

RENHUANG PHARMACEUTICALS INC  
Form 10-Q/A  
August 11, 2008

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

**Form 10-Q/A  
(Amendment No. 1)**

(Mark One)

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

**For the quarterly period ended April 30, 2007**

- 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 issuers involved in bankruptcy proceedings during the preceding five years:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

---

**Applicable only to corporate issuers:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of June 7, 2007, there were 35,096,681 shares of common stock, par value \$0.001, issued and outstanding.

---

**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.	32
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	39
ITEM 4	CONTROLS AND PROCEDURES	40

**PART II**

ITEM 1	LEGAL PROCEEDINGS	41
ITEM 1A	RISK FACTORS	41
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	41
ITEM 3	DEFAULTS UPON SENIOR SECURITIES	41
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	41
ITEM 5	OTHER INFORMATION	41
ITEM 6	EXHIBITS	43

## **Explanatory Note**

This Quarterly Report on Form 10-Q/A (Amendment No. 1) discloses and discusses the impact and effect of a restatement of our previously filed unaudited consolidated financial statements contained in our originally-filed Quarterly Report on Form 10-Q for the period ended April 30, 2007; and amends Items 1 and 2 of Part I of our Quarterly Report on Form 10-Q previously filed with the Securities and Exchange Commission on June 14, 2007.

This restatement is necessary due to the fact that during the review for the quarter ended July 31, 2007, we concluded that our previously reported unaudited consolidated balance sheet as of April 30, 2007, the unaudited consolidated statement of income for the three months ended April 30, 2007, and the unaudited consolidated statements of cash flows for the three months ended April 30, 2007 filed with our originally-filed Quarterly Report on Form 10-Q for the period ended April 30, 2007, did not accrue certain sales rebate payables from sales. As a result, we are filing this amended Quarterly Report on Form 10-Q/A for April 30, 2007, to make the necessary corrections to account for the sales rebates we owed third parties during this period, which contains an explanation in Note 19 to the financial statements. The revisions will result in the correction of certain amounts categorized as accounts payable and accruals to third parties, total current liabilities, and total liabilities, in our unaudited consolidated financial statements for above-mentioned periods.

This First Amended Quarterly Report on Form 10-Q/A for the quarter ended April 30, 2007 amends and restates only those items of the previously filed Quarterly Report on Form 10-Q which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment (i) to modify or update such disclosures except as required to reflect the effects of the restatement or (ii) to make revisions to the Notes to the unaudited consolidated financial statements except for those which are required by or result from the effects of the restatement. For additional information regarding the restatement of our unaudited consolidated financial statements, see Note 19 to our unaudited consolidated financial statements included in Part I - Item I. Except for the corrections stated herein, no other information contained in our previously filed Form 10-Q for the quarter ended April 30, 2007 has been updated or amended.

## **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  
AS OF APRIL 30, 2007

(Amounts in United States Dollars)

ASSETS

	April 30, 2007 (Unaudited) (Restated)	October 31, 2006 (Audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,786,469	1,021,267
Trade receivables, net (Note 5)	11,859,115	7,566,096
Inventories (Note 6)	1,352,302	622,144
Prepaid expenses and deposits	135,883	102,473
Other receivables	20,172	1,143,834
Deferred expenses (Note 9)	118,434	115,823
<b>TOTAL CURRENT ASSETS</b>	<b>17,272,375</b>	<b>10,571,637</b>
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,615,139	2,610,285
CONSTRUCTION IN PROGRESS (Note 8)	667,575	106,610
<b>TOTAL ASSETS</b>	<b>\$ 20,555,089</b>	<b>13,288,532</b>

The accompanying notes are in integral part of the financial statements

**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
AS OF APRIL 30, 2007****(Amounts in United States Dollars)****LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>April 30, 2007 (Unaudited) (Restated)</b>	<b>October 31, 2006 (Audited)</b>
<b>CURRENT LIABILITIES</b>		
Accounts payables and accruals (Note 10)		
- due to related parties	\$ -	\$ 419,910
- due to third parties	519,822	366,805
Total accounts payables and accruals	519,822	786,715
Other payables (Note 11)	2,616,891	1,877,042
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,136,713</b>	<b>2,663,757</b>
<b>TOTAL LIABILITIES</b>	<b>3,136,713</b>	<b>2,663,757</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock - Authorized common shares 100,000,000, outstanding number of shares 35,000,181 at par value of 0.001, authorized preferred shares 2,500,000	35,000	35,000
Additional paid in capital	6,333,264	6,310,822
Reserves	1,962,808	847,133
Retained earnings	8,707,552	3,378,081
Accumulated other comprehensive income	379,752	53,739
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>17,418,376</b>	<b>10,624,775</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 20,555,089</b>	<b>13,288,532</b>

The accompanying notes are in integral part of the financial statements

**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED APRIL 30, 2007**  
(Amounts in United States Dollars, Except for Number of Common Shares)

	<b>Three Months Ended April 30, 2007 (Unaudited) (Restated)</b>	<b>Six Months Ended April 30, 2007 (Unaudited) (Restated)</b>
SALES	\$ 6,315,332	\$ 15,819,325
COST OF SALES	(3,120,081)	(7,693,017)
GROSS PROFIT	3,195,251	8,126,308
SELLING AND DISTRIBUTION EXPENSES	(16,871)	(122,446)
ADVERTISING EXPENSE	(163,532)	(172,681)
GENERAL AND ADMINISTRATIVE EXPENSES	(369,728)	(636,504)
PROVISION FOR DOUBTFUL ACCOUNTS	(568,113)	(621,122)
DEPRECIATION AND AMORTIZATION	(70,181)	(138,475)
INCOME FROM OPERATIONS	2,006,826	6,435,080
OTHER INCOME	6,732	10,066
INCOME BEFORE INCOME TAXES	2,013,558	6,445,146
INCOME TAXES	—	—
NET INCOME	\$ 2,013,558	\$ 6,445,146
BASIC EARNINGS PER SHARE	0,058	0.184
DILUTED EARNING PER SHARE	0.058	0.184
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
BASIC	35,000,181	35,000,181
DILUTED	35,002,420	35,000,181

The accompanying notes are in integral part of the financial statements





**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED APRIL 30, 2007****(Amounts in United States Dollars)**

	Common Stock	Additional Paid-in capital	Reserves	Retained Earnings	Accumulated Other comprehensive income	Total Equity
Balance at October 31, 2006 (Audited)	\$ 35,000	\$ 6,310,822	\$ 847,133	\$ 3,378,081	\$ 53,739	\$ 10,624,775
Net income for 2 quarters 2007	—	—	—	6,445,146	—	6,445,146
Transfer to reserves	—	—	1,115,675	(1,115,675)	—	—
Warrants issued to director	—	22,442	—	—	—	22,442
Other comprehensive income - foreign currency translation	—	—	—	—	326,013	326,013
Balance at April 30, 2007 (Unaudited)	\$ 35,000	\$ 6,333,264	\$ 1,962,808	\$ 8,707,552	\$ 379,752	\$ 17,418,376

The accompanying notes are in integral part of the financial statements

**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED APRIL 30, 2007****(Amounts in United States Dollars)**

	<b>(Unaudited) (Restated)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 6,445,146
Adjustments to reconcile net income to net cash from operating activities :	
Depreciation and amortization	138,475
Fair Value of Warrants Issued	22,442
Changes in operating assets and liabilities:	
Trade receivables, net	(4,293,019)
Inventories	(730,158)
Other receivables, net	1,123,662
Deferred expenses	(2,610)
Prepaid expenses and deposits	(33,410)
Accounts payable and accruals	(266,893)
Other Payable	739,849
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,143,484</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Acquisition of property, plant and equipment	(143,330)
Construction in Progress	(560,965)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (704,295)</b>

The accompanying notes are in integral part of the financial statements

**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED APRIL 30, 2007**

(Amounts in United States Dollars)

	<b>(Unaudited) (Restated)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	2,439,189
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	326,013
Cash and cash equivalents, beginning of period	1,021,267
Cash and cash equivalents, end of period	\$ 3,786,469
<b>SUPPLEMENTARY CASH FLOW DISCLOSURES</b>	
Interest paid	\$ 45,996
Income taxes paid	\$ —

The accompanying notes are in integral part of the financial statements

**RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 30, 2007**

**1. REORGANIZATION TRANSACTIONS**

On August 11, 2006, the Company performed a one for thirty reverse stock split, rounded up to the nearest whole share.

On September 7, 2006, the Company acquired Harbin Renhuang Pharmaceutical Company Limited, a Corporation incorporated under the laws of the British Virgin Island on January 18, 2006, (the "BVI") including its 100% owned and only subsidiary, Harbin Renhuang Pharmaceutical Co. Ltd., incorporated under the laws of the People's Republic of China on February 15, 2006 ("Renhuang China") in exchange for issuing 29,750,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") to the BVI's stockholders, representing 85% of the Company's capital stock on a fully diluted basis after taking into account the contemplated transaction. This transaction is referred to throughout this report as the "Merger".

