

Edgar Filing: China Huaren Organic Products, Inc. - Form 10-Q

China Huaren Organic Products, Inc.  
Form 10-Q  
May 20, 2009

U. S. Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-25380

China Huaren Organic Products, Inc.  
(Name of Registrant in its Charter)

DELAWARE  
(State of Other Jurisdiction of  
incorporation or organization)

43-1401158  
(I.R.S. Employer I.D. No.)

c/o American Union Securities, Inc., 100 Wall Street, 15th Floor, New York, NY 10005  
(Address of Principal Executive Offices)

Issuer's Telephone Number: (212) 232-0120

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of May 19, 2009, 15,000,712 shares of common stock, par value \$.01 per share, were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009   | December<br>31, 2008 |
|---|---------------------|----------------------|
|   | Unaudited           | Audited              |
| <b>Assets</b>   |                     |                      |
| <b>Current Assets:</b>  |                     |                      |
| Cash and equivalents  | \$ 10,911           | \$ 26,817            |
| Loan to officers/stockholders   | 2,251,634           | 2,255,312            |
| Prepaid expenses  | 6,379               | 6,924                |
| Other current assets  | 1,683               | 1,433                |
| <b>Total Current Assets</b>   | <b>2,270,607</b>    | <b>2,290,486</b>     |
| Property and Equipment, Net   | 4,734               | 4,305                |
| Deposit for Purchase of Fixed Assets  | 1,483,631           | 1,486,053            |
| Deferred Income Tax Assets  | 59,545              | 73,305               |
| <b>Total Assets</b>   | <b>3,818,517</b>    | <b>3,854,149</b>     |
| <b>Liabilities and Stockholders' Equity</b>   |                     |                      |
| <b>Current Liabilities:</b>   |                     |                      |
| Accounts payable and accrued expenses   | 142,325             | 134,334              |
| Loan from officers/stockholders   | -                   | -                    |
| Tax payable   | 1,686,261           | 1,687,389            |
| Other current liabilities   | 32,156              | 13,782               |
| <b>Total Current Liabilities</b>  | <b>1,860,742</b>    | <b>1,835,505</b>     |
| <b>Stockholders' Equity</b>   |                     |                      |
| Common stock, \$0.01 par value, 100,000,000 shares authorized<br>15,000,712 shares issued and outstanding | 150,007             | 150,007              |
| Additional paid-in capital  | 6,041,868           | 6,041,868            |
| Reserve fund  | 259,244             | 259,244              |
| Accumulated deficit   | (5,976,904)         | (5,919,394)          |
| Accumulated other comprehensive income  | 1,483,560           | 1,486,919            |
| <b>Total Shareholders' Equity</b>   | <b>1,957,775</b>    | <b>2,018,644</b>     |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 3,818,517</b> | <b>\$ 3,854,149</b>  |
| The accompanying notes are an integral part of financial statements.                                      |                     |                      |

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)

|   | Three Months Ended March |             |
|---|--------------------------|-------------|
|   | 31,                      |             |
|   | 2009                     | 2008        |
|   | Unaudited                | Unaudited   |
| Revenues                                | \$ -                     | \$ -        |
| Cost of Goods Sold                      | -                        | -           |
| Gross Profit                            | -                        | -           |
| Operating Expenses                      |                          |             |
| Selling expenses                        | 3,284                    | 2,581       |
| General and administrative expenses     | 43,648                   | 14,054      |
| Total Operating Expenses                | 46,932                   | 16,635      |
| Loss From Operations                    | (46,932)                 | (16,635)    |
| Other Income (Expense)                  |                          |             |
| Interest income                         | 4,739                    | 4,524       |
| Other expense, net                      | (1,682)                  | (34,909)    |
| Total Other Income (Expense)            | 3,057                    | (30,385)    |
| Loss Before Income Taxes                | (43,875)                 | (47,020)    |
| Provision for Income Taxes              | 13,635                   | -           |
| Net Loss                                | \$ (57,510)              | \$ (47,020) |
| Foreign Currency Translation Adjustment | (3,359)                  | 357,338     |
| Comprehensive (Loss) Income             | \$ (60,869)              | \$ 310,318  |
| Net Loss Per Common Share               |                          |             |
| -Basic                                  | \$ (0.00)                | \$ (0.00)   |
| -Diluted                                | \$ (0.00)                | \$ (0.00)   |
| Weighted Common Shares Outstanding      |                          |             |
| -Basic                                  | 15,000,712               | 14,810,168  |
| -Diluted                                | 15,000,712               | 15,000,712  |

The accompanying notes are an integral part of financial statements.

