency, Renminbi Yuan (“RMB”), which is functional currency as being the primary currency of the economic environment in which these entities operate.

In general, for consolidation purposes, assets and liabilities of its subsidiaries whose functional currency is not the US\$ are translated into US\$, in accordance with ASC Topic 830-30, “*Translation of Financial Statement*”, using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income within the statement of stockholders’ equity.

Translation of amounts from RMB into US\$1 has been made at the following exchange rates for the respective period:

	February 29, 2012	February 28, 2011
Period-end RMB:US\$1 exchange rate	6.3073	6.5830
Average period RMB:US\$1 exchange rate	6.3910	6.7079

- Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

- Segment reporting

ASC Topic 280, “*Segment Reporting*” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organization structure as well as information about geographical areas, business segments and major customers in the financial statements. For the nine months ended February 29, 2012, the Company operates one reportable business segment in the PRC.

- Stock based compensation

For non-employee stock based compensation, the Company adopts ASC Topic 505-50, “*Equity-Based Payments to Non-Employees*,” stock based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services on the grant date, whichever is more readily determinable.

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars ("US\$"), except for number of shares)
(Unaudited)

- Fair value of financial instruments

Cash and cash equivalents, accounts receivable, deposits and prepayments, accounts payable, income tax payable, other payables and accrued liabilities are carried at cost which approximated fair value. Any changes in fair value of assets or liabilities carried at fair value are recognized in other comprehensive income for each period.

The Company also follows the guidance of the ASC Topic 820-10, " *Fair Value Measurements and Disclosures* " ("ASC 820-10"), with respect to financial assets and liabilities that are measured at fair value. ASC 820-10 establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

- *Level 1* : Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets;
- *Level 2* : Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. Black-Scholes Option-Pricing model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs; and
- *Level 3* : Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

- Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

NOTE - 4 ACCOUNTS RECEIVABLE

The majority of the Company's sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, the Company has determined that no allowance for doubtful accounts is required for the periods ended February 29, 2012 and February 28, 2011.

NOTE - 5 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of:

	February 29, 2011	May 31, 2011
VAT payable	\$ 256,329	\$ 216,198
Welfare payable	451,475	438,326
Payable to equipment vendors	164,254	223,043
Accrued operating expenses	117,544	157,757
Other payable	128,000	128,000
Other payables and accrued liabilities	<u>\$ 1,117,602</u>	<u>\$ 1,163,324</u>

CHINA SUN GROUP HIGH-TECH CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2012
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

NOTE - 6 STOCKHOLDERS’ EQUITY

On February 15, 2012, the Company issued an aggregate of 250,000 shares of common stock to its CEO and CFO for executive compensation pursuant to the employment agreements dated November 15, 2010, at the current fair value of \$0.27 per share, totaling \$67,500.

As of February 29, 2012, the issued and outstanding common stock of the Company is 56,212,971 shares.

NOTE - 7 INCOME TAXES

For the nine months ended February 29, 2012 and February 28, 2011, the local (“United States of America”) and foreign components of (loss) income before income taxes were comprised of the following:

	Nine months ended February	
	29, 2012	28, 2011
Tax jurisdiction from:		
– Local	\$ (334,355)	\$ (2,335,805)
– Foreign	10,135,305	11,146,036
Income before income taxes	<u>\$ 9,800,950</u>	<u>\$ 8,810,231</u>

The provision for income taxes consisted of the following:

	Nine months ended February	
	29, 2012	28, 2011
Current tax:		
– Local	\$ -	\$ -
– Foreign	2,535,309	2,779,817
Deferred tax:		
– Local	-	-
– Foreign	-	-
Income tax expense	<u>\$ 2,535,309</u>	<u>\$ 2,779,817</u>

The effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The Company operates in various countries: United States of America and the PRC that are subject to tax in the jurisdictions in which they operate, as follows:

United States of America

The Company is registered in the State of Delaware and is subject to the tax laws of the United States of America.

As of February 29, 2012, the operation in the United States of America incurred \$4,032,931 of cumulative operating loss carryforwards for federal tax purposes, which are available to offset future taxable income. The net operating loss carryforwards begin to expire in 2032, if unutilized. The Company has provided for a full valuation allowance for any future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

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The PRC

The Company’s PRC subsidiaries are subject to the Corporate Income Tax governed by the Income Tax Law of the People’s Republic of China, at a statutory income tax rate of 25%.