The Merger agreement was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 29, 2006. The foregoing description of the Merger and the transactions contemplated thereby do not purport to be complete and are qualified in their entirety to the Merger agreement.

On August 31, 2006, the Company's Board of Directors approved the Merger.

Upon closing of the Merger, BVI became a wholly owned subsidiary of the Company. After giving effect to the Merger and the rounding up of shares after reverse stock split on August 11, 2006, the Company had 35,000,181 common shares issued and outstanding and the former stockholders of BVI own approximately 85% of the issued and outstanding Common Stock of the Company. Accordingly, the Merger represented a change in control of the Company.

On May 1, 2006, principal revenue producing activities in Harbin Renhuang Pharmaceuticals Stock Co., Ltd, the predecessor company, have been transferred to Renhuang China at the carrying amounts of the transferor.

On December 5, 2006, the Company's Board of Directors approved a change in the Company's fiscal year end from April 30 to October 31, effective with the Company's Transitional Report on Form 10-K for the period ended as of October 31, 2006.

For accounting purposes, the Merger has been accounted for as a recapitalization with the Company as the accounting acquiree and the BVI as the accounting acquirer. Upon effectiveness of the Merger, Renhuang China's business plan became the business plan of the Company.

On March 3, 2007, the Company acquired all the assets and assumed a bank loan with accrued interest of Qingyang Extracting Factory, from Zhongfa Industrial Group Yerui Pharmaceutical Co., Ltd. for a total amount of RMB 3.7 million or approximately USD \$480,000. The Company paid USD \$310,000 in cash and assumed a bank loan with China Agriculture Bank in the principal amount of USD \$140,000 and accrued interest of USD \$30,000 collateralized by the acquired assets. The transaction closed on March 3, 2007, and the Company has paid for the cash portion of the consideration USD \$310,000 (RMB 2,415,000). The acquisition price of RMB 3.7 million had been allocated to various assets at their fair market value.



## 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

Renhuang Pharmaceuticals, Inc., (“Renhuang”) or the (“Company”) was incorporated in the State of Nevada on August 18, 1988 as Solutions, Incorporated. Since that time, the Company has undergone a series of name changes as follows: Suarro Communications, Inc., e-Net Corporation, e-Net Financial Corp., e-Net.Com Corporation, e-Net Financial.Com Corporation, Anza Capital, Inc. and finally on July 28, 2006, the Company changed its name to Renhuang Pharmaceuticals, Inc.

On March 3, 2006 the Company discontinued its operations and became a “shell” company.

On September 7, 2006, the Company acquired Harbin Renhuang Pharmaceutical Company Limited, a Corporation incorporated under the laws of the British Virgin Island on January 18, 2006, (the “BVI”) including its 100% owned and only subsidiary, Harbin Renhuang Pharmaceutical Co. Ltd., incorporated under the laws of the People’s Republic of China on February 15, 2006 (“Renhuang China”) in exchange for issuing 29,750,000 shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”) to the BVI’s stockholders, representing 85% of the Company’s capital stock on a fully diluted basis after taking into account the contemplated transaction. This transaction is referred to throughout this report as the “Merger”.

Shares of the Company’s Common Stock are trading on the NASD-Over the Counter (OTC) Bulletin Board Market under the symbol RHGP.

Unless otherwise provided in this current report, all references in this current report to “we”, “us”, “our company”, “our”, or the “Company” refer to the combined Renhuang Pharmaceuticals, Inc. entity.

The subsidiary company Harbin Renhuang Pharmaceuticals Co., Ltd (“the Subsidiary”) was incorporated at 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 extensive sales network covers various provinces, cities, and counties throughout China.

The products are made in the two plant facilities located at Harbin City with specialized machinery under stringent cleanliness and hygienic processes.

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

The economy of PRC differs significantly from the economies of the “western” industrialized nations in such respects as structure, level of development, gross national product, growth rate, capital reinvestment, resource allocation, self-sufficiency, rate of inflation and balance of payments position, among others. Only recently has the PRC government encouraged substantial private economic activities. The Chinese economy has experienced significant growth in the past several years, but such growth has been uneven among various sectors of the economy and geographic regions. Actions by the PRC government to control inflation have significantly restrained economic expansion in the recent past. Similar actions by the PRC government in the future could have a significant adverse effect on economic conditions in PRC.

Many laws and regulations dealing with economic matters in general and foreign investment in particular have been enacted in the PRC. However, the PRC still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic.

The Company's operating assets and primary sources of income and cash flows are of interests in the PRC. The PRC economy has, for many years, been a centrally-planned economy, operating on the basis of annual, five-year and ten-year state plans adopted by central PRC governmental authorities, which set out national production and development targets. The PRC government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. There is no assurance that the PRC government will continue to pursue economic reforms or that there will not be any significant change in its economic or other policies, particularly in the event of any change in the political leadership of, or the political, economic or social conditions in, the PRC. There is no assurance that the Company will not be adversely affected by any such change in governmental policies or any unfavorable change in the political economic or social conditions, the laws or regulations, or the rate or method of taxation in the PRC.

As many of the economic reforms which have been or are being implemented by the PRC government are unprecedented or experimental, they may be subject to adjustment or refinement, which may have adverse effects on the Company. Further, through state plans and other economic and fiscal measures, it remains possible for the PRC government to exert significant influence on the PRC economy.

The Company's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable from customers and other receivables. Cash and cash equivalents are maintained with major banks in the PRC. The company and other public business activity is primarily with customers in the PRC.

Any devaluation of the Renminbi (RMB) against the United States dollar would consequently have adverse effects on the Company's financial performance and asset values when measured in terms of the United States dollar. Should the RMB significantly devalue against the United States dollar, such devaluation could have a material adverse effect on the Company's earnings and the foreign currency equivalent of such earnings. The Company does not hedge its RMB - United States dollar exchange rate exposure.

### **3. BASIS OF PRESENTATION**

The consolidated financial statements are prepared in accordance with generally accepted accounting principles of the United States of America and include the financial statements of the Company and its wholly-owned subsidiary, Harbin Renhuang Pharmaceutical Company Limited and Harbin Renhuang Pharmaceutical Co. Ltd.

These consolidated financial statements should be read in conjunction with annual audited financial statements and the notes thereto included in the Company's annual report on Form 10-KSB, and other reports filed with the SEC.

The accompanying unaudited interim financial statements reflect all adjustments of a normal and recurring nature which are, in the opinion of managements, necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year taken as a whole.



#### **4. 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**

Trade receivables are recognized and carried at the original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. An account is considered past due after ninety (90) days from the invoice date. The allowance on the doubtful accounts was \$624,164 as at April 30, 2007.

##### **C. INVENTORIES**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated on the weighted average basis and includes all costs to acquire and other costs incurred in bringing the inventories to their present location and condition. The Company evaluates the net realizable value of its inventories on a regular basis and records a provision for loss, if material, to reduce the computed weighted average cost if it exceeds the net realizable value.

##### **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 in income in the year of disposition.

The Company recognizes depreciation of its property, plant and equipment on a straight-line basis over the estimated useful lives of the assets based on their costs less 5% residual value. The useful lives for property, plant and equipment are estimated as follows:

Plant and machinery	10 years
Office equipment and furnishings	5 to 10 years
Motor vehicles	5 to 10 years

##### **E. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of financial instruments including cash, accounts receivables, other receivables, accounts payable, other payables and accrued expenses and debts, approximates their fair value at April 30, 2007 due to the relatively short-term nature of these instruments.

##### **F. CONSTRUCTION IN PROGRESS**

Construction in progress represents direct costs of construction or acquisition and design fees incurred. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until it is completed and ready for intended use.



## **G. INCOME TAXES**

The Company accounts for income tax under the provisions of Statements of Financial Accounting Standards No. 109, 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 (WFOE) 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 33%.

Had this tax holiday not been available, income tax expense would have increased by approximately US\$664,474 for the quarter ended April 30, 2007.

## **H. RELATED PARTIES**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## **I. IMPAIRMENT OF LONG-TERM ASSETS**

In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company's policy is to record an impairment loss against the balance of a long-lived asset in the period when it is determined that the carrying amount of the asset may not be recoverable. The determination is based on an evaluation of such factors as the occurrence of a significant event, a significant change in the environment in which the business assets operate or if the expected future non-discounted cash flows of the business was determined to be less than the carrying value of the assets. If impairment is deemed to exist, the assets will be written down to fair value. Management also evaluates events and circumstances to determine whether revised estimates of useful lives are warranted. As of April 30, 2007, management expects its long-lived assets to be fully recoverable.

