

RENHUANG PHARMACEUTICALS INC
Form 10-Q
September 19, 2007

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

Form 10-Q

(Mark One)

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

For the quarterly period ended July 31, 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:

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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 August 30, 2007, there were 35,096,681 shares of common stock, par value \$0.001, issued and outstanding.

Renhuang Pharmaceuticals, Inc.

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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

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RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS
AS OF JULY 31, 2007****(Amounts in United States Dollars)****ASSETS**

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
CURRENT ASSETS		
Cash and cash equivalents	\$ 53,660	1,021,267
Trade receivables, net (Note 5)	7,549,588	7,566,096
Inventories (Note 6)	1,507,043	622,144
Prepaid expenses and deposits	218,598	102,473
Other receivables	67,783	1,143,834
Short term loan (Note 10)	9,495,674	
Deferred expenses (Note 9)	120,358	115,823
TOTAL CURRENT ASSETS	19,012,704	10,571,637
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,828,698	2,610,285
CONSTRUCTION IN PROGRESS (Note 8)	474,784	106,610
TOTAL ASSETS	\$ 22,316,186	13,288,532

The accompanying notes are in integral part of the financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS
AS OF JULY 31, 2007**

(Amounts in United States Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
CURRENT LIABILITIES		
Accounts payables and accruals (Note 11)		
- due to related parties	\$ -	\$ 419,910
- due to third parties	583,658	366,805
Total accounts payables and accruals	583,658	786,715
Other payables (Note 12)	1,675,229	1,877,042
TOTAL CURRENT LIABILITIES	2,258,887	2,663,757
TOTAL LIABILITIES	2,258,887	2,663,757
STOCKHOLDERS' EQUITY		
Common Stock - Authorized common shares 100,000,000, outstanding number of shares 35,096,681 at par value of 0.001, authorized preferred shares 2,500,000 (Note 13)	35,097	35,000
Additional paid in capital	6,627,099	6,310,822
Reserves	2,051,689	847,133
Retained earnings	10,632,398	3,378,081
Accumulated other comprehensive income	711,016	53,739
TOTAL STOCKHOLDERS' EQUITY	20,057,299	10,624,775
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 22,316,186	13,288,532

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 NINE MONTHS ENDED JULY 31, 2007
(Amounts in United States Dollars, Except for Number of Common Shares)

	Three Months Ended July 31, 2006 (Note 21) (Unaudited)	Three Months Ended July 31, 2007 (Unaudited)	Nine Months Ended July 31, 2007 (Unaudited)
SALES	\$ 5,413,875	\$ 5,071,331	\$ 20,890,656
COST OF SALES	(2,359,503)	(2,491,963)	(10,184,980)
GROSS PROFIT	3,054,372	2,579,368	10,705,676
SELLING AND DISTRIBUTION EXPENSES	(87,997)	(12,178)	(134,624)
ADVERTISING EXPENSE		(7,588)	(180,269)
GENERAL AND ADMINISTRATIVE EXPENSES	(287,696)	(655,929)	(1,292,433)
(PROVISION FOR DOUBTFUL ACCOUNTS)/RECOVERY	(18,793)	178,040	(443,082)
DEPRECIATION AND AMORTIZATION	(42,851)	(75,205)	(213,680)
INCOME FROM OPERATIONS	2,617,035	2,006,508	8,441,588
OTHER INCOME	4,980	7,219	17,285
INCOME BEFORE INCOME TAXES	2,622,015	2,013,727	8,458,873
INCOME TAXES (Note 14)	--	--	--
NET INCOME	2,622,015	\$ 2,013,727	\$ 8,458,873
BASIC EARNINGS PER SHARE	0.0749	0.057	0.242
DILUTED EARNING PER SHARE	0.0749	0.057	0.242
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC	34,999,601	35,058,920	35,019,976
DILUTED	34,999,601	35,058,930	35,019,982

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 JULY 31, 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
Issuance of common stock	97	284,578				284,675
Net income for 3 quarters 2007	--	--	--	8,458,873	--	8,458,873
Transfer to reserves			1,204,556	(1,204,556)		--
Warrants issued to director		31,699				31,699
Other comprehensive income						
- foreign currency translation					657,277	657,277
Balance at July 31, 2007 (Unaudited)	\$ 35,097	\$ 6,627,099	\$ 2,051,689	\$ 10,632,398	\$ 711,016	\$ 20,057,299

