



Company Research Report

ANALYST RESEARCH REPORT – Renhuang Pharmaceuticals, Inc.
Current Rating – Buy **12 Month Price Target – \$5.00**

Company/Stock Snapshot – RHGP (OTCBB) Sector: Healthcare

Stock Closing Price (19 Oct 2007):	\$2.00
52 Week High/Low Price :	\$5.40- \$1.15
Market Cap:	\$70.2M
10-Day Average Volume:	26.8K
Common Shares Outstanding/Fully Diluted	35.0M/35.0M
Approximate Float	600K
Total Revenues:*	\$20.9M
EPS*:	0.24
PE Ratio (ttm):	7.70X
PS Ratio (ttm):	2.10X
Return on Equity:*	42.10%
Price to Tangible Book (mrq)	3.76X
Total Debt:*	\$0.00
Shareholder's Equity:*	\$22.3M
Fiscal Year Ends:	October 31

* For Nine Months Ending 7/31/07 (Unaudited)

Key Considerations

The following is a detailed research analysis of Renhuang Pharmaceuticals, Inc., for which we released a preliminary research summary as of September 28, 2007 with an initial Buy rating. Renhuang is located and operates in Northeast China, and as of 2006 trades in the U.S. public market under the symbol RHGP.OB. Its primary sales market is the People's Republic of China (PRC), with additional sales to Russia and Southeast Asia. Total revenues for the nine months ended July 31, 2007 were \$20.9 million, and net profits were \$8.5 million.

China's pharmaceuticals market is currently ranked as the ninth largest market globally. According to a March 2007 article appearing in The Financial Times London, the PRC is expected to more than quadruple its spending on biotechnology by 2010. Chinese government investment in science and technology during 2006 was nearly \$40 billion. It's State Food & Drug Administration (SFDA) has become increasingly modeled on the U.S. FDA. Much of this has been driven by the mandate to improve food and drug security and promote health safety in China's vast and expanding economy. As of 2003, the Chinese government has spent some \$1.4 billion constructing a network of 2,448 disease prevention centers, as it works to further improve healthcare services.

The expansion of investment by the PRC government in these sectors has attracted international interest and investment. Recently it was reported that Legend Holdings and Goldman Sachs, as part of a private equity group, purchased China's sixth largest pharmaceutical company for RMB 870M (US\$116M).

Please see important disclosure information at the end of this Report

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With the Chinese pharmaceutical market expected to grow at an annual average rate of 16%, Renhuang Pharmaceuticals is well positioned to grow its operations and revenues within this favorable investment climate. The company is a leading integrated developer, manufacturer and distributor of a broad line of high-quality nutraceutical, natural medicinal and bio-pharmaceutical products. It also holds a dominant market position in one of its main product lines, Acanthopanax. Renhuang controls an estimated 70% of Acanthopanax production, which accounted for 53% of revenues for the 3rd quarter ended July 31, 2007. Management intends to further exploit this competitive advantage.

Its Research & Development team includes a number U.S.-trained scientists who have been developing a new line of proprietary Monoclonal Antibody Reagent products that will further expand its existing line of product offerings. In addition to Acanthopanax (also known as Siberian Ginseng), its current product line includes Shark Liver Oil products and Traditional Chinese Medicines.

Renhuang is well managed, and effective cost controls implemented in the past two years have contributed to increasing net income some 64%. The company's leadership has been able to effectively guide its growth, including strategic acquisitions that have given Renhuang a market-dominant position in its main product line. The pace of growth in China's pharmaceutical and biotech sectors has been rapid, driven by the government's efforts to accelerate both expansion and safety. Along with experienced executives who are well aware of, and contemporary with, changes in the Chinese regulatory climate, Renhuang's board also now includes the former President & CEO of Pharmacia, Inc., who guided that company's growth for 22 years.

The company has no debt, and has received a AAA Credit rating from Chinese government. As a wholly owned foreign enterprise, Renhuang will enjoy significant tax savings from the national and regional governments through 2010, and relaxed taxation thereafter.

Renhuang's revenues compare favorably to some of its larger Chinese competitors, and the company has maintained average profit margins of 40% since 2005. When considering its performance relative to that of its peers and sector, we find the current valuation of the company's stock to be compelling, and affirm our preliminary 12-month target of \$5.00.

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Company Overview

Renhuang Pharmaceuticals, Inc. is located in the city of Harbin, in the Heilongjiang Province of Northeast China. Historically, Heilongjiang, which lies near the Siberian border, was known for its petrochemical and agricultural industries. In 2003, the PRC government launched an initiative to advance high technology products, organic food processing and bio-pharmaceuticals as priority industries in the province, promoting these efforts through various business incentives.

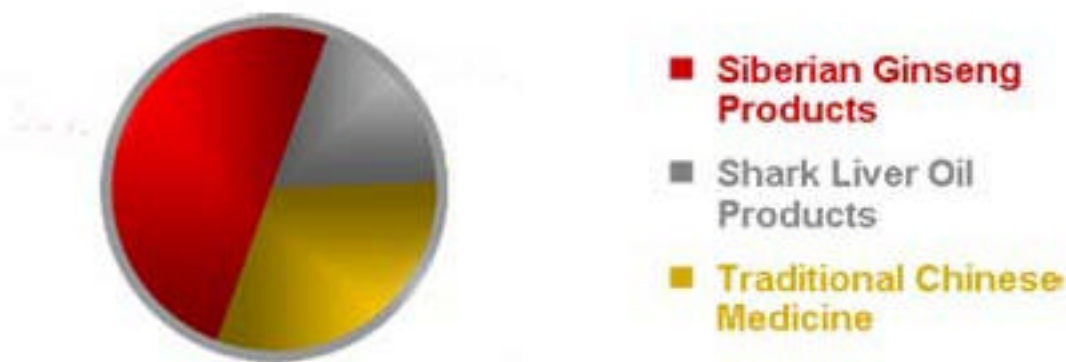


Renhuang is mainly engaged in the fields of research, manufacturing and distribution of Chinese medical products and bio-pharmaceutical products in Mainland China. Its niche market is traditional Chinese medical products, nutraceutical and bio-pharmaceutical products, and its goal is to become the dominant entity within a few carefully selected groups of products.

The company was initially founded as Harbin Renhuang Pharmaceutical Stock Co. Ltd., and incorporated in 1996 in the Peoples Republic of China (PRC) as a venture capital backed pharmaceutical company. Through a reverse merger with a U.S. public shell company that had ceased operations, the company was reorganized as Renhuang Pharmaceuticals, Inc., which began trading on the NASD Over the Counter (OTC) Bulletin Board Market in September 2006 under the symbol RHGP.OB. Where financial and performance information is available for its pre-merger period, it is so noted in this report.

Over the years, Renhuang has developed three major product lines: 1) Acanthopanax-based natural medicinal products, 2) the Shark Power Health Care series, and 3) Traditional Chinese Medicines. Renhuang's key product line is Acanthopanax-based products, an effective natural medicine offering various health benefits. By controlling an estimated 70% of China's natural resource of Acanthopanax, Renhuang has a dominant market position in Acanthopanax-based natural medicines.

Renhuang Pharmaceuticals' Major Product Line



Of its three product lines, Acanthopanax-based products accounted for 53% of Renhuang's sales revenue, Shark Liver Oil Products 16%, and Traditional Chinese Medicine 31%, as reported for the Third Quarter of 2007.

Renhuang has distinguished itself with some of the most advanced monoclonal antibody technology, and a few carefully selected groups of products that have become dominant in the

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market. The company has the ability to produce more than 100 types of products, and product sales have reached more than 50 provinces and cities in China.

In 2003, Renhuang purchased 100,000 square meters (about 1 million square feet) of land to build the "City Biotech Medicine Park" in Heilongjiang. The project was called the "Renhuang City Bio-tech Medicine Construction Project," which was supported by the Chinese government through a zero percent interest rate, 3-year loan in the amount of 30 million RMB (about US \$3.7 million). The project was completed in 2004, and the City Bio-tech Medicine Park received its "Good Manufacturing Practice" (GMP) certification in 2004. The Medicine Park is the site where Renhuang produces its enzyme engineering series products, including SOD (Super Oxide Dismutase), Lysozyme enzyme, Shark Power healthcare products and other traditional medicines.

Also in 2003, Renhuang acquired DongFangHong ("DFH") Pharmaceutical Co., which is how it came to control of 70% of all Acanthopanax cultivation in the Heilongjiang Province. About 90% of all wild Acanthopanax in China grows in Heilongjiang. Additionally, the acquisition came with 73 GMP-approved medicines from DHF. Due to the insufficient supply of Acanthopanax and increased demand, Acanthopanax products have become the main driver of profit and cash flow for Renhuang.

In March 2007, and to further expand production, Renhuang acquired the assets of the Qingyang Herbal Extracting Factory. Also located in Harbin, Heilongjiang, the factory processes raw herbal plants into extracts – the intermediate material for Chinese herbal medicine finished products. The acquired facility is capable of processing approximately 18,000 tons of herbal raw materials like Acanthopanax into extracts, thus doubling Renhuang's herbal extraction capacity. The acquisition of the factory will significantly lower overall production costs by providing better integration between Renhuang's raw material processing and its finished products manufacturing. The company expects the Qingyang facility to come fully online in mid-2008.

Research & Development

Renhuang has established a multi-channel research and development infrastructure composed of in-house researchers, and which collaborates with other well known institutions and scientists. The company owns its R&D centers, and over 50% of the employees in the Centers have advanced degrees. These R&D facilities include:

Information Center: Renhuang utilizes a marketing network system and direction-oriented information system to provide market feedback information, market demand information, evaluation of new products inside and outside of China, domestic and foreign authority research, and product technology feedback information.