## **J. FOREIGN CURRENCY TRANSLATION**

Harbin Renhuang Pharmaceuticals Co., Ltd. maintains its books and accounting records in Renminbi ("RMB"), the PRC's currency, being the functional currency.

Foreign currency transactions in RMB are reflected using the temporal method. Under this method, all monetary items are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses if any, are included in the determination of net income (loss) for the period.

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

The 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 could be, converted into US\$ at the rates used in translation. The Foreign exchange rate between the RMB and the United States dollar on April 30, 2007 and the average through January 31, 2007 to April 30, 2007 are:

Balance Sheet- Year end RMB : US\$ exchange rate	7.7055:1
Operating Statement: Average quarterly RMB : US\$ exchange rate	7.7355:1

**K. 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.

**L. REVENUE RECOGNITION**

The Company recognizes revenue when the significant risks and rewards of ownership have transferred pursuant to PRC law, including factors such as when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable, and collectibility is reasonably assured. Renhuang generally recognizes products sales when the product is shipped. In the current period, no returns of any significance have occurred.

The Company provides a rebate to the sales agents as an incentive plan. The rebate rate is setup for each product. When revenue is recognized, the revenue is reduced by the amount of rebate. On average, the rebate rate is 20% of gross revenue.

In accordance with the provisions of Staff Accounting Bulletin No. 104, revenue is recognized when merchandise is shipped, title passes to the customer and collectibility is reasonably assured.

**M. CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of trade accounts receivable. The Company performs ongoing credit evaluations with respect to the financial condition of its creditors, but does not require collateral. In order to determine the value of the Company's accounts receivable, 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 collectibility of outstanding accounts receivable

**N. RESEARCH AND DEVELOPMENT**

Research and development 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. No research and development costs were incurred during this period.

**O. ADVERTISING**

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

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

The Company records its operating costs and expenses generally with the following 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, and loading fees.

Selling Expenses

Selling expenses includes primarily of transportation and freight charges of delivering to customers, travel and entertainment, maintenance, payroll for sales staff, payroll taxes and benefits, advertising and promotion, telephone and utilities, insurance, sales commissions and exports fees.

General and Administrative Expenses

General and administrative expenses includes 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. SEGMENTS**

No business segment analysis is provided for the quarter ended April 30, 2007, as no revenue and no income from operations is attributable to the segment other than sales of pharmaceutical products.

Further, no geographical segment analysis is provided for the quarter ended April 30, 2007, as no revenue and no income from operations is attributable to the segment other than the Mainland China.

**R. 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, taking into account the effect of the potential conversion of warrants into common shares and if the additional common shares were dilutive.

## **S. COMPREHENSIVE INCOME**

The Company has adopted the provisions of Statement of Financial Accounting Standards 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 current period, the only component of other comprehensive income is foreign translation gain of \$326,013, which has been recorded as the accumulative other comprehensive income in the balance sheet. Consequently, the comprehensive income for the quarter and six months ended April 30, 2007 was \$2,178,336 and \$6,771,159, respectively.

## **T. RECENT PRONOUNCEMENTS**

In November 2005, the FASB issued Staff Position ("FSP") FAS115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, which addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, Accounting for Certain Investments in Debt and Equity Securities, and No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. This FSP is effective for reporting periods beginning after March 15, 2005. We do not believe the adoption of this FSP will have a material impact on our financial statements.

In November 2005, the FASB issued FSP FAS123(R)-3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment, or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We do not believe that the adoption of this FSP will have a material impact on our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. These requirements apply to all voluntary changes and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for fiscal years beginning after December 15, 2005. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended October 31, 2007. The Company is currently evaluating the impact of SFAS 154 on its consolidated financial statements.

In February 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 155, “Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statement No. 133 and 140” (“SFAS 155”). SFAS 155 resolves issues addressed in Statement 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended October 31, 2007. The Company is currently evaluating the impact of SFAS 155 on its consolidated financial statements.

In March 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 156, “Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140” (“SFAS 156”). SFAS 156 amends FASB Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practical. SFAS 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended October 31, 2007. The Company is currently evaluating the impact of SFAS 156 on its consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, “Fair Value Measurements.” SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Renhuang is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations or cash flows.

In September 2006, the FASB issued Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS 158”). This Statement enhances disclosure regarding the funded status of an employer’s defined benefit postretirement plan by (a) requiring companies to include the funding status in comprehensive income, (b) recognize transactions and events that affect the funded status in the financial statements in the year in which they occur, and (c) at a measurement date of the employer’s fiscal year-end. Statement No. 158 effective for fiscal years ending after December 15, 2008, and is not expected to apply to the Company.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (“ SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair values. SFAS 159 is effective for fiscal years after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on our financial statements.

## 5. ACCOUNTS RECEIVABLE

The Company's accounts receivable as at April 30, 2007 are summarized as follows:

	April 30, 2007 (Unaudited)	October 31, 2006 (Audited)
Accounts receivable	\$ 12,483,279	\$ 7,566,096
Less: Allowance for doubtful accounts	624,164	
Accounts receivable, net	\$ 11,859,115	\$ 7,566,096

The balance over 10% of the total balance as at April 30, 2007 are made up of \$1,538,412, \$1,276,151 and \$1,207,428, which are accounted for 13%, 11% and 10% of the total balance respectively.

The customers who owed over 10% in value of the total sales as at April 30, 2007 are listed as:

Customer		
A:	\$ 820,176	10%
Customer		
B:	\$ 758,904	10%

## 6. INVENTORIES

The Company's inventories as at April 30, 2007 are summarized as follows:

	April 30, 2007 (Unaudited)	October 31, 2006 (Audited)
Raw materials	\$ 1,208,071	\$ 569,349
Finished goods	144,231	52,795
	\$ 1,352,302	\$ 622,144

Raw material is mainly comprised of Chinese herbs, herbal related ingredients and packing materials, and they were for manufacturing the products such as tablets and drinks.

The Company does not have obsolete inventories as of April 30, 2007 and October 31, 2006.

## 7. PROPERTY, PLANT AND EQUIPMENT

	April 30, 2007 (Unaudited)	October 31, 2006 (Audited)
<b>Cost:-</b>		
Plant and machinery	\$ 2,840,889	\$ 2,718,407
Office equipment and furnishings	13,873	3,966
Motor vehicles	34,893	19,672
	2,889,655	2,742,045
<b>Less: Accumulated depreciation:-</b>		
Plant and machinery	272,729	131,405
Office equipment and furnishings	513	44
Motor vehicles	1,274	311
	274,516	131,760



<b>Net book value</b>	\$	2,615,139	\$	2,610,285
-----------------------	----	-----------	----	-----------

19

---

Depreciation expenses relating to property, plant and equipment were \$70,181 for the quarter ended April 30, 2007, and \$138,475 for the six months ended April 30, 2007.

## 8. CONSTRUCTION IN PROGRESS

The balance of construction in progress of a warehouse is \$667,575 and \$106,610 as at April 30, 2007 and October 31, 2006 respectively. Pursuant to the contract, the project was supposed to be complete by October, 2006, however, due to severe weather conditions, the completion date of the above project has been delayed.

The increase in the CIP of \$467,199 (RMB 3.6 million) related to the assets purchase from Qing Yang Extracting Factory, which closed on March 3, 2007. These assets have not been utilized as further construction is to be completed at the end of 2007.

## 9. DEFERRED EXPENSES

The deferred expenses are related to the cost of fund raising, which is disclosed in Note 17 subsequent event.

## 10. ACCOUNTS PAYABLES AND ACCRUALS

The balances over 10% of the total balance as at April 30, 2007 are made up of \$94,872, and \$67,225, which are accounted for 18% and 13% of the total balance respectively.

The balance as at October 31, 2006 includes \$419,901 payable to a related party on the purchase of plant raw materials, which accounted for 66% of the total payable balance. Another account payable balance over 10% is \$93,664, or 15% of the total payable balance.

The suppliers from whom the purchased amount is over 10% of the total purchase for the three months ended April 30, 2007 are listed as:

Supplier A:	\$ 495,254	30%
Supplier B:	\$ 231,909	14%
Supplier C:	\$ 209,166	13%
Supplier D:	\$ 166,244	10%

## 11. OTHER PAYABLES

The balance as at April 30, 2007 includes professional fee payable \$307,500, sales rebate payable of \$2,024,264, payroll payable of \$35,000, VAT payable of \$52,177, social insurance payable of \$182,380, and accrual of employee training for \$15,570.

As at October 31, 2006, the balance includes sales, rebate payable of \$1,031,101, VAT payable of \$419,121, professional fee payable of \$302,500 and payroll payable of \$124,320

## 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 years of 2006 and 2007, the Company was granted tax holiday and concession and is entitled to full exemption from corporation income taxes up to December 2007. From 2008 onwards, the Company also receives a special

income tax rate of 15% as it is wholly foreign owned company where there is tax exemption for certain enterprises.

