RENHUANG PHARMACEUTICALS INC
Form 10-K/A
December 08, 2009

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

Form 10-K
Amendment No. 1

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2008

OR

o TRANSITION REPORT UNDER 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. 218, Taiping, Taiping District Harbin, Heilongjiang Province, P.R. China (Address of principal executive offices)	150050 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes x No o

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 o No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (229.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

Aggregate market value of the voting stock held by non-affiliates: $14,228,511 as based on sales price of $0.825 per share of such stock on April 30, 2008. The voting stock held by non-affiliates on that date consisted of 17,246,680 shares of common stock.

As of November 23, 2009, there were 37,239,536 shares of common stock, par value $0.001, issued and outstanding.

EXPLANATORY NOTE

As previously announced in a Current Report on Form 8-K (the "Form 8-K") filed by Renhuang Pharmaceuticals, Inc. (the "Company") with the Securities and Exchange Commission (the "SEC") on October 1,, 2009,and as amended on Form 8-K/A (the "Form 8-K/A") filed with the SEC on November 13, 2009, the Company's management concluded that the Company's previously filed financial statements as of and for the fiscal year ended October 31, 2008, as filed with the SEC on Form 10-K on September 9, 2009, should no longer be relied upon due to certain significant accounting errors. The accounting errors are described in the Form 8-K/A, which include errors in: consolidated balance sheet table, consolidated statements of income and comprehensive income table, consolidated statements of changes in stockholders' equity table, and consolidated statements of cash flows table.

The Company has attached to this 10-K/A updated certifications executed as of the date of this Form 10-K/A by the Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002. These updated certifications are attached as Exhibits 31.1, 31.2, 32.1 and 32.2 to this 10-K/A.

Renhuang Pharmaceuticals, Inc.

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PART I

Cautionary Note

This Annual 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 – BUSINESS

Business Overview

History of Renhuang Pharmaceuticals, Inc.

We were incorporated in the State of Nevada on August 18, 1988 as Solutions, Incorporated. Since that time, we have 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. (“Anza”) and finally on July 28, 2006, we changed our name to Renhuang Pharmaceuticals, Inc.

On March 3, 2006, we completed the disposition of substantially all of our assets and discontinued our operations, including but not limited to, all of our ownership interest in our subsidiary, American Residential Funding, Inc., a Nevada corporation (“AMRES”) to AMRES Holding, LLC, a Nevada limited liability company (“AMRES Holding”) under control of Vince Rinehart, a shareholder and, at that time, our sole officer and director (“Rinehart”). Effective September 30, 2005, the disposition was approved by written consent of a majority of our stockholders.

In exchange for substantially all of our assets, including but not limited to, all of our ownership interest in AMRES, (i) Rinehart delivered a majority of his ownership interest in Anza, consisting of 831,375 shares of common stock and 1,880,000 shares of our common stock acquired upon the conversion of 18,800 shares of Series F Convertible Preferred Stock, to Viking Investments USA, Inc., a Delaware corporation (“Viking”). Rinehart kept 156,900 shares of our common stock; (ii) Rinehart terminated an Employment Agreement dated June 1, 2001, by and between Rinehart and Anza; (iii) AMRES assumed all obligations under a real property lease by and between Anza and Fifth Street Properties-DS, LLC; (iv) AMRES delivered to Viking its ownership interest in Anza, consisting of 4,137,500 shares of our common stock; and (v) AMRES Holding delivered warrants to acquire 250,000 shares of our common stock to Viking.

On August 11, 2006, our outstanding common stock underwent a thirty-for-one stock split reversal resulting in a decrease in our outstanding common stock at that time from 13,355,181 shares to approximately 445,240 shares as further described in our Current Report filed with the Commission on April 25, 2006. All share amounts herein have been adjusted to reflect this reverse split.

History of Harbin Renhuang Pharmaceutical Co. Ltd. and Harbin Renhuang Pharmaceutical Stock Co. Ltd.