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | Three Months Ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2009               | 2008        |
|   | Unaudited          | Unaudited   |
| <b>Cash Flows From Operating Activities:</b>                                  |                    |             |
| Net Loss  | \$ (57,510)        | \$ (47,020) |
| Adjustments to Reconcile Net Loss to Net Cash<br>Used in Operating Activities |                    |             |
| Depreciation  | 419                | 1,023       |
| Deferred income tax assets valuation allowance                                | 13,635             | -           |
| Changes in operating assets and liabilities                                   |                    |             |
| Accounts receivable   | -                  | (44,878)    |
| Advances to suppliers   | (513)              | -           |
| Prepaid expenses  | 535                | 79,418      |
| Other current assets  | 260                | -           |
| Accounts payable and accrued expenses   | 8,223              | (3,282)     |
| Tax payable   | 1,624              | -           |
| Other current liabilities   | 18,426             | (2,531)     |
| Net Cash Used in Operating Activities   | (14,901)           | (17,270)    |
| <b>Cash Flows From Investing Activities</b>                                   |                    |             |
| Purchases of property and equipment   | (856)              | -           |
| Net Cash Used in Investing Activities   | (856)              | -           |
| <b>Cash Flows From Financing Activities</b>                                   |                    |             |
| Payment for loan to officers/shareholders                                     | -                  | (59,042)    |
| Net Cash Used in Financing Activities   | -                  | (59,042)    |
| Net Decrease in Cash and Equivalents  | (15,757)           | (76,312)    |
| Effect of Exchange Rate Changes on Cash                                       | (149)              | 1,813       |
| Cash and Equivalents, at Beginning of Period                                  | 26,817             | 76,658      |
| Cash and Equivalents, at End of Period  | \$ 10,911          | \$ 2,159    |
| The accompanying notes are an integral part of financial statements.          |                    |             |

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Basis of Preparing Accounting Statement

The accompanying unaudited condensed consolidated financial statements of China Huaren Organic Products Inc. and subsidiary (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. However, the information included in these interim financial statements reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full year. The consolidated balance sheet information as of December 31, 2008 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K. These interim financial statements should be read in conjunction with that report.

2. Organization and Nature of Business

China Huaren Organic Products Inc. ("the Company") through its indirect wholly-owned subsidiary, Jilin Huaren Organic Product Co., Ltd. ("Jilin Huaren ") develops, produces, and sells a wide array of organic foods and healthcare and cosmetic products.

In November 2006, the Company acquired all the ownership interest of China Organic Health Products Inc. ("China Organic"), a Delaware corporation organized in January 2006. The Company acquired China Organic in exchange for shares of common stock and shares of Series D Preferred Stock of the Company. The capitalizations are described in further detail in Note 12 to the accompanying consolidated financial statements.

China Organic did not initiate any business activity. Most of China Organic's activities are conducted through its 100% equity ownership in Jilin Huaren. Jilin Huaren was incorporated in the Jilin district of People's Republic of China (PRC) in February 2000 under the name "Jilin KangJian Technology Trade Center", but adopted its current name on December 23, 2004. It remained inactive and incurred minor administrative expenses prior to December 31, 2003. Started from March 2004, Jilin Huaren began its business such as research, development, production, sale of organic foods and healthcare products, and distribution of cosmetics related merchandises in PRC. The company is selling the cosmetics products under the "Huaren" brand name. All of Jilin Huaren's business is currently in China.