Teamwork Center: The company has contracted and hired specialists comprising a group of reputable professors and research scientists from the marine biotech drug segment, the natural biotech drug segment and the gene engineering area to evaluate and support research topics and results. Renhuang has also formed long-term strategic partnerships and working relationships for the purpose of joint research and product development. Such relationships have included the National Navy Pharmaceutical Research Center located in Shanghai, China Biotech Drug Research center (Shanghai Research Base), the Second Military Medicine University in Shanghai, and the Beijing Ellionbio Research Center. Internationally, the company has established research cooperation efforts with the Russia Academic School (Far-East Division), and the Australia Scientific Research Center.

Research Center and Mid-Testing Base: Formed by different labs, these research and mid-testing facilities simulate production assembly lines.

Renhuang Bio-Tech Drugs and Healthcare Products Research Center: This R&D facility focuses primarily on biotech drugs and healthcare products, and medicine intermediates.

Post-Doc Research Workstation: Renhuang has established and operates a government-approved post-doctorate Research Working Station. It's major task is to perform R&D on

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Acanthopanax and other Northern Chinese medicinal products, and to develop medicines meet international qualification standards. The unit also performs R&D on gene engineering drugs such as Chalone, which has been studied for its effect on inhibiting tumor growth.

The company has achieved significant progress in research & development methods of standard extraction, separation of effective components, and medication with specificity. A number of new products developed at its R&D centers have already been submitted for approval by the State Food and Drug Administration (SFDA). These products are expected to have a substantial upside growth potential due to their insufficient supply in China. In manufacturing, Renhuang strictly follows the international GMP certified quality standards and system by utilizing cutting-edge technologies, state of the art equipment, and its proprietary, innovative and award-winning processes.

Renhuang's aim has been to develop a strong, independent innovation system to support its R&D of new products. Management believes that through Renhuang's research control and relative dominant position in Acanthopanax product development, the company is on the verge of positioning Acanthopanax as an independent segment in the Chinese drug industry. In order to achieve this goal, Renhuang has been building an Acanthopanax base involving six parts: (1) Wild Acanthopanax protection; (2) research, (3) seeding, (4) cultivation, (5) processing, and (6) exporting. If achieved, this would become the largest GMP-approved Acanthopanax base in China.

It's ongoing R&D and product upgrade initiatives will address the following three areas: (1) the development of biotech products, with a focus on practical applications of the enzymes Lysozyme and Hyperoxide Mutase, and research and development of gene engineering drugs, (2) ongoing R&D in Chinese traditional medicine products, including, but not limited to, additional use of Acanthopanax and the Shizandra Berry (which has similar properties of Acanthopanax), and (3) research and development of Western drugs for generic production, where Renhuang is able to complete the generation replacement of traditional drugs.

Renhuang's currently employs approximately 490 full time individuals, which includes 48 people in managerial positions, 22 individuals as sales managers at its various sales offices across China, 52 people in R&D, and 368 regular employees. The company also has 2,217 commission-based sales staff at the various sales offices that work as independent contractors.

Company Accomplishments

Renhuang has received strong support from the national, provincial, city and regional governments in China, which has contributed to the company's rapid growth over the past four years. Awards and distinctions include:

- * The Company with the Best Quality and Credit (including a AAA bank credit rating)
- * The Company with the Best Social Image
- * The Most Trusted Consumer Products Company

Renhuang's Lysozyme and Hyperoxide Mutase projects have been included in the most important national projects of the PRC government. Its Ah City Biotech Medicine Park (the Ah City Facility) was listed in the supported and tax-advantaged programs for the development of Northeastern Industry by National Development and Reform Commission. Renhuang was also named a "National High-tech Company" by the government, which allows it to receive tax benefits.

Product Overview

Acanthopanax

Acanthopanax is native to Heilongjiang, China's northernmost province, which lies on roughly the same parallel as Newfoundland, Canada. A frigid area in winters, Heilongjiang borders with Siberia, hence the references to "Siberian Ginseng," and Eleutherococcus in Russian literature.

Acanthopanax has become one of the most popular and widely respected herbal tonics in the world, containing chemical components proven to promote good health. While it is common in Heilongjiang, Acanthopanax does not grow in any abundance elsewhere in China.



Acanthopanax has been used regularly as a tonic by the people of far northern China for over two thousand years. The herb is considered an *adaptogen*, a term used by herbalists to refer to a natural herb that increases the body's resistance to stresses such as trauma, anxiety and bodily fatigue, and returns the body to a normal balance. 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 ginseng* species), are thought to increase stamina and to stimulate the immune system.

Because of its profound adaptogenic functions, Acanthopanax has grown enormously in reputation, importance and popularity in the Chinese and Western herbal systems in the last few decades. It is now routinely used by people required to engage in high stress, high energy-demanding activities such as high altitude flying, long-distance sailing, working in high or low temperature environments, or in deep water. The use of the extract of this herb in these endeavors has been reported to increase physical strength, sharpen concentration, improve various parameters of mental power, increase visual acuity, improve color vision and promote healing power. 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 by others seeking to enhance physical and mental performance, endurance and adaptability.

Although a distant relative of American and Asian ginsengs (e.g. *Panax*) which are also adaptogens and share some overlap in uses, Acanthopanax is a distinct plant with different active chemical components. In Chinese medicine, Acanthopanax is valued for its beneficial effects on "chi" (the Chinese term for vital energy or life force) and its ability to treat "Yang" (one of the two fundamental forces, Yang represents the male or active force) and deficiency of the "spleen" (which, as defined in Chinese Medicine, is distinct from the Western medical concept in that it describes a set of interrelated parts, more than a specific anatomical organ) and kidney. It is also believed to increase longevity, and stimulate both a healthy appetite and a good memory.

The herb is widely used in Russia, a small but key market segment for Renhuang's products. Until recently, most scientific research on Acanthopanax took place in Russia. This research has largely supported its use to maintain health and strengthen the system, 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 system, it may also help prevent illness.

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Because of its ability to enhance performance in stressful environments, Acanthopanax is used by all Russian cosmonauts. Research studies on Acanthopanax have included the following:

Immune System

A 4-week study in healthy subjects found that those who received Acanthopanax extract had improvements in a number of measures that reflect the functioning of the immune system.

Mental Performance

A 3-month human study of Acanthopanax among middle-aged volunteers found that there was a significant improvement in memory and concentration as compared to a placebo. 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. 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). However, a 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.

A related ginseng product is Renhuang's *Ginseng Ointment*, a formulation containing various medically beneficial components extracted from ginseng, herbals and parts of animals. The product has demonstrated health benefits for enhanced blood circulation, reinforcing kidney function, maintaining endocrine (i.e., glandular) balance and strengthening the immune system, among others.

Shark Power Healthcare Products

The R&D center at Renhuang has developed a pure natural marine biology medicine called the "Shark Power Healthcare" series. It is the only medicine in China approved for use in treating secondary health problems due to oxygen deficit, and was awarded the "special golden prize" at the Ninth Chinese Patent Technology New Product Exhibition, and the "Golden Medal" at the London International Patent Technology Exhibition.



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 level of human blood. Squalene, when taken into the body, removes animal fat and various waste materials, while circulating in the blood so that it cleans blood vessels and blood. It has been found to be effective in the treatment and prevention of arteriosclerosis, improving the function of the kidney and liver.

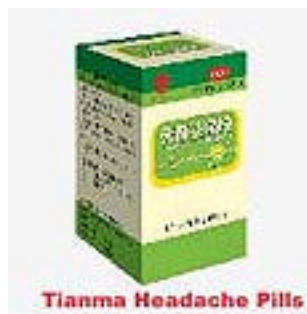
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Squalene is an extract from the Aizame shark that inhabits the cool, clean deep-sea southern waters of the Pacific Ocean. Squalene manufactured and processed in Australia is known for its purity and high quality, as it is found to be extremely low in heavy metals. These products are becoming increasingly popular in Japanese and Chinese markets, where premium quality and purity are of utmost importance.

Clinical research has proven that this medicine can improve the oxygen-carrying and transporting ability of blood, enhance the oxygen absorption and utilization factor of the organs, dredge blood vessels, increase the speed of blood's oxygen transportation, and especially supply oxygen to the heart, brain, lung and liver. It is widely believed that Squalene may be beneficial in such areas as improving kidney and liver function, improvement of the skin and the healing of wounds, maintaining cholesterol levels, as well as maintaining healthy eyesight and memory capacity. It has also been used to symptoms of gastritis and arthritis.

Traditional Chinese Medicine Products

Renhuang produces several traditional over-the-counter medicine products for cold, flu and headaches, including four market leading ("STAR") products, which it reports have achieved more than 100% growth rates in fiscal years 2005 and 2006. The company owns 40 medical products with "GMP" (Good Manufacturing Practices) certificates that have reached top sales among the same products sold by competitors.



Through brand recognition, Renhuang's traditional medical products have generated stable cash flow for the company. Such products include Tianma Pills and Tornado Pills (both headache treatments) and Shengmai Granulate, a product used mainly by women for treating palpitation, shortness of breath, and sweating.

Renhuang currently has a line of new medical products in the development stage, which include:

Lysozyme Enzyme Products

Lysozyme is an enzyme occurring naturally in egg white, human tears, saliva, and other body fluids, capable of destroying the cell walls of certain bacteria and thereby acting as a mild antiseptic. This small enzyme helps in the protection against the ever-present danger of bacterial infection. Bacteria build a tough skin of carbohydrate chains, interlocked by short peptide strands, that braces their delicate membrane against the cell's high osmotic pressure (i.e., the amount of pressure required to stop the process of osmosis – the movement of water across a selectively permeable cell membrane). Lysozyme breaks these carbohydrate chains, destroying the structural integrity of the cell wall. The bacteria then burst under their own internal pressure.

Alexander Fleming, the Nobel-winning Scottish biologist and pharmacologist who discovered Penicillin, had earlier discovered Lysozyme by chance during a deliberate search for medical antibiotics. Over a period of years, he added everything he could think of to bacterial cultures to slow their growth, including his own mucus when he was suffering from a cold. To his surprise, the mucus killed the bacteria, leading to the discovery of our own natural defenses against infection. Despite the significance of the discovery, Lysozyme is a large molecule that is not particularly useful as a drug. It can be applied topically, but cannot rid the entire body of disease, because it is too large to travel between cells.