Harbin Renhuang Pharmaceutical Stock Co. Ltd. ("Old Renhuang") was incorporated in 1996 in the Peoples Republic of China ("PRC"). Harbin Renhuang Pharmaceutical Co. Ltd. ("Renhuang China") was incorporated in February 2006 in the PR C. On March 3, 2006 Renhuang Medicine for Animals, a company controlled by Mr. Li Shaoming, invested 25 million Renminbi (or "RMB" then equal to approximately US $3.3 million) in cash in Renhuang China. On May 1, 2006 Old Renhuang transferred the majority of its operating assets, except buildings, to Renhuang China at the carrying amounts of Old Renhuang.

As a result, as of May 1, 2006, nearly 100% of revenue producing operations in Old Renhuang were transferred to Renhuang China.

Merger of Renhuang Pharmaceuticals and Harbin Renhuang

On August 28, 2006, Renhuang Pharmaceuticals, Inc., a Nevada corporation (the "Company") and a corporation incorporated under the laws of the British Virgin Island named Harbin Renhuang Pharmaceutical Company Limited (the "BVI") entered into a Share Exchange Agreement (the "Agreement") pursuant to which the Company acquired all of the outstanding capital stock of BVI in exchange for issuing 29,750,000 shares of the Company's common stock, par value $0.001 per share (the ''Common Stock'') to BVI's stockholders, representing 85% of the Company's capital stock on a fully diluted basis after taking into account the contemplated transaction. BVI is a holding company and at the time owned 100% of Renhuang China. This transaction is referred to throughout this report as the "Merger."

Post-Merger Business

As a result of the Merger, all of our operations are conducted through Renhuang China which is a wholly-owned subsidiary of the BVI which is in turn a wholly-owned subsidiary of the Company. Unless otherwise noted in this Annual Report on Form 10-K all references to "we," "us," "our company," "our," or the "Company" refer to the consolidated entity of Renhuang Pharmaceuticals, Inc., and its subsidiaries.

Renhuang China was incorporated in 2006 and is located in the capital of the province of Heilongjiang Province, in the northeastern corner of China. We are primarily engaged in the fields of research, manufacturing and distribution of Chinese medical products and bio-pharmaceutical products in the PRC. Our niche market is production and sale of traditional Chinese medical products and bio-pharmaceutical products, and our goal is to become the dominant manufacturer and supplier of a few carefully selected groups of products, primarily natural health care products, such as Acanthopanax and Ban Lan Gen derived from the roots of the Isatis plant, enzyme engineering series products, including Lysozyme enzyme, Shark Power health care products, Monoclonal Antibody Reagent Box Series Products, and traditional medical products, such as cold, flu and headache medicines.

Renhuang China has the ability to produce more than 100 types of products. Our product sales have reached more than 20 provinces and cities in China.

In the beginning of 2003, Old Renhuang purchased the land use rights to 100,000 square meters (approximately 1 million square feet) of land and built “City Bio-tech Medicine Park” located in the City of “A” in the Province of Heilongjiang. The project has been supported by the Chinese government in the form of a zero percent interest rate three-year loan in the amount of RMB 30 million (approximately US $3.7 million). The project was finished in 2004, and “City Bio-tech Medicine Park” received a “Good Manufacturing Practice” (GMP) certification from the Heilongjiang Food and Drug Administration on December 30, 2004. In the facility, we produce enzyme engineering series products, including SOD (Super Oxide Dismutase), Lysozyme enzyme, Shark Power health care products and other traditional medicine. Since May 1, 2006, Old Renhuang is leasing the buildings to Renhuang China on market terms disclosed in this report.

