

RENHUANG PHARMACEUTICALS INC  
Form 10-Q  
January 12, 2010

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 July 31, 2008

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: O-24512

RENHUANG PHARMACEUTICALS, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-1273503  
(I.R.S. Employer  
Identification No.)

No. 281, Taiping Road, Taiping District,  
Harbin, Heilongjiang Province, 150050, P. R. China  
(Address of principal executive offices)

Registrant's telephone number, including area code 86-451-5762-0378

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 definition of "accelerated filer and large accelerated filer" "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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Non-accelerated filer  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

Applicable only to corporate issuers:

As of September 15, 2008, there were 35,096,680 shares of common stock, par value \$0.001, issued and outstanding.

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Renhuang Pharmaceuticals, Inc.

TABLE OF CONTENTS

PART I		
ITEM 1	FINANCIAL STATEMENTS	4
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.	23
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	30
ITEM 4	CONTROLS AND PROCEDURES	30
PART II		
ITEM 1	LEGAL PROCEEDINGS	32
ITEM 1A	RISK FACTORS	32
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	32
ITEM 3	DEFAULTS UPON SENIOR SECURITIES	33
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	33
ITEM 5	OTHER INFORMATION	33
ITEM 6	EXHIBITS	33

PART I - FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management’s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading “Management’s Discussion and Analysis of Financial Condition or Plan of Operation.” Forward-looking statements also include statements in which words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company’s future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

## ITEM 1

## Financial Statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

## ASSETS

	July 31, 2008 (Unaudited)	October 31, 2007(a) (Audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 13,218,937	10,153,603
Accounts receivable, net	13,969,786	8,889,411
Inventories	2,378,275	969,672
Prepayments and other receivables, net	303,050	196,997
<b>TOTAL CURRENT ASSETS</b>	<b>29,870,048</b>	<b>20,209,683</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>2,701,690</b>	<b>2,606,285</b>
<b>TOTAL ASSETS</b>	<b>\$ 32,571,738</b>	<b>22,815,968</b>

(a) Reference is made to the audited financial statements of the Company filed with the SEC on Form 10-K in May 2008.

The accompanying notes are in integral part of the consolidated financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	July 31, 2008 (Unaudited)	October 31, 2007(a) (Audited)
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 277,125	\$ 155,600
Due to related party	159,424	157,376
Other payables	1,220,007	1,109,492
<b>TOTAL LIABILITIES</b>	<b>1,656,556</b>	<b>1,422,468</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - Authorized preferred shares 1,000,000, issued and outstanding number of shares nil and at par value of nil		
Common Stock - Authorized common shares 100,000,000, issued and outstanding number of shares 35,096,680 at par value of \$0.001	35,097	35,097
Additional paid-in capital	6,627,099	6,627,099
Reserves	1,841,734	1,841,734
Retained earnings	19,197,333	11,980,112
Accumulated other comprehensive income	3,213,919	909,458
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>30,915,182</b>	<b>21,393,500</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 32,571,738</b>	<b>22,815,968</b>

(a) Reference is made to the audited financial statements of the Company filed with the SEC on Form 10-K in May 2008.

The accompanying notes are in integral part of the consolidated financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended July		Nine Months Ended July	
	31, 2008	2007	31, 2008	2007
SALES	\$ 6,255,557	\$ 5,071,331	\$ 24,231,007	\$ 20,890,656
COST OF SALES	(2,945,740)	(2,491,963)	(11,167,257)	(10,184,980)
GROSS PROFIT	3,309,817	2,579,368	13,063,750	10,705,676
SELLING AND DISTRIBUTION EXPENSES	(35,508)	(12,178)	(146,939)	(134,624)
ADVERTISING EXPENSE	(861,920)	(7,588)	(2,222,991)	(180,269)
GENERAL AND ADMINISTRATIVE EXPENSES	(632,219)	(655,929)	(1,956,253)	(1,292,433)
RESEARCH AND DEVELOPMENT	(943,942)	—	(1,614,957)	—
BAD DEBT RECOVERY/(EXPENSE)	588	178,040	42,753	(443,082)
DEPRECIATION	(3,799)	(75,205)	(10,330)	(213,680)
INCOME FROM OPERATIONS	833,017	2,006,508	7,155,033	8,441,588
OTHER INCOME	27,535	7,219	62,188	17,285
INCOME BEFORE INCOME TAXES	860,552	2,013,727	7,217,221	8,458,873
INCOME TAXES	—	—	—	—
NET INCOME	\$ 860,552	2,013,727	7,217,221	8,458,873
OTHER COMPREHENSIVE INCOME				
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	637,421	331,264	2,304,462	657,277
COMPREHENSIVE INCOME	\$ 1,497,973	\$ 2,344,991	\$ 9,521,683	\$ 9,116,150
BASIC EARNINGS PER SHARE	\$ 0.03	\$ 0.06	\$ 0.21	\$ 0.24
DILUTED EARNING PER SHARE	\$ 0.03	\$ 0.06	\$ 0.21	\$ 0.24
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING –BASIC	35,096,680	35,058,920	35,096,680	35,019,976