20

---

**13. RESERVES**

The reserve funds at April 30, 2007 are comprised of the following:

	April 30, 2007 (Unaudited)	October 31, 2006 (Audited)
Statutory surplus reserve fund	\$ 1,308,539	\$ 564,756
Public welfare fund	654,269	282,377
	\$ 1,962,808	\$ 847,133

Pursuant to the relevant laws and regulations of the PRC, the profits of the Company, which are based on their PRC statutory financial statements, are available for distribution in the form of cash dividends after they have satisfied all the PRC tax liabilities, provided for losses of previous years, and made appropriations to reserve funds, as determined by the Board of Directors in accordance with the PRC accounting standards and regulations.

As stipulated by the relevant laws and regulations for enterprises operating in the PRC, companies are required to make annual appropriations to two reserve funds, consisting of the statutory surplus and public welfare funds. In accordance with the relevant PRC regulations and the articles of association of the respective companies, the companies are required to allocate a percentage of their profits after taxation, as determined in accordance with the PRC accounting standards applicable to the companies, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the companies.

Net income as reported in the US GAAP financial statements differs from that as reported in the PRC statutory financial statements. In accordance with the relevant laws and regulations in the PRC, the profits available for distribution are based on the statutory financial statements. If the Company has foreign currency available after meeting its operational needs, it may make its profit distributions in foreign currency to the extent foreign currency is available. Otherwise, it is necessary to obtain approval and convert such distributions at an authorized bank.

**14. WARRANTS**

At April 30, 2007 (Unaudited), the following table summarizes the changes in warrants outstanding and the related prices for the shares of the company's common stock issued to non-employees of the company. These warrants were granted in lieu of cash for compensation for services performed of a newly appointed director.

Warrants Outstanding			Warrants Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (years)
\$ 3.02	15,000	2.96	\$ 3.02	15,000	2.96

Transactions involving warrants are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at October 31, 2006	0	0
Granted	15,000	\$ 3.02
Exercised	—	—
Cancelled or expired	—	—
Outstanding at April 30, 2007	15,000	\$ 3.02

The estimated value of the compensatory warrants granted to Director in exchange for services was determined using the Black-Scholes pricing model and the following assumptions:

	2007
Significant assumptions (weighted-average)	
Risk-free interest rate at grant date	4.74%
Expected stock price volatility	70.83%
Expected dividend payout	—
Expected option life-years (a)	3

The Company entered into a Director appointment agreement with Mr. Magnus Moliteus dated April 16, 2007, pursuant to which the Company issued Mr. Magnus Moliteus 15,000 warrants, which terminates on April 16, 2010, to purchase 15,000 shares of Renhuang's common stock at \$3.02 per share. The Company valued the warrants using the Black-Scholes calculation model, and the warrants were deemed to have a combined value of \$22,442. This amount was charged to expense on the Company's financial statements for the three months ending April 30, 2007 (Unaudited)

## 15. RELATED PARTY TRANSACTIONS

The Company had the following significant related party transactions during the period:

- n Machinery and equipment of \$2,700,062 was transferred from Harbin Renhuang Pharmaceutical Stock Co. Ltd., with which the Company is under the common control, as part of the paid - in capital of the Company. The machinery and equipment were transferred at the carrying amounts of the transferor.
- n The Company rented property and plant from its Predecessor Harbin Renhuang Pharmaceutical Stock Co. Ltd. The lease term is from May 1, 2006 to April 30, 2007, with monthly rental payment of \$44,722. The rental is fair value as appraised by a third party property company.

## 16. COMMITMENTS AND CONTINGENCIES

### A. CAPITAL AND LEASE COMMITMENTS

As of April 30, 2007, the Company has the following significant capital and lease commitments outstanding:

The Company rented property and plant from Hei Long Jiang Jiu San You Zhi Co., Ltd. The lease term is from May 1, 2007 to April 30, 2010, with total rental payment \$328,337.



	April 30, 2007 (Unaudited)
within 1 year	\$ 105,119
1-2 years	111,609
2 -3 years	111,609
Total	\$ 328,337

## B. LEGAL PROCEEDINGS

The Company is not currently involved in any litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of the Company.

## 17. CURRENT 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.

## 18. SUBSEQUENT EVENT

As further described in Note 1, Renhuang Pharmaceuticals, Inc., consummated a Reverse Merger on September 7, 2006. As a continuation thereof, the Company is currently in negotiations with various investors regarding financing and it is anticipated that the Company will consummate a finance transaction with one or more of them in the near future.

Pursuant to the appointment agreement discussed in Note 14, besides the 15,000 warrants issued upon acceptance to the newly appointed director as compensation, each July 31, commencing 2007, the Company issues additional 10,000 warrants to the Director to acquire 10,000 shares of common stock exercisable for three (3) years, at an exercise price equal to the fair market value of Renhuang's stock as of the date of grant and \$10,000.

## 19. RESTATEMENT

The Company has restated its previously issued consolidated financial statements for the quarter ended January 31, 2007 and for the quarter ended April 30, 2007. During the review for the quarter ended July 31, 2007, the Company discovered an accounting error occurring in the filed financial statements for the quarter ended January 31, 2007 and for the quarter ended April 30, 2007. Certain amounts of sales rebate payable were not accrued from sales.

The following table summarizes the impact of the restatement adjustments on the consolidated balance sheet as of April 30, 2007:

	As Previously Reported	As of April 30, 2007 Total Adjustments	As Restated
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 3,786,469		\$ 3,786,469
Trade receivables, net (Note 5)	11,859,115		11,859,115
Inventories (Note 6)	1,352,302		1,352,302
Prepaid expenses and deposits	135,883		135,883
Other receivables	20,172		20,172
Deferred expenses (Note 9)	118,434		118,434
<b>TOTAL CURRENT ASSETS</b>	<b>17,272,375</b>		<b>17,272,375</b>
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,615,139		2,615,139
CONSTRUCTION IN PROGRESS (Note 8)	667,575		667,575
<b>TOTAL ASSETS</b>	<b>\$ 20,555,089</b>		<b>\$ 20,555,089</b>
<b>CURRENT LIABILITIES</b>			
Accounts payables and accruals (Note 10)			
- due to related parties	\$ -		\$ -
- due to third parties	519,822		519,822
Total accounts payables and accruals	519,822		519,822
Other payables (Note 11)	891,257	1,725,634	2,616,891
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,411,079</b>		<b>3,136,713</b>
<b>TOTAL LIABILITIES</b>	<b>1,411,079</b>	<b>1,725,634</b>	<b>3,136,713</b>
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock - Authorized common shares 100,000,000, outstanding number of shares 35,000,181 at par value of 0.001, authorized preferred shares 2,500,000	35,000		35,000
Additional paid in capital	6,333,264		6,333,264
Reserves	1,962,808		1,962,808
Retained earnings	10,420,513	(1,712,961)	8,707,552
Accumulated other comprehensive income	392,425	(12,673)	379,752
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>19,144,010</b>	<b>(1,725,634)</b>	<b>17,418,376</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 20,555,089</b>		<b>\$ 20,555,089</b>



The following table summarizes the impact of the restatement adjustments on the consolidated statement of operations for the three months and six months ended April 30, 2007:

	Three Months Ended April 30, 2007			Six Months Ended April 30, 2007		
	As Previously Reported	Total Adjustments	As Restated	As Previously Reported	Total Adjustments	As Restated
SALES	\$ 6,964,700	\$ (649,368)	\$ 6,315,332	\$ 17,532,286	\$ (1,712,961)	\$ 15,819,325
COST OF SALES	(3,120,081)		(3,120,081)	(7,693,017)		(7,693,017)
GROSS PROFIT	3,844,619	(649,368)	3,195,251	9,839,269	(1,712,961)	8,126,308
SELLING AND DISTRIBUTION EXPENSES	(16,871)		(16,871)	(122,446)		(122,446)
ADVERTISING EXPENSE	(163,532)		(163,532)	(172,681)		(172,681)
GENERAL AND ADMINISTRATIVE EXPENSES	(369,728)		(369,728)	(636,504)		(636,504)
PROVISION FOR DOUBTFUL ACCOUNTS	(568,113)		(568,113)	(621,122)		(621,122)
DEPRECIATION AND AMORTIZATION	(70,181)		(70,181)	(138,475)		(138,475)
INCOME FROM OPERATIONS	2,656,194	(649,368)	2,006,826	8,148,041	(1,712,961)	6,435,080
OTHER INCOME	6,732		6,732	10,066		10,066
INCOME BEFORE INCOME TAXES	2,662,926	(649,368)	2,013,558	8,158,107	(1,712,961)	6,445,146
INCOME TAXES	—		—	—		—
NET INCOME	\$ 2,662,926	(649,368)	\$ 2,013,558	\$ 8,158,107	(1,712,961)	\$ 6,445,146
BASIC EARNINGS PER SHARE	0.076	(0.019)	0.058	0.233	(0.049)	0.184
DILUTED EARNING PER SHARE	0.076	(0.019)	0.058	0.233	(0.049)	0.184