The accompanying notes are in integral part of the financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED JULY 31, 2007
(Amounts in United States Dollars)**

	Nine Months Ended July 31, 2007 (Unaudited)	Three Months Ended July 31, 2006 (Note 21) (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,458,873	2,622,015
Adjustments to reconcile net income to net cash from operating activities :		
Depreciation and amortization	213,680	43,149
Fair Value of Warrants Issued	31,699	
Fair Value of Shares Issued	284,675	
Changes in operating assets and liabilities:		
Trade receivables, net	16,508	(3,774,835)
Inventories	(884,899)	(1,433,249)
Other receivables, net	982,113	(39,011)
Deferred expenses	(4,535)	
Prepaid expenses and deposits	(160,539)	
Accounts payable and accruals		
- Related Parties	(419,910)	414,959
- Third Parties	45,709	415,191
Other Payable	(201,813)	365,718
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,361,831	(1,386,063)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Short - term loan	(9,495,674)	
Acquisition of property, plant and equipment	(114,058)	24,074
Construction in Progress	(386,278)	
NET CASH USED IN INVESTING ACTIVITIES	\$ (9,996,010)	24,074

The accompanying notes are in integral part of the financial statements

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

	Nine Months Ended July 31, 2007 (Unaudited)	Three Months Ended July 31, 2006 (Note 21) (Unaudited)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,634,179)	(1,410,137)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	666,572	
Cash and cash equivalents, beginning of period	1,021,267	3,637,185
Cash and cash equivalents, end of period	\$ 53,660	2,227,048
SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common shares on a non-cash basis	97	
Increase in additional paid in capital by issuance of common shares on a non-cash basis	284,578	
Financing services fee related to issuance of common shares on a non-cash basis	(284,675)	
Warrants of 25,000 granted to a director for services on a non-cash basis	31,699	
Services compensation paid to a director by granting warrants on a non-cash basis	(31,699)	
Increase in construction in progress by assuming a loan on a non-cash basis	(174,087)	
Increase in accounts payable by assuming a loan on a non-cash basis	174,087	
Transfer of construction in progress to property, plant, and equipment on a non-cash basis	219,467	
Property, plant, and equipment transferred from construction in progress on non-cash basis	(219,467)	

The accompanying notes are in integral part of the financial statements

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 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 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).

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 Renhuang Pharmaceuticals, Inc.

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 \$400,226 as at July 31, 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:

Buildings	20 years
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 July 31, 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 \$769,000 for the quarter ended July 31, 2007, and approximately US \$2,895,832 for the nine months ended July 31, 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 July 31, 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 July 31, 2007 and the average through May 1, 2007 to July 31, 2007 are:

Balance Sheet - Period end RMB : US\$ exchange rate	7.5824
Operating Statement: Average quarterly RMB : US\$ exchange rate	7.6385

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 distributors 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 July 31, 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 July 31, 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 are computed by dividing income available to common shareholders by the weighted average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued 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 \$318,591, which has been recorded as the accumulative other comprehensive income in the balance sheet. Consequently, the accumulated comprehensive income for the quarter and nine months ended July 31, 2007 was \$2,332,318 and \$9,116,150 respectively.

T. RECENT PRONOUNCEMENTS

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 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 July 31, 2007 are summarized as follows:

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
Accounts receivable	\$ 7,949,814	\$ 7,566,096
Less: Allowance for doubtful accounts	400,226	
Accounts receivable, net	\$ 7,549,588	\$ 7,566,096

The customers who owed over 10% in value of the total accounts receivable balance as at July 31, 2007 are listed as:

Customer		
A:	\$ 1,190,407	15%
Customer		
B:	\$ 891,257	11%
Customer		
C:	\$ 791,483	10%

6. INVENTORIES

The Company's inventories as at July 31, 2007 are summarized as follows:

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
Raw materials	\$ 1,336,941	\$ 569,349
Finished goods	170,102	52,795
	\$ 1,507,043	\$ 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 July 31, 2007 and October 31, 2006.

7. PROPERTY, PLANT AND EQUIPMENT

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
Cost:-		
Plant and machinery	\$ 2,898,834	\$ 2,718,407
Office equipment and furnishings	29,685	3,966
Building	219,456	
Motor vehicles	35,458	19,672
	3,183,433	2,742,045
Less: Accumulated depreciation:-		
Plant and machinery	348,177	131,405
Office equipment and furnishings	946	44
Building	3,475	
Motor vehicles	2,137	311
	354,735	131,760
Net value	\$ 2,828,698	\$ 2,610,285

Depreciation expenses relating to property, plant and equipment were \$75,205 for the quarter ended July 31, 2007, and \$213,680 for the nine months ended July 31, 2007.