Hen egg white has a high content of Lysozyme, which protects the integrity of the delicate yolk, thus making egg white (albumen), the preferred raw material for industrial production of the Lysozyme enzyme. Products based on Lysozyme can be put to a variety of applications. Some major uses include:

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- 1) Compound biological antiseptics (food packing coating, food bags, etc.)
- 2) Drug preparations (medicated oral lozenges, oral liquids, etc.)
- 3) Biotech Pesticides
- 4) Home-use disinfectant products (paper towels, detergents, etc.)
- 5) Biotech Veterinary medicines
- 6) Lysozyme biotech preparations

Monoclonal Antibody Reagent Box Series Products

Renhuang anticipates upcoming approval by the PRC State Food and Drug Administration (SFDA) for up to five of its new Monoclonal Antibody Reagents, and is in the process of building its own monoclonal antibody base, the necessary raw material for these products.

To understand the significance of this field of biotechnology, substances foreign to the body, such as disease-causing bacteria and viruses known as antigens, are recognized by the body's immune system as invaders. Our natural defenses against these infectious agents are antibodies, proteins that seek out the antigens and help destroy them.

Antibodies have two very useful characteristics. First, they are extremely specific – that is, each antibody binds to and attacks one particular antigen. Second, some antibodies, once activated by the occurrence of a disease, continue to confer resistance against that disease. Classic examples are the antibodies of the childhood diseases Chickenpox and Measles.

While the second characteristic of antibodies makes it possible to develop vaccines, it is the first characteristic – their specificity – that makes monoclonal antibody technology so valuable. Not only can antibodies be used therapeutically to protect against disease, they can also help to diagnose a wide variety of illnesses, and can detect the presence of drugs, viral and bacterial products, and other unusual or abnormal substances in the blood. Given such a diversity of uses for these disease-fighting substances, their production in pure quantities has been a focus of scientific investigation.

Monoclonal antibody technology allows scientists to produce large amounts of pure antibodies by obtaining cells that produce them naturally, and growing them continually in cell culture. Because selected cells produce only one specific antibody, they are “purer” than the polyclonal antibodies produced by conventional techniques. As such, they are potentially more effective than conventional drugs in fighting disease, since polyclonal-based drugs attack not only the foreign substance, but the body's own cells as well, which can produce undesirable side-effects, such as nausea and allergic reactions. Monoclonal antibodies attack only the target molecule, with either none, or greatly diminished, side-effects.

Renhuang's management believes that the Monoclonal Antibody Reagent Box segment has huge upside potential. It cites that Chinese companies in the Monoclonal Antibody Reagent Box industry are small to mid-sized privately-owned enterprises without little to no government support. Due to the huge population and potential market in China, this product area is already being pursued by some pharmaceutical companies. The company has hired a team of research scientists, graduates of top universities in the United States, who are trained in the most advanced technology in this field. Products from this group have proven to be 60% more effective, at 50% less production cost, when compared with other products from Renhuang's competitors.

Product Sales & Revenues

Acanthopanax Products

Renhuang's 70% control of China's Acanthopanax gives it a considerable strategic advantage, not only because of its greater abundance in Heilongjiang Province, but also because product demand has become greater than available supply. In 1980s, the annual production level was about 10,000 tons. Due to excessive harvesting and damage, the production of Wild Acanthopanax significantly decreased. At the end of 1990s, production was around 2,000 tons and declining; by 2004, it had decreased to 1,000 tons.

The ingredients for Acanthopanax medicine are mostly derived from Wild Acanthopanax. Due to favorable conditions and temperature in the Heilongjiang Province, 90% of the Wild Acanthopanax that is suitable for medicine comes from Heilongjiang. Human cultivated Acanthopanax in other areas does not reach the same drug efficacy as Wild Acanthopanax. Consequently, most of the pharmaceutical companies producing Acanthopanax medicines are located in the Heilongjiang Province. Due to the limited supply of Wild Acanthopanax, and increased recognition of its medical benefits, the demand for Acanthopanax is greater than available supply. It is estimated that the demand for Acanthopanax worldwide increased tenfold in the last five years. As a result, the price of Wild Acanthopanax has steadily been increasing. In 2000, for example, the price of a kilogram of Wild Acanthopanax was 0.5 RMB/ (about US \$0.062/kg) and to date has increased some 400% to 2.5 RMB (around US \$0.31).

At 50 percent of all production, China is the leading ginseng producer, followed by South Korea (32%), the United States (7.5%), Japan (2.3%), Canada (2.2%) and North Korea (1.2%).

Because Wild Acanthopanax resources might not be sufficient to meet rapid growing demand, Renhuang has started to cultivate Acanthopanax manually, with 60 million square feet of cultivation area. Cultivated Acanthopanax from Renhuang achieves in all material respects the same effects as the Wild, due mainly to Renhuang's use of Wild Acanthopanax seeds and other production methods, as well as the extraordinarily favorable climate conditions in Heilongjiang Province.

Renhuang has successfully developed a new withdrawing technology in the processing of Acanthopanax that lowers production costs by 30%. Regulatory bodies have granted Renhuang the right to set the standards for new Acanthopanax medicine, which will enhance industry quality standard. There are a number of smaller, unregulated companies in the industry that, due to the increased regulation and standards, Renhuang believes will not be able to comply with the new requirements. As a consequence, Renhuang could see its market share increase.

Renhuang's stated goal is to be identified as the leading manufacturer of Acanthopanax products, and through increased market awareness, it further anticipates that its competitive edge in Acanthopanax will ultimately be recognized outside of China. Although no specific partnerships have been announced as yet, the company has stated that it does intend to expand sales of Acanthopanax in international markets. Currently, sales outside of China are about 5%.

The acquisition of the Dongfanghong Pharmaceutical Co. (DFH) in 2003 was an important step forward in enabling Renhuang to expand its Acanthopanax products, and its share of the Acanthopanax market. In the year following the acquisition, Renhuang increased Acanthopanax efficiency and production capabilities to boost its market share to 10%. Since 2003, revenues have grown steadily, from US \$3.75 million in 2004, and US \$8.8 million in 2005. For the six months from November 1, 2005 to April 30, 2006, historically the "busy season" for Acanthopanax sales, the plant generated US \$9.6 million in revenue, and for the balance of the year (May 1, 2006 to October 31, 2006) the plant generated US \$6.5 million in revenue. As of the Third Quarter 2007 ended July 31, gross revenues from Acanthopanax accounted for 53%, or \$11.1 million.

The market for Acanthopanax products in China is estimated at \$50 million, and is projected to grow at an average annual rate of 30%. Since 2003, Renhuang's share of it has grown from 10%

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to 25%, bolstered in large measure by the DFH acquisition. With the more recent acquisition of the Qingyang Herbal Extracting Factory in March 2007, Renhuang expects its Acanthopanax output to double, and management's goal is to increase the company's current market share from 25%, to more than 50% within the next 3-5 years. If the company achieves this goal, and based on the expected annual growth rate extrapolated out to 3 years, this potentially represents some \$55 million in gross revenue from Acanthopanax sales.

Shark Power Healthcare Products

The retail price of Shark Power Healthcare products has historically been lower than the price of competitors' products, because of Renhuang's lower raw material costs. These raw materials are purchased via Australia at prices that are about 30% lower than those from coastal areas in China, where most competitors purchase their materials. The savings are thus passed on to the consumer, which the company believes contributes to higher volumes and increased profits from this product line.

Another factor that management believes gives them a competitive edge in this segment is that the Shark Power Healthcare products line has received Good Manufacturing Practice (GMP) certificates from the Chinese SFDA, whereas most healthcare products produced in China have not received such approval. The products are also distributed through hospital channels, which is not the case for most of its competing healthcare products.

Sales revenues from Shark Power Healthcare products, while up overall about 22% since 2004, have still fluctuated, largely as a result of management's increasing focus on the more lucrative Acanthopanax product line. For example, Shark Power Healthcare products accounted for 25% of Renhuang's total revenue in 2005, and for FY 2007 will average about 18%. Renhuang's total share of China's Shark Power Healthcare products market accounts for 20%. Even with the stronger marketing focus on Acanthopanax products, the company still projects that its market share of Shark Power Healthcare products can reach 60% in the next 3-5 years, because of its lower production costs and with additional investment in advertising. As of the quarter ending July 31, 2007, annual gross sales revenues from this product line were about \$3.7 million USD, (equivalent to 2006) as compared to US \$5 million in 2005.

Traditional Chinese Medicine

Since 2005, annual revenue from traditional medicine products is averaging 31%, with a 12% leap between 2005 and 2006. The company designates those products that it believes are among the most promising as "Star" products. Renhuang owns 40 medical products with GMP certificates, of which some "Star" products reach top sales among the same products by competitors.

"Tianma Pills" and "Tornado Pills" are "Three Star" traditional medicines used for treating headache in China. Although Western headache medicines have larger market share in China, they have also been shown to have larger side-effects. Research reveals that most other Chinese traditional medicines have fewer side effects, but cannot reach the same curative effects as Western medicines. The company has reported that Renhuang's Tianma and Tornado pills have succeeded in achieving visible curative effects, with little or no side-effects.

While final sales numbers for 2007 will await the end of the fiscal year, both products have experienced a sales growth rate in excess of 100% from 2004. In 2005, sales revenue from Tianma Pills reached more than US \$2.1 million, while those for Tornado Pills reached US \$2.0 million. In 2006, sales levels of US \$2.45 million and US \$2.23 million, respectively, were achieved. Another "Star" medicine is its women's oriented Shengmai Granulate preparation, which saw sales increase by more than 50% between 2004 and 2006.

Renhuang's other traditional medicine products, while accounting for lesser revenue levels, have achieved brand recognition in the Chinese market, and thus generate relatively stable annual revenues. As Renhuang expands its product offerings, the company anticipates that some of these other products will be replaced by higher margin products.