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING –DILUTED	35,096,680	35,058,930	35,096,680	35,019,982
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The accompanying notes are in integral part of the consolidated financial statements



RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months Ended July 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,217,221	\$ 8,458,873
Adjustments to reconcile net income to net cash from operating activities :		
Depreciation	251,401	213,680
Adjustments to the provision for bad debts	(42,753)	443,082
Fair Value of Warrants Issued for services	—	31,699
Fair Value of Shares Issued	—	284,675
Changes in operating assets and liabilities:		
Accounts receivable	(4,080,755)	16,508
Inventories	(1,266,636)	(884,899)
Prepayment and other receivables, net	(41,400)	378,492
Deferred expenses	—	(4,535)
Accounts payable	102,771	45,709
Due to/from related party	(92,79)	(419,910)
Other payable	5,928	(201,813)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,136,498</b>	<b>8,361,561</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Short – term loan	—	(9,495,674)
Acquisition of property, plant and equipment	(107,451)	(114,058)
Construction in progress	—	(386,278)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (107, 451)</b>	<b>\$ (9,996,010)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	<b>—</b>	<b>—</b>

The accompanying notes are in integral part of the consolidated financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
 (Unaudited)

	Nine Months Ended July 31,	
	2008	2007
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 2,029,047	\$ (1,634,449)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,036,287	666,842
Cash and cash equivalents, beginning of period	10,153,603	1,021,267
Cash and cash equivalents, end of period	\$ 13,218,937	\$ 53,660
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ —	\$ 45,996
Income taxes paid	\$ —	\$ —
Issuance of common shares for services	\$ —	\$ 97

The accompanying notes are in integral part of the consolidated financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Renhuang Pharmaceuticals, Inc., (“Renhuang”) or the (“Company”) was incorporated in the State of Nevada on August 18, 1988 and shares of the Company's Common Stock are traded over-the counter on the Pink Sheets under the symbol RHGP. The Company owns 100% of Harbin Renhuang Pharmaceutical Company Limited (the “BVI”), a holding company. Substantially all of the Company’s operations are conducted through BVI’s wholly-owned subsidiary Harbin Renhuang Pharmaceuticals Co., Ltd (“Renhuang China” or the “Subsidiary”) which was incorporated in Harbin City in the People’s Republic of China (the “PRC” or “China”) in 1996. The subsidiary is principally engaged in production and sales of nutraceutical and bio-pharmaceutical products including tablets, drinks and health food; the Subsidiary’s sales network covers various provinces, cities, and counties throughout China.

Unless otherwise provided in this current report, all references in this current report to “we”, “us”, “our company”, “our”, or the “Company” refer to Renhuang Pharmaceuticals, Inc. on a consolidated basis, including Renhuang China and the BVI.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements of the Company are stated in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America and include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation.

The accompanying unaudited consolidated financial statements as of July 31, 2008 and for the three and nine months ended July 31, 2008 and 2007 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X applicable to smaller reporting companies. In the opinion of management, these unaudited consolidated interim financial statements include all adjustments considered necessary to make the financial statements not misleading. The results of operations for the nine months ended July 31, 2008 are not necessarily indicative of the results for the full fiscal year ending October 31, 2008. The unaudited consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended October 31, 2007 as reported in Form 10-K.

The presentation of certain prior period information has been modified to conform to the current presentation.

### 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

#### A. CASH AND CASH EQUIVALENTS

The Company considers cash and cash equivalents to include cash on hand and demand deposits with banks with an original maturity of three months or less.