The Dongfanghong Acquisition:

In 2003, Old Renhuang acquired Dongfanghong Pharmaceutical Co. (DFH), a previously state-owned pharmaceutical company located in Heilongjiang Province, which then owned substantial amount of the wild Acanthopanax resources in Heilongjiang Province. DFH also owned a plant used to manufacture products utilizing Acanthopanax in the same city. The acquisition came with 73 GMP approved medicine products which were sold by DFH In 2004, one year after the acquisition, Old Renhuang generated US $3.75 million in revenue from the sale of Acanthopanax-based products and gained a 10% market share in China. As of May 1, 2006, Old Renhuang transferred all acquired operations of DFH to Renhuang China.

In the year ended October 31, 2008, the plant generated US $36 million in revenue of which US $23 million in revenue was from Acanthopanax-based products.

Products

Historically, our medical products portfolio is divided into three different categories:

1. Acanthopanax medical products - 53%*

2. Shark Power Healthcare products, and - 17%*

3. Traditional medical products. - 30%*

* Approximate percentage of the total revenue for the fiscal year ended October 31, 2008.

Acanthopanax (Siberian Ginseng)

Overview

Acanthopanax, which is known in the United States as Siberian Ginseng, has been used for centuries in China and Russia. Although a distant relative of American and Asian ginsengs (Panax sp .), with some overlap in its uses, Acanthopanax is a distinct plant with different active chemical components. Known to restore vigor, increase longevity, enhance overall health, and stimulate both a healthy appetite and a good memory, it is used in Russia to help the body adapt to stressful conditions and to enhance productivity.

In Chinese medicine, it is valued for its beneficial effects on “qi” (the Chinese term for vital energy or life force, pronounced “chee.”) and its ability to treat “yang” (known in Chinese medicine as one of the two fundamental forces, yang represents the male or active force.), deficiency in the spleen (distinct from the Western medical concept of spleen, this concept from traditional Chinese medicine is a way of describing a set of interrelated parts rather than an anatomical organ.) and the kidney. Like the panax ginsengs, Acanthopanax is considered to be an adaptogen, which means it helps in stressful circumstances and returns the body to a normal balanced state. For example, an adaptogen might lower blood pressure in someone who has high blood pressure, but raise it in another person who has low blood pressure. The active ingredients in Acanthopanax, eleutherosides (similar to ginsenosides in the panax species), are thought to increase stamina and to stimulate the immune system.

Until recently, most scientific research on Acanthopanax took place in Russia and the former Soviet Union. This research has largely supported its use to maintain health and strengthen the body rather than to treat particular disorders. Acanthopanax may help the body deal with physically and mentally stressful exposures such as heat, cold, physical exhaustion, viruses, bacteria, chemicals, extreme working conditions, noise, and pollution. By strengthening the immune system, it may also help prevent illness. Acanthopanax is especially popular among athletes or physical workers who require substantial sources of adaptive energy and endurance, such as long distance runners, rock climbers, bicyclists, scuba divers, dancers, tennis players and others seeking to enhance physical and mental performance and endurance.

Research

Siberian ginseng's active ingredients are a complex group of chemicals called eleutherosides . Eleutherosides are different than the ginsenocides found in the Panax varieties of ginseng, which is consistent with Chinese herbalists' claims that Siberian ginseng acts differently in the body than Korean or American ginseng. There has been some debate among herbalists whether Siberian ginseng should be considered a true ginseng at all, due to this difference in active ingredients.

Much of the research done on Siberian ginseng was performed by scientists in the former Soviet Union. Many of the study results are still unavailable in English. Those that have been translated, and more recent studies, have corroborated the benefits of Siberian ginseng.

Siberian ginseng has been documented in studies to improve physical endurance, oxygen uptake, recovery, and overall performance in athletes, ranging from runners to weightlifters. A 1986 study in Japan showed that Siberian ginseng improves oxygen uptake in exercising muscle.
Siberian ginseng has been documented to normalize blood pressure in patients with high and low blood pressure.
Siberian ginseng has been shown to reduce stress symptoms in general. A 1996 study in Japan concluded that Siberian ginseng can protect against gastric ulcers.
Animal studies showed Siberian ginseng helped fight against toxic chemicals and exposure to harmful levels of radiation. A 1992 Russian study showed that Siberian ginseng reduced the occurrence of tumors in rats when exposed to radiation. Another Russian study showed that women undergoing radiation for breast cancer had a significant reduction of side effects when given Siberian ginseng.
A 1987 German study, using human subjects in a double-blind test, demonstrated that eleuthero ginseng boosts immune system response and enhances the body's overall resistance to infection. Other studies have shown that Siberian ginseng increases activity of lymphocytes and killer cells in the immune system.