3. Net loss during Transition Period and Management Plans

During the fourth quarter of 2007, the sales revenue of Jilin Huaren had dropped down significantly and the Company incurred a net loss. For the period from January 1, 2008 to March 31, 2009, the sales revenue was none. As of March 31, 2009, the Company had \$10, 911 cash and equivalents to fund the short-term working capital requirements. The Company's ability to continue as a going concern and its future success is dependent upon its new management team's ability to better handle the Company's business in China, to merge with a better business, and to raise capital in the near term to (1) satisfy its current obligations, and (2) fund the successful wide scale development and marketing of its products.

The Company presently has ongoing discussions and negotiations with a number of additional financing alternatives and merger targets. However, the Company has no definitive agreements to provide funding at this time. In addition, the Company has no firm commitment with any merger target.

The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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#### 4. Summary of Significant Accounting Policies

##### a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

##### b. Revenue Recognition

Revenue is recognized at the date of shipment to customers, and when the price is fixed or determinable, the delivery is completed, no other significant obligations of us exist and collectibles is reasonably assured. There were no sales for the first three months ended March 31, 2009 and 2008.

Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method of accounting. Under the deposit method, all costs are capitalized as incurred, and payments received from the buyer are recorded as a customer deposits.

##### c. Foreign Currency Translation

The Company's reporting currency is the U.S. dollar. The functional currencies of the Company's subsidiaries are local currencies, primarily the Chinese Renminbi. The financial statements are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates of exchange for the period for revenues and expenses. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in other comprehensive income or loss of statements of operations and comprehensive income (loss).

##### d. Income Taxes

The Company and its U. S. subsidiary will file consolidated federal income tax returns and individually file state franchise tax returns with the State of Delaware. The Company's PRC subsidiary files income tax returns under the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and local income tax laws.

The Company follows Statement of Financial Accounting Standards No. 109 - Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred taxes also are recognized for operating losses that are available to offset future income taxes.

e. Comprehensive Income

SFAS 130, Reporting Comprehensive Income, defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners and requires that the period's comprehensive income, its components and accumulated balances be disclosed. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's only current component of comprehensive income is the foreign currency translation adjustment.

f. Segment Reporting

SFAS 131, Disclosure about Segments of an Enterprise and Related Information, requires disclosure of reportable segments used by management for making operating decisions and assessing performance. Reportable segments are categorized by products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's financial statements as substantially all of our operations and management is under a single operating segment.

g. Recent Pronouncements

In June 2008, the FASB issued FASB Staff Position on Emerging Issues Task Force Issue 03-6, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. The adoption of this FSP EITF 03-6-1 did not have a material effect on the Company's financial position.

In May 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No.162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 indicates the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing SFAS 162 to achieve that result. SFAS 162 also identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is in the process of evaluating the new disclosure requirements under SFAS 162. The Company is currently assessing the potential impact that adoption of SFAS No. 162 may have on its financial statements.

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No.161,"Disclosures about Derivative Instruments and Hedging Activities - An Amendment of SFAS No. 133" ("SFAS 161"). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format;(2) the disclosure of derivative features that are credit risk-related; and (3)cross-referencing within the footnotes. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends),

with early application encouraged. The Company is currently assessing the potential impact that adoption of SFAS No. 161 may have on its financial statements.

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In December 2007, the Financial Accounting Standard Board (“FASB”) issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements-an amendment of ARB No. 51” which clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement also changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. In addition, it requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The adoption of this SFAS 160 did not have a material effect on the Company’s financial position now.

In December 2007, Statement of Financial Accounting Standards No. 141(R), Business Combinations, was issued. SFAS No. 141R replaces SFAS No. 141, Business Combinations. SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS 141R will have on its financial statements. The Company is currently assessing the potential impact that adoption of SFAS No. 141R may have on its financial statements.