#### B. ACCOUNTS RECEIVABLE, NET

Accounts receivable is recognized and carried at the original invoice amount less allowance for any uncollectible amounts. The Company issues invoice at the month-end for the deliveries made during that monthly period. An account is considered past due after 90 days from the invoice date as at October 31, 2007. The Company extended its standard credit terms to 180 days during 2008 in order to increase its market share. The Company recognizes an allowance for doubtful accounts to ensure accounts receivable are not overstated due to uncollectibility and are established on a by-customers basis based upon a variety of factors which include: the length of time the receivables are past due, significant one-time events and historical experience. If circumstances related to a customer changes, estimates of the recoverability of receivables would be further adjusted. The allowance on the doubtful accounts was \$146,926 as at July 31, 2008 (\$134,295 in October 31, 2007). The Company does not accept returns or offer any post-sales marketing support to customers

#### C. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Production cost is allocated at FIFO and overhead cost is calculated on the weighted average basis. The cost includes all costs to acquire, transport and process inventories to their present location and condition. The Company evaluates the net realizable value of its inventories regularly, and records a provision for loss, if necessary, to reduce inventories to their net realizable value. There were \$64,025 and \$58,521 of inventory reserve provisions recorded at July 31, 2008 and October 31, 2007, respectively.

#### D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized.

When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included as components of income at the time of disposition.

The Company records depreciation of its property, plant and equipment on a straight-line basis over the estimated useful lives of the assets based on their costs. The useful lives for property, plant and equipment are estimated as follows:

Machinery and equipment	10 years
Office equipment and furnishings	5 to 10 years
Motor vehicles	5 to 10 years

#### E. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of certain financial instruments, including cash, accounts receivable, other receivables, accounts payable, and other payables approximate their fair values as of July 31, 2008 because of the relative short-term maturity of these instruments.

### 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### F. INCOME TAXES

The Company accounts for income tax under the provisions of Statements of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes,” which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities. In addition, the Company is required to record all deferred tax assets, including future tax benefits of capital losses carried forward, and to record a “valuation allowance” for any deferred tax assets where it is more likely than not that the asset will not be realized.

In accordance with the relevant income tax laws applicable to wholly foreign owned enterprises operating in PRC, the profits of the Company are fully exempt from income tax for two years (“tax holiday”), commencing from the first profit making year of operations, followed by a 50% exemption for the immediate next three years (“tax preferential period”), after which the profits of the Company will be taxable at the full rate, currently 25% (See Note 12).

## G. RELATED PARTIES

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The aggregate of balances due to and from related parties for all periods presented are separately disclosed on the face of the balance sheet (See Note 15).

## H. IMPAIRMENT OF LONG-TERM ASSETS

The Company assesses long-lived assets for potential impairment based on a review of projected undiscounted cash flows associated with these assets. Long-lived assets are subjected to impairment evaluations when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. This process is highly subjective and changes in the estimates and assumptions, including the discount rate and expected long-term growth rate, which drive the valuation techniques employed to estimate the fair value of long-lived assets could change and, therefore, impact the assessments of impairment in the future. As of July 31, 2008, management expects its long-lived assets to be fully recoverable.

## I. FOREIGN CURRENCY TRANSLATION

The Company maintains its books and accounting records in its functional currency, the Renminbi, (which is the PRC's currency).

In translating the financial statements of the Company from its functional currency into United States dollars (“USD”), its reporting currency, asset and liability accounts are translated using the closing exchange rate in effect at the balance sheet date, equity accounts are translated at historic rates and income and expense accounts are translated using an average exchange rate prevailing during the reporting period. Adjustments resulting from the translation, if any, are included in accumulated other comprehensive income in stockholders’ equity.

Foreign currency transaction gains and losses if any, are included in the determination of net income for the period.

The Renmibi (“RMB”) is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or can be, converted into United States dollars (“USD”) at the rates used in translation. The exchange rate between the RMB and the USD on July 31, 2008 and the average rate from October 31, 2007 to July 31, 2008 are:

Exchange rate:	Jul.31,2008	Oct.31,2007
Balance Sheets- Year end RMB:USD exchange rate	6.8388:1	7.4820:1
Operating Statement: Average quarterly RMB:USD exchange rate	7,1129:1	7.6917:1

#### J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates primarily related to the realizable value of accounts receivable, inventories, and the useful lives of plant and equipment. Actual results when ultimately realized could differ from those estimates.