Another popular but unproven use of Acanthopanax is to maintain or restore mental alertness.

Physical Performance

Although Acanthopanax is frequently used to enhance physical stamina and increase muscle strength, studies have shown mixed results for these purposes.

Male Fertility

Acanthopanax has a long history of folkloric use for male infertility. Animal studies suggest that Acanthopanax may be helpful in increasing reproductive capacity.

Viral Infection

In a laboratory study, an extract of Acanthopanax slowed the replication of certain viruses, including influenza A (which causes the flu) as well as human rhinovirus and respiratory syncytial virus (both of which cause symptoms of the common cold). A different 6-month study of 93 people with herpes simplex virus type 2 (which generally causes genital herpes lesions) found that Acanthopanax reduced frequency, severity, and duration of outbreaks. It had no effect, however, in test tubes on adenovirus (another cause of the common cold and other respiratory infections) or herpes simplex virus type 1 (which generally causes oral herpes lesions).

Market Analysis on Acanthopanax in China:

The resources for Acanthopanax medicine are mostly derived from wild Acanthopanax. Due to favorable conditions and temperature in the Heilongjiang Province, where Renhuang is located; 90% of the wild Acanthopanax in the PRC suitable for medicine comes from Heilongjiang Province.

The purchase price of Acanthopanax has been stable at RMB 2.8 per kilogram in 2007 and RMB 2.00 per kilogram in 2008.

Due to its increasing popularity in United States, Japan and European countries, exporting Acanthopanax medicine is expected to generate additional revenue for us in the near future.

Future Strategies for our Acanthopanax Products

With our position in the marketplace, we plan to capitalize on increased brand recognition. Through a controlled expansion plan, we plan to expand our market shares in local provinces and eventually throughout China. We hope to eventually be identified as the leading manufacturer of Acanthopanax products.

Through increased market awareness, we anticipate entering into strategic foreign partnerships, which we expect will result in increased international sale of Acanthopanax medicine in the near future.

Acanthopanax Revenue:

During the year ended October 31, 2008, Acanthopanax medical products have generated approximately 53% of our total revenue. Due to the amount of wild Acanthopanax resources we control, and our technology, we believe that we will control more than 50% share of the market of Acanthopanax-based medical products in China in the near future. It is further anticipated that the market for Acanthopanax-based products will continue to grow at an average annual rate of up to 30% and thereby remain our primary revenue generating product.

Shark Power Healthcare Products

Shark Power Healthcare products are made from Squalene, the scientific name for “Nose Oil,” a low density compound stored in the liver of sharks. These medicines contain extracts of shark liver oil and are used to improve oxygen levels in human blood. Squalene, when taken into the body, is believed to remove animal fat and various waste materials whilst circulating in the blood, cleaning blood vessels and the blood stream. Traditional medicine believes that benefits include the treatment and prevention of arteriosclerosis, improving the function of the kidneys and liver.

Our research and development center has developed natural medicines utilizing Squalene - the Shark Power Healthcare Series. Our medicine was awarded the “Special Golden Prize at the Ninth Chinese Patent Technology New Product Exhibition,” and a gold medal at the London International Patent Technology Exhibition.

Clinical research has shown that this medicine can improve the ability to carry and transport oxygen in blood, enhance the oxygen absorption and utilization factor of an organism’s organs, dredge the blood vessels, and increase the speed of blood's oxygen transportation and the supply of oxygen to the heart, brain, lung and liver. It is also believed to be able to effectively treat a multitude of symptoms caused by secondary health problems such as dizziness, insomnia, memory loss, low energy, back pain, fatigue, and the common cold, with stable and safe effects.

