

RENHUANG PHARMACEUTICALS INC  
Form 10-K  
May 29, 2008

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

**Form 10-K**

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

**For the fiscal year ended October 31, 2007**

OR

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

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

**Commission file number O-24512**

**RENHUANG PHARMACEUTICALS, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**88-1273503**  
(I.R.S. Employer  
Identification No.)

**No. 218, Taiping, Taiping District  
Harbin, Heilongjiang Province,  
P.R. China**  
(Address of principal executive offices)

**150050**  
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
None	None

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer o

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

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

Aggregate market value of the voting stock held by non-affiliates: \$20,006,148 as based on last reported sales price of such stock. The voting stock held by non-affiliates on that date consisted of 17,246,680 shares of common stock.

**Applicable Only to Registrants Involved in Bankruptcy Proceedings During the Preceding Five Years:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

**Applicable Only to Corporate Registrants**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of May 20, 2008, there were 35,096,680 shares of common stock, par value \$0.001, issued and outstanding.

**Documents Incorporated by Reference**

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to rule 424(b) or (c) of the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). None.

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## Renhuang Pharmaceuticals, Inc.

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## PART I

### Explanatory Note

This Annual Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition or Plan of Operation." Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider" or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

### ITEM 1 – BUSINESS

#### Business Overview

##### *Company History of Renhuang Pharmaceuticals, Inc.*

We were incorporated in the State of Nevada on August 18, 1988 as Solutions, Incorporated. Since that time, we have undergone a series of name changes as follows: Suarro Communications, Inc., e-Net Corporation, e-Net Financial Corp., e-Net.Com Corporation, e-Net Financial.Com Corporation, Anza Capital, Inc. and finally on July 28, 2006, we changed our name to Renhuang Pharmaceuticals, Inc.

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

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

On August 11, 2006, our outstanding common stock underwent a thirty-for-one stock split reversal resulting in a decrease in our outstanding common stock at that time from 13,355,181 shares to approximately 445,240 shares as further described in our Current Report 14C filed with the Commission on April 25, 2006.

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

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

As a result, as of May 1, 2006, nearly 100% of revenue producing activities in Old Renhuang have been migrated to Renhuang China.

*Merger of Renhuang Pharmaceuticals and Harbin Renhuang*

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

*Post-Merger Business*

As a result of the Merger, all of our operations are conducted through Harbin Renhuang Pharmaceutical Co. Ltd., a company incorporated under the laws of the Peoples Republic of China and a wholly-owned subsidiary of Harbin Renhuang Pharmaceutical Company Ltd., a corporation incorporated under the laws of the British Virgin Islands and our wholly-owned subsidiary. Unless otherwise noted in this Registration Statement all references to “we,” “us,” “our company,” “our,” or the “Company” refer to the combined entity of Renhuang Pharmaceuticals, Inc., and its subsidiaries.

Harbin Renhuang Pharmaceutical Co. Ltd. was incorporated in 1996 in the Peoples Republic of China, and is located in the capital of the province of Heilongjiang Province, in the northeastern corner of China. We are primarily engaged in the fields of research, manufacturing and distribution of Chinese medical products and bio-pharmaceutical products in Mainland China. Our niche market is production and sale of the traditional Chinese medical products and bio-pharmaceutical products mentioned herein, and our goal is to become the dominant manufacturer and supplier of a few carefully selected groups of products, primarily natural health care products, such as Acanthopanax and Ban lan gen derived from the roots of the Isatis plant; enzyme engineering series products, including Lysozyme enzyme; Shark Power health care products, Monoclonal Antibody Reagent Box Series Products, and traditional medical products, such as but not limited to cold, flu and headache medicines.

We are a high-tech company with its niche market in Greater China area. With our advanced monoclonal antibody technologies and by specializing in a few carefully selected products we believe we will be able to differentiate ourselves from our competitors.

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

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

In 2003, Old Renhuang acquired Dongfanghong (“DFH”) Pharmaceutical Co., which controls 70% of all Acanthopanax wild resource (commonly known as “Siberian Ginseng”) in the Heilongjiang Province. About 90% of all wild Acanthopanax resource in China grows in Heilongjiang. Additionally, the acquisition came with 73 GMP approved medicines from DFH. As of May 1, 2006, Old Renhuang transferred all acquired operations of DFH to Renhuang China.

## Products

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

1. Acanthopanax medical products - 53%\*
2. Shark Power Healthcare products, and - 13%\*
3. Traditional medical products. - 34%\*

\* Approximate percentage of the total revenue of from November 1, 2006 to October 31, 2007.

### Acanthopanax (Siberian Ginseng)

#### **Overview:**

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

In Chinese medicine, it is valued for its beneficial effects on “qi” (*the Chinese term for vital energy or life force. It is pronounced “chee.”*) and its ability to treat “yang” (*one of the two fundamental forces, yang represents the male or active force.*) deficiency in the spleen (*distinct from the Western medical concept of spleen, this concept from Traditional Chinese Medicine is more a way of describing a set of interrelated parts than an anatomical organ.*) and the kidney. Like the panax ginsengs, Acanthopanax is considered to be an adaptogen, which means it helps in stressful circumstances and returns the body to a normal 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 species), are thought to increase

stamina and to stimulate the immune system.