The following table summarizes the impact of the restatement adjustments on the consolidated statement of cash flows for the six months ended April 30, 2007:

	Six Months Ended April 30, 2007		
	As Previously Reported	Total Adjustments	As Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 8,158,107	\$ (1,712,961)	\$ 6,445,146
Adjustments to reconcile net income to net cash from operating activities :			
Depreciation and amortization	138,475		138,475
Fair Value of Warrants Issued	22,442		22,442
Changes in operating assets and liabilities:			
Trade receivables, net	(4,293,019)		(4,293,019)
Inventories	(730,158)		(730,158)
Other receivables, net	1,123,662		1,123,662
Deferred expenses	(2,610)		(2,610)
Prepaid expenses and deposits	(33,410)		(33,410)
Accounts payable and accruals	(266,893)		(266,893)
Other Payable	(985,785)	1,725,634	789,849
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,130,811</b>	<b>12,673</b>	<b>3,143,484</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property, plant and equipment	(143,330)		(143,330)
Construction in Progress	(560,965)		(560,965)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (704,295)</b>		<b>\$ (704,295)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>			
	2,426,516	12,673	2,439,189
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	338,686	(12,673)	326,013
Cash and cash equivalents, beginning of period	1,021,267		1,021,267
Cash and cash equivalents, end of period	\$ 3,786,469		\$ 3,786,469

## 20. COMPARATIVE FINANCIAL INFORMATION

As discussed in Note 1- reorganization transactions, the Company acquired Harbin Renhuang Pharmaceutical Company Limited and its wholly owned subsidiary, Harbin Renhuang Pharmaceutical Co., Ltd.

The comparative numbers are results of operations of Harbin Renhuang Pharmaceutical Stock Co. Ltd. for the three months and six months ended April 30, 2006.

**HARBIN RENHUANG PHARMACEUTICAL STOCK CO., LTD  
(INCORPORATED IN THE PRC)**

**BALANCE SHEETS  
AS OF APRIL 30, 2006  
(Amounts in United States Dollars)**

**ASSETS**

	<b>April 30, 2006 (Unaudited)</b>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 2,225,895
Trade receivables, net	5,383,233
Inventories	2,402,320
Prepayments	949,225
Other receivables, net	494,202
Due from related parties, net	278,050
Due from a director	1,157,668
Deferred expenses	694,211
<b>TOTAL CURRENT ASSETS</b>	<b>13,584,804</b>
<b>LAND USE RIGHTS</b>	<b>138,509</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>10,465,187</b>
<b>TOTAL ASSETS</b>	<b>\$ 24,188,500</b>

**HARBIN RENHUANG PHARMACEUTICAL STOCK CO., LTD**  
**(INCORPORATED IN THE PRC)**

**BALANCE SHEETS**  
**AS OF APRIL 30, 2006**

(Amounts in United States Dollars)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<b>April 30, 2006 (Unaudited)</b>
<b>CURRENT LIABILITIES</b>	
Accounts payables and accruals	\$ 1,332,885
Advance from customers	374,734
Bank loans	1,996,531
Other payables	4,678,858
Due to a director	997,853
<b>TOTAL current LIABILITIES</b>	<b>9,380,861</b>
<b>NON-CURRENT LIABILITIES</b>	
Long-term bank loan	3,743,496
<b>TOTAL LIABILITIES</b>	<b>13,124,357</b>
<b>STOCKHOLDERS' EQUITY</b>	
Registered capital	9,665,922
Reserves	1,245,374
Retained earnings (Deficit)	(137,608)
Accumulated other comprehensive income	290,455
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>11,064,143</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 24,188,500</b>

**HARBIN RENHUANG PHARMACEUTICAL STOCK CO., LTD**  
**(INCORPORATED IN THE PRC)**

**STATEMENT OF INCOME**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED APRIL 30, 2006**

(Amounts in United States Dollars)

	Three Months Ended April 30, 2006 (Unaudited)	Six Months Ended April 30, 2006 (Unaudited)
SALES	\$ 7,026,237	16,427,921
COST OF SALES	(3,921,041)	(8,863,227)
GROSS PROFIT	3,105,196	7,564,694
SELLING AND DISTRIBUTION EXPENSES	(469,292)	(577,370)
ADVERTISING	(963,479)	(2,917,988)
GENERAL AND ADMINISTRATIVE EXPENSES	(1,057,561)	(1,632,290)
RESEARCH AND DEVELOPMENT	(103,926)	(817,547)
AMORTIZATION AND DEPRECIATION	(183,150)	(328,051)
PROVISION FOR DOUBTFUL ACCOUNTS	(622,618)	(622,618)
INCOME/(LOSS) FROM OPERATIONS	(294,830)	668,830
FINANCE COST	(303,099)	(359,465)
OTHER EXPENSE	(11,548)	(6,781)
GOVERNMENT GRANT	1,022	155,316
INCOME/(LOSS) BEFORE INCOME TAXES	(608,455)	457,900
INCOME TAXES	—	—
NET INCOME/(LOSS)	\$ (608,455)	457,900

**HARBIN RENHUANG PHARMACEUTICAL STOCK CO., LTD**  
**(INCORPORATED IN THE PRC)**

**STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED APRIL 30, 2006**  
**(Amounts in United States Dollars)**

(Unaudited)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 457,900
Adjustments to reconcile net income to net cash from operating activities :	
Depreciation and amortization	328,051
Changes in operating assets and liabilities:	
Trade receivables, net	(1,327,585)
Inventories	1,111,003
Prepayments	(506,399)
Other receivables, net	(116,993)
Deferred expenses	(694,211)
Advances from customers	228,219
Accounts payable and accruals	(180,641)
Other payables	203,108
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(497,548)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisition of property, plant and equipment	(1,876,244)
Disposition of property, plant and equipment	2,739,663
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 863,419</b>

**HARBIN RENHUANG PHARMACEUTICAL STOCK CO., LTD  
(INCORPORATED IN THE PRC)**

**STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED APRIL 30, 2006  
(Amounts in United States Dollars)**

**(Unaudited)**

<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Repayment of bank loans, net	(482,398)
Due to a director	(916,165)
Due to related parties	(278,050)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(1,676,613)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,310,742)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	97,235
Cash and cash equivalents, beginning of period	3,439,402
Cash and cash equivalents, end of period	\$ 2,225,895
<b>SUPPLEMENTARY CASH FLOW DISCLOSURES</b>	
Interest paid	\$ 245,145
Income taxes paid	\$ —

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

### **Overview**

The following discussion of the financial condition and results of operation of Renhuang Pharmaceuticals, Inc. should be read in conjunction with the financial statements and the notes to those statements included in this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements that involve risk and uncertainties. As a result of many factors, actual results may differ materially from those anticipated in the forward-looking statements.

As of March 3, 2006 we discontinued our previous operations as a company specializing in the providing of home financing through the brokerage of residential home loans. On September 7, 2006, we acquired 100% of the issued and outstanding shares of Harbin Renhuang Pharmaceutical Company Limited, a corporation incorporated under the laws of the British Virgin Islands, (“BVI”), whose only assets are 100% of Harbin Renhuang Pharmaceutical Co. Ltd., incorporated under the laws of the People’s Republic of China (“Renhuang China”) mainly focused on the research, production and sales of traditional Chinese and Western medical and bio-pharmaceutical products in China.

On May 1, 2006, Harbin Renhuang Pharmaceutical Stock Co. Ltd., (“Old Renhuang”) transferred the majority of its operating assets to Renhuang China, with the exception of the buildings Old Renhuang owns (including where we rent our office space and production facilities), and Old Renhuang’s account receivables, inventories and other assets with zero or insignificant value. The principal business activities of Renhuang remained unchanged. On March 3, 2006, Renhuang Medicine for Animals Co. Ltd. a company controlled by our President and Chief Executive Officer, Mr. Li Shaoming, invested 25 million RMB (about US \$3.3 million) in cash in Renhuang China.

Our pharmaceutical products are distributed through more than 60 sales offices with more than 2,000 commission-based sales people. Upon the effectiveness of the Merger, we adopted the business of Renhuang China, which we have continued as our sole line of business.

Upon closing of the Merger, BVI and its subsidiary Renhuang China became our wholly owned subsidiaries. The Former stockholders of BVI own approximately 85% of our issued and outstanding common stock.

Since we will operate Renhuang China as our sole line of business, the analysis of the pro forma financial statements for the three months and six months ended on April 30, 2006 is the operation of Harbin Renhuang Pharmaceutical Co, Ltd. (Renhuang China).