#### 5. Loan to (from) officers/stockholders

Amounts loaned to (from) officers/stockholders are unsecured, non-interest bearing, and have no set repayment date. As of March 31, 2009 and December 31, 2008, the total net amounts of loan to (from) officers/stockholders were \$2,251,634 and \$2,255,312, respectively, which represented the net amounts lent by the Company to (from) officers/stockholders.

|                   | March 31,<br>2009 | December<br>31, 2008 |
|-------------------|-------------------|----------------------|
|                   | Unaudited         | Audited              |
| Mr. JinZhong Fang | \$ 60,583         | \$ 60,682            |
| Mrs. WenYing Li   | 2,364,627         | 2,368,486            |
| Mr. HuaKang Zhou  | (197,178)         | (197,496)            |
| Mrs. Yushu Cao    | 23,602            | 23,640               |
| Total             | \$ 2,251,634      | \$ 2,255,312         |

## 6. Prepaid Expenses

Prepaid expenses consisted of the following:

|                                     | March 31,<br>2009 | December<br>31, 2008 |
|-------------------------------------|-------------------|----------------------|
|                                     | Unaudited         | Audited              |
| Prepaid office rent                 | \$ 1,412          | \$ 1,070             |
| Prepaid consultation fees and other | 4,967             | 5,854                |
| Total                               | \$ 6,379          | \$ 6,924             |

## 7. Property and Equipment, Net

Property and equipment at cost, less accumulated depreciation, consisted of the following:

|                                | Estimated Life | March 31,<br>2009 | December<br>31, 2008 |
|--------------------------------|----------------|-------------------|----------------------|
|                                |                | Unaudited         | Audited              |
| Office equipments              | 5 years        | \$ 8,832          | \$ 7,989             |
| Less: Accumulated depreciation |                | 4,098             | 3,684                |
| Total                          |                | \$ 4,734          | \$ 4,305             |

Depreciation expenses charged to operations were \$419 and \$1,023 for the three months ended March 31, 2009 and 2008, respectively.

## 8. Deposit for Purchase of Fixed Assets

Starting from late 2005, Jilin Huaren, the subsidiary in China, intended to purchase an office building from an unrelated company in P. R. China. The purchase price was \$1,097,513 (equivalent to RMB 7,500,000) and fix up construction cost was \$386,118 (equivalent to RMB 2,638,593). During 2006 and 2007, all these cost had been paid to the seller and constructors by Jilin Huaren, but the title to the property has not been transferred. Jilin Huaren had occupied the property since 2005 without paying any rent. Accordingly, Jilin Huaren has recognized \$18,956 (equivalent to RMB 129,600) of rent expenses per year since October 1, 2005, and has recognized an equal amount of interest income imputed on the payments that Jilin Huaren made to the seller since 2005. Management has estimated the value of the contribution items and contacted prior owner and government in Jilin PRC, and expects to get a full refund of \$1,483,631 (equivalent to RMB 10,138,593) if the purchase does not go through.

The Company's total deposits for purchase of fixed assets, therefore, consisted of the following:

|                                      | March 31,<br>2009 | December<br>31, 2008 |
|--------------------------------------|-------------------|----------------------|
|                                      | Unaudited         | Audited              |
| Deposit for purchase office building | \$ 1,483,631      | \$ 1,486,053         |
| Total                                | \$ 1,483,631      | \$ 1,486,053         |

## 9. Operating lease commitments

The Company leases vehicles and certain spaces under operating lease agreements; office space, products exhibit space, and employee living space. The following was a schedule of future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms as of March 31, 2009.

|                                 | Quarter Ending March 31,<br>2010 |
|---------------------------------|----------------------------------|
| Total minimum payments required | \$ 4,385                         |

Rent expenses amounted to \$10,317 and \$85,691 for the three months ended March 31, 2009 and 2008, respectively.

## 10. Taxation

## a. Corporation Income Tax ("CIT")

The Company and its US subsidiary will file consolidated federal income tax returns and individually file state franchise tax returns with the State of Delaware. The Company's PRC subsidiary files income tax returns under the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and local income tax laws.