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With regard to development-stage products, Renhuang has stated that in 2007, it plans to launch its Lysozyme Enzyme Products in the food antiseptic area, which it believes is the largest potential market for Lysozyme. The company currently estimates that it will be able to achieve up to 80% cost savings compared to competitive products produced outside of China. Renhuang's products from this group have proven to be 60% more reliable, with 50% lower production costs than competitive products. Management regards this as a huge potential market, and estimates the company can achieve an annual revenue growth rate of 100% in the next 5 years.

Also expected to offer substantial market opportunities is the company's projected line of Monoclonal Antibody Reagent products. According to the report "Biotechnology In China" published by Datamonitor, China's biotech market value was 41.9 billion RMB (US \$5.1 billion) in 2003, and growing at a CAGR of 25%. Other statistics cited by Renhuang for 2000 indicate sales volume of medicine and health-care products, including gene products, vaccines, diagnosis reagents, some antibiotics, amino acids for medical use, vitamins, blood products, bio-chemical medicines and some functional food was 9 billion RMB (US \$1.09 billion), accounting for 45 percent of the total sales volume. The sales volume of diagnosis reagent products was 3 billion RMB (US \$0.36 billion), one third of above volume.

Renhuang believes its opportunity lies in the fact that 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 very small. For example, estimated production capacity for 2004 was around \$185 million, a niche market when compared to other developed countries. Due to China's large population and market size, this area is already being pursued by other pharmaceutical companies. Renhuang reports that more than five of its Monoclonal Antibody Reagent Box products are estimated to receive GMP certificates and will be launched during calendar year 2007. The company is also in the process of building its own monoclonal antibody center to produce the necessary raw material for the products. As with its Lysozyme Enzyme products, Renhuang's management projects the Monoclonal Antibody Reagent Box segment can achieve 100% annual growth rate in sales over the next 5 years.

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Pharmaceutical & Biotech Markets in China

Pharmaceuticals

Varying estimates on the number of pharmaceutical companies operating in China have been put at between 7,600 and 5,000. According to official data released by the SFDA, China has about 2,700 pharmaceutical manufacturers that have obtained Chinese GMP certification, and Renhuang Pharmaceuticals is counted among these. Of these companies, 90% are medium to small-sized. Only about 250 manufacturers in China have revenues in excess of RMB100 million (\$12.77 million). Renhuang estimates its current share of this market to be about 3%, based on its existing annual production capacity.

The top-ten manufacturers now account for 13% of the industry's total sales revenue, a much lower share compared with the top 10 pharmas in mature markets (40–50%). This helps to explain the increased M&A activity and foreign investment in Chinese pharmaceutical and biotech companies over the past two years. China is currently ranked as the 9th largest global pharmaceutical market, and is projected to become the fifth largest by 2010.

Also contributing have been stepped-up initiatives by the Chinese government to tighten regulation of the pharmaceutical industry. The SARS crisis of 2003 forced the government to examine the Chinese health infrastructure in great detail, and healthcare has become a major priority. These initiatives have also been aimed at addressing complaints from overseas companies of Intellectual Property (IP) violations. According to a report issued by the independent research company Espicom, the infringement of patents is a new concept in China that some companies have resisted, and while it has resulted in some Chinese drug companies ceasing operations, it's also contributed to the rise in M&A activity between both domestic and foreign drug-makers.

The overhaul of the Chinese pharmaceutical industry has also been a priority with respect to government spending. Figures released in September 2007 indicate that the Chinese government invested RMB 300.3 billion (USD \$39.9 billion) in R&D in 2006 to augment science and technology, and that it has set the target of investing two per cent of its GDP in R&D by 2010. The nation's economy has been growing at about 9% annually.

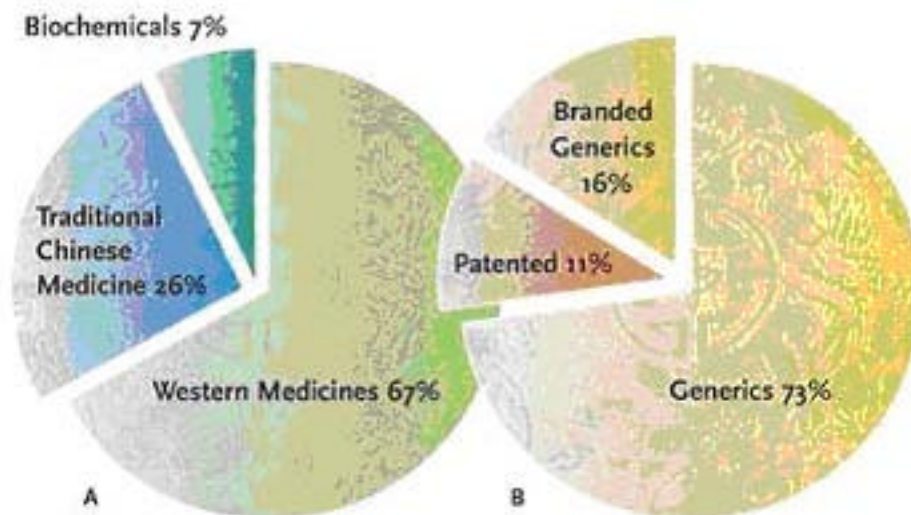
While numbers vary between government and independent research sources, official estimates indicate that between 1978 and 2005, China's pharmaceutical industry achieved an average growth rate of 16% in production value. In 2005, China's pharmaceutical industry revenues grew by 25.78% to RMB 437.28 billion (USD \$55.8 billion). Chemical synthetic medicines, traditional Chinese herbal medicines, biological products, and medical devices constitute 93% of the Chinese pharmaceutical market. The industry achieved a total of RMB 36.71 billion (USD \$46.89 billion) profits in the same year, an 18.63% increase over 2004. Traditional Chinese Medicine products account for about 26% of the country's pharmaceutical sales. Industry profits are nevertheless likely to be moderated to a degree, as China's pricing authorities have been taking ongoing steps make drug prices more affordable for Chinese citizens.

The pharmaceutical market is generally segmented between prescription drugs, and the non-prescription, over-the-counter (OTC) market. Industry revenues from the prescription medicine market are greater, at about 80% of sales.

Most of the recognized brands in China are manufactured by multi-national drug companies with higher market share than domestic brands. According to China Customs data, total revenue from imported drugs were \$11.84 billion in 2005. Among the 2,700 GMP-approved drug companies producing the variety of traditional and modern Chinese medical products, total productivity is about 370 thousand tons for 8,000 different types of finished products. Furthermore, Chinese drug companies produce 300 different types biotech products including vaccines, toxoid, antiserum, blood products, diagnosing reagent for internal and external use. The Chinese medical device market has also experience growth, leaping into third place in 2005, behind the U.S. and Japan, at 54.8 billion RMB (USD \$7.0 billion). However, domestic products still

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accounted for just 30% of the Chinese market, while imported medical devices dominated with 70%.



Market Shares of various pharmaceutical products (source: Renhuang Pharmaceuticals, Inc.)

Despite the rapid pace of growth of the Chinese pharmaceutical industry, which has echoed that of China's economic expansion, the industry is still very much in the midst of building out its infrastructure. For instance, most drug companies in China produce low quantities of a large number of products, and large companies are producing similar drugs. Many of these products are based on "low" technology and obsolete production methods. It is common for companies to have minimal or no R&D departments, and consequently, fewer new drugs have been brought to the market. This is one issue that the government's increased spending on R&D is meant to address. The industry is also considered to be highly fragmented, and GMP approval has also become harder to attain, due to the climate of stricter regulation. As such, increased competition within the industry is expected to bring about further consolidation and M&A activity, which ultimately benefits the most solid companies. Renhuang itself has grown in part through acquisitions, and expects that it will continue to do so as opportunistic circumstance may arise.

On the demand side, Renhuang's management believes that the net growth of China's aging population will support the demand for drug consumption, as will rising the living standards brought about by the country's rapid economic growth. Average drug consumption per capita in China is still 50% lower than for other mid-developed countries, so there remains a considerable margin for further growth. A key priority area for the Chinese government that should also impact demand includes elevating the standard of healthcare in rural areas, which for many years has differed markedly in its quality to that in urban areas. Medical personnel in these impoverished regions are now required to pass a more advanced series of qualifications in order to be recognized by the government. The central government's commitment to keeping drug prices affordable is also expected to positively impact demand.

Biotechnology

The biotechnology market in China consists of agricultural biotechnology, biopharmaceutical, industrial biotechnology, biological resources technology, and environmental biotechnology, with agricultural and biopharmaceutical segments being the prime drivers of growth. As one of its major priority areas, the Chinese government has invested about \$1.45 billion since 2001 to boost the development of the nation's biotechnology industry. According to government statistics, China's biological product market (which generally includes gene engineering drugs, vaccines, antibodies, and blood products) surpassed \$2.5 billion in 2004 and is growing in excess of 13% per year. By 2010, it is projected to reach about \$9 billion. With the government's increased

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investment, biotech engineering and bio-drugs are making considerable progress, and a series of key technologies are being developed.

While the Chinese biotech R&D industry has made important strides to become more competitive, like any nascent industry, it is still going through its growing pains. To a large extent, it has also been forced to grow up quickly, both to keep pace with its expanding economy, and in the face of external competition within its own markets. There remains, for instance, insufficient self-owned Intellectual Property, and as noted earlier, the appropriation of external IP by some companies has been an issue with which the government has been grappling. Even with increased investment, resources are also still lacking. Except for the few and most well-heeled of firms, most smaller Chinese biotech companies are generally forced to import essential technologies and equipment to outfit their labs. A 2007 study published by the UK firm Pharmalicensing, Ltd also reports that while China has an estimated 20,000 research scientists, the R&D processes used by multinationals are not yet widely employed in Chinese companies. Increasing competition from multinationals, however, is likely to force quicker adoption.