### **Reverse Merger**

Our acquisition of the BVI company and its subsidiary Renhuang China was accounted for as a reverse merger, because, after giving effect to the share exchanges, the former stockholders of BVI hold a majority of our outstanding common stock on a voting and fully diluted basis. As a result of the share exchanges, Renhuang was deemed to be the acquirer for accounting purposes. Accordingly, the financial statements presented are those of Renhuang China for all periods prior to our acquisition of the BVI company on September 7, 2006, and the financial statements of the consolidated companies from the acquisition date forward.



## **Change in Fiscal Year**

On December 5, 2006, our Board of Directors approved the change of our fiscal year end from April 30 to October 31. As a result we filed a Transitional Report for the six months ended October 31, 2006 on Form 10-K. For Old Renhuang's three month comparative numbers for the same period in 2006, see Note 18 to the financial statements filed attached hereto. For our numbers from the same period one year ago (when we were Anza Capital, Inc.) please see our Quarterly Report on Form 10-Q for the three months ended April 30, 2006.

Since the change in our fiscal year occurred in conjunction with our shift from a shell company to a company specializing in the research, production and sales of traditional Chinese and Western medical and bio-pharmaceutical products in China our previous operations are not relevant to our current operations and our previous operations are covered in our previous Quarterly Reports on Form 10-Q, therefore, this discussion focuses on the three month and six months ended April 30, 2007 and a comparison the Old Renhuang's financial statements for the same period in 2006 (see Note 18 to the attached financial statements for Old Renhuang's unaudited financial statements for the three months and six months ended April 30, 2006).

## **Assets Acquisition**

On March 3, 2007, the Company acquired all the assets and assumed a bank loan with accrued interest of Qingyang Extracting Factory, from Zhongfa Industrial Group Yerui Pharmaceutical Co., Ltd. for a total amount of RMB 3.7 million or approximately USD \$480,000. The assets acquired included inventories, customer purchase orders, accounts receivables, corporate name, patents, trademarks, equipment, customer lists and records and other assets that are used or held for use in connection with Business of Qingyang Extracting Factory. The Company paid USD \$310,000 in cash and assumed a bank loan with China Agriculture Bank in the principal amount of USD \$140,000 and accrued interest of USD \$30,000 collateralized by the acquired assets. The transaction closed on March 3, 2007, and the Company has paid for the cash portion of the consideration USD \$310,000 (RMB 2,415,000).

## **Three Months Ended April 30, 2007 Compared to Three Months Ended April 30, 2006**

### **Introduction**

For the three months ended April 30, 2007, we generated \$6,315,332 in revenues on cost of sales of \$3,120,081. With these revenues and cost of sales for the three months ended April 30, 2007, we had a net income from operations and a net income attributable to shareholders of \$2,013,558. As noted above, we acquired the majority of our current operations from Old Renhuang. For the three months ended April 30, 2006, Old Renhuang had revenues of \$7,026,237, on cost of sales of \$3,921,041. With these revenues and costs of sales Old Renhuang had a net loss of \$608,455.

**Revenues, Expenses and Profit from Operations**

	<b>Three Months Ended April 30, 2007</b>	<b>Three Months Ended April 30, 2006 (Old Renhuang))</b>
Revenue	\$ 6,315,332	\$ 7,026,237
Cost of Sales	(3,120,081)	(3,921,041)
Selling and Distribution Expenses	(16,871)	(469,292)
Advertising Expenses	(163,532)	(963,479)
General and Administrative Expenses	(369,728)	(1,057,561)
Research and Development	—	(103,926)
Provision for doubtful Accounts	(568,113)	(622,618)
Depreciation and Amortization	(70,181)	(183,150)
Finance Cost	—	(303,099)
Government Grant	—	1,022
Other Income/(Expenses)	6,732	(11,548)
Net Income	\$ 2,013,558	\$ (608,455)

*Revenues*

Our revenues of \$6,315,332 decreased by 10% when compared to Old Renhuang's revenues from the same period one year ago of \$7,026,237. Our revenues for the three months ended April 30, 2007 consisted primarily of sales of the following products: Acanthopanax products, Shark Power Health Care products, and other Chinese traditional medical products. The value percentage on the sales of those products are 50%, 19% and 31%, respectively.

*Cost of Sales*

Our cost of sales for the three months ended April 30, 2007 were \$3,120,081, representing 49% of revenue and consisted primarily of raw material, labor and production costs, compared to Old Renhuang's cost of sales for the same period one year ago of \$3,921,041, representing approximately 56% of sales in that period. The improvement of the percentage of cost to revenue is due to the economy of scales resulted from the growth of the production and sales. Costs allocated to the aforementioned products, Acanthopanax products, Shark Power Health Care products, and other Chinese traditional medical products are 51%, 14% and 35% respectively.

*Selling and Distribution Expenses*

Our selling and distribution expenses are those expenses we have related to the actual sales of our products and the costs we incur in distributing those products. For the three-month period ended April 30, 2007, our selling and distribution expenses were \$16,871, decreased by \$452,421 or 96% from Old Renhuang's selling and distribution expenses of \$469,292, for the same period one year ago largely due to lower traveling expense with improved management of marketing channels.

*Advertising Expenses*

For the three months ended April 30, 2007, we had advertising expenses of \$163,532. These advertising expenses were primarily related to the advertising of Acanthopanax. Old Renhuang's advertising expenses were \$963,479 for the same period one year ago. This significant decrease was due to the fact Old Renhuang had a more aggressive advertising strategy a year ago in order to increase name recognition in the South of China.

*General and Administrative Expenses*

Our general and administrative expenses were \$369,728 for the three-month period ended April 30, 2007, compared to \$1,057,561 during the same period one year ago for Old Renhuang. The decrease is due mainly to the decrease of inventory obsolescence as a result of more efficient inventory management. Of our current \$369,728 general and administrative expenses, the primary expenses were as follows: \$97,521 for payroll, and \$86,272 for professional fee, and \$49,086 for accrual of social insurance.

*Research and Development*

For the three months ended April 30, 2007, we spent \$0 on research and development compared to \$103,926 for Old Renhuang during the same period one year ago. Our research and development expenses were less when compared to Old Renhuang during the same period one year ago because the majority of the costs related to R&D activities are upfront one time payments paid to universities and research institutions, and thus, R&D expenses were incurred and recorded by Old Renhuang. For the current period the Company does not have new significant R&D projects.

*Depreciation and Amortization*

We had depreciation and amortization expenses of \$70,181 for the three months from February 1 to April 30, 2007, which related to property, plant and equipment. This is compared to \$183,150 for Old Renhuang for the same period one year ago, which included depreciation on buildings that were not transferred to the Company.

*Provision for Doubtful Accounts*

Provision for doubtful accounts for the three months ended April 30, 2007 was \$568,113, comparable to \$622,618 for the same period last year, with a slight drop of \$54,505 or 9%. The comparability of the two periods was consistent with the comparability of revenue between the two periods.

*Finance Cost*

Finance cost was zero for the three months ended April 30, 2007, dropped significantly from \$303,099 for the same period last year, as the Company did not acquire any debt from the old Renhuang upon the reconstruction as described in Note 1 to the financial statements for Quarter 2, 2007.

*Net Income (Loss) from Operations*

Our net income for the three months ended April 30, 2007, was \$2,013,558, while Old Renhuang incurred a net loss during the same period one year ago. This significant improvement in net income over Old Renhuang for the same period one year ago is primarily due to significant decreases in cost of sales and various expenses.

**Six Months Ended April 30, 2007 Compared to Six Months Ended April 30, 2006****Introduction**

For the six months ended April 30, 2007, we generated \$15,819,325 in revenues on cost of sales of \$7,693,017. With these revenues and cost of sales for the three months ended April 30, 2007, we had a net income from operations and a net income attributable to shareholders of \$6,445,146. As noted above, we acquired the majority of our current operations from Old Renhuang. For the six months ended April 30, 2006, Old Renhuang had revenues of \$16,427,921, on cost of sales of \$8,863,227. With these revenues and costs of sales Old Renhuang had a net income of \$457,900.

**Revenues, Expenses and Profit from Operations**

	<b>Six Months Ended April 30, 2007</b>	<b>Six Months Ended April 30, 2006 (Old Renhuang)</b>
Revenue	\$ 15,819,325	\$ 16,427,921
Cost of Sales	(7,693,017))	(8,863,227)
Selling and Distribution Expenses	(122,446)	(577,370)
Advertising Expenses	(172,681)	(2,917,988)
General and Administrative Expenses	(636,504)	(1,632,290)
Research and Development	—	(817,547)
Provision for doubtful Accounts	(621,122)	(622,618)
Depreciation and Amortization	(138,475)	(328,051)
Finance Cost	—	(359,465)
Government Grant	—	155,316
Other Income/(Expenses)	10,066	(6,781)
Net Income	\$ 6,445,146	\$ (457,900)

*Revenues*

Our revenues of \$15,819,325 decreased by 0.6 million or 3.7% when compared to Old Renhuang's revenues from the same period one year ago of \$16,427,921. Our revenues for the six months ended April 30, 2007 consisted primarily of sales of the following products: Acanthopanax products, Shark Power Health Care products, and other Chinese traditional medical products.

