China Huaren Organic Products, Inc.
Form 10-Q
November 19, 2008

United States
Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PUSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

[ ] TRANSITION REPORT PUSUANT 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.
(Exact Name of Small Business Issuer as specified 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, including zip code)

212-232-0120
(Issuer's Telephone Number, Including Area Code)

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 ý 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of common stock, par value $0.01 per share, outstanding as of November 19, 2008 was 15,000,712

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

		September 30, 2008		December 31, 2007
Assets		Unaudited		Audited
Current Assets:				
Cash and equivalents	$	9,013	$	76,658
Accounts receivable, net of allowance for doubtful amounts of zero and $45,668 , respectively		-		4,521,106
Inventories		-		762,972
Prepaid expenses		1,558,954		1,591,952
Other current assets		736		110
Total Current Assets		1,568,703		6,952,798
Property and Equipment, Net		11,474		10,670
Deposit for Purchase of Fixed Assets		3,967,462		3,692,950
Deferred Tax Asset		56,537		-
Total Assets		5,604,176		10,656,418
Liabilities and Stockholders' Equity				
Current Liabilities:				
Accounts payable and accrued expenses		122,830		87,732
Loan from officers/stockholders		129,317		90,132
Tax payable		1,694,681		1,570,078
Other current liabilities		2,106		5,127
Total Current Liabilities		1,948,934		1,753,069
Stockholders' Equity				
Series C preferred stock, $0.01 par value, 150,000 shares authorized, zero and 100,000 shares issued and outstanding		-		1,000
Common stock, $0.01 par value,100,000,000 shares authorized, 15,000,712 and 14,699,853 shares issued and outstanding		150,007		146,999
Additional paid-in capital		6,041,868		6,043,876
Reserve fund		259,244		259,244
Retained earnings		(4,301,992)		1,447,838
Accumulated other comprehensive income		1,506,115		1,004,392
Total Shareholders' Equity		3,655,242		8,903,349
Total Liabilities and Stockholders' Equity	$	5,604,176	$	10,656,418

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	$ -	$ 733,914	$ -	$ 7,314,592
Cost of Goods Sold	-	345,740	-	6,119,578
Gross Profit	-	388,174	-	1,195,014
Operating Expenses				
Selling expenses	3,271	43,785	8,183	116,833
General and administrative expenses	56,594	74,175	118,429	238,261
Total Operating Expenses	59,865	117,960	126,612	355,094
(Loss) Income From Operations	(59,865)	270,214	(126,612)	839,920
Other Income (Expense)				
Interest income	4,744	4,297	13,924	12,720
Other expense, net	(36,245)	(33,319)	(116,827)	(110,782)
Bad debts	(4,731,192)	-	(4,731,192)	-
Loss on disposal of inventory	(301,173)	-	(844,110)	-
Total Other Expense	(5,063,866)	(29,022)	(5,678,205)	(98,062)
(Loss) Income Before Income Taxes	(5,123,731)	241,192	(5,804,817)	741,858
Provision for Income Taxes	(54,987)	87,105	(54,987)	252,325
Net (Loss) Income	$ (5,068,744)	$ 154,087	$ (5,749,830)	$ 489,533
Foreign Currency Translation Adjustment	(45,348)	138,586	501,723	348,060
Comprehensive (Loss) Income	$ (5,114,092)	$ 292,673	$ (5,248,107)	$ 837,593
Net (Loss) Income Per Common Share				
-Basic	$ (0.34)	$ 0.01	$ (0.38)	$ 0.03
-Diluted	$ (0.34)	$ 0.01	$ (0.38)	$ 0.03
Weighted Common Shares Outstanding*				
-Basic	15,000,712	14,699,853	14,936,083	14,699,853
-Diluted	15,000,712	14,999,850	14,936,083	14,999,850

* As restated to reflect recapitalization and the subsequent reverse stock split.

See notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2008 Unaudited	2007 Unaudited
Cash Flows From Operating Activities:		
Net (Loss) Income	$ (5,749,830)	$ 489,533
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by Operating Activities		
Bad debts	4,731,192	52,515
Depreciation	3,258	9,340
Loss on disposal of inventory	844,110	-
Deferred tax benefit	(54,987)	-
Changes in operating assets and liabilities		
Accounts receivable	-	(3,758,991)
Inventories	(48,214)	4,369,121
Other receivable	(575)	(107)
Advances to suppliers	-	-
Prepaid expenses	140,863	287,780
Other current assets	-	76,266
Accounts payable and accrued expenses	26,599	85,288
Customer deposit	-	(78,684)
Tax payable	9,468	533,768
Other current liabilities	(3,167)	2,597
Net Cash (Used in) Provided by Operating Activities	(101,283)	2,068,426
Cash Flows From Investing Activities		
Purchases of property and equipment	(3,361)	(1,630)
Proceeds from repayment of related party advance	-	37,441
Payment for deposit of purchase of fixed assets	-	(2,154,719)
Net Cash Used in Investing Activities	(3,361)	(2,118,908)
Cash Flows From Financing Activities		
Proceeds from officers/shareholders loan	108,355	4,143
Payment for loan to officers/shareholders	(75,701)	-
Net Cash Provided by Financing Activities	32,654	4,143
Net Decrease in Cash and Equivalents	(71,990)	(46,339)
Effect of Exchange Rate Changes on Cash	4,345	(20,603)
Cash and Equivalents, at Beginning of Period	76,658	86,266
Cash and Equivalents, at End of Period	$ 9,013	$ 19,324

See notes to consolidated financial statements.

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

1. Basis of Preparing Accounting Statement

The accompanying unaudited 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, 2007 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-KSB. 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”) is a holding company with one direct subsidiary: China Organic Health Products Inc. (“China Organic”). China Organic was incorporated in 2006 as a Delaware corporation. China Organic is a holding company that owned 100% of registered capital of Jilin Huaren Organic Health Products Co., Ltd. ("Jilin Huaren "), a corporation organized under the laws of The People’s Republic of China (“PRC”).

In November 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 13 to the accompanying consolidated financial statements.

China Organic never initiated any business activity. Most of the Company's activities are conducted through its 100% owned subsidiary Jilin Huaren. Jilin Huaren is engaged in the business of research, development, production and sale of organic foods and healthcare products. All of Jilin Huaren’s business is currently in PRC.

Jilin Huaren is a domestic enterprise incorporated in Jilin district of PRC in February 2000. Jilin Huaren was formerly known as Jilin KangJian Technology Trade Center (Jilin KangJian) and changed its name to Jilin Huaren Organic Health Products Co., Ltd. in December 23, 2004.

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 nine months ended September 30, 2008, the sales revenue was none. As of September 30, 2008, the Company had $9, 013 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.

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. All revenues for the nine months ended September 30, 2007 were product sales revenue recorded net of value added taxes. There were no sales during the first nine months of 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 individual state franchise tax returns. 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.

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

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 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.

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 in the process of evaluating the new disclosure requirements under SFAS 161.

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 company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 160 will have on its consolidated results of operations, financial position, and financial disclosure.

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.

5. Accounts receivable

During the first quarter of 2007, the Company, facing an imminent expiration date on organic crops that it had received from Wancheng, sold those crops at cost to Yushu Wanli Co., Ltd ("Yushu") pursuant to a sales contract. This sale on March 15, 2007 increased the Company's accounts receivable by approximately $5,937,186 (equivalent to RMB 40,312,786), which included the merchandise price plus VAT and other sales taxes. Yushu Wanli Co., Ltd. is a non-related third party. Based upon the sales contract, Yushu began to pay the amount due to the Company in May 2007. As of September 30, 2007, there was outstanding balance due from Yushu in amount of $4,906,241 (equivalent to RMB 33,312,786). After more than one year waiting for this outstanding payment, the new management team of the Company decided to write the debt. As a result, the Company recognized approximately $4.7 million bad debts loss as of September 30, 2008

6. Inventories

Inventories consist of the following:

	September 30, 2008	December 31, 2007
	Unaudited	Audited
Finished goods	$ -	$ 242,633
Work in process	-	480,532
Packaging materials and others	-	39,807
Total	$ -	$ 762,972

The Company had disposal of inventory in amounts of $844,110 and $0 for nine months ended September 30, 2008 and 2007.

7. Prepaid Expenses

Prepaid expenses consist of the following:

	September 30, 2008	December 31, 2007
	Unaudited	Audited

Prepaid office rent	$	4,558	$	267
Prepaid consultation fees		3,068		-
Prepaid lease fees for the right to use lands		1,551,328		1,591,685
Total	$	1,558,954	$	1,591,952

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CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
8. Property and Equipment, Net

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

	Estimated Life	September 30, 2008	December 31, 2007
		Unaudited	Audited
Office equipments	5 years	$ 26,921	$ 21,930
Subtotal		26,921	21,930
Less: Accumulated depreciation		15,447	11,260
Total		$ 11,474	$ 10,670

Depreciation expenses charged to operations were $3,258 and $9,340 for the nine months ended September 30, 2008 and 2007, respectively.