#### K. REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable, and collectability is reasonably assured; this policy is in accordance with the provisions of Staff Accounting Bulletin No. 104. Renhuang generally recognizes product sales when the product is shipped.

The Company provides rebates to its sales agents (who act as wholesalers) as an incentive plan. The rebate rate is set on a product-by-product basis. When revenue is recognized, the rebate is accounted for as an offset to revenues in accordance with EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). On average, the rebate rate was 17% and 18% of gross revenue in the nine months ended July 2008 and 2007, respectively.

#### L. CERTAIN RISKS AND CONCENTRATIONS

The Company is subject to a significant concentration of credit risk with its trade accounts receivable. The Company performs ongoing credit evaluations with respect to the financial condition of its creditors, but does not require collateral. The Company records a provision for doubtful accounts to cover probable credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectability of outstanding accounts receivable.

The Company is subject to the risks inherent in operating within the PRC. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in the PRC.

#### M. RESEARCH AND DEVELOPMENT

Research and development ("R&D") costs are expensed as incurred. Engineers and technical staff are involved in the production of our products as well as on-going research, with no segregation of the portion of their salaries relating to research and development from the portion of their salaries relating to production. The total salaries are included in cost of sales. R&D for the nine months ended July 31, 2008 and 2007 are \$1,614,957 and nil respectively.

#### N. ADVERTISING

Advertising costs consist primarily of promoting the Company and the Company's products through television and printed advertisements in trade publications. Advertising costs are expensed as incurred. They are separately disclosed in the consolidated statements of income and comprehensive income.

#### O. STOCK-BASED COMPENSATION

The Company measures and records the cost of employee services received in exchange for stock-based compensation at the grant date fair value of the award. This method is in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment". Total stock based compensation expense for the nine months ended July 31, 2008 and 2007 was nil.

#### P. CLASSIFICATION OF OPERATING COSTS AND EXPENSES

The Company records its operating costs and expenses using the following general classifications:

##### Cost of Goods Sold

Cost of goods sold consists primarily of raw materials, direct labor and manufacturing overhead. Manufacturing overhead includes an allocation of purchasing and receiving costs, inspection fees, warehousing utilities, supplies, factory and equipment repairs and maintenance, safety equipment and supplies, packing materials, loading fees, and depreciation expense associated with machinery and equipment.

##### Selling Expenses

Selling expenses consists primarily of travel and entertainment, maintenance, payroll (including taxes and benefits) for sales staff, telephone, utilities, insurance, sales commissions and export fees.

##### General and Administrative Expenses

General and administrative expenses consists primarily of general office expenses, travel and entertainment, transportation, administrative payroll, payroll taxes and benefits, maintenance, telephone, utilities, printing, professional fees, continuing education, licenses and fees.

#### Q. EARNINGS PER SHARE

The Company reports earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares available. Diluted earnings per share is computed using the treasury stock method whereby the denominator is increased by the net dilution on the exercise of the warrants and other common stock equivalents if those additional common shares were dilutive. There were 25,000 potentially dilutive securities outstanding during the nine months ended July 31, 2008 and 2007. The 25,000 warrants in both of the above periods were deemed to be anti-diluted due as the market price of the shares was lower than the exercise price as of July 31, 2008 and July 31, 2007 respectively.



## R. COMPREHENSIVE INCOME

The Company has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general-purpose financial statements. SFAS No. 130 defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. In the nine months ended July 31, 2008, the only component of other comprehensive income is foreign translation gain of \$2,304,462 (\$657,277 in the nine months ended July 31, 2007), which has been recorded as the accumulative other comprehensive income in the balance sheet.

## S. RECENT PRONOUNCEMENTS

The Company adopted SFAS No. 157 effective January 1, 2008, except for the nonfinancial assets and liabilities that are subject to a one-year deferral allowed by FASB Staff Position (FSP) SFAS 157-2 ("FSP SFAS 157-2"). FSP SFAS 157-2 delays the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material effect on our financial statements. The Company does not expect the adoption of SFAS No. 157 will have a material effect on our financial statements beginning in year 2009 as it relates to the items subject to the one-year deferral allowed by FSP SFAS 157-2.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair values. SFAS No. 159 is effective for fiscal years after November 15, 2007. The adoption of SFAS No. 159, effective January 1, 2008, did not have a material impact on the Company's financial statements.

In December 2007, the Financial Accounting Standards Board issued FASB Statement No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R provides additional guidance on improving the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company believes there will be no material impact on its financial statements upon adoption of this standard.