*Cost of Sales*

Our cost of sales for the six months ended April 30, 2007, were \$7,693,017, representing 49% of revenue and consisted primarily of raw material, labor and production costs, compared to Old Renhuang's cost of sales for the same period one year ago of \$8,863,227, representing approximately 54% of sales in that period. The improvement of the percentage of cost to revenue is due to the economy of scales resulted from the growth of the production and sales.

*Selling and Distribution Expenses*

Our selling and distribution expenses are those expenses we have related to the actual sales of our products and the costs we incur in distributing those products. For the six-month period ended April 30, 2007, our selling and distribution expenses were \$122,446, decreased by \$454,924 or 79% from Old Renhuang's selling and distribution expenses of \$577,370, for the same period one year ago largely due to lower traveling expense with improved management of marketing channels.

*Advertising Expenses*

For the six months ended April 30, 2007, we had advertising expenses of \$172,681. These advertising expenses were primarily related to the advertising of Acanthopanax. Old Renhuang's advertising expenses were \$2,917,988 for the same period one year ago. This significant decrease was due to the fact Old Renhuang had a more aggressive advertising strategy a year ago in order to increase name recognition in the South of China.

*General and Administrative Expenses*

Our general and administrative expenses were \$636,504 for the six-month period ended April 30, 2007, compared to \$1,632,290 during the same period one year ago for Old Renhuang, largely due to the decrease of inventory obsolescence, traveling expense and office expense

*Research and Development*

For the six months ended April 30, 2007, we spent \$0 on research and development compared to \$817,547 for Old Renhuang during the same period one year ago. Our research and development expenses were less when compared to Old Renhuang during the same period one year ago because the majority of the costs related to R&D activities are upfront one time payments paid to universities and research institutions, and thus, R&D expenses were incurred and recorded by Old Renhuang. For the current period the Company does not have new significant R&D projects.

*Provision for Doubtful Accounts*

Provision for doubtful accounts for the six months ended April 30, 2007 was \$621,122, comparable to \$ 622,618 for the same period last year. The comparability of the two periods was consistent with the comparability of revenue between the two periods.

*Depreciation and Amortization*

We had depreciation and amortization expenses of \$138,475 for the six months from November 1, 2006 to April 30, 2007, which related to property, plant and equipment. This is compared to \$328,051 for Old Renhuang for the same period one year ago, which included depreciation on buildings that were not transferred to the Company.

*Finance Cost*

Finance cost was zero for the six months ended April 30, 2007, dropped significantly from \$359,465 for the same period last year because the Company did not acquire any debt from the old Renhuang upon the reconstruction as described in Note 1 to the financial statements for Quarter 2, 2007.

*Government Grant*

Government grant was 0 for the six months ended April 30, 2007, compared to \$155,316 for the six months ended April 30, 2006. The Government Grant for the six months ended April 30, 2006 was related to the new products research development and production. There were no new products in the six months ended April 30, 2007.

*Net Income (Loss) from Operations*

Our net income for the six months ended April 30, 2007, was \$6,445,146, which increased by over 1308% when compared to \$457,900 for Old Renhuang for the same period one year ago. This significant improvement in net income over Old Renhuang for the same period one year ago is primarily due to significant decreases in cost of sales and various expenses.

*Liquidity and Capital Resources***Introduction**

Our cash, current assets, total assets, current liabilities, and total liabilities as of April 30, 2007 and 2006 (Old Renhuang), respectively, are as follows:

	April 30, 2007	April 30, 2006 (Old Renhuang)
Cash and Cash Equivalents	\$ 3,786,469	\$ 2,225,895
Total Current Assets	17,272,375	13,584,804
Total Assets	20,555,089	24,188,500
Total Current Liabilities	3,136,713	9,380,861
Total Liabilities	\$ 3,136,713	\$ 13,124,357

**Sources and Uses of Cash***Operations*

Net cash generated from operating activities was \$3,143,984 for the six months ended April 30, 2007, compared to net cash used in operating activities of \$(497,548) for Old Renhuang for the six months ended April 30, 2006. Our net cash used in operating activities for the current six month period was primarily \$(4,293,019) in net accounts receivables, \$(730,158) in inventories, \$1,123,662 from reduction of other net receivables, (\$266,893) in total accounts payable and accruals, and \$739,849 from other payables.

*Investments*

Net cash used in investing activities was \$704,295 for the six months ended April 30, 2007, compared to \$863,419 for Old Renhuang for the same period one year ago. For the six months ended April 30, 2007, our cash used in investing activities related to the acquisition of property, plant and equipment in the amount of \$(143,330) and construction in progress in the amount of \$(560,965).

*Financing*

Net cash from financing activities was \$0 for the six months ended April 30, 2007, compared to net cash used in financing activities in the amount of \$(1,676,613) for Old Renhuang for the six months ended April 30, 2006. The contributors to the cash used in financing activities during six months ended April 30, 2006 included repayment of bank loans for \$(482,398), payable to related parties of \$(278,050), and payable to a director of \$(916,165).

Debt Instruments, Guarantees, and Related Covenants

The Company does not have any long term debt and short term debt, and has not entered into any guarantee arrangements or other related covenants.

**Critical Accounting Policies**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain 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 revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are located in the notes to the financial statements which are an integral component of this filing.

**Off-balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Contractual Obligations**

	Total	Payments due by period			
		1 Year	1-2 Years	2-3 Years	3-5 Years
<b>Obligations</b>					
Long-Term Debt Obligations	-0-	-0-	-0-	-0-	-0-
Capital Lease Obligations	-0-	-0-	-0-	-0-	-0-
Operating Lease Obligations	\$ 328,337	\$ 105,119	\$ 111,609	\$ 111,609	-0-
Purchase Obligations	-0-	-0-	-0-	-0-	-0-
Other Long-Term Liabilities	-0-	-0-	-0-	-0-	-0-
<b>Total Contractual Obligations</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

The lease obligation was pursuant to a lease of office space from a third party. The lease was classified as operational lease in accordance with GAAP.

**ITEM 3 Quantitative and Qualitative Disclosures About Market Risk**

Our primary operations are located in China. As a result we are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to certain sales and product purchases. We are also exposed to foreign currency gains and losses resulting from domestic transactions that are not denominated in U.S. dollars, and to fluctuations in interest rates related to our variable rate debt. Furthermore, we are exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in our consolidated financial statements due to the translation of the operating results and financial position.





Our primary financial instruments are cash in banks and money market instruments. We do not believe that these instruments are subject to material potential near-term losses in future earnings from reasonably possible near-term changes in market rates or prices. We do not have derivative financial instruments for speculative or trading purposes. We are not currently exposed to any material currency exchange risk.

#### **ITEM 4**

#### **Controls and Procedures**

We conducted an evaluation, with the participation of our Chief Executive Officer of the effectiveness of the design and operation 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, or the Exchange Act, as of April 30, 2007, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer have concluded that as of April 30, 2007, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following three material weaknesses which have caused management to conclude that, as of April 30, 2007, our disclosure controls and procedures were not effective at the reasonable assurance level:

We were unable to meet our requirements to timely file our Transitional Report on Form 10-K for the six months ended October 31, 2006. Management evaluated the impact of our inability to timely file periodic reports with the Securities and Exchange Commission on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in the inability to timely make these filings represented a material weakness.

We did not maintain a sufficient complement of finance and accounting personnel with adequate depth and skill in the application of generally accepted accounting principles. In addition, we did not maintain a sufficient complement of finance and accounting personnel to handle the matters necessary to timely file our Transitional Report Form 10-K for the six months ended October 31, 2006. Management evaluated the impact of our lack of sufficient finance and accounting personnel on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in our lack of sufficient personnel represented a material weakness.

During management's review of our financial statements for the period ended July 31, 2007, our management became aware that our previously reported unaudited consolidated financial statements filed with our originally-filed Quarterly Report on Form 10-Q for the period ended April 30, 2007, did not properly accrue certain sales rebate payables. The consolidated financial statements properly recorded revenues from its sales, but did not properly account for certain rebates some of its customers were entitled to receive after the sales. As a result, we have filed this amended filing to restate our consolidated financial statements for this period. The restated consolidated financial statements show an increase in our current liabilities and a decrease in our sales and net income. Based on management's review of this error, management concluded this error was caused by our failure to maintain a sufficient

complement of finance and accounting personnel with adequate depth and skill in the application of generally accepted accounting principles. Management evaluated the impact of our failure to properly detect this error on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in our failure to detect this error in the review of our quarterly financial statements represented a material weakness.