But even with its growing pains, there are some world-class biotech research institutions, including the North and South Centers of Human Genome Research, which actively contributed to the international effort to sequence the human genome. Per an article published by BioSpectrum Asia, biopharma and agribiotech are leading the industry's growth. Currently, China is home to more than 400 biopharmaceutical companies and is fast becoming one of the key outsourcing hubs for the sector in the world. In the agricultural biotech space, China is second after the US in terms of investment, and agribiotech represents about 37% of the total biotechnology market's value. Growth in agricultural biotechnology will be fueled by the increased need for food grains, with China expected to increase grain yield per hectare by 50-60 percent to cater to an increasing population. Rice, wheat, corn, cotton, soybean and canola crops are the main commodities expected to be genetically-modified by 2010.

Besides the Chinese government's massive and on-going investment in biotech, external capital from major multinational firms is working its way into the market. While regulatory attitudes towards foreign enterprises have been increasingly relaxed, entry into China's biotech market still isn't a simple process for Western companies. Investment from Western outfits has therefore come for the most part via joint ventures with local firms, the setting up manufacturing bases in China, and the outsourcing of R&D to local firms. In March 2007, for example, Charles River Labs, an American medical research and services company, set up a joint venture with Shanghai BioExplorer, to provide early-stage drug development services. China currently has about 750 R&D centers supported by foreign capital in the form of joint ventures. With major Western companies expected to invest substantially in China to tap its vast market, it creates significant opportunities for well-established local biotech outfits to attract investment from foreign biotech enterprises looking for a Chinese partner.

Capital has also been working its way into the market in the form of local and external VC funds and private equity funds. According to data released at the China Venture Capital Semi-Annual Forum conference held in Beijing July 11-12, \$2.7 billion in VC funding was raised in the first half of 2007, with biotechs comprising 7% of the total. In private equity, the value of investment deals held steady at \$2.4 billion. Bio/healthcare comprised 5.3% of the total. Total M&A activity generated \$2.1 billion, including four M&A deals in the bio/healthcare area, worth a total of \$129 million.

An increasing number of Chinese biopharma companies are also seeking to tap the U.S. equity markets, as part of an overall increase in Chinese company IPO and reverse merger activity. The China Economic Review reported on October 8th that, 16 Chinese companies launched IPOs this year, raising more than \$3 billion in the U.S. The previous U.S. high was 11 in 2004.

Sales & Marketing

Renhuang is a technology-oriented niche company that has developed name recognition for the quality of its products. It primarily markets its products through four business channels: OTC Market, Direct Sales, Wholesale, and Raw Materials. Renhuang's products are being sold by more than 2,000 sales people distributed among 70 sales offices in 24 regions across Mainland China. The company has established important sales alliances with distributors who have strong channel relationships, but lack manufacturing or product development capabilities.

The importance of these strong relationships and alliances with distributors cannot be understated. In China, the pharmaceutical distributor plays a more significant role than elsewhere in the world in the sale of pharmaceutical products. While in the United States, a distributor is primarily used as a delivery service to move product from the warehouse to the hospital, in China, distributors play a central role in negotiations with hospitals, including negotiating prices. Hospitals are a central sales point for prescription drugs, which is why it is key to have a well-established distributor that has been doing business with the hospitals and has built up relationships over the years.

Renhuang has a customer base of several thousand, and no single customer accounts for more than 5% of total sales, or of any product group. The company's first and primary target market is China, where a growing middle class and an overall demand for improved healthcare has created a sustainable need for quality healthcare products. The Chinese market represents about 95-96 percent of company sales, with the balance coming from Russia and Asia. Further penetration of these secondary markets, as well as the United States and Europe, is planned, particularly in light of the growing external demand for Acanthopanax, and the company's rather unique and advantageous position in its cultivation and product manufacturing.

Renhuang utilizes a four-pronged approach to achieve its marketing and sales goals:

First, the goal is to build brand names for its products, which is well under way. 90% of the Chinese population lives in lower income rural areas, and are thus a key segment for development. Renhuang has devised a strategy targeted to the lower income consumer that makes prices more accessible by using its own sales personnel to eliminate middleman expenses. Through this strategy, the company expects that its traditional drugs will have a relatively high level of penetration in these areas.

Secondly, Renhuang uses key cities like Beijing and Shanghai as geographical sales centers to build its brands with the established distribution centers that distribute to major drug chain stores in the urban and suburban areas around the city. Their approach is to use selected cities as sample targets, supported by initial promotion and investments, enabling product entry into the well-known drug chain stores. In addition, the company is pursuing multiple sales channels.

Thirdly, the company focuses on top-level hospitals in the country, which have the highest quality standards and stringent approval procedures for new products and brands. Traditionally, hospitals in China are divided into different tiers according to the functions they perform. Junior level hospitals, for example, serve only small areas, mid-level hospitals serve several areas, and senior level hospitals handle wider regions. By focusing on the top tier hospitals, Renhuang's strategy is to work from the top down to gain access to the mid and junior level hospitals, as its brands and products are being established in the top tier group. This is a key strategy for the company, since hospitals represent the majority of pharmaceutical sales at 80%.

Fourth, Renhuang uses exclusive technology and absolute resource control of Acanthopanax to promote products in the domestic media, including television, radio, newspaper, magazine and trade publications. At a more mature stage of its domestic coverage, the company anticipates that it will have a substantial impact with its Lysozyme and Hyperoxide Mutase products through its proprietary innovations and core technology as they gain recognition and are appraised by established specialists.

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Sales Team & Network

Renhuang has a fairly large sales network. With more than 70 sales centers organized under 24 districts and more than 2,000 sales people, product sales offices cover 50% of greater China, and an estimated 80% of the geographical target area. Due to the fact that rural areas in western China are less populated, the company has concentrated its main efforts in eastern China via its network of sales offices, as illustrated below.



Each sales office is run by a general representative officer, responsible for full time managerial and financial functions. The vast majority of the regular sales force is commission based. In conjunction with the general sales managers, provincial managers and regional managers, the company set its sales targets at the beginning of every year. Based on monthly sales reports and general control mechanisms, the budget is revised as needed. The sales team quantifies its targets to realize sales goals, which serves as the basis through which the team is incentivised and rewarded as sales targets are met and exceeded.

Below are sales channels related to Renhuang's leading products:

Marketing Model	Share of Revenues	Products Selling	Payment Time Frame
Raw Materials	7% of total revenue	Acanthopanax raw materials	Payment schedule, between 1 - 5 months.
OTC	48% of total revenue	Acanthopanax final products, Tianmai Pills and Shengmai Granulate.	Payment for first shipment in conjunction with second delivery, 1 - 3 months.
Direct Selling	30% of total revenue	Shark Power health care, and Acanthopanax final products.	Cash Payment
Wholesale Products	15% of total revenue	Acanthopanax final products and Tornado Pills.	Payment calculated and paid monthly when products sold.

Key Competitors

Renhuang's key competitors consist of those engaged in the development and manufacturing of similar bio-pharmaceuticals, nutraceuticals and Traditional Medicine products, and most directly, those that are geographically located in Northeast China. Some are privately held, and others are listed on the U.S. equities market. Since the privately held firms are not required to file public reports, information was gathered from non-public sources disclosed to Renhuang, as well as our own survey of publicly available information.

Acanthopanax Competitors

Wusuli River Pharmacy - Privately Held

With its Sales Management Center situated in Harbin, Heilongjiang, Wusuli River Pharmacy's main Acanthopanax products are fluid acupuncture, and secondarily Acanthopanax pills, with 15 million RMB (about US \$7.8 million) in revenue from Acanthopanax. The company's sales and marketing force numbers about 850.

Heilongjiang Wandashan Pharmacy - Privately Held

Wandashan Pharmaceutical Factory was founded in 1961, and has 698 employees. General assets were valued at about RMB 150 million (US \$18.1 million) at the end of 2000. The company's products include the Wilsonii-based medicines, Shuanghuanglian (honeysuckle), and Acanthopanax. In the Acanthopanax area, products include fluid acupuncture, powder acupuncture and Acanthopanax drinks, generating 50 million RMB (about US \$6.2 million) in revenue from fluid acupuncture, and 30 million RMB (about US \$3.8 million) revenue from powder acupuncture.

Heilongjiang Zhenbaodao Pharmacy - Privately Held

The company's main Acanthopanax products are fluid acupuncture and Acanthopanax drop pill (which was awaiting GMP approval at the time of review), generating 12 million RMB (about US \$1.5 million) in sales.

Heilongjiang Tielihongye Pharmacy - Privately Held

In the Acanthopanax area, the company's main products are Acanthopanax pills and syrup, which generated 6 million RMB (about US \$750 thousand) in sales.

Shark Power Healthcare Product Competitors

Sirio Pharma Co.Ltd. - Privately Held

Sirio was established in 1993 for soft gel production, and from 1993 to 1999, was only engaged in producing and marketing medicines under its own brand. After 1999, Sirio revised its business model to become a full-service contract manufacturer and bulk seller of soft gel capsules. The company serves domestic clients and foreign customers, with exports representing about 40% of its total share. A catalogue of Chinese companies updated in November 2006 indicated Sirio's annual sales as between US\$5-US\$10 Million.

Shanghai Jonya Marine Biological Engineering Co., LTD - Privately Held

The company was created in December 2000, under the approval of the Shanghai Municipal Government, from an initiative of Shanghai Fisheries Group General Corp. It is a GMP-approved, vertically integrated manufacturer, researcher, developer and marketer of medicine and nutritional supplements in China. Its Tunghai Pharmaceutical Works subsidiary has been in existence for fifty years, and was the first fish liver oil manufacturer in China. Weisheng Medicine Co. is another subsidiary of Jonya, whose business consists of wholesale vitamins, local and imported medicines, biochemical culture media, animal and poultry medicines, Chinese traditional medicine, and nutritional supplements. Sales and revenues figures were not publicly available. The company was launched with registered capital of RMB 40 million (\$US 4.83 million).

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Guangzhou Xingqun Pharmaceutical Co. (Non-U.S. Public Co.)