In accordance with the relevant PRC tax laws and regulations, the Company's PRC subsidiary was subject to CIT at 33% and 25% tax rate before and after January 1, 2008, respectively. The Company did not record U.S. and PRC current income tax for three months ended March 31, 2009, since there was no taxable income during this period, whereas the Company had recorded the deferred income tax benefits valuation allowance for income tax in PRC in amount of \$13,635 for the three months ended March 31, 2009, due to the tax credit carryforwards valuation allowance during this period.

## b. Value Added Tax ("VAT")

The Company is subjected to VAT on merchandise sales in PRC. For the three months ended March 31, 2009 and 2008, a small scale VAT tax rate of 4% was applicable.

## c. Business Tax ("BT")

The Company is also subject to Business Tax, which is charged on the service income at a rate of 5% in accordance with the tax law in Jilin District of PRC.

## d. Taxes Payable

As of March 31, 2009 and December 31, 2008, tax payable consisted of the following:

|   | March 31,<br>2009 | December<br>31, 2008 |
|---|-------------------|----------------------|
|   | Unaudited         | Audited              |
| Value-added tax                               | \$ 595,440        | \$ 596,412           |
| Income tax                                    | 1,029,628         | 1,031,309            |
| Delaware franchise taxes                      | 32,888            | 31,317               |
| Individual income tax withholdings            | 6,539             | 6,550                |
| City construction, education, and other taxes | 21,766            | 21,801               |
| Total   | \$ 1,686,261      | \$ 1,687,389         |

## 11. Foreign Subsidiary

### a. Operations

Substantially all of the Company's operations are carried out through its subsidiary located in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency fluctuation and remittances and methods of taxation, among other things.

### b. Dividends and Reserves

Under laws of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following: (i) cumulative prior years' losses, if any; (ii) allocations to the "Statutory Surplus Reserve" of at least 10% of net income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital; (iii) allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory Common Welfare Fund", which is established for the purpose of providing employee facilities and other collective benefits to employees in China; and (iv) allocations to any discretionary surplus reserve, if approved by shareholders.

As of March 31, 2009 and as of December 31, 2008, the Company's PRC subsidiary established and segregated in retained earnings an aggregate amount of \$259,244 and \$259,244, respectively, for the Statutory Surplus Reserve and the Statutory Common Welfare Fund.

## 12. Stockholders Equity

Before acquisition (the "Share Exchange"), the Company had 17,548,665 shares of common stock outstanding. On November 13, 2006, the Company acquired all of the outstanding capital stock of China Organic Health Products, Inc. ("China Organic"). In connection with the closing of the acquisition (the "Share Exchange"), the Company issued to the shareholders of China Organic (a) 27,486,175 shares of common stock and (b) Series D Preferred Stock, which was convertible into 469,760,000 shares of common stock. As part of the merger, effective on January 16, 2007, the Company (i) changed its name to "China Huaren Organic Products, Inc" from "Ultradata Systems, Inc., (ii) brought into effect a 1:39 reverse split of its outstanding common shares, and (iii) increased the number of authorized shares of common stock from 50,000,000 shares, par value \$0.01 to 100,000,000 shares, \$0.01 par value. After recapitalization, the Series D Preferred Stock was converted into 12,045,128 common shares.

On January 5, 2007, the shareholders of Series B Preferred Stock exercised its right to convert all of the outstanding Series B Preferred Stock into 58,499,413 shares of common stock. After giving effect to the reverse stock split on January 16, 2007, the shares obtained by this shareholder on conversion of the Series B Preferred Stock totaled 1,499,985. As a result, there were 14,699,853 common shares issued and outstanding, par value \$0.01 as of December 31, 2007 and 2006.

On February 28, 2008, certain individuals converted all of the outstanding Series C Preferred Stock into 300,859 shares of the Company's common stock. Therefore the Company had 15,000,712 common shares issued and outstanding, par value \$0.01, on March 31, 2009 and 2008, respectively.



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

2.

The following analysis of our condensed consolidated financial condition and results of operations for the three months ended March 31, 2009 and 2008, should be read in conjunction with the consolidated financial statements, including footnotes, and other information presented in our annual report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on May 18, 2009.