9. Deposit for Purchase of Fixed Assets

Starting from late 2005, the subsidiary in China, Jilin Huaren, has intended to purchase an office building from an unrelated company in P. R. China. The purchase price was $1,104,585 (equivalent to RMB 7,500,000) and fix up construction cost was $388,607 (equivalent to RMB 2,638,593). During 2006 and 2007, all these cost had been paid to the seller 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 $19,087 (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 contracted the prior owner and government in Jilin PRC, and expects to get a full refund of $1,493,192 (equivalent to RMB 10,138,593) if the purchase does not go through.

On March 1, 2007, Jilin Huaren signed a letter of intent with a village in Jilin P.R.China to purchase a land use right from the village. This letter of intent did not list the total purchase price, but Jilin Huaren had deposited $2,474,270 (equivalent to RMB16,800,000) to the village as of September 30, 2008. In addition, the title to the land use rights has not passed to Jilin Huaren yet as of September 30, 2008. Management had contacted the government in the village of Jilin PRC, and expects to get a full refund of all deposits in amount of $2,474,270 (equivalent to RMB16,800,000) if the purchase does not go through.

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

	September 30, 2008	December 31, 2007
	Unaudited	Audited
Deposit for purchase office building	$ 1,493,192	$ 1,389,876
Deposit for purchase land use right from village	2,474,270	2,303,074
Total	$ 3,967,462	$ 3,692,950

10. Operating Lease Commitments

The Company leases office space and plant lands under operating lease agreements.

The following is a schedule of future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms beyond September 30, 2008.

Quarter Ending September 30,		
2009	$	156,858
2010		147,278
2011		147,278
2012		147,278
2013		147,278
Thereafter		6,308,408
Total minimum payments required	$	7,054,378

Rent expenses amounted to $125, 694 and $304,740 for the nine months ended September 30, 2008 and 2007, respectively.

11. Taxation

a. Corporation Income Tax (“CIT”)

The Company and its US subsidiary will file consolidated federal and individual state franchise tax returns. 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 nine months ended September 30, 2008, since there was no taxable income during this period, whereas the Company had recorded the deferred benefit for income tax in the amount of $54,987 for the nine months ended September 30, 2008, respectively, due to the operations loss occurred during this period.

b. Value Added Tax (“VAT”)

The Company is subjected to VAT on merchandise sales in PRC. For the nine months ended September 30, 2008 and 2007, 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 September 30, 2008 and December 31, 2007, tax payable consists of the following:

		September 30, 2008		December 31, 2007
		Unaudited		Audited
Value-added tax	$	599,277	$	557,813

Income tax		1,036,263		964,564
Delaware franchise taxes		30,654		21,186
Individual income tax withholdings		6,581		6,126
City construction, education, and other taxes		21,906		20,389
Total	$	1,694,681	$	1,570,078

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CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
12. 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 September 30, 2008 and as of December 31, 2007, the Company’s PRC subsidiaries 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.

13. 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. In addition, 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 shareholder 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 September 30, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of our consolidated financial condition and results of operations for the nine months ended September 30, 2008 and 2007, should be read in conjunction with the consolidated financial statements, including footnotes, and other information presented in our annual report on Form 10-KSB for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on May 9, 2008.

Results of Operations

Jilin Huaren commenced its marketing operations in March of 2005. In the spring of both 2006 and 2007, however, we found ourselves with large inventories of perishable goods that we were unable to sell before their expiration dates. So at both times we transferred the goods to another distributor at cost. The transaction in 2007 involved a sale to Yushu Wanli Co., Ltd. of foodstuffs for $5,937,186 (equivalent at that time to RMB 40,312,786) (including tax) under a contract that called for payments to begin in cash in May 2007. This transaction relieved us of the problem of perishable inventory. But the result was that we realized only $251,319 in gross profit on the transaction. This gross margin is inadequate to provide the funds we need for more than a minimal level of operations.

The problem with the Yushu Wanli transaction was compounded when Yushu Wanli stopped making payments on the account. During the second and third quarters of 2007, we received $934,227 from this client. Since that time we have received nothing. After more than one year waiting for this outstanding payment, the new management team of the Company decided to write the debt. As a result, we recognized approximately $4.7 million bad debts loss as of September 30, 2008.