The reconciliation of income tax rate to the effective income tax rate based on income before income taxes from the operation in the PRC for the nine months ended February 29, 2012 and February 28, 2011 are as follows:

	Nine months ended February	
	29, 2012	28, 2011
Income before income taxes	\$ 10,135,305	\$ 11,146,036
Income statutory tax rate	25%	25%
Income taxes calculated at statutory income tax rate	2,533,826	2,786,509
Tax effect of non-deductible items	6,839	4,489
Tax effect on non-taxable items	(5,356)	(11,181)
Income tax expense	\$ 2,535,309	\$ 2,779,817

The following table sets forth the significant components of the aggregate net deferred tax assets of the Company as of February 29, 2012 and May 31, 2011:

	February 29, 2012	May 31, 2011
Deferred tax assets:		
- Net operating loss carryforwards	\$ 1,371,196	\$ 1,257,516
Less: valuation allowance	(1,371,196)	(1,257,516)
Deferred tax assets	\$ -	\$ -

As of February 29, 2012, the Company has provided for a full valuation allowance against the aggregate deferred tax assets of \$1,371,196 on the expected future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future. For the nine months ended February 29, 2012, the valuation allowance increased by \$113,680, primarily relating to net operating loss carryforwards from the local tax regime.

NOTE - 8 SEGMENT INFORMATION BY PRODUCTS

The Company operates in one reportable operating segment in the production and sales of batteries material in the PRC, as defined by ASC Topic 280. Summarized financial information concerning the Company’s major products is shown in the following table for the three and nine months ended February 29, 2012 and February 28, 2011:

	Three months ended February	
	29, 2012	28, 2011
Lithium iron phosphate	\$ 4,437,173	\$ 3,828,224
Cobaltosic oxide	6,831,631	9,531,706
	\$ 11,268,804	\$ 13,359,930

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	Nine months ended February	
	29, 2012	28, 2011
Lithium iron phosphate	\$ 12,632,663	\$ 9,764,849
Cobaltosic oxide	20,838,404	27,988,368
	<u>\$ 33,471,067</u>	<u>\$ 37,753,217</u>

NOTE - 9 CONCENTRATIONS OF RISK

The Company is exposed to the following concentrations of risk:

(a) Major customers

For the three and nine months ended February 29, 2012 and February 28, 2011, the customers who account for 10% or more of revenues of the Company and their outstanding balances at the period-end are presented as follows:

	Three months ended February 29, 2012		February 29, 2012
	Revenues	Percentage of revenues	Trade accounts receivable
Customer A	\$ 2,080,837	18%	\$ 571,666
Customer B	1,415,063	13%	443,748
Customer C	1,405,161	12%	574,224
Customer D	1,321,539	12%	458,183
Customer E	1,309,854	12%	401,606
Total:	<u>\$ 7,532,454</u>	<u>67%</u>	<u>\$ 2,449,427</u>

	Nine months ended February 29, 2012		February 29, 2012
	Revenues	Percentage of revenues	Trade accounts receivable
Customer A	\$ 6,572,372	20%	\$ 571,666
Customer C	4,250,226	13%	574,224
Customer B	4,011,394	12%	443,748
Customer D	3,836,482	11%	458,183
Customer E	3,573,175	11%	401,606
Customer F	3,439,982	10%	335,828
Total:	<u>\$ 25,683,631</u>	<u>77%</u>	<u>\$ 2,785,255</u>

	Three months ended February 28, 2011		February 28, 2011
	Revenues	Percentage of revenues	Trade accounts receivable
Customer E	\$ 2,097,611	16%	\$ 728,767
Customer A	1,897,148	14%	-
Customer D	1,750,724	13%	141,438
Customer C	1,636,534	12%	615,707
Customer F	1,455,164	11%	-
Total:	<u>\$ 8,837,181</u>	<u>66%</u>	<u>\$ 1,485,912</u>

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	Nine months ended February 28, 2011		February 28, 2011
	Revenues	Percentage of revenues	Trade accounts receivable
Customer E	\$ 5,883,623	16%	\$ 728,767
Customer C	5,174,977	14%	615,707
Customer B	4,746,223	13%	-
Customer D	4,410,112	12%	141,438
Customer F	3,729,575	10%	-
Total:	<u>\$ 23,944,510</u>	<u>65%</u>	<u>\$ 1,485,912</u>

All of the customers are located in the PRC.