Guangzhou Xingqun Pharmaceutical Co., Ltd., was founded in June 1993, and is a member of Guangzhou Pharmaceutical Corporation. While not listed in the U.S., the company is listed on the Hong Kong and Shanghai stock exchanges. Growing out of Guangzhou Xingqun Pharmaceutical Factory founded in 1950, the firm has over 500 employees, 33% percent of which are various professional technicians. The company reports annual sales of nearly RMB 300 million (USD \$40 million) and annual profits and taxes of over RMB 50 million (USD \$6.7 million). Guangzhou produces traditional Chinese medicines and chemical medicines including granules, soft capsules, hard capsules, syrups, oral solutions and liniments. Its main products include Xiasangju Granules, "An Shen Bu Nao Ye" (an oral solution for soothing the nerves), Ertian Oil, Vitamin E Soft Capsules and Evening Primrose Soft Capsules.

Monoclonal Antibody Reagent Product Competitors

Beijing BGI-GBI Biotech Co., Ltd - Privately Held

The company was founded in 1994, and is a recognized leader in the Chinese diagnostic industry. One of its acknowledged accomplishments was the development of the Diagnostic Kit for Antibody HIV1+2, which contributed to the prevention and control of AIDS in China. It was among the first diagnostic reagent manufacturers to meet GMP regulations in China. The company focuses primarily on the development and manufacturing of immunodiagnostic products. Its customers include blood transfusion services, clinical laboratories and disease control and prevention centers. As an industrial subsidiary of the Beijing Genomics Institute (BGI), the company was involved in the international Human Genomics Project. BGI's acknowledged technical advantage in life sciences also helps BGI-GBI Biotech's development in the diagnostic area. BGI intends to make itself an integrated group of scientific research, technical development and industrialization. BGI has established both a research-oriented infrastructure consisting of a genomics group, a proteomics group, a bioinformatics group and a high throughput drug-screening group; and a market-oriented infrastructure focusing on diagnostic products and technical services. Revenue numbers were not publicly available.

Beijing WanTai Biological Pharmacy Enterprise Co., Ltd. - Privately Held

Founded in 1991 and developed from a small laboratory, Beijing Wantai Biological Pharmacy Enterprise Co., Ltd., is a private company, invested in by the Yangshengtang Group, a well-known Chinese pharmaceutical, mineral water and health care product holding company. The company is focused on the research, development, production and commercialization of In-Vitro Diagnostic (IVD) products and vaccines. Wantai was the first IVD manufacturer in China with quality management systems and manufacturing facilities to be certified from the SFDA with a GMP certificate in 2002. Its research and marketing efforts extend to the fields of clinical testing, disease control and prevention, and blood screening. Total annual sales volume for 2002 was given as "above US\$100 million."

Shanghai Shisheng Cell Bio-tech Co., Ltd - Privately Held

Renhuang cites Shanghai Shisheng Cell Bio-tech Co., Ltd as a biotech competitor. Some available scientific literature notes the company to have participated in cancer studies through the provision of cell cultures, however, details about the company and its revenue numbers were not otherwise available.

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U.S. Publicly Traded Competitors

The YaSheng Group (YHGG.PK)

The YaSheng Group is a diversified industrial conglomerate incorporated in Redwood City, California, and with its operations based primarily in the Gansu Province of Northwest China. The company trades in the U.S. on the "Pink Sheets," and cites its operating categories as chemical engineering, agricultural production, biotech, pharmaceuticals, textile products, printing and dyeing, commercial trading, beverages and inorganic salt manufacturing. The company reported total assets in 2006 of approximately USD \$1.5 billion and over 15,000 employees. FY 2006 gross profit was reported as USD \$115.9 million, and net income as USD \$62.9 million. YaSheng's product line is generally distinct from that of Renhuang, although both companies do compete more directly in Lysozyme research. YaSheng announced in 2005 that it was awarded a patent for a newly developed Lysozyme technology that reportedly can eliminate bacteria effectively without harmful side-effects, and was building a plant for its production. Total revenue expected from the new plant was US \$816 million over the next four years; however, the company has published no recent information on the status of the project, or what percentage of revenues for 2006 may have been contributed by this undertaking.

American Oriental Bioengineering Inc. (AOB-NYSE)

AOB, together with its subsidiaries, engages in the development, manufacture, and commercialization of plant-based pharmaceutical (PBP) and plant-based nutraceutical (PBN) products. Its PBP products include Shuanghuanlian Lyophilized injection powder, an anti-viral injection for treating respiratory diseases; Cease Enuresis Soft Gel and Patch, a prescription medicine formulated to help alleviate bed-wetting and incontinence, as well as offers over-the-counter drugs, such as Jinji capsules and pills to treat endometritis, annexitis, and pelvic inflammations; and Double Ginseng Yishen grains for people suffering from neurosis, vegetative nerve functional disturbance, and hypo-immunity. The company's PBN products include soy peptide products series, which offers soy peptide tablets, powder, and coffee; and compound bio-functional beverage that is derived from honey products, marine plants, and natural herbs. It sells its products directly to retail stores, pharmacies, hospitals, and to independent distributors. AOB is based in Shenzhen, a city in Southeast China. Net tangible assets at the end of 2006 were reported at USD \$120 million. Gross profits were USD \$71.9 million and net income was USD \$29.2 million. AOB's initial listing history is similar to Renhuang, in that it came to the U.S. market via a reverse merger in 2001, and traded for a time on the OTCBB. Eventually, the stock migrated to the AMEX exchange, and in 2006, to the NYSE. AOB's business model has been growth through acquisition, which it has carried out effectively. The company competes most directly with Renhuang in the nutraceutical space, where it offers a broad line of plant and animal derived products, including ginseng based products.

China Kangtai Cactus Bio-Tech, Inc. (CKGT.OB)

China Kangtai Cactus is principally engaged in the production, R&D, sales and marketing of products derived from cacti. Its product lines include cactus nutraceuticals, cactus nutritional food and drinks, as well as cactus raw and intermediate materials. The company operates cactus-farming bases in Heilongjiang and Guangdong, and has its main office in Harbin. CKGT predominantly grows three species of cacti which are used for cactus fruit drinks and nutraceutical products. The company's annual production capability of cactus fruits and edible cacti in 2006 was 60,000 tons. CKGT came to the U.S. equity market a year before Renhuang, also via a reverse merger, and currently trades on the OTCBB. Despite the "bio-tech" in its name, the company is more focused on developing and marketing cactus-based consumer products, an area in which it is indeed the leader, with an approximately 60% market share of China's edible cactus production industry. While their respective product lines are clearly distinct, CKGT and Renhuang are hometown competitors in the nutraceutical space. For the year ended 2006, CKGT reported gross profit of USD \$3.32 million, and net income of USD \$1.43 million. Assets were reported at USD \$15 million.

Competitive Advantages

Clearly, Renhuang's control of 70% of China's Wild Acanthopanax gives it a fairly unparalleled strategic advantage in this market. As long as demand remains strong and continues to grow for Acanthopanax-derived products, Renhuang should be able to assert its dominant position in this market and continue expanding its share into the future.

The Dongfanghong acquisition in 2003, and the Qingyang Herbal Extracting Factory in acquisition 2007, which effectively gave it control of the Wild Acanthopanax crop in China and the ability double its production, were clever, strategic moves on the part of management to further secure the company's Acanthopanax leadership, and literally take the product from seed to shelf. Further efforts and acquisitions that expand production would only serve to enhance its leadership even more.

While the company does face stiffer competition in the development of Lysozyme and Monoclonal Antibody Reagent products, Renhuang believes that its advantages lie in the quality of the technology, and in its ability to hold down costs. For example, management states that based on the company's preliminary research, its Lysozyme products can be used in food antiseptics, and have 40% higher sterilization effects than chemical antiseptics, with 80% lower costs than the same products manufactured outside of China. Management further believes that given the size of the potential market in China, there are few companies with the ability to produce Lysozyme products on a large scale.

In the Monoclonal Antibody Reagent category, the company also believes that large-scale production capacity would also be an issue for a number of its competitors. At the product level, Renhuang's Monoclonal Antibody Reagent Box for Muscle Calcium Protein Myocardial Infarction is competitive in the market because of its advanced core technology, derived from Chinese research scientists educated in United States who are employed by the company. Renhuang plans to build an antigen antibody storage base with proprietary intellectual property rights, which would open the door to revenues from licensing in the future.

Renhuang's raw materials costs for Shark Power Healthcare products have also been an advantage, allowing the company to make these products more affordable to consumers, as the company is able to pass on its production cost savings in the retail price.

In product marketing, Renhuang has invested significantly to grow its sales network. Renhuang's sales force of over 2,000 is fairly large, and has continued to enlarge its footprint in China. Traditional medicines, which continue to compete well against Western products, have been a key market segment for the company, and through its "Star" products, Renhuang has been able to generate brand recognition, as it continues to build its reputation as a trusted name.

Risk Factors

Financial Risk

For the foreseeable future, the company plans to fund all of its operations, and capital expenditures from cash on hand and potential future internally generated cash flow. Currently, the company believes it has cash on hand to fund its operations and planned expansions. However, changes may occur that could consume its available capital before that time. It would then need to seek additional sources of financing, which may not be available on favorable terms, if at all. Any additional sources of financing will likely involve the issuance of its equity securities, which would have a dilutive effect on its shares.

Regulatory Risk

The company requires approvals from the Chinese SFDA and any FDA-equivalent regulatory authorities in foreign jurisdictions to commercialize its product candidates in those jurisdictions. Such approvals may take years. The results of clinical trials may not support Renhuang's product candidate claims.

Market Risk

The market for Renhuang's product candidates is characterized by intense competition and rapid technological advances. Existing or future competing products may provide greater therapeutic convenience, or clinical or other benefits for a specific indication than its products, or may offer comparable performance at a lower cost. If its products fail to capture and maintain market share, product revenues would suffer.