Due to the slow growth of sales and low margins achieved in the fall of 2007 we transferred operational control over Jilin Huaren to a group of experienced food supplies managers. Our contract with the management group provided that they would receive all net earnings from Jilin Huaren in excess of specified amounts: 3 million RMB in the period from August to December 2007, 14 million RMB in 2008, etc. Unfortunately, the transfer of control to this new group brought sales to a halt. In the fourth quarter of 2007 we realized only $134,778 in revenue; in the first three months of 2008 we had no revenue. For this reason we terminated the management agreement and appointed new managers, who assumed their positions in late May 2008. Nevertheless we still had no revenue as of September 30, 2008.

Our operations during the first nine months of 2008 produced only a low level of operating expenses. For the three and nine month periods ended September 30, 2008, our operating expenses were $59,865 and $126,612, respectively, with the third and second quarters being somewhat higher than the first quarter due to the arrival of new managers in May 2008. Those amounts likewise represented our loss from operations for those periods, since we had no revenue. By comparison, during the three and nine month periods ended September 30, 2007, during which our company had profitable operations, we incurred operating expenses of $117,960 and $355,094, respectively. Our operating expenses for the future will depend in large part on the level of operations that our new managers are able to achieve.

During the nine months ended September 30, 2008, we incurred a net loss of $5,749, 830. The greater portion of this loss was caused by a loss on bad debts recognized in the amount of $4,731,192 for accounts receivable outstanding for more than one year which also represented all outstanding balance of YuShu Wanli as of September 30, 2008. The other portion of the loss was caused by a loss on disposal of inventory in amount of $844,110. Part of the loss on disposal of inventory occurred as we were unable to process the organic grains and raw materials into final packaged goods for sale to the end-user consumers. The perishable foodstuffs became unusable and subsequently marked as a loss on the disposal of inventory. Other part of the loss on disposal of inventory occurred as we cleaned out the old cosmetics products which had expired useful life, and unused containers which were used to package the cosmetics products.

If our new managers are able to revive our business operations, our business plan should provide an opportunity for those operations to be profitable. By way of example, in the first nine months of 2007, despite the relatively low margin realized on our sales, our operations were profitable due to our low level of expenses. Our net income for the first nine months of 2007 was $489,533. The fact that we are able to operate profitably in the first nine months of 2007, despite low gross profit, is attributable to two essential characteristics of our business model:

- There are thousands of individuals involved in selling our products – but we incur no payroll obligation for them. They are owners or employees of the companies that distribute for us. So our selling expenses were less than 2% of revenue in the first nine months of 2007 and have been less than 4% of our revenue since we began operations in 2005.

- Our manufacturing activity is completely outsourced to enterprises dedicated to organic agricultural manufacturing. As a result, during the first nine months of 2007 our general and administrative expense equaled less than 3.5% of our revenue. During the first nine months of 2008 and 2007 our depreciation expense – often a major factor in agribusiness operations – were only $3,258 and 9,340, respectively, since we own no manufacturing equipment.

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 nine months of 2008 and 2007, the unrealized gain on foreign currency translations added $501,723, and $348,060 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 September 30, 2008 we had a working capital deficit of $380,231, a reduction of $5,579, 960 from our working capital on December 31, 2007. The reduction was primarily the result of the loss we sustained in the nine months of 2008. We had no long-term liabilities. However, our working capital consisted primarily of the prepaid expenses, which are mostly advances for lease fees of land on which we will plant our future crops. In addition, we lack the cash necessary to make our distribution network more efficient, having had only $9,013 in cash and equivalents as of September 30, 2008. To obtain the necessary cash, we expect to acquire the necessary funds from outside sources or majority shareholders in the next quarter of 2008.

During 2005, we contracted to purchase an office building for our operations. We have deposited $1,493,192 (equivalent to RMB 10,138,593) with the seller 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." In addition, on March 1, 2007, we signed a letter of intent with a village in Jilin, PRC to purchase a land use right from the village. This letter of intent did not list the total purchase price, but we have deposited $2,474,270 (equivalent to RMB16.8 million) to the village. This sum represents the remainder of the "deposit for purchase of fixed assets" on our balance sheet. We had tried to negotiate with the prior owner of the building and the controller of village in Jilin PRC, and expect to get those payments back to us, if they could not transfer the title of the properties to us within short period of next year.

The cash demands of our business mean that in order to make capital improvements we will require 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 sell equity. At the present time, however, we have received no commitments from any source.

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.

Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2008. Pursuant to Rule13a-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 September 30, 2008 for the purposes described in this paragraph.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2008, 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

None

Item 1A. Risk Factors

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5A. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
31	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CHINA HUAREN ORGANIC PRODUCTS, INC.

Date: November 19, 2008 By: /s/ Yushu Cao
Mrs. Yushu Cao, Chief Executive Officer and Chief Financial Officer