(b) Major vendors

For the three and nine months ended February 29, 2012 and February 28, 2011, the vendors who account for 10% or more of purchases of the Company and their outstanding balances at the period-end are presented as follows:

	Three months ended February 29, 2012		February 29, 2012
	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 2,234,099	36%	\$ -
Vendor B	1,290,925	21%	-
Vendor C	1,242,267	20%	-
Total:	<u>\$ 4,767,291</u>	<u>77%</u>	<u>\$ -</u>

	Nine months ended February 29, 2012		February 29, 2012
	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 7,534,622	38%	\$ -
Vendor B	3,862,315	20%	-
Vendor C	3,681,460	19%	-
Total:	<u>\$ 15,078,397</u>	<u>77%</u>	<u>\$ -</u>

	Three months ended February 28, 2011		February 28, 2011
	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 3,288,297	40%	\$ -
Vendor C	1,810,174	22%	-
Vendor B	1,683,052	21%	-
Total:	<u>\$ 6,781,523</u>	<u>83%</u>	<u>\$ -</u>

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	Nine months ended February 28, 2011		February 28, 2011
	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 8,870,208	39%	\$ -
Vendor C	5,271,443	23%	-
Vendor B	4,800,740	21%	-
Total:	\$ 18,942,391	83%	\$ -

All of the vendors are located in the PRC.

(c) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

(d) Exchange rate risk

The reporting currency of the Company is US\$, to date the majority of the revenues and costs are denominated in RMB and a significant portion of the assets and liabilities are denominated in RMB. As a result, the Company is exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between US\$ and RMB. If the RMB depreciates against US\$, the value of the RMB revenues and assets as expressed in US\$ financial statements will decline. The Company does not hold any derivative or other financial instruments that expose to substantial market risk.

(e) Economic and political risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC and by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation.

NOTE - 10 COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitment

The Company's subsidiary operating in PRC was committed under several non-cancelable operating leases for the terms from 5 to 10 years, with monthly rentals, due through July 2020. Costs incurred under these operating leases are recorded as rental expense and totaled approximately \$9,388 and \$12,050 for the nine months ended February 29, 2012 and February 28, 2011.

As of February 29, 2012, the Company has the future minimum rental payments under the operating lease agreements in the next five years and thereafter, as follow:

Year ending February 28,	
2013	\$ 17,440
2014	17,440
2015	17,440
2016	15,062
2017	12,684
Thereafter	42,279
Total:	\$ 122,345

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(b) Employment contracts commitment

Under the employment agreement dated November 15, 2010, the Company is committed to grant Mr. Guosheng Fu, the Chief Executive Officer, up to an aggregate amount of 450,000 shares of the Company’s common stock. The Company agreed to issue 150,000 shares of its common stock to him on each of December 31, 2010, 2011, and 2012, each, an award date, subject to his continuous service on each award date.

Under the employment agreement dated November 15, 2010, the Company is also committed to grant Ms. Mingfen Liu, the Chief Financial Officer, up to an aggregate amount of 300,000 shares of the Company’s common stock. The Company agreed to issue 100,000 shares of its common stock to her on each of December 31, 2010, 2011, and 2012, each, an award date, subject to her continuous service on each award date.

On February 15, 2012, the Company issued an aggregate of 250,000 shares of common stock to its CEO and CFO, which were awarded to them on December 31, 2011 pursuant to the employment agreements dated November 15, 2010. As of February 29, 2012, the Company issued an aggregate 500,000 shares of common stock under these employment agreements and is committed to issue the remaining 250,000 shares of its common stock to the executive officers in the next twelve months.

NOTE - 11 SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with this Form 10-Q. There were no subsequent events that required recognition or disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We make certain forward-looking statements in this report. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings), demand for our products, and other statements of our plans, beliefs, or expectations, including the statements contained under this item as well as items elsewhere in this document, are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would," and similar expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. You are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the SEC should be considered in evaluating forward-looking statements.

The nature of our business makes predicting the future trends of our revenues, expenses, and net income difficult. Thus, our ability to predict results or the actual effect of our future plans or strategies is inherently uncertain. The risks and uncertainties involved in our business could affect the matters referred to in any forward-looking statements and it is possible that our actual results may differ materially from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements include, without limitation, the factors discussed above in the section entitled "Risk Factors" and the following:

- the effect of political, economic, and market conditions and geopolitical events;
- legislative and regulatory changes that affect our business;
- the availability of funds and working capital;
- the actions and initiatives of current and potential competitors;
- the risk that we lose any of our current major customers ;
- investor sentiment; and
- our reputation.