In December 2007, the Financial Accounting Standards Board issued FASB Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (“SFAS 160”). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company believes there will be no material impact on its financial statements upon adoption of this standard.

In March 2008, the FASB issued SFAS No. 161, which requires enhanced disclosures on a company’s use of derivative instruments, its applicable accounting policies related to derivatives and the effect of those derivatives on a company’s financial position, results of operations and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. Adoption of SFAS No.161 will have no impact on our financial position, results of operations or cash flows.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of July 31, 2008 and October 31, 2007 consist of the following:

	July 31, 2008	October 31, 2007
Cash on hand	\$ 15,347	\$ 28,657
Cash in banks	13,203,590	10,124,946
	\$ 13,218,937	\$ 10,153,603

The Company maintains a bank account in the PRC which is not protected by FDIC insurance or other insurance. As of July 31, 2008, the Company had \$13,203,590 in uninsured deposits with Chinese banks. Historically, the Company has not experienced any losses in such accounts.

#### 5. ACCOUNTS RECEIVABLE, NET

The Company's accounts receivable as of July 31, 2008 and October 31, 2007 are as follows:

	July 31, 2008	October 31, 2007
Accounts receivable	\$ 14,116,712	\$ 9,023,706
Less: Allowance for doubtful accounts	(146,926)	(134,295)
Accounts receivable, net	\$ 13,969,786	\$ 8,889,411

As at July 31, 2008, there were two customers which accounted for \$1,880,006 and \$1,806,626 of accounts receivable which are approximately 13% and 13% of the total balance, respectively.

These same two major customers also have the sales amount over 10% of the total sales for the nine months ended July 31, 2008 and 2007 are as follows:

	2008		2007	
Customer A:	\$ 2,738,198	11%	2,399,609	11%
Customer B:	\$ 2,644,290	11%	2,163,702	10%

#### 6. PREPAYMENTS AND OTHER RECEIVABLES, NET

Prepayments and other receivables as of July 31, 2008 and October 31, 2007 consist of the following:

	July 31, 2008	October 31, 2007
Prepayments and other receivables	\$ 662,249	\$ 565,960
Less: allowance for doubtful accounts	(359,199)	(368,963)
	\$ 303,050	\$ 196,997

As of July 30, 2008, the balance in prepayments and other receivables mainly includes prepayment for advertising of approximately \$7,000 and advances to employees of approximately \$ 277,000. As of October 31, 2007, the Company had advances to employees of approximately of.\$181,000.

#### 7. INVENTORIES

The Company's inventories as of July 31, 2008 and October 31, 2007 are summarized as follows:

	July 31, 2008	October 31, 2007
Raw materials	\$ 1,027,869	\$ 437,144
Finished goods	311,564	64,445
Work-in-process	1,102,867	526,604
Less: allowance for obsolete	(64,025)	(58,521)
	\$ 2,378,275	\$ 969,672

The finished goods included \$139,184 and \$0 consignment goods as at July 31, 2008 and October 31, 2007.

#### 8. PROPERTY, PLANT AND EQUIPMENT, NET

	July 31, 2008	October 31, 2007
<b>Cost:-</b>		
Machinery and equipment	\$ 3,344,392	\$ 2,959,892
Office equipment and furnishings	47,924	38,649
Motor vehicles	52,914	48,364
	<b>3,445,230</b>	<b>3,046,905</b>
<b>Less: Accumulated depreciation:-</b>	<b>(743,540)</b>	<b>(440,620)</b>
<b>Net book value</b>	<b>\$ 2,701,690</b>	<b>\$ 2,606,285</b>

For the nine months ended July 31, 2008, depreciation expenses relating to property, plant and equipment were \$251,401 consisting of \$241,071 recorded as cost of sales and \$10,330 in general and administrative expenses. As of July 31, 2007, the Company had depreciation expenses of \$213,680 included in general and administrative expenses.

On March 3, 2007, the Company entered into an agreement to purchase certain assets and/or the rights to use those assets from ZhangFa ShiYe Qingyang (“QingYang”) for approximately \$467,000. The Company paid a deposit of approximately \$302,000 to QingYang and agreed to assume a bank loan of approximately \$165,000 to secure these assets. The assumed loan amount is included in other liabilities as of July 31, 2008 and October 31, 2007. The assets acquired, which are comprised of property, equipment and inventory (the “Collateral”, are pledged against the bank loan. Although QingYang transferred operational control of the Collateral to the Company, the Company was unable to obtain consent from the bank and local governmental authorities to transfer legal title of the Collateral to Renhuang; as a result, the Collateral is not recorded as an asset of Renhuang though the deposit was initially recorded in the amount of \$467,000.