Intellectual Property Risk

Renhuang's competitive position and future revenues depend in part on its ability and the ability of licensors to obtain and maintain patent protection, and prevent infringement on proprietary rights for its products, methods, processes, technologies, and trade secrets.

Management Risk

Renhuang's success will depend upon the expansion of its operations and the effective management of its growth. To manage this growth, it must expand facilities, augment operational, financial and management systems, and hire and train additional qualified personnel. If it is unable to manage its growth effectively, its business would be harmed.

Key Personnel

The company is highly dependent on key executive officers and principal scientific, regulatory and medical advisors. Their knowledge, managerial and technical expertise would be difficult to replace. Renhuang does not have "key person" life insurance policies on any of its officers. The loss of the technical knowledge or management or industry expertise could result in delays in product development, loss of customers and sales, and diversion of management resources, which could adversely affect its operating results.

Operating Risk

Renhuang's operations are based in China and subject to Chinese regulation. Economic reforms adopted by the Chinese government have had a positive effect on the economic development of the country, but the government could change these economic reforms or any of the legal systems at any time. Additionally, as a manufacturer of pharmaceutical and medical products located in China, Renhuang is a state-licensed company and facility and subject to Chinese regulations and laws.

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Business Risk

The Chinese government exerts substantial influence over the manner in which Chinese companies must conduct business activities. China only recently has permitted provincial and local economic autonomy and private economic activities. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy, or regional or local variations, could have a significant effect on business conditions.

Economic Risk

The Chinese economy has experienced periods of rapid expansion and high rates of inflation. These factors have led to the adoption by Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth to contain inflation. Measures to control future inflation may cause the Chinese government to impose controls on credit and/or prices, or to take other actions, which could inhibit economic activity in China.

Foreign Exchange Risk

As a U.S. listed company with operations based in China, the currency value of Renhuang's securities, inventories, assets and revenues is affected by the foreign exchange rate between the U.S. Dollar and Chinese Renminbi (also known as the Yuan). Although there has been some relaxation in recent years, exchange rates for China's currency are not determined in the open market, and the Chinese government still retains its control over exchange rate policy. There is no guarantee that Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi.

Limited Operating History and Profitability

Although it existed as a privately held company in China, Renhuang has only been a U.S. publicly listed company since September 2006, and there is limited historical financial information upon which to evaluate performance.

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Board of Directors & Senior Management

Directors

Li Shaoming, CEO and Chairman of the Board

Mr. Li has served as the Chairman of the Board of Directors since founding Harbin Renhuang Pharmaceutical Co. Ltd in 1996, and is Renhuang Pharmaceutical's Chief Executive Officer. He has more than 20 years experience in the pharmaceutical and finance industry. From 1984 to 1996, Mr. Li served as Vice Chairman of Shenzhen Health Pharmaceutical Co. Ltd, a company dedicated to drug research, production, and sales. He is a professor at Harbin Business University and Northeastern Agriculture University. Mr. Li also served as Vice Chairman of Heilongjiang Provincial Chinese Traditional Medicine Association and Heilongjiang Provincial Medicine Association. He is a graduate of the Central University of Finance and Economics in Beijing, China with a bachelor degree in finance.

Magnus Moliteus, Independent Director

Mr. Moliteus was the CEO and President of Pharmacia, Inc. from 1977-1999, and played a critical role in successfully transforming Pharmacia AB, the parent company of Pharmacia, Inc., into the first Swedish company to publicly list its shares in the U.S. on the NASDAQ. He currently serves as a board member for several international companies

Andy Wu, Independent Director and Chairman of the Audit Committee

Mr. Wu joined Renhuang's Board in January, 2007, and is currently a Tax Manager at PricewaterhouseCoopers-Beijing Office, responsible for the overall operations of the Dalian office. During 2005, Mr. Wu was an Assistant Tax Manager at KPMG Shanghai, with his main responsibilities involving general tax and business consulting and due diligence work. From August 2004 to March 2005, Mr. Wu was a Senior Tax Consultant with Deloitte's Suzhou Office. From March 1998 to August 2001, Mr. Wu was the Chief Officer of the Collections Division for the Nangang Branch of Harbin State Tax Bureau, where he was responsible for managing the operations of the Division. Mr. Wu received a Doctorate in Finance and Taxation from Xiamen University in June 2004, a Masters in Finance and Taxation from Dongbei University of Finance in January 2001, and his Bachelors in Taxation from Xiamen University in July 1992.

Meng Fanrong, Director

Mr. Meng has served as the Chief Executive Officer of Harbin Venture Capital Ltd. since 2001, and has more than 15 years investment experience in China. In 1997, he participated in the successful Initial Public Listing of Asiapower Investment in Singapore. Mr. Meng also has participated in various international investment banking transactions with private and publicly listed companies. He holds a Master's degree in Finance from Xiamen University.

Senior Management

Pi Dianjun, Chief Operating Officer

Mr., Dianjun has years of management experience in both the pharmaceutical industry and in government offices. He received his Bachelor's degree from Heilongjiang University

Lou Jingwang, Chief Sales & Marketing Officer

Mr. Lou has more than 20 years of management experience in the pharmaceutical industry, project management, sales and marketing, and business development. He holds a Bachelor's degree from Inner Mongolia Medical Management College

Han Yuling, Chief Manufacturing Officer

For more than 17 years, Ms. Han has worked in medicinal technology and R&D, and is specialized in managing research and development, manufacturing process improvement, and the GMP system. She received her Bachelor's degree in Medicinal Chemistry from Jiamusi Medical College.

Mr. Zhang Youzhi, Chief Technology Officer

Mr. Zhang has more than 10 years experience in managing pharmaceutical production, and has a Bachelor's degree in Chinese Medicine from Heilongjiang University of Commerce.

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Cui Yuhai, Chief R&D Officer

Mr. Cui received his Master's degree in Microbiology and Biochemistry from China Medical University, and has 10 years of product development and project management experience in large pharmaceutical companies.

Mr. Wang Zuoliang, Interim Chief Financial Officer

Mr. Wang has served as interim Chief Financial Officer since January 2007. Prior to this, he was hired in 2005 to serve as Chief Accounting Officer of the earlier Harbin Renhuang Pharmaceutical Co. Ltd. Mr. Wang has more than 10 years experience in accounting, and as part of the company's transition and reorganization, is knowledgeable of its financial condition and the internal preparation of its financial statements. From 2004 to 2005, Mr. Wang served as the Chief Financial Officer of Harbin Huijiabei Food Co. Ltd., and from 2001 to 2004, he served as the manager of the accounting department of China Resource Breweries Limited, Harbin Office. Mr. Wang Zuoliang graduated from Qiqihaer Mechanic Institute in 1994 with a bachelor degree in engineering management.

Mr. Liu Guangming, Director, Capital Operations

Mr. Liu has 8 years experience in strategic planning and analysis, competitive intelligence, and business development. He is also experienced in investment and financial management, and holds a Bachelor's degree in Engineering from Anshan Steel College.

He Jiang, Assistant to the CEO and Chairman

Mr. Jiang was hired as special assistant to the CEO in 2004. In this role he is in charge of asset management, risk and crisis management, and internal audit. From 2001 to 2004, prior to joining the company, he was the vice general manager of Heilongjiang Tiansheng High Tech Co. Ltd. In this position, Mr. Jiang was primarily responsible for managing projects, such as, but not limited to, Clean Coal Projects. Mr. Jiang holds a Bachelor's degree in General Management from Jilin University, a Master's degree in Industrial Economics, and an MBA from Harbin University of Commerce.

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Financial Overview

Most Recent Events

On September 19, 2007, Renhuang Pharmaceuticals reported the following results for both the third quarter and the nine months ending July 31, 2007:

* Year to date for the Nine Months Ended July 31, 2007, Renhuang generated \$8.46 million net income, representing a 175% increase, as compared to \$3.08 million net income for the company's operating subsidiary (Renhuang China) for the corresponding period the year prior. The significant year-over-year growth of net income was primarily attributable to substantially lower advertising expenses. Higher advertising expenses in 2006 were mainly due to a more aggressive marketing campaign aimed at increasing the brand recognition in the South of China. Moreover, the company's effort in streamlining its management process and controlling costs after it went public in the U.S. in September last year contributed to reduced general and administrative expenses year-over-year.

* For the Three Months Ended July 31, 2007, third quarter 2007 net income was \$2.01 million, as compared to net income of \$2.66 million in Q2 2007, and net income of \$2.62 million in the third quarter of 2006. Net sales for the Q3 2007 were \$5.07 million, as compared to \$6.96 million in Q2 2007, and \$5.41 million in Q3 2006.

* Gross profit margins for the Three Months Ended July 31, 2007 were 51% as compared to 55% in Q2 2007, and 56% in Q3 2006. Net profit margins showed a 2% improvement in Q3 2007 from Q2 2007, which were reported as 40% and 38% respectively. By comparison, the third quarter net profit margin in 2006 was 48%.

* Although total revenues of \$5.07 million for the third quarter of 2007 represented a 6% decrease compared to \$5.41 million from the same period in 2006, the company cites production down time due to maintenance typically scheduled in the third quarter (the seasonally slowest of the year) as contributing to the sales decrease. Additionally, in an effort to improve accounts receivable, the Company worked extensively in Q3 with its customers and slowed order shipments to some who were late on payments, which resulted in slower sales. These improved efficiencies enabled the company to substantially reduce its Trade Receivables balance by \$4.31 from Q2, representing a 36% quarter-over-quarter improvement.

* Cash Flow: Net cash from operating activities for the Three Months Ended July 31, 2007 was \$8.4 million, an increase of 40% from Q2. Net free cash was reported as \$53,660. This was the result of an investment opportunity made as a short-term loan on July 30, which the company considered low-risk. The loan amount was 72M RMB (US\$9.5M), and was made at an interest rate of 7.2%/year. The company reports the loan was returned in full a month later on August 30th, and paid 432,000 RMB (US\$57,000) in interest.