We do not undertake any responsibility to publicly release any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this report. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by any forward-looking statements.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto as filed with the SEC and other financial information contained elsewhere in this Report on Form 10-Q.

Overview

We believe we are one of the leading producers of cathode materials for lithium ion batteries in China. We currently produce cobaltosic oxide and lithium iron phosphate ("LIP"). With the latest technological know-how, innovative manufacturing processes, state-of-the-art manufacturing equipment and substantial manufacturing capacity, we have evolved into a market leader in China and one of the most innovative and respected manufacturers of cathode materials for lithium ion batteries.

Since 2007, we have engaged in the manufacturing, marketing and distribution of cobaltosic oxide. In 2008 we successfully developed proprietary processes for the manufacture of LIP. We began manufacturing LIP in quantity in the second quarter of fiscal year 2011. Since then, we have focused on expanding sales and increasing production of LIP. Originally, we had seven cobaltosic oxide production lines and five lithium cobalt oxide production lines. By the end of fiscal year 2011, we had converted three of our seven cobaltosic oxide and three of our five lithium cobalt oxide production lines to LIP production lines.

During this quarter, we completed converting our two remaining original lithium cobalt oxide production lines to the production of LIP, we currently have a total of four cobaltosic oxide production lines and eight LIP production lines along with the corollary process flow equipment. Currently, our total annual production capacity is 2,500 tons which includes 1,500 tons of cobaltosic oxide, and 1,000 tons of LIP. The increase in sales of LIP is the primary reason for our increase in gross margins in this quarter and we believe that sales of LIP will continue to represent a larger portion of our gross profits and positively impact our gross margins in the future.

We saw a 7% and 6% decline in the average selling price of cobaltosic oxide and a 3.3% and 1.5% increase in the average selling price of LIP during the three and nine months ended February 29, 2012, respectively. We expect that the demand for LIP will continue to remain strong because: 1) the lithium ion battery industry is an integral part of the new energy sector which has experienced substantial growth, and 2) LIP is becoming the preferred cathode material for lithium ion batteries because of its high level of performance. China has a plan to put one million electric cars on the road by 2015 and lithium-ion (Li) batteries are currently the prevailing battery type for portable electronics and electric cars. In addition, we are seeing most of our existing and potential customers expanding their production of Li batteries. As a result, we will continue our strategy to increase more of our production capacity to the production of LIP. We will also work to stabilize our production levels of cobaltosic oxide. However, if the profit margin for cobaltosic oxide continues to decline, we may decide to shift even more production to LIP.

As a result of our efforts to expand our production and sales of LIP, net revenues from the sale of LIP increased by 16% to \$4.44 million for the three months ended February 29, 2012 and production increased by 12% to 230 tons compared to the same period in fiscal 2011, while net revenues from the sale of cobaltosic oxide declined by 28% to \$6.83 million and production declined by 23% to 235 tons compared to the same period in fiscal 2011.

During the nine months ended February 29, 2012, net revenues from the sale of LIP increased by 29% to \$12.6 million and production increased by 27% to 660 tons, while net revenues from the sale of cobaltosic oxide declined 26% to \$20.8 million and production declined by 20% to 705 tons compared to the same period in fiscal 2011. We expect our production of cobaltosic oxide to continue to decrease if the profit margin for cobaltosic oxide continues to decline and our production and sales of LIP to continue to increase.

During the nine months ended February 29, 2012, we had six major customers: Henan Huanyu Sai Er New Energy Technology Co., Ltd (“Huanyu”); CITIC Guo’an Mengguli Ltd.; Guangzhou Hongsen Material Co., Ltd.; Tianjin B&M Science and Technology Ltd.; Dalian Dahua International Trade Co., Ltd.; and Beijing Easpring Co., Ltd. In the nine months ended February 29, 2012, sales to these customers totaled 77% of our net revenues. We expect that these customers will continue to represent a substantial portion of our sales in the rest of fiscal year 2012. We are working persistently to increase our customer base.

The price of raw materials did not have a significant impact on our financial results during the three and nine months ended February 29, 2012. The major raw materials used to produce cobaltosic oxide are cobalt salt, ferric carbonate and cobaltous oxalate. The major raw materials used to produce LIP are ferric phosphate and lithium carbonate. Our cost of the raw materials to produce cobaltosic oxide did not change substantially, and our cost for LIP raw materials, especially ferric phosphate, declined in part during the nine months ended February 29, 2012 because of the increase in production of one of our suppliers.