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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. *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.

***Research:***

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

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

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

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

***Physical Performance***

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



### *Male Fertility*

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

### *Viral Infection*

In a laboratory study, an extract of Acanthopanax slowed the replication of certain viruses, including influenza A (which causes the flu) as well as human rhinovirus and respiratory syncytial virus (both of which cause symptoms of the common cold). 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). But, 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.

### ***Market Analysis on Acanthopanax in China:***

Wild Acanthopanax grows in some provinces in North and North-Eastern China, especially in Heilongjiang Province, where 90% of all wild Acanthopanax resources in China are located. Pursuant to our research, the annual production level in the 1980's was around 10,000 tons, which due to excessive harvesting and damage, significantly decreased during the 1990s to 2,000 tons. Our latest estimate shows that the production in 2004 decreased to 1,000 tons.

The resources for Acanthopanax medicine are mostly derived from wild Acanthopanax. Due to favorable conditions and temperature in the Heilongjiang Province, where Renhuang is located, 90% of the wild Acanthopanax suitable for medicine comes from Heilongjiang Province. (Note: human cultivated Acanthopanax in other areas does not reach the same drug efficacy as wild Acanthopanax). Therefore, most of the pharmaceutical companies producing Acanthopanax 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 higher than the supply. Our management believes the demand for Acanthopanax worldwide will increase tenfold in the next five years. As a result, the price of raw Acanthopanax should gradually increase.

In 2000, the price of a kilogram of raw Acanthopanax was around 0.5 RMB (around US \$0.062), which increased to 2.8 RMB (around US \$0.375) in 2007. It is estimated that the price for Acanthopanax will continue to increase.

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

### **The Dongfanghong Acquisition:**

In 2003, Old Renhuang acquired Dongfanghong Pharmaceutical Co. (DFH), a previously state-owned pharmaceutical company, located in Harbin, Heilongjiang Province, which owns 70% of all wild Acanthopanax resources in China. DFH owns a plant used to manufacture products utilizing Acanthopanax. In 2004, one year after the acquisition, we increased efficiency and production capabilities to generate US \$3.75 million in revenue from the sale of Acanthopanax-based products, which is a 10% market share in China. As of May 1, 2006, Old Renhuang transferred all acquired operations of DFH to Renhuang China.

In the year ended October 31, 2007, the plant generated US \$15.6 million in revenue. In the year from November 1, 2006 to October 31, 2007, the plant generated US \$10.2 million in revenue from Acanthopanax. We hope to obtain a market share of 50% of Acanthopanax products in China within the next 3-5 years.

***Competitive Advantages:***

In addition to the resource advantage, we have the following competitive edges related to Acanthopanax:

*Farm Production*

Wild Acanthopanax resources might not be able to fulfill the rapid growing demand. Therefore, we have started to cultivate Acanthopanax manually in a 60 million square feet cultivation area. Cultivated Acanthopanax achieves, in all material respects, the same effects as wild Acanthopanax, mainly due to our use of wild Acanthopanax seeds and other production methods as well as its extraordinarily favorable climate conditions in Heilongjiang Province.

*Lower Production Costs*

We have successfully developed new withdrawing technology during the process of cultivating and producing Acanthopanax. Based on our estimates, we believe that our new technology will lead to production costs that will be approximately 30% lower than our competitors.

*Future Development Plan for Acanthopanax Products*

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

Through increased market awareness, it is further anticipated that our unique edge in Acanthopanax will be recognized outside of China. In doing so, we anticipates entering into strategic foreign partnership, which we expect will result in increased international sale of Acanthopanax medicine in the near future.

***Acanthopanax Revenue:***

During the year ended October 31, 2007, Acanthopanax medical products have generated approximately 53% of our total revenue. Due to the amount of Acanthopanax wild resource we control, and our cutting-edge technology, we believe that we will, within the next 3-5 years, control more than 50% share of the market of Acanthopanax-based medical products in China. It is further anticipated that the market for Acanthopanax-based products will continue to grow at a potential average annual rate of 30% and thereby becoming our primary revenue generating product.

### Shark Power Healthcare Products

Shark Power Healthcare products, are made from Squalene, the scientific name for 'Nose Oil', a low density compound stored in the liver of sharks. These medicines contain extracts of shark liver oil and are used to improve oxygen level of human blood. Squalene, when taken into the body, removes animal fat and various waste materials whilst circulating in the blood so that it cleans blood vessels and blood. It is good for the treatment and prevention of arteriosclerosis, improving the function of the kidneys and livers.

Our research and development center has developed natural medicines utilizing Squalene - the Shark Power Healthcare Series. It was awarded the “special golden prize at Ninth Chinese Patent Technology New Product Exhibition,” and “Golden metal at London International Patent Technology Exhibition.”