Earnings Considerations

Key factors that could help drive future revenues for Renhuang Pharmaceuticals include:

Strong Competitive Position: As noted, Renhuang controls an estimated 70% of Acanthopanax, giving it a dominant position in this market. Its new line of Lysozyme and Monoclonal Antibody Reagents also offers the company an important lead in this area product development.

Ramped Up Production: In March 2007, Renhuang acquired the assets of the Qingyang Herbal Extracting Factory. Also located in Harbin, China, the factory processes raw herbal plants into extracts – the intermediate material for Chinese herbal medicine finished products. The acquired facility is capable of processing approximately 18,000 tons of herbal raw materials like Acanthopanax into extracts, thus doubling Renhuang's herbal extraction capacity. The acquisition of the factory will significantly lower overall production costs by providing better

Research Report: Renhuang Pharmaceuticals, Inc.

integration between Renhuang's raw material processing and its finished products manufacturing, as it comes fully online in mid-2008.

Tax Advantages of Operating in China: Under income tax laws applicable to wholly foreign owned enterprises operating in the PRC, Renhuang's profits are fully exempt from income tax for two years commencing from the first profit making year of operations, followed by a 50% exemption for the immediate next three years, after which the profits of the company will be taxable at the full rate, currently 33%. Additionally, while Renhuang would be further subject to state and local income taxes within the PRC, the company is entitled to full exemption from corporation income taxes up to December 2007. From 2008 onwards, the company will also receive a special income tax rate of 15% on state and local income taxes. Consequently, Renhuang will enjoy significant tax savings through 2010, and relaxed taxation thereafter. By way of comparison, for the nine months ending July 31, 2007, gross profits would have been reduced by an additional 27% were it not for these tax incentives.

Strong Management: Over the first year of its operations as a U.S. public company, Renhuang's management has shown itself to be effective in implementing cost controls, cutting unnecessary administrative and operating expenses that were reducing net income. As noted, management has also made a dedicated effort to boost its collection of receivables from late-paying clients. Thirdly, we believe the acquisition of the Qingyang Herbal Extracting Factory was a value added move by management to further buttress Renhuang's strong position and increase its production capacity.

Valuation

We currently maintain a Buy rating on Renhuang Pharmaceuticals, with a 12-month price target of \$5.00. Taking into account the stronger seasonality, continued improved cost efficiencies and the ability to bring more production online, we think it not unreasonable for Renhuang to have a slightly stronger finish for FY 2007 as it begins to take advantage of stepped-up production going into the end of the fiscal year (October 31). We further believe it possible for the company to achieve twice FY 2007 revenues, as it will be able to double production output once the resources of the Qingyang Herbal Extracting Factory are fully put online in 2008. Because of the reorganization and change in fiscal year that Renhuang underwent when it became a U.S. publicly traded company, the six months ended October 31, 2006 provide our benchmark for growth estimates for balance of FY2007 and projections for FY2008.

Comparing some of Renhuang's multiples against those of its publicly listed competitors, the Healthcare Sector and Biotech Industry of which it is a part, we note the following:

	RHGP.OB	Industry	Sector	Competitor Group
P/E Ratio (TTM)	7.70	29.70	26.10	14.31
Price to Sales (TTM)	2.10	8.47	5.23	3.10
Price to Book (TTM)	3.67	6.40	5.20	4.26
Total Debt to Equity (MRQ)	0.00	0.48	0.42	0.08
Return On Equity (TTM)	42.10	4.90	14.85	18.37
Gross Profit Margins (TTM)	55.00	69.62	68.11	43.44
Net Profit Margin (TTM)	40.00	8.22	13.03	24.80

Industry and Sector data is compiled from Reuters, with Industry defined as Biotechnology & Drugs, and Sector as Healthcare. The column referred to as "Competitor Group" is a simple averaging of the same multiples and ratios of the publicly listed competitors discussed earlier. At a current stock price of \$2.00, the data provides us with a picture of how the market is currently valuing Renhuang relative to its peers. We believe the data would suggest the stock's valuation is compelling relative to these peer group measures.

Research Report: Renhuang Pharmaceuticals, Inc.

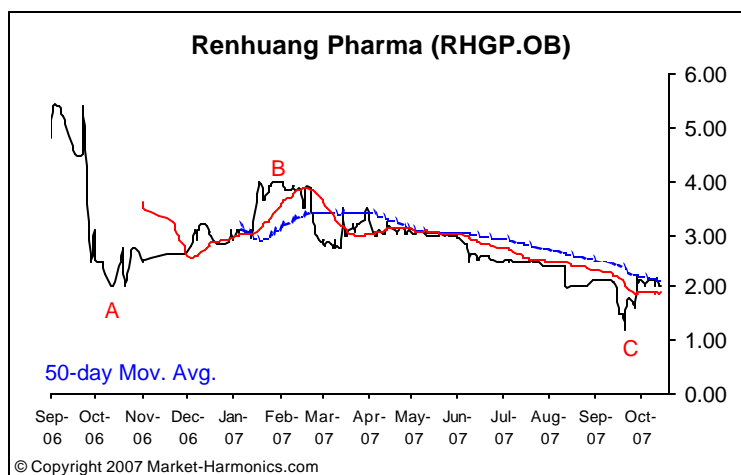
We arrive at our 12-month stock price estimate of \$5.00, utilizing the following methodology:

1) The company is projecting that gross profits for FY 2007 will be approximately \$14 million, and that net income will be between \$10-\$11 million, as compared to \$6.1M and \$4.2M, respectively, for FY 2006. For FY 2008, and since we are expecting a doubling in production levels, we are forecasting gross profits of \$25.5 million, and net income of \$19.3 million. Our current estimates are that the company will end FY 2007 with an EPS of 0.31, and achieve an EPS of 0.55 in FY 2008.

2) We averaged the three valuation multiples above for the Industry, Sector and Competitor Group, to compute relative a benchmark multiple, and calculated a benchmark EPS estimate by averaging our estimated EPS for FY 2007 and that for 2008. This yields a rounded stock price of \$5.00.

In Millions of USD	FY 2006A	FY 2007E	FY2008F
Gross Profit	6.1A	14.0E	25.5E
Net Profit	4.2 A	11.0E	19.3E
EPS (est)	0.12A	0.31E	0.55E
Benchmark Valuation Multiple	11.42		
Benchmark EPS	0.43		
Est. Stock Price	\$4.91		
Rounded Price	\$5.00		

Technical Analysis & Market Sentiment (10/19/07)



The fractal analysis ratios we work with continue to suggest the stock achieved a key intraday low of 1.15 on Sept. 25, from which it rose from technically oversold levels. If this proves to be a bottom, our fractal measures support a price range between \$4-\$6 over the intermediate term. While the stock has been successful in removing its shorter-term 21-day average (red line) an important intermediate term technical breakout would occur in support of our forecast, with a violation of the stock's 50-day average, where it has been encountering resistance.

Extracts from Most Recent Quarterly Filing

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF JULY 31, 2007**

(Amounts in United States Dollars)

ASSETS

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

Research Report: Renhuang Pharmaceuticals, Inc.

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JULY 31, 2007

(Amounts in United States Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY

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

Research Report: Renhuang Pharmaceuticals, Inc.

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN
STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JULY 31, 2007
(Amounts in United States Dollars)

	Common Stock	Additional Paid-in capital	Reserves	Retained Earnings	Accumulated Other comprehensiv income	Total Equity
Balance at October 31, 2006 (Audited)	\$ 35,000	\$ 6,310,822	\$ 847,133	\$ 3,378,081	\$ 53,739	\$ 10,624,775
Issuance of common stock	97	284,578				284,675
Net income for 3 quarters 2007	--	--	--	8,458,873	--	8,458,873
Transfer to reserves			1,204,556	(1,204,556)		--
Warrants issued to director		31,699				31,699
Other comprehensive income - foreign currency translation					657,277	657,277
Balance at July 31, 2007 (Unaudited)	\$ 35,097	\$ 6,627,099	\$ 2,051,689	\$ 10,632,398	\$ 711,016	\$ 20,057,299

Research Report: Renhuang Pharmaceuticals, Inc.

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

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

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

Research Report: Renhuang Pharmaceuticals, Inc.

RENHUANG PHARMACEUTICALS, INC. AND SUBSIDIARIES

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

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

Rating Definitions

Speculative Buy: Under our definition, such a rating indicates our belief that the company's business model, as well as any other significant advantages it enjoys in the sector/industry in which operates, justifies investor consideration. We consider the Buy to be Speculative, because we believe the stock will experience above-average volatility, and may not be suitable for investors with low risk tolerance.

Buy: We regard the company's valuation to be attractive relative to its peers, and that the company's business model, as well as any other significant advantages it enjoys in the sector/industry in which operates, justifies investor consideration.

Neutral: Reflects our belief that the company may have achieved fair valuation on the basis of the stock's current performance, and the company's financial status. As such, further upside potential may be limited.

Sell: Reflects our belief that the stock is overvalued, and/or that significant changes have occurred at the company that heighten the risk of remaining invested.

Important Disclosures

The information and statistical data contained herein have been obtained from sources believed to be reliable but in no way are warranted by us as to accuracy or completeness. This is not a solicitation of any order to buy or sell, and is not a guarantee that the target price for the stock will be met, or that predicted business results for the company will occur. All research is based on public information. Investors should not rely solely on this report in evaluating whether or not to buy or sell the securities of the issuer discussed herein.

We are not broker-dealers and do not engage in investment banking, investor relations or any promotional program for any public company. We are providers of independent research. Investors should note that T. Carrion & Co., LLC, which owns and operates Market Harmonics, received a fee \$2,500 from Viking Investments to independently conduct the research analysis contained this report, and 2,000 shares of Rule 144 stock which must be held for a minimum one year period. This notwithstanding, we certify that no part of the compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The opinions, estimates and projections contained in this report are solely those of Market Harmonics' analyst Tony Carrion.

Investors are urged to consider this report only as a single factor in their investment decision, and should conduct their own further research and due diligence before making such a decision. Opinions and views expressed in this report are submitted solely for informational purposes.

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