Results of Operations

Comparison of Nine Months Ended February 29, 2012 to Nine Months Ended February 28, 2011

Net Revenue

Net revenue was \$33,471,067, compared to \$37,753,217 for the nine months ended February 28, 2011 (the “Comparable Period”), a decrease of \$4,282,150 or 11%. One hundred percent (100%) of the net revenue decrease was attributed to a decrease in sales of our older product cobaltosic oxide. Sales of cobaltosic oxide for the nine months ended February 29, 2012 totaled 705 tons and \$20,838,404, a decrease of 184 tons and \$7,149,964, or 20% in quantity and 26% in dollar value, from 889 tons and \$27,988,368 for the Comparable Period, while sales of LIP for the nine months ended February 29, 2012 totaled 660 tons and \$12,632,663, an increase of 142 tons and \$2,867,814, or 27% in quantity and 29% in dollar value, from 518 tons and \$9,764,849 for the Comparable Period.

Changes in Sales Amount and Volume

Product	Sales Amount (\$)		Change	
	Q1 - Q3 of 2012	Q1 - Q3 of 2011	\$	%
Cobaltosic oxide	20,838,404	27,988,368	-7,149,964	-26%
Lithium iron phosphate	12,632,663	9,764,849	2,867,814	29%
Total	33,471,067	37,753,217	-4,282,150	-11%

Product	Production Volume (Ton)		Change	
	Q1 – Q3 of 2012	Q1 –Q3 of 2011	Tons	%
Cobaltosic oxide	705	889	-184	-20%
Lithium iron phosphate	660	518	142	27%
Total	1,365	1,407	-42	-3%

Cost of Revenue

Cost of revenue was \$22,120,626, compared to \$25,367,854 for the Comparable Period, a decrease of \$3,247,228 or 13%. Cost of revenue decreased primarily due to decreased production of cobaltosic oxide and increased production of LIP, which costs less to produce.

Gross Profit

Gross profit was \$11,350,441, a decrease of \$1,034,922 or 8% from \$12,385,363 for the Comparable Period. Overall gross margin was 34% compared to 32.8% in the Comparable Period, an increase of 1.2%. The gross profit margins for cobaltosic oxide and LIP were 22% and 53%, respectively, compared to 26% and 51%, respectively for the Comparable Period. The decrease in gross profit margins for cobaltosic oxide was primarily attributable to a reduction in the average selling price of cobaltosic oxide from \$31,483 per ton for the Comparable Period to \$29,558 per ton in the current period. Gross profit margins for LIP increased approximately 2%, of which approximately 0.5% was due to an increase in the average selling price of LIP from \$18,855 per ton for the Comparable Period to \$19,140 per ton in the current period; and approximately 1.5% was due to a reduction in the cost of raw materials.

Sales and Marketing Expenses

Sales and marketing expenses totaled \$122,663, compared to \$116,266 for the Comparable Period, an increase of \$6,397 or 5.5%. The increase was primarily attributable to an increase in salaries paid to our sales personnel.

General and Administrative Expenses

General and administrative expenses were \$1,379,469, compared to \$3,454,394 for the Comparable Period, a decrease of \$2,074,925 or 60%. During the nine months ended February 28, 2011, the Company recorded a stock-based consultancy fee of \$1,783,500. No such expense was incurred during the nine months ended February 29, 2012.

Research and Development Expenses

Research and development expenses were \$101,470, compared to \$87,285 for the Comparable Period, an increase of \$14,185 or 16%. The increase was primarily attributable to an increase in salaries and bonuses paid to research and development personnel.

Income from Operations

Income from operations was \$9,746,839, an increase of \$1,019,421 or 11.7%, compared to \$8,727,418 for the Comparable Period. The increase was primarily attributable to the decrease of \$2,074,925 in general and administrative expenses.

Other Income

Other income was \$54,111, compared to other income of \$82,813 for the Comparable Period, a decrease of \$28,702 or 35%. In September 2010, the Company received a grant from the Dalian Municipal Government in the amount of \$44,722. No such grants were received during the nine months ended February 29, 2012.

Income Taxes

Provisions for income tax expenses were \$2,535,309 compared to \$2,779,817 for the Comparable Period, a decrease of \$244,508 or 8.8%. The decrease resulted primarily from the decrease in gross profit and in profit before taxation in the Company's PRC subsidiaries.