After paying the deposit, the Company began negotiating with the bank and local authorities to settle all outstanding issues and secure full ownership of the assets. The Company was unable to finalize those negotiations prior to October 31, 2007 and Management decided to record an impairment reserve against the entire deposit amount at that date as the Company did not have legal title to the Collateral and was unable to determine when or if it would gain title. That \$467,000 impairment was recorded as a component of general and administrative expenses during the fiscal year ended October 31, 2007. Though the QingYang facility (which constitutes the majority of the Collateral) has not operated subsequent to the agreement it remains under the control of Renhuang. Management anticipates obtaining title to the Collateral during 2009 upon the conclusion of negotiations with the bank and local government authorities.

## 9. ACCOUNTS PAYABLES

Accounts payable \$277,125 and \$155,600 as of July 31, 2008 and October 31, 2007 consist of balances payable to suppliers.

The suppliers from whom the purchased amount is over 10% of the total purchase for the nine months ended July 31, 2008 and 2007 are:

	2008		2007	
Supplier A:	\$ 2,410,238	24%	\$ 2,133,912	24%
Supplier B:	\$ 1,178,853	12%	\$ 1,090,493	12%
Supplier C:	\$ 971,699	10%	\$ 898,574	10%

## 10. OTHER PAYABLES

The balance as of July 31, 2008, includes taxes payable of \$606,913, and social insurance payable of \$555,205.

As of October 31, 2007, the balance includes taxes payable of \$590,022, and social insurance payable of \$302,562.

## 11. RESERVES

The reserve funds as of July 31, 2008 and October 31, 2007 are comprised of the following:

	July 31, 2008	October 31, 2007
Statutory surplus reserve fund	\$ 1,559,357	\$ 1,559,357
Public welfare fund	\$ 282,377	282,377
	\$ 1,841,734	\$ 1,841,734

Pursuant to the relevant laws and regulations of the PRC, the Company is required to annually transfer 10% of its after tax profit as reported on financial statements prepared under the accounting principles of the PRC to a statutory surplus reserve fund until the balance reaches 50% of the registered share capital. This reserve can be used to make up any losses incurred or to increase the share capital. Except for reducing losses incurred, any other application may not result in this reserve balance falling below 25% of the registered capital.

Prior to January 1, 2007, the Company was required each year to transfer 5% of its after tax profit as reported on financial statements prepared under the accounting principles of the PRC to the public welfare funds. This reserve was restricted to capital expenditure for employees' collective welfare facilities that are owned by the Company. The public welfare funds are not available for distribution to the stockholders (except in liquidation). Once capital expenditures for staff welfare facilities have been made, an equivalent amount must be transferred from the public welfare funds to the discretionary common reserve funds. Due to a change in PRC law, appropriation of profit to the public welfare funds is no longer required.

The Company reserves the statutory surplus at year ended. As of July 31, 2008, the estimated statutory surplus for nine months ended was approximately \$721,700.

## 12. INCOME TAXES

The Company is subject to state and local income taxes within the PRC at the applicable tax rate as reported in their PRC statutory financial statements in accordance with the relevant income tax laws.

For the year of 2007 and 2008, the Company was granted a tax holiday and is entitled to full exemption from corporation income taxes through December 2008..Had the company not been granted the tax holiday or been an eligible wholly foreign owned company, the income tax provision at the general PRC income rate of 25% starting from January 1, 2008 and 33% previously would have been approximately 2.0 million and \$2.9 million for the nine months ended July 31, 2008 and 2007 respectively.

## 13. COMMON STOCK

During the three and nine months ended July 31, 2008, no common stock was issued.

## 14. WARRANTS

The Company entered into a Director appointment agreement with Mr. Moliteus dated April 16, 2007, pursuant to which the Company issued Mr. Moliteus 15,000 warrants, which expire on April 16, 2010, to purchase 15,000 shares of Renhuang's common stock at \$3.02 per share. On July 31, 2007, warrants to purchase 10,000 additional shares were issued to Mr. Moliteus with an exercise price of \$2.50.