Shark Power Healthcare Products Revenue

In the year ended October 31, 2008, the revenue from Shark Power Healthcare products has accounted for approximately 17% of our total revenue, compared to 13% for the same period ended October 31, 2007.

Traditional Medical Products

In addition to Acanthopanax medical products and Shark Power Healthcare products, we produce traditional medicine products, such as medicine for flu, headache, female menstrual irregularities and other ailments. Revenue from these traditional medical products accounted for 30% of our total revenue for the fiscal year ended October 31, 2008, 34% of our total revenue for the fiscal year ended October 31 2007, and 35% of our total revenue for the period from May 1, 2006 to October 31, 2006. We own 40 medical products with GMP certificates, of which certain popular products are market leaders in their class and most other products generate a stable stream of revenue. We designate those products that we believe are among our most promising products as “Star” products.

Three “Star” products

“Tianma pills” and “Compound Yang Jiao Tablets” also known as “Tornado pills” are our “Star” traditional medicines for treating headaches. Although western headache medicines have a larger market shares in China, they have also been shown to have greater side effects. Research indicates that most other Chinese traditional medicines have fewer side effects, but cannot reach the same curative effects as western medicines. We believe that “Tianma” and “Tornado” not only produce strong visible curative effects, but also causes little or no side effects.

In the fiscal year ended October 31, 2008, revenue from the sales of “Tianma pills” and “Compound Yang Jiao Tablets” was $3.9 million and $5 million, respectively. The revenue from sales of the two medicines in the fiscal year ended October 31, 2007 was approximately $1.97 million and $5.42 million, respectively.

Another “Star” medicine of ours is “Powder For Restoring Pulse Beat” granulate (also known as “Shengmai Granulate”). In the fiscal year ended October 31, 2008, revenue from the sales of Shengmai Granulate was $2.5 million. In the year ended from November 1, 2006 to October 31, 2007, revenue from this product reached $1.9 million.

We also produce several additional traditional medical products that each account for lesser percentages of our total revenue. These products, through brand recognition, generate stable revenue for us. When we expand our product offerings, we anticipate that these additional products will be replaced by higher margin products.

Products in the Development Stage

We are currently developing the following products. We began the early stages of our research and development on these products in 2006 and, previously, these products were developed by Old Renhuang. In the fiscal year ended October 31, 2008, we spent approximately $2.1 million on R&D.

Lysozyme Enzyme Products

Studies have indicated that lysozyme, an enzyme occurring naturally in egg white, human tears, saliva, and other bodily fluids, is capable of destroying the cell walls of certain bacteria and thereby acting as a mild antiseptic.

Egg white has a high content of lysozyme, making egg white (albumen) the preferred raw material for industrial production of the lysozyme enzyme.

Currently, we do not believe there are any companies in China with the ability to produce lysozyme on a large scale, despite the fact that it has a large potential market. Lysozyme can be used as an antiseptic for food products, which could compete with chemical antiseptics at a cost lower than similar products produced outside of China. The major uses of Lysozyme products are as follows:

1) Lysozyme compound biological antiseptic (food packing coating and food bag)

2) Lysozyme drug preparation (tablets and oral liquid)

3) Lysozyme biotech pesticide

4) Lysozyme home-use disinfectant products (paper towels, detergent, and other such home-use cleaning products)

5) Lysozyme biotech veterinary medicine

6) Lysozyme biotech preparation

During the fiscal year ended October 31, 2008, our lysozyme enzyme product is in the preliminary testing stage. In the future, we hope to launch lysozyme enzyme products in the food antiseptic area, which we believe is the largest potential market for lysozyme. Our management estimates that we will achieve significant revenue growth in this product in the next 5 years.