The Company was established under the laws of the State of Delaware and is subject to U.S. federal income tax and Delaware annual reporting requirements. No provision for income taxes in the United States has been made as the Company has no income taxable in the United States. The Company's PRC subsidiaries expect to use their retained earnings to support their PRC operations.

Foreign Currency Translation Gain

The foreign currency translation gain was \$1,719,103, an increase of \$16,696 or 0.98% compared to \$1,702,407 for the Comparable Period. There was no significant fluctuation in foreign currency translation gain.

Net Income

Net income was \$7,265,641, an increase of \$1,235,227 or 20% compared to net income of \$6,030,414 for the Comparable Period. The increase in net income resulted primarily from the decrease in general and administrative expenses.

Comparison of Three Months Ended February 29, 2012 to Three Months Ended February 28, 2011

Net Revenue

Net revenue was \$11,268,804, compared to \$13,359,930 for the three months ended February 28, 2011 (the "Prior Period") , a decrease of \$2,091,126 or 16%. One hundred percent (100%) of the net revenue decrease was attributable to a decrease in sales of our older product cobaltosic oxide. Sales of cobaltosic oxide for the three months ended February 29, 2012 totaled 235 tons and \$6,831,631, a decrease of 69 tons and \$2,700,075, or 23% in quantity and 28% in dollar value, from 304 tons and \$9,531,706 for the Prior Period. Sales of LIP for the three months ended February 29, 2012 totaled 230 tons and \$4,437,173, an increase of 25 tons and \$608,949, or 12% in quantity and 16% in dollar value, from 205 tons and \$3,828,224 for the Prior Period.

Changes in Sales Amount and Volume

Product	Sales Amount (\$)		Change	
	Q3 of 2012	Q3 of 2011	\$	%
Cobaltosic oxide	6,831,631	9,531,706	-2,700,075	-28%
Lithium iron phosphate	4,437,173	3,828,224	608,949	16%
Total	11,268,804	13,359,930	-2,091,126	-16%

Product	Production Volume (Ton)		Change	
	Q3 of 2012	Q3 of 2011	Tons	%
Cobaltosic oxide	235	304	-69	-23%
Lithium iron phosphate	230	205	25	12%
Total	465	509	-44	-8.6%

Cost of Revenue

Cost of revenue was \$7,366,419, compared to \$8,753,182 for the Prior Period, a decrease of \$1,386,763 or 16%. Cost of revenue decreased primarily due to decreased production of cobaltosic oxide and increased production of LIP, which costs less to produce.

Gross Profit

Gross profit was \$3,902,385 a decrease of \$704,363 or 15.2% from \$4,606,748 for the Prior Period. Overall gross margin was 34.6% compared to 34.5% in the Prior Period. The gross profit margins for cobaltosic oxide and LIP were 22% and 54%, respectively compared to 26% and 55%, respectively for the Prior Period. Although the gross margin for cobaltosic oxide decreased by 4%, the production volume of cobaltosic oxide also decreased and the volume of higher margin product LIP increased. Thus, we were still able to maintain the overall gross margin. The decrease in gross profit margins for cobaltosic oxide was primarily attributable to a reduction in the average selling price of cobaltosic oxide from \$31,354 per ton for the three months ended February 28, 2011 to \$29,071 per ton for the three months ended February 29, 2012. There were no significant fluctuations in gross profit margins for LIP for the three months ended February 29, 2012 compared with the three months ended February 28, 2011.

Sales and Marketing Expenses

Sales and marketing expenses totaled \$41,624, compared to \$47,493 for the Prior Period, a decrease of \$5,869 or 12%. The decrease was primarily attributable to stricter cost controls in the Company's PRC subsidiaries.

General and Administrative Expenses

General and administrative expenses were \$529,005, compared to \$858,580 for the Prior Period, a decrease of \$329,575 or 38%. The decrease was mainly due to: i) a reduction in stock-based compensation to \$67,500 for this period, compared to \$280,625 for the Prior Period; ii) the land and property tax was \$118,383 for the prior comparable period, while none occurred in this period.

Research and Development Expenses

Research and development expenses were \$33,798, compared to \$33,838 for the comparable period, a decrease of \$40 or 0.11%. There was no significant fluctuation in research and development expenses.