8. CONSTRUCTION IN PROGRESS

The balance of construction in progress \$474,784 (RMB 3.6 million) related to the assets purchase from Qing Yang Extracting Factory closed at March 3, 2007. These assets have not been used until the inspection and further construction are expected to be completed at the end of 2007. The transfer of title is in process.

9. DEFERRED EXPENSES

The deferred expenses are related to the cost of fund raising, which is disclosed in Note 20 subsequent event.

10. SHORT TERM LOAN

The short term loan agreement was entered with a third party as a short term investment. The loan was unsecured, was initiated on July 30, 2007 and was returned by August 2007, with the annual interest rate being 7.2%.

11. ACCOUNTS PAYABLES AND ACCRUALS

The balances over 10% of the total balance as at July 31, 2007 are made up of \$174,087, \$94,872, and \$67,225, which accounted for 30%, 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 July 31, 2007 are listed as:

Supplier A:	\$ 515,807	21%
Supplier B:	\$ 267,417	11%

12. OTHER PAYABLES

The balance as at July 31, 2007 includes professional fee payable \$307,500, sales rebate payable of \$1,017,305, payroll payable of \$35,000, VAT payable of \$53,213, social insurance payable of \$255,975, and accrual of employee training for \$6,236.

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.

13. COMMON STOCK

During the nine months period ended July 31, 2007, 96,500 common stocks were issued as S8 shares for \$284,675.

14. 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.

15. RESERVES

The reserve funds at July 31, 2007 are comprised of the following:

	July 31, 2007 (Unaudited)	October 31, 2006 (Audited)
Statutory surplus reserve fund	\$ 1,367,793	\$ 564,756
Public welfare fund	683,896	282,377
	\$ 2,051,689	\$ 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.

16. WARRANTS

At July 31, 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. The company is obligated to grant 10,000 warrants on July 31 for three consecutive years, starting from July 31, 2007.

Exercise Prices	Warrants Outstanding Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Warrants Exercisable Number Exercisable	Weighted Average Remaining Contractual Life (years)
\$3.02	15,000	2.71	\$ 3.02	15,000	2.71
\$2.50	10,000	3.00	\$ 2.50	10,000	3.00

Transactions involving warrants are summarized as follows:

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

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:

	15,000 warrants granted on April 16, 2007	10,000 warrants granted on July 31, 2007
Significant assumptions (weighted-average)		
Risk-free interest rate at grant date	4.74%	4.78%
Expected stock price volatility	70.83%	48.59%
Expected dividend payout		
Expected option life-years (a)	3	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. On July 31, 2007, 10,000 warrants were issued to Mr. Magnus Moliteus. The Company valued the warrants using the Black-Scholes calculation model, and the warrants were deemed to have a value of \$22,442 and \$9,257 respectively. These amounts were charged to expense on the Company's financial statements for the three months and nine months ended July 31, 2007 (Unaudited)

17. RELATED PARTY TRANSACTIONS

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

n The Company rented property and plant from its predecessor Harbin Renhuang Pharmaceutical Stock Co. Ltd. The lease term is from May 1, 2007 to May 1, 2008, with monthly rental payment of \$46,160. The rental is fair value as appraised by a third party property company.

18. COMMITMENTS AND CONTINGENCIES

A. CAPITAL AND LEASE COMMITMENTS

As of July 31, 2007, the Company has the following significant capital and lease commitments outstanding:

The Company rented office 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.

The company rented plant from its predecessor Harbin Renhuang Pharmaceutical Stock Co. Ltd., see Note 17.

	July 31, 2007 (Unaudited)
within 1 year	\$ 660,741
1-2 years	291,464
2-3 years	106,826
Total	\$ 1,059,031

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.

19. 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.

20. 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 up to \$20 million dollars and it is anticipated that the Company will consummate a finance transaction with one or more of them in the near future.

21. 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.

For information purposes, we present below the results of operations of Harbin Renhuang Pharmaceutical Stock Co. Ltd. ("Old Renhuang") for the six months ended April 31, 2006 and the cash flow statement for the six months ended April 31, 2006.