### Results of Operations

Our operations during the first three months of 2009 and 2008 produced no revenue, but a low level of operating expenses. For the three month periods ended March 31, 2009, our total operating expenses were \$46,932 as compared to \$16,635 for three months ended March 31, 2008, an increase of \$30,297. This increase was attributable to an increase in employees' salaries, travel expenses, legal fees, and rent expenses in the current quarter. Even though this increase had been offset with a decrease of heating fees in the current quarter, we still incurred more operating expenses in the first quarter 2009 as compared to the first quarter 2008. During the first quarter 2009, we hired more persons and spent most of travel and legal fees on looking for the new clients, merge targets, and available fund. However, we still did not have firm commitment with any of them as of March 31, 2009. In addition, we recognized a deferred income tax benefits valuation allowance \$13,635 for the tax credit carryforwards valuation drop down in the first quarter 2009.

Our business operates entirely in Chinese Renminbi, but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments, which are reported as a middle step between net income and comprehensive income. The net income is added to the retained earnings on our balance sheet; while the translation adjustment is added to a line item on our balance sheet labeled "accumulated other comprehensive income," since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the first three months of 2009 and 2008, the unrealized (loss) gain on foreign currency translations added (\$3,359), and \$357,338 to our accumulated other comprehensive income.

Our prospects for the future will depend on the success of our new managers, who assumed control of Jilin Huaren in May 2008. We believe that our business plan, if properly implemented by competent management, can be successful and that we have put in place most of the resources necessary to permit the plan to be implemented. But the new management will have to revive the Company's operations almost completely. Whether they will be able to overcome the inertia of recent stagnancy in our operations will be known only with the passage of time.

### Liquidity and Capital Resources

On March 31, 2009 we had working capital of \$409,865, a reduction of \$45,116 from our working capital on December 31, 2008. The reduction was primarily the result of less cash and equivalent, and more accrued expenses and other current liabilities that we had on March 31, 2009 as compared to December 31, 2008. We had no long-term liabilities. However, we lack the cash necessary to make our distribution network more efficient, having had only \$10,911 in cash and equivalents as of March 31, 2009. To obtain the necessary cash, we expect to acquire the necessary funds from outside sources or majority shareholders in the next quarter of 2009.

Despite the net loss of \$57,510 that we incurred during the three months ended March 31, 2009, our operations in that period reduced our cash position by only \$14,901. This disparity occurred primarily because the amount that we applied to offset our total net loss, was \$40,284 including \$13,635 of deferred income tax assets valuation allowance, \$8,223 increase in accrued expense, and \$18,426 increase in other current liabilities. This offset enabled us to preserve our cash.

During 2005, we contracted to purchase an office building for our operations. We have deposited \$1,483,631 (equivalent to RMB 10,138,593) with the seller and constructors to cover the cost of the building and certain improvements that we require. Title to the building has not passed to us yet, however. So our investment is recorded on the balance sheet as a “deposit for purchase of fixed assets.”

The cash demands of our business mean that in order to make capital improvements we need additional capital from external sources. Our plan is to acquire additional organic soil resources in the near future, and to invest in manufacturing capability over the longer term. To fund those additions to our balance sheet, we intend to merge with other target and/or sell equity. At the present time, however, we have received no commitments from any sources.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures.

Pursuant to Rule 13a-15(e) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, "disclosure controls and procedures" means controls and other procedures that are designed to insure that information required to be disclosed by China Huaren in the reports that it files with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time limits specified in the Commission's rules. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to insure that information China Huaren is required to disclose in the reports it files with the Commission is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on his evaluation, our Chief Executive Officer and Chief Financial Officer concluded that China Huaren's system of disclosure controls and procedures was effective as of March 31, 2009 for the purposes described in this paragraph.

##### Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2009, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) ) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The company is not party to any material legal proceeding.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Unregistered sales of equity securities

None.

(e) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the 1st quarter of fiscal 2009.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

SIGNATURES

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

China Huaren Organic Products, Inc.

Date : May 20, 2009

/s/Yushu Cao

Yushu Cao, Chief Executive Officer  
and Chief Financial Officer