Income from Operations

Income from operations was \$3,297,958, a decrease of \$368,879 or 10%, compared to \$3,666,837 for the comparable period. The decrease was due to the decrease in gross profit in the Company's PRC subsidiaries.

Other Income

Other income was \$20,550, compared to \$14,531 for the comparable period, an increase of \$6,019 or 41%. The increase was due to the increase in interest income.

Income Taxes

Provisions for income tax expenses were \$869,765 compared to \$1,021,688 for the comparable period, a decrease of \$151,923 or 15%. The decrease resulted primarily from the decrease in gross profit and in profit before taxation in the Company's PRC subsidiaries.

The Company was established under the laws of the State of Delaware and is subject to U.S. federal income tax and Delaware annual reporting requirements. No provision for income taxes in the United States has been made as the Company has no income taxable in the United States. The Company's PRC subsidiaries expect to use their retained earnings to support their PRC operations.

Foreign Currency Translation Gain

The foreign currency translation gain was \$678,626, an increase of \$27,779 or 4% compared to \$650,847 for the same period in 2011. The increase resulted from the devaluation of US dollar during the three months ended February 29, 2012. The RMB: US\$1 exchange rates as of February 29, 2012 and February 28, 2011 were 6.3073 and 6.5830, respectively, while the average RMB: US\$1 exchange rates for nine months ended on February 29, 2012 and February 28, 2011 were 6.3910 and 6.7079, respectively.

Net Income

Net income was \$2,448,743, a decrease of \$210,937 or 8% compared to \$ 2,659,680 for the comparable period. The decrease in net income resulted primarily from the decrease in gross profit and in profit before taxation in the Company's PRC subsidiaries.

Liquidity and Capital Resources

Cash and Cash Equivalents

Our cash and cash equivalents were \$21,810,394 at the beginning of the nine months ended February 29, 2012 and increased to \$27,796,238 at the end of the nine months ended February 29, 2012, an increase of \$5,985,844 or 27%. This increase represents the combined effects of cash generated from operating activities in the total amount of \$7,997,816 plus the effect of exchange rate changes of \$738,592 offset by cash used in investing activities in the total amount of \$2,750,564.

As of February 29, 2012, the majority of our cash was held in RMB denominated bank deposits in a single PRC financial institution.

Our decision to maintain high cash reserves is mainly based upon (1) the projected need for new manufacturing equipment for LIP production in fiscal 2012 estimated to be approximately \$7.44 million, and (2) the projected purchase of new R&D equipment in the amount of approximately \$3 million in the rest of calendar year 2012.

Capital expenditures have historically been necessary to expand the production capacity of our manufacturing operations. Our prospective increase in both production lines and R&D is primarily due to the projected increased demand of our principal product lithium iron phosphate.

Net Cash Provided by Operating Activities

Net cash provided by our operating activities was \$7,997,816, an increase of \$1,381,499 or 21% compared to \$6,616,317 in the comparable period in 2011. The increase was primarily attributable to the increase of about \$1 million in accounts payable in this period, incurred in the purchase of raw materials.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$2,750,564 for the nine months ended February 29, 2012. The Company purchased additional equipment in the amount of \$165,683 and expended \$2,584,881 to convert the two remaining lithium cobalt oxide production lines to the production of LIP.

Net cash used in financing activities

There was no net cash generated or used for financing activities for the nine months ended February 29, 2012.

Income Taxes

Cash paid for income tax expense was \$2,548,564 for the nine months ended February 29, 2012, compared to \$3,742,036 for the nine months ended February 28, 2011, a decrease of \$1,193,472 or 32%. The decrease was primarily due to the decrease in gross profit and profit before taxation in the Company's PRC subsidiaries.

Inflation

We believe that inflation has not had a material or significant impact on our revenue or our results of operations.

General

We believe that we currently have sufficient income generated from our operations to meet our operating and/or capital needs. However, we will continue to evaluate various sources of capital to meet our growth needs. Such sources may include debt financing, issuance of equity securities and entrance into some financing arrangements. There can be no assurance, however, that any of the financing arrangements described herein will be available and, if available, can be obtained on terms favorable to us.

Contractual Obligations and Commitments

We are committed under several non-cancelable operating lease agreements, with terms from five to ten years, due through July 25, 2020. Annual lease payments are \$17,440 over the next three years, \$15,062 for the fourth year, \$12,684 for the fifth year and \$42,279 for periods thereafter. We have a minimum rental payment obligation totaling \$122,345.