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

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED APRIL 30, 2006

	(Unaudited) Six Months Ended April 30, 2006
SALES	\$ 16,427,921
COST OF SALES	8,863,227
GROSS PROFIT	7,564,694
SELLING AND DISTRIBUTION EXPENSES	577,370
ADVERTISING	2,917,988
GENERAL AND ADMINISTRATIVE EXPENSES	1,632,290
PROVISION FOR DOUBTFUL ACCOUNTS	622,618
DEPRECIATION AND AMORTIZATION	328,051
RESEARCH AND DEVELOPMENT	817,547
INCOME FROM OPERATIONS	668,830
FINANCE COSTS	359,465
GOVERNMENT SUBSIDIES	(155,316)
OTHER EXPENSES	6,781
INCOME BEFORE INCOME TAXES	457,900
INCOME TAXES	--
NET INCOME ATTRIBUTABLE TO SHAREHOLDERS	\$ 457,900

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

STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED APRIL 30, 2006

	(Unaudited) 2006
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)
Accounts payable and accruals	(180,641)
Advance from customers	228,219
Other payables	203,108
NET CASH FROM OPERATING ACTIVITIES	(497,548)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property, plant and equipment	(1,876,244)
Disposition of property, plant and equipment	2,739,663
NET CASH FROM INVESTING ACTIVITIES	\$ 863,419

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

STATEMENTS OF CASH FLOW (CONTINUED)
FOR THE SIX MONTHS ENDED APRIL 30, 2006

(Unaudited)
2006

CASH FLOWS FROM FINANCING ACTIVITIES:	
Due (to)/from a director	\$ (916,165)
Due to related parties, net	(278,050)
Dividend payable	--
Repayment of bank loan, net	(482,398)
NET CASH FROM FINANCING ACTIVITIES	(1,676,613)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,310,742)
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
SUPPLEMENTARY CASH FLOW DISCLOSURES	
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 nine months ended on July 31, 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. Since BVI was not formed until May 1, 2006, we have included the three months ended July 31, 2006 financial information for the statement of income and statement of cash flows, while the previous six months, ended April 30, 2006, prior to the formation of BVI, have been included in the notes to the financial statements (Note 21). Therefore, the nine-month numbers include in the management’s discussion and analysis section are calculated by adding the figures for the three months ended July 31, 2006 contained in the financial statements with the figures for Old Renhuang for the six months ended April 30, 2006, contained in Note 21.

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 21 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 nine months ended July 31, 2007 and a comparison with the financial information consisting of results of operation of the Company for the period from May 1, 2006 to July 31, 2006, and results of operations of Old Renhuang from the period from November 1, 2005 to April 30, 2006 ("Combined Renhuang").

Assets Acquisition

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 for the cash portion of the consideration USD \$310,000 (RMB 2,415,000).

Three Months Ended July 31, 2007 Compared to Three Months Ended July 31, 2006

Introduction

For the three months ended July 31, 2007, we generated \$5,071,331 in revenues on cost of sales of \$2,491,963. With these revenues and cost of sales for the three months ended July 31, 2007, we had a net income from operations and a net income attributable to shareholders of \$2,013,727. As noted above, we acquired the majority of our current operations from Old Renhuang. For the three months ended July 31, 2006, we had revenues of \$5,413,875, on cost of sales of \$2,359,503. With these revenues and costs of sales we had net income of \$2,622,015.

Revenues, Expenses and Profit from Operations

	Three Months Ended July 31, 2007	Three Months Ended July 31, 2006
Revenue	\$ 5,071,331	\$ 5,413,875
Cost of Sales	(2,491,963)	(2,359,503)
Selling and Distribution Expenses	(12,178)	(87,997)
Advertising Expenses	(7,588)	--
General and Administrative Expenses	(655,929)	(287,696)
Research and Development	--	--
(Provision for Doubtful Accounts)/Recovery	178,040	(18,793)
Depreciation and Amortization	(75,205)	(42,851)
Other Income/(Expenses)	7,219	4,980
Net Income	\$ 2,013,727	\$ 2,622,015

Revenues

Our revenues of \$5,071,331 decreased by 6% when compared to our revenues from the same period one year ago of \$5,413,875. Our revenues for the three months ended July 31, 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 53%, 16% and 31%, respectively.