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at October 31, 2006	—	—
Granted		
— April 16, 2007	15,000	\$ 3.02
— July 31, 2007	10,000	\$ 2.50
Exercised	—	—
Cancelled or expired	—	—
Outstanding at October 31, 2007	25,000	\$ 2.81
Granted	—	—
Exercised	—	—
Outstanding at July 31, 2008	25,000	2.81

## 15. RELATED PARTY TRANSACTIONS

The Company rented property and plant from Harbin Renhuang Pharmaceutical Stock Co. Ltd. (“Old Renhuang”), a Company owned by the Company’s major shareholder. The lease term is from May 1, 2008 to May 1, 2009, with monthly rental payment of approximately \$48,710. The Company has an amount due from related party of approximately \$248,000 including the construction fees paid on behalf of Old Renhuang and receivable from sales. The Company also has an amount due to a related party of approximately \$407,000 related to professional fees paid by Old Renhuang in 2007 for the reverse merger. The Company offsets the due from and due to related party balances, therefore the net balance was due to related party of approximately \$159,000.

## 16. COMMITMENTS AND CONTINGENCIES

### A. CAPITAL AND LEASE COMMITMENTS

The Company entered into a lease for office space from May 1, 2007 to April 30, 2010, with average monthly rental payment of \$10,076. The Company also rented factory from a related party (See Note 15) with monthly payment of \$48,710.

The minimum future payments for the rental leases as followings:

	July 31, 2008	
	Office	Factory
2009	\$ 125,753	\$ 460,607
2010	94,315	—
Thereafter	—	—
Total	\$ 220,068	\$ 460,607

### B. LEGAL PROCEEDINGS

The Company is not currently involved in any litigation. There are no actions, suits, proceedings, inquiries or investigations before or by any court, public board, government agency, self-regulatory organization or body pending to the knowledge of the executive officers of the Company.

## 17. EMPLOYEE WELFARE PLAN

Regulations in the PRC require the Company to contribute to a defined contribution retirement plan for all permanent employees. Pursuant to regulations promulgated by the local authority in the PRC, the retirement pension insurance, unemployment insurance, health insurance, injury insurance and pregnancy insurance are established for employees during the term of their employment. For the nine months ended July 31, 2008, the level of contribution to these funds was set at 22% of the average employee salary determined by the Social Welfare Bureau. The Company incurred the payable amount of \$215,548 as of July 31, 2008 in other payables.

#### 18. VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Company faces a number of risks and challenges since its operations are in the PRC. 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. 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 and remittance abroad, and rates and methods of taxation, among other things.

#### 19. SUBSEQUENT EVENT

On May 15, 2009, there an agreement was reached between Renhuang and Allied Merit International Investments, Inc. and Griffin Ventures Ltd. (the "Investors"). The Investors agreed to pay Renhuang \$1.5 million by July 31, 2009, in exchange for an aggregate of 2,142,856 shares of the Company's Common Stock and 1,071,428 Warrants with an exercise price of \$0.875. The Company issued the 2,142,856 shares on May 20, 2009 and received the \$1.5 million on August 7, 2009.

The warrants issued to Mr. Moliteus were cancelled during fiscal 2008.

On January 22, 2009, the local government extended the tax holiday for the Company to the end of 2009.

The Company extended the lease with Old Renhuang on May 1, 2009. No modification made on the minimum payment table in Note 16 regarding the renewed lease.



## ITEM 2 Managements Discussion and Analysis of Financial Condition and Results of Operations.

## Overview

The following discussion of the financial condition and results of the operation of Renhuang Pharmaceuticals, Inc. including the forward-looking statements involving risk and uncertainties should be read in conjunction with the financial statements and notes included in this Quarterly Report on Form 10-Q. Actual results may differ from the forward-looking statements due to a variety of factors.

## Results of operations

Three months ended July 31, 2008 as compared to Three months ended July 31, 2007

## Revenues, Expenses and Net Income

	2008	2007
Revenue	\$ 6,255,557	5,071,331
Cost of Sales	(2,945,740)	(2,491,963)
Selling and Distribution Expenses	(35,508)	(12,178)
Advertising Expenses	(861,920)	(7,588)
General and Administration Expenses	(632,219)	(655,929)
Research and Development	(943,942)	—
Provision for Doubtful Account	588	178,040)
Depreciation and Amortization	(3,799)	(75,205)
Other income	27,535	7,219
Net Income	\$ 860,552	