Monoclonal Antibody Reagent Box Series Products

Monoclonal Antibody Reagent Box is an excellent reagent for Immunofluorescence mapping studies in patients with Epidermolysis Bullosa. The total sales volume of China's biotechnology products was approximately RMB 50 billion (US $7.2 billion) in 2008. Of this total, the sales volume of medicine and health-care products including medicine of gene products, vaccines, diagnosis reagents, certain antibiotics, amino acids for medical use, vitamins, blood products, bio-chemical medicines and certain functional food was RMB 30 billion (US $4.3 billion), accounting for approximately 50 percent of the total sales volume of the industry.

Chinese companies in the Monoclonal Antibody Reagent Box industry are primarily small to mid-sized privately-owned enterprises without any government support. The production scale in China is still relatively small and it is a niche market when compared with other developed countries. Due to the large population and potential market in China, this area is already being pursued by certain pharmaceutical companies.

Sales and Marketing

We primarily market our products through four business channels: the over-the-counter market for non-prescription medicine, direct sales, wholesale, and raw materials. We have more than 70 sales centers organized in 24 districts through distributors. Furthermore, we have developed alliances with third-party distributors who have sales channel relationships but lack manufacturing or product development capabilities.

Four-Pronged Approach to Achieve Market Goals

First, our goal is to build the brand names for our products. Approximately 90% of the Chinese population lives in the countryside and have relatively lower incomes. Due to a diverse product mix, adjusted to appeal to lower income consumers, we believe our traditional drugs will have a relatively high level of penetration in those non-urban areas. Distribution to end-consumers is obtained through our own sales personnel without middlemen costs.

Second, we use key cities such as Beijing and Shanghai as our geographical sales centers to distribute our products to major drug chain stores in urban and suburban areas nationwide. Our approach is to use selected cities as sample targets, supported by initial promotion and investments enabling the products to enter into well-known drug chain stores.

Third, we focus on top-level hospitals in the country, which have higher quality standards and more stringent approval procedures for new products and brands. Traditionally, hospitals in China are divided into different levels based upon their geographic scope. Junior level hospitals only care for smaller geographic areas, mid-level hospitals will care for larger geographic areas, and senior level hospitals will handle even larger regions. By focusing on the top tier of the hospital industry, our strategy is to work from the top down and gain access to mid- and low-level hospitals when our brands and products have been established in the higher ranks.

Fourth, we promote our products in the domestic media, including television, radio, newspapers, magazines and trade publications.

Our sales force consists of independent sales distributors that purchase our product directly from us to sell to their customers. These independent sales distributors may receive a rebate for a percentage of the purchase price they pay us on certain products based on volume of product sold. Our products reach drug stores, hospitals and end consumers across China through this sales network.

Locations of Our Independent Distributors' Sales Offices in China.

Research and Development

Old Renhuang established a R&D center in 2002 in Harbin City, China which was transferred to Renhuang China in 2006. Currently, our center employs 30 researchers, engineers and technicians working in the following functions:

- Comprehensive testing
- New product development
- Nutraceutical and healthy food development
- Standard extracts development
- Biopharmaceutical products development
- Mid-scale testing
- Diagnostic reagent development
- Product approval submission

Through our research control and relative dominant position related to our Acanthopanax products, we believe we are on the verge of positioning Acanthopanax as an independent segment in the Chinese drug industry. In order to achieve this goal, we plan on building an Acanthopanax base, to become the largest GMP approved Acanthopanax base in China, including six parts: (1) wild Acanthopanax protection; (2) research; (3) seeding; (4) cultivating; (5) processing; and (6) exporting.

In addition, we plan to continually upgrade our products by using follow-up research projects. This continued development focuses on the following three areas: (1) the development of biotech products, with the focus on practical applications of lysozyme and hyperoxide mutase, and the research and development of gene engineering drugs; (2) the research and development of Chinese traditional medicine products, including but not limited to additional use of Acanthopanax and Shizandra Berry; and (3) research and development of Western drugs for generic production, where we are able to complete the generational replacement of traditional drugs in a short period of time.