Cost of Sales

Our cost of sales for the three months ended July 31, 2007 were \$2,491,963, representing 50% of revenue and consisted primarily of raw material, labor and production costs, compared to our cost of sales for the same period one year ago of \$2,359,503, representing approximately 43% of sales in that period. The slight decrease in our percentage of costs to revenues is primarily attributable to the fact we are putting more focus on our Acanthopanax products. As a result, the sales of certain high gross profit products, such as Shark Power Health Care products, are decreasing. This shift of focus to our Acanthopanax products is being made because our management believes there is higher future market potential for the Acanthopanax products over our Shark Power Health Care products. Costs allocated to the aforementioned products, Acanthopanax products, Shark Power Health Care products, and other Chinese traditional medical products are 49%, 5% and 46% 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 July 31, 2007, our selling and distribution expenses were \$12,178, decreased by \$75,819 or 86% from Old Renhuang's selling and distribution expenses of \$87,997, for the same period one year ago largely due to lower entertainment expense and traveling expense with improved management of marketing channels.

Advertising Expenses

For the three months ended July 31, 2007, we had advertising expenses of \$7,588. These advertising expenses were primarily related to the advertising of Acanthopanax. Our advertising expenses were zero for the same period one year ago.

General and Administrative Expenses

Our general and administrative expenses were \$655,929 for the three-month period ended July 31, 2007, compared to \$287,696 during the same period one year ago. The decrease is due mainly to the decrease of inventory obsolescence as a result of more efficient inventory management. Of our current \$655,929 general and administrative expenses, the primary expenses were as follows: \$284,675 for professional fee, \$102,406 for payroll, and \$55,824 for accrual of social insurance.

Depreciation and Amortization

We had depreciation and amortization expenses of \$75,205 for the three months ended July 31, 2007, which related to property, plant and equipment. This is compared to \$42,851 for the Company for the same period one year ago. The reason for our higher depreciation and amortization in the quarter ended July 31, 2007 is that we made an acquisition that quarter, and with more building and producing facilities being added to our assets, we generated more depreciation and amortization.

Provision for Doubtful Accounts/Recovery

Recovery of doubtful accounts for the three months ended July 31, 2007 was \$178,040, compared to a provision for doubtful accounts of zero for the same period last year. We had a provision for doubtful accounts/recovery for the three months ended July 31, 2006 because Renhuang China started to operate on May 1, 2006, and, therefore, there is no doubtful accounts/recovery for sales less than 90 days.

Net Income (Loss) from Operations

Our net income for the three months ended July 31, 2007, was \$2,013,727, while Old Renhuang's net income for during the same period one year ago was \$2,622,015. These figures are fairly indicative of our expected net income for future three month periods ended July 31, 2007.

Nine Months Ended July 31, 2007 Compared to Nine Months Ended July 31, 2006

Introduction

For the nine months ended July 31, 2007, we generated \$20,890,656 in revenues on cost of sales of \$10,184,980. With these revenues and cost of sales for the nine months ended July 31, 2007, we had a net income from operations and a net income attributable to shareholders of \$8,458,873. As noted above, we acquired the majority of our current operations from Combined Renhuang. For the nine months ended July 31, 2006, Combined Renhuang had revenues of \$21,841,797, on cost of sales of \$11,222,730. With these revenues and costs of sales Old Renhuang had a net income of \$3,079,915 for the same period one year ago.

Revenues, Expenses and Profit from Operations

	Nine Months Ended July 31, 2007	Nine Months Ended July 31, 2006 (Combined Renhuang)
Revenue	\$ 20,890,656	\$ 21,841,797
Cost of Sales	(10,184,980)	(11,222,730)
Selling and Distribution Expenses	(134,624)	(665,368)
Advertising Expenses	(180,269)	(2,917,988)
General and Administrative Expenses	(1,292,433)	(1,919,986)
(Provision for Doubtful Accounts)/Recovery	(443,082)	(641,411)
Depreciation and Amortization	(213,680)	(370,902)
Government Subsidy	--	155,316
Research and Development	--	(817,547)
Other Income/(Expenses)	17,285	(361,266)
Net Income	\$ 8,458,873	\$ 3,079,915

Revenues

Our revenues of \$20,890,656 decreased by approximately \$951,141 or 4% when compared to Combined Renhuang's revenues from the same period one year ago of \$21,841,797. Our revenues for the nine months ended July 31, 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 nine months ended July 31, 2007, were \$10,184,980, representing 49% of revenue and consisted primarily of raw material, labor and production costs, compared to Combined Renhuang's cost of sales for the same period one year ago of \$11,222,730, representing approximately 51% of sales in that period. The decrease in the percentage of cost to revenue is due to the economy of scales resulted from the reduction 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 nine-month period ended July 31, 2007, our selling and distribution expenses were \$134,624, decreased by \$530,744 or 80% from Combined Renhuang's selling and distribution expenses of \$665,368, for the same period one year ago largely due to improved management of marketing channels and cost controls.