Clinical research has proven that this medicine can improve the carrying and transporting oxygen ability of blood, enhance the oxygen absorption and utilization factor of the organism organs, dredge the blood vessels, increase the speed of blood's oxygen transportation, and specially supply oxygen to heart, brain, lung and liver. It is able to effectively cure all kinds of symptoms caused by secondary health problems like dizziness, insomnia, forgetfulness, low energy, back pain, tiredness, and the caught cold. The effect is stable and safe.

#### ***Competitive Advantages:***

Our Shark Power Healthcare Products have the following major advantages compared with the competition.

#### *State Drug Administration (SDA) Approval*

Renhuang's Shark Power Healthcare Products has received Good Manufacturing Practice (“GMP”) certificates from the State Drug Administration (“SDA”). As most healthcare products produced in China have not obtained GMP certificates, our Shark Power Healthcare Products have a strong competitive advantage. Our Shark Power Products are also distributed through hospital channels, which is not the case for most other health care products.

#### *Lower Production Costs*

The retail price of Shark Power Healthcare products has historically been lower than the price of competitors' products, because our raw material costs are lower. This means we can pass the savings on to the customers. We purchase raw materials indirectly from Australia at prices which we believe are 20% lower than those from coastal areas in China, where most competitors purchase their materials.

#### ***Sales of our Shark Power Healthcare Products***

In the six months ended October 31, 2007, the revenue from Shark Power Healthcare products has accounted for approximately 13% of our total revenue, compared to 10% for the six months ended October 31, 2006. With increased promotion and improved marketing strategy, our intent is to increase its market share during the next several years.

### Traditional Medical Products

In addition to Acanthopanax medical and Shark Power Healthcare products, we produce traditional medicine products, such as medicine for cold, flu, headache, etc. Revenue from these traditional medical products accounted for 34% of our total revenue in the twelve months ended October 31, 2007, 36% between November 1, 2005 and April 30, 2006, and 35% between May 1, 2006 and October 31, 2006. We own 40 medical products with GMP certificates, of which some “Star” products reach top sales among the same products and most of the others generate a stable stream of revenue. We designate those products that we believe are among our most promising products as “Star” products.

#### *Three “Star” products*

“Tianma pills” and “Tornado pills” are the “Star” Chinese traditional medicines for treating headache in China. Although western headache medicines have larger market share in China, they have also been showing 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. Renhuang's “Tianma” and “Tornado” are not only superior with strong visible curative effects, but with little or no side effects.

In the year ended October 31, 2007, revenue from the sales of “Tianma pills” and “Tornado pills” was \$1.97 million and \$5.42 million, respectively. In the six months from May 1, 2006 to October 31, 2006 revenue from the sales of “Tianma pills” reached more than US \$1,000,000, and that sales of “Tornado pills” reached US \$2,230,000.

Another “Star” medicine is “Shengmai” granulate. In the year ended October 31, 2007, revenue from the sales of “Shengmai” granulate was \$1.9 million. In the six months from May 1, 2006 to October 31, 2006, revenue from this product reached US \$1,000,000.

We also produce several additional traditional medical products that each accounts for lesser amounts. These products, through brand recognition, generate stable revenue for us. When Renhuang expands its product offerings, it is anticipated that these additional products will be replaced by higher margin products.

### **Products in the Developing Stage**

We hope to develop the following products in the coming years. We started the early stages of internal research on these products in 2006 and before through Old Renhuang. To date, we have not spent material amounts on the development of these products.

#### *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. Lysozyme protects us from the ever-present danger of bacterial infection. It is a small enzyme that attacks the protective cell walls of bacteria. 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. Lysozyme breaks these carbohydrate chains, destroying the structural integrity of the cell wall. The bacteria then burst under their own internal pressure.

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.

Currently, we do not believe there is any company in China with the ability to produce Lysozyme on a large scale, despite the fact that it has a big potential market. Lysozyme can be used in food antiseptic, which will alter sterilization effects by 40% compared with chemistry antiseptic at a cost of 80% lower than similar products produced outside of China. The large-scale production of Lysozyme products will speed the development of cultivation industry.

The major uses of Lysozyme products are as follows:

- 1) Lysozyme compound biology antiseptic (food packing coating, food bag, etc)
- 2) Lysozyme drug preparation (troche, oral liquid etc)
- 3) Lysozyme Biotech Pesticide
- 4) Lysozyme home-using disinfect series products (paper tower, detergent, etc)
- 5) Lysozyme biotech Veterinary medicine
- 6) Lysozyme biotech preparation

During the year ended October 31, 2007, this Lysozyme Enzyme Product is still in the very early research and development stage. In the future, we hope to launch Lysozyme Enzyme Products in the food antiseptic area, which we believe is the largest potential market for Lysozyme. Currently, we estimate that we will be able to achieve up to 80% of cost savings compared with competitive products produced outside of China. To date, we believe our products from this group are up to 60% more reliable with 50% lower production costs than competitors' products. With a huge potential market, our management conservatively estimates we will achieve significant revenue growth rate in the next 5 years.

#### *Monoclonal Antibody Reagent Box Series Products*

Based on our research of the industry, we believe, the total sales volume of China's biotechnology products was about 30.3 billion RMB (US \$3.75 billion) in 2005, among which the sales volume of medicine and health-care products including medicine of gene products, vaccines