We utilize our marketing network system to provide periodic market feedback information, market demand information, evaluation of new products inside and outside of China, domestic and foreign authority research topics and product technology feedback information.

Research Center and Mid-Testing Base

Formed by different labs, these research and mid-testing facilities are simulating the assembly lines.

Renhuang Bio-Tech Drugs and Healthcare Products Research Center

This facility is mainly focused on the research and development of bio-tech drugs,and healthcare products.

Post-doc Research Workstation

The major task is to do research and development on Acanthopanax and other North-China medical products and to develop medicine qualified to international standard. This unit also performs research and development on gene engineering drugs, like tumor Chalone.

Industry Analysis

The Current Chinese Pharmaceutical Market

Traditionally, the pharmaceutical market is defined based on the different medical usage and is generally split into the prescription drug market and non-prescription medicine market (“OTC”).

The annual revenue of the medicine market in China is estimated to be approximately 1 trillion RMB (US$ 140 billion) in 2008 .

There are about 2,000 pharmaceutical companies with GMP Certificates in China, Renhuang is one of the pharmaceutical companies that has obtained the GMP Certificate under strict control of the Chinese government. As our market grows, we anticipate increased production volume through acquisitions and/or additional production facilities.

Our first and primary target market is China, where we believe a growing middle class with demands for improved healthcare has created a sustainable need for quality healthcare products. Our secondary market in the long-term future is the United States and other regions of the world.

Most of the recognized brands in China are manufactured by multi-national drug companies with higher market share than domestic brands. Based on our research, there are approximately 2,000 drug companies with GMP certificates, producing a variety of traditional and modern Chinese medical products. Furthermore, Chinese drug companies produce 300 different types of biotech products including vaccines, antiserum, blood products, and diagnosing reagents for internal and external use.

—Market Shares of various pharmaceutical products

The Current State of the Biotech Industry in China

The biotech industry in China has undergone fundamental improvements in recent years. China’s biological product market, which includes gene engineering drugs, vaccines, antibodies, and blood products, surpassed 30.3 billion RMB in 2005, 39.1 billion RMB in 2006, 44.6 billion RMB in 2007, and 53 billion RMB in 2008

In order to accelerate the development of the PRC's domestic biotech industry, the Chinese government has invested in biotech research and development. Biotech engineering and bio-drugs are making progress and a series of key technologies have been built. Tens of gene drugs are fast approaching the area of practical use and the Chinese biotech R&D industry is rapidly becoming more mature and competitive.

Competition

We are subject to intense competition. Some of our competitors have greater financial resources, larger staff, and better established market recognition than us. Below are lists of Chinese companies that we view as our competitors in each of our product series.

Acanthopanax Product Series Competitors

Hongdoushan Pharmaceuticals, with main Acanthopanax products of tablets, and with approximately 7% of the market share of Acanthopanax tablets.

Wangdashang Pharmaceuticals, with main Acanthopanax products of tablets and syrup, and with approximately 5% and 2% of the market share of Acanthopanax tablets and syrup, respectively.

Lianhuahu Pharmaceuticals, with main Acanthopanax products of ointment and raw product, and with approximately 15% and 10% of the market share of Acanthopanax ointment and raw products respectively.

Harbin Shengyuan Pharmaceuticals, with main Acanthopanax product of Acanthopanax ointment, and with approximately 10% of the market share of Acanthopanax ointment.

Shark Power Healthcare Series Competitors

Beijing Saishali Company, with approximately 17% market share
Shantou Xianle Pharmaceuticals, with approximately 8% market share
Shangai Zhongyang Donghai Pharmaceuticals, with approximately 5% market share

Traditional Medical Products Competitors

Compound Yang Jiao Tablets

Harbin Sanjing North Pharmaceuticals, with approximately 16% market share
Harbin Huarui Pharmaceuticals, with approximately 15% market share
Harbin Mingmu Pharmaceuticals, with approximately 9% market share