To address these material weaknesses, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

*Remediation of Material Weaknesses*

To remediate the material weaknesses in our disclosure controls and procedures identified above, subsequent to October 31, 2006, in addition to working with our independent auditors, we accepted the resignation of our Chief Financial Officer on January 25, 2007, appointed an interim Chief Financial Officer that is familiar with our operations and generally accepted accounting principals, and we are conducting a search for new permanent Chief Financial Officer. In conjunction with the hiring of a new Chief Financial Officer we will reassess our internal control structure and procedures for financial reporting to ensure they are sufficient.

*Changes in Internal Control over Financial Reporting*

Except as noted above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal six months that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1 Legal Proceedings**

We are not a party to, or threatened by, any litigation or procedures.

### **ITEM 1A Risk Factors**

There are no material changes to the risk factors in our most recent Transitional Report on Form 10-K/A for the fiscal year ended October 31, 2006.

### **ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds**

There have been no events that are required to be reported under this Item.

### **ITEM 3 Defaults Upon Senior Securities**

There have been no events that are required to be reported under this Item.

### **ITEM 4 Submission of Matters to a Vote of Security Holders**

There have been no events that are required to be reported under this Item.

### **ITEM 5 Other Information**

#### *Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers*

On September 16, 2006, we entered into an oral agreement with Ms. Edith Kong under which she was hired to be our interim Chief Financial Officer and appointed to the Board of Directors. On January 25, 2007, Ms. Kong resigned from her positions as interim Chief Financial Officer and a Director. At the time of her resignation we agreed to pay Ms. Kong \$32,000 in cash for her services. This is the only compensation we agreed to pay Ms. Kong for her services.

Effective on January 25, 2007, our Board of Directors hired Mr. Wang Zuoliang as our interim Chief Financial Officer to replace Ms. Kong. Mr. Wang has served as Chief Accounting Officer of Harbin Renhuang Pharmaceutical Co. Ltd., our wholly-owned subsidiary, since 2005. Mr. Wang has more than 10 years experience in accounting and is familiar with our financial condition and the internal preparation of our financial statements. From 2004 to 2005, Mr. Wang served as the Chief Financial Officer of Harbin Huijiabei Food Co. Ltd. From 2001 to 2004, Mr. Wang served as the manager of the accounting department of China Resource Breweries Limited, Harbin Office. Mr. Wang Zuoliang graduated from Qiqihaer Mechanic Institute in 1994 with a bachelor degree in engineering management.

We are in the process of interviewing candidates for a permanent Chief Financial Officer and hope to have a new permanent Chief Financial Officer hired in the near future. Once a new Chief Financial Officer is hired we will file a Form 8-K with information regarding the Chief Financial Officer, as required.

Effective on January 25, 2007, Mr. Pi Dianjun resigned from his position as a Director.

Effective on January 25, 2007, our Board of Directors appointed Mr. Andy Wu to the Board of Directors as an independent Director and as Chairman of our Audit Committee. Mr. Wu is currently a Tax Manager at PWC Beijing responsible for the overall operations of the Dalian office, including IIT filing, tax health check, assistance on setting up new enterprise/RO, assistance in tax audit defense, tax due diligence, tax review for IPO projects, assistance in negotiation for deemed profit rates, and general tax and business consulting. Mr. Wu has held this position since January, 2006. During 2005, Mr. Wu was an Assistant Tax Manager at KPMG Shanghai, with his main responsibilities involving general tax and business consulting and due diligence work. From August 2004 to March 2005, Mr. Wu was a Senior Tax Consultant with Deloitte's Suzhou Office, primarily responsible for tax review, Due Diligence, IIT compliance, and general tax advisory projects. From March 1998 to August 2001, Mr. Wu was the Chief Officer of the Collections Division for the Nangang Branch of Harbin State Tax Bureau, where he was responsible for managing the operations of the Collections Division. Mr. Wu received a Doctorate Finance and Taxation from Xiamen University in June 2004, a Master in Finance and Taxation from Dongbei University of Finance in January 2001, and his Bachelor in Taxation from Xiamen University in July 1992.

Effective on April 16, 2007, our Board of Directors appointed Mr. Magnus Moliteus to the Board of Directors as an independent Director. Since 2001, Mr. Moliteus has been a consultant to the healthcare industry and Chairman of COM Consulting, Inc., a privately held firm, which enhances Swedish-American relations particularly between health care companies. From 1995 to 2001, Mr. Moliteus served as Executive Director of Invest at Sweden Agency, U.S., a Swedish government agency. From 1977 to 1990, he was Chief Executive Officer of Pharmacia, Inc. (now owned by Pfizer, Inc.).

As compensation for his services as a Director, Mr. Moliteus will receive options to acquire 15,000 options at signing, plus an additional 10,000 options and \$10,000 annually thereafter, with the first payment to be paid at the end of July, 2007. On May 17, 2007, Mr. Moliteus received his 15,000 options, at an exercise price of \$3.02, in accordance with his agreement.

#### *Correction of Audit Fees in Annual Report on Form 10-K/A*

Our Annual Report on Form 10-K/A for the fiscal year ended October 31, 2006 filed with the Securities and Exchange Commission on February 22, 2007 reported the \$125,000 in fees Schwartz Levitsky Feldman LLP billed us for the audit of our financial statements under "Audit-Related Fees." These fees should have been listed under "Audit Fees" and not under "Audit-Related Fees."

#### *Acquisition of Extracting Factory*

On March 3, 2007, we acquired all the assets and assumed a bank loan with accrued interest of Qingyang Extracting Factory, from Zhongfa Industrial Group Yerui Pharmaceutical Co., Ltd. for a total amount of RMB 3.7 million or approximately USD \$480,000. The assets acquired included inventories, customer purchase orders, accounts receivables, corporate name, patents, trademarks, equipment, customer lists and records and other assets that are used or held for use in connection with Business of Qingyang Extracting Factory. We paid USD \$310,000 in cash and assumed a bank loan with China Agriculture Bank in the principal amount of USD \$140,000 and accrued interest of USD \$30,000 collateralized by the acquired assets. The transaction closed on March 3, 2007, and we have paid the cash portion of the consideration USD \$310,000 (RMB 2,415,000). The Qingyang Extracting Factor, located in Yanshou Township Harbin, China, is a manufacturing facility that processes raw herbal plants into extracts, which is the intermediate material for Chinese herbal medicine finished products. The factory is capable of processing approximately 18,000 tons of herbal raw materials into extract, doubling our current herbal extracting capacity.

**ITEM 6**

**Exhibits**

(a) Exhibits

- 3.1 (1) Restated Articles of Incorporation, as filed with the Nevada Secretary of State on April 21, 2003.
- 3.2 (5) Amendment to Articles of Incorporation, as filed with the Nevada Secretary of State on July 28, 2006.
- 3.3 (1) Second Restated Bylaws
- 10.1 (2) Common Stock Purchase Agreement dated September 19, 2005.
- 10.2 (2) Securities Purchase Agreement dated September 16, 2005.
- 10.3 (3) Reorganization, Stock and Asset Purchase Agreement dated September 30, 2005.
- 10.4 (3) Stock Purchase Agreement dated September 30, 2005.
- 10.5 (4) Securities Purchase Agreement dated September 16, 2005.
- 10.6 (5) Loan Agreement with Heilongjiang Yuejintiande Building and Installation Project Co.,Ltd
- 10.7 (6) Acquisition Agreement between Harbin Renhuang Pharmaceutical Co., Ltd. and Zhongfa Industrial Group Yerui Pharmaceutical Co., Ltd., dated February 28, 2007
- 21.1 (5) Subsidiaries of the Registrant
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - (1) Incorporated by reference to our Current Report on Form 8-K dated April 21, 2003, filed with the Commission on April 22, 2003.
  - (2) Incorporated by reference from our Current Report on Form 8-K filed with the Commission on September 23, 2005.
  - (3) Incorporated by reference from our Current Report on Form 8-K filed with the Commission on October 3, 2005.
  - (4) Incorporated by reference from our Current Report on Form 8-K filed with the Commission on October 14, 2005.

- (5) Incorporated by reference from our First Amended Transition Report on Form 10-K/A filed with the Commission on February 22, 2007.
- (6) Incorporated by reference from our Quarterly Report on Form 10-Q for the period ended January 31, 2007, filed with the Commission on March 19, 2007.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Renhuang Pharmaceuticals, Inc.**

Dated: August 11, 2008

By: /s/ Li Shaoming  
Li Shaoming  
President and  
Chief Executive Officer

Dated: August 11, 2008

By: /s/ Zuoliang Wang  
Zuoliang Wang  
Interim Chief Financial Officer