Employment Contracts Commitment

Under the employment agreements dated November 15, 2010, the Company is committed to grant Mr. Guosheng Fu, the Chief Executive Officer up to an aggregate amount of 450,000 shares of the Company's common stock. The Company agreed to issue 150,000 shares of its common stock to him on each of December 31, 2010, 2011, and 2012, each, an award date, subject to his continuous service on each award date.

Under the employment agreements dated November 15, 2010, the Company is also committed to grant Ms. Mingfen Liu, the Chief Financial Officer up to an aggregate amount of 300,000 shares of the Company's common stock. The Company agreed to issue 100,000 shares of its common stock to her on each of December 31, 2010, 2011, and 2012, each, an award date, subject to her continuous service on each award date.

As of February 29, 2012, the Company issued an aggregate 500,000 shares of common stock under these employment agreements and is committed to issue the remaining 250,000 shares of its common stock to the executive officers in the next twelve months.

Critical Accounting Policies

Revenue recognition

In accordance with the ASC Topic 605, "Revenue Recognition," we recognize revenue when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured.

Revenue is recognized when products are delivered to customers. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. In instances where products are configured to customer requirements, revenue is recorded upon the successful completion of our final test procedures and the customer's acceptance.

Our subsidiary, DLXY is subject to valued-added tax ("VAT") which is levied on the majority of the products of DLXY at the rate of 17% on the invoiced value of sales sold in the People's Republic of China. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by us in addition to the invoiced value of purchases to the extent not refunded for export sales.

Accounts receivables and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. We extend unsecured credit to our customers in the ordinary course of business, but mitigate the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on management's assessment of known requirements, aging of receivables, payment history, the customers' current credit worthiness and the economic environment.

Foreign currencies translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the condensed consolidated statement of operations.

The reporting currency of the Company is the United States Dollar ("US\$"). The Company's subsidiaries in the PRC maintain their books and records in their local currency, Renminbi Yuan ("RMB"), which is the functional currency, being the primary currency of the economic environment in which these entities operate.

In general, for consolidation purposes, assets and liabilities of its subsidiaries whose functional currency is not the US\$ are translated into US\$ in accordance with ASC Topic 830-30, "Translation of Financial Statement," using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate component of accumulated other comprehensive income within the statement of stockholders' equity.

New Financial Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the result of its operation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Our Disclosure Controls

As of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended

The purpose of this evaluation is to determine if, as of the Evaluation Date, our disclosure controls and procedures are effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended February 29, 2012, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures

Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We know of no material legal proceeding pending against us.

Item 1A. Risk Factors.

Henan Huanyu Sai Er New Energy Technology Co., Ltd. (“Huanyu”) and Advanced Battery Technologies Inc. (“ABAT”) were two of our main customers during the 2011 Calendar year. Our supply agreements with these two customers expired at the end of 2011. Although these customers continue to purchase products from us, we do not have long-term supply agreements with these customers and we cannot guarantee that these or any of our other customers will not cancel existing orders or continue to purchase products from us in the future. The loss of these customers or any of our other major customers, or any substantial reduction in sales to any of these customers, could have a material adverse effect on our business, financial condition and results of operations.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit No.	Title of Document
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CHINA SUN GROUP HIGH-TECH CO.

Date: April 13, 2012

By: /s/ Guosheng Fu

Name: Guosheng Fu

Title: Chief Executive Officer

(Principle Executive Officer)

Date: April 13, 2012

By: /s/ Ming Fen Liu

Name: Ming Fen Liu

Title: Chief Financial Officer

(Principle Executive Officer)

**Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Guosheng Fu certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended February 29, 2012 of China Sun Group High-Tech Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2012

/s/ Guosheng Fu

Guosheng Fu, Principal Executive Officer

**Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
and Securities and Exchange Commission Release 34-46427**

I, Ming Fen Liu, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended February 29, 2012 of China Sun Group High-Tech Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2012

/s/ Ming Fen Liu

Ming Fen Liu, Principal Financial and
Accounting Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of China Sun Group High-Tech Co. (the "Company") on Form 10-Q for the quarter ended February 29, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guosheng Fu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 13, 2012

/s/ Guosheng Fu

Guosheng Fu, Principal Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of China Sun Group High-Tech Co. (the "Company") on Form 10-Q for the quarter ended February 29, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ming Fen Liu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 13, 2012

/s/ Ming Fen Liu

Ming Fen Liu, Principal Financial and
Accounting Officer