Advertising Expenses

For the nine months ended July 31, 2007, we had advertising expenses of \$180,269. These advertising expenses were primarily related to the advertising of Acanthopanax. Combined Renhuang's advertising expenses were \$2,917,988 for the same period one year ago. This significant decrease was due to the fact Combined 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 \$1,292,433 for the nine-month period ended July 31, 2007, compared to \$1,938,779 during the same period one year ago for Combined Renhuang, largely due to the decrease of inventory obsolescence, traveling expense and office expense.

Provision for Doubtful Accounts/Recovery

Provision for doubtful accounts for the nine months ended July 31, 2007 was \$443,082, comparable to \$641,411 for the same period last year. The amount from nine months ended July 31, 2006, was all generated from Old Renhuang before May 1, 2006. With improvements in our collections for the nine months ended July 31, 2007, we were able to decrease our provision for doubtful accounts/recovery for this period.

Depreciation and Amortization

We had depreciation and amortization expenses of \$213,680 for the nine months from ended July 31, 2007, which related to property, plant and equipment. This is compared to \$370,902 for Combined Renhuang for the same period one year ago, which included depreciation on buildings that were not transferred to the Company.

Net Income (Loss) from Operations

Our net income for the nine months ended July 31, 2007, was \$8,458,873, which increased by over 64% when compared to \$3,079,915 for Combined Renhuang for the same period one year ago. This significant improvement in net income over Combined 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 July 31, 2007 and 2006, respectively, are as follows:

	July 31, 2007	July 31, 2006
Cash and Cash Equivalents	\$ 53,660	\$ 2,227,048
Total Current Assets	19,012,704	7,474,143
Total Assets	22,316,186	10,988,894
Total Current Liabilities	2,258,887	1,195,868
Total Liabilities	\$ 2,258,887	\$ 1,195,868

Sources and Uses of Cash*Operations*

Net cash generated from operating activities was \$8,361,831 for the nine months ended July 31, 2007, compared to net cash used in operating activities of \$(1,883,611) for Combined Renhuang for the nine months ended July 31, 2006. Our net cash used in operating activities for the current nine month period was primarily \$16,508 in net trade receivables, \$(884,889) in inventories, \$982,113 from other net receivables, (\$419,910) in total related party accounts payable and accruals, \$45,709 in third party accounts payable and accruals, and (\$201,813) in other payables.

Investments

Net cash used in investing activities was \$(9,996,010) for the nine months ended July 31, 2007, compared to net cash generated from investing activities of \$887,493 for Combined Renhuang for the same period one year ago. For the nine months ended July 31, 2007, our cash used in investing activities related to a short term loan \$(9,495,674), the acquisition of property, plant and equipment in the amount of \$(114,058) and construction in progress in the amount of \$(386,278).

Financing

Net cash from financing activities was \$0 for the nine months ended July 31, 2007, compared to net cash used in financing activities in the amount of \$(1,676,613) for Combined Renhuang for the nine months ended July 31, 2006. The contributors to the cash used in financing activities during nine months ended July 31, 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

<u>Obligations</u>	Total	Payments due by period			
		1 Year	1-2 Years	2-3 Years	3-5 Years
Long-Term Debt Obligations	-0-	-0-	-0-	-0-	-0-
Capital Lease Obligations	-0-	-0-	-0-	-0-	-0-
Operating Lease Obligations	\$ 1,059,031	\$ 660,741	\$ 291,464	\$ 106,826	-0-
Purchase Obligations	-0-	-0-	-0-	-0-	-0-
Other Long-Term Liabilities	-0-	-0-	-0-	-0-	-0-
Total Contractual Obligations	-0-	-0-	-0-	-0-	-0-

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 and Chief Financial 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 July 31, 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 and Chief Financial Officer have concluded that as of July 31, 2007, our disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company.

Changes in Internal Control over Financial Reporting

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 quarter 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

On May 17, 2007, we issued warrant to acquire 15,000 shares of our common stock at \$3.02 price per share to Mr. Magnus Moliteus, one of our Directors, as compensation for him agreeing to become a member of our Board of Directors. The issuance was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the shareholders were accredited.

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 Factory, 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: September 19, 2007

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

Dated: September 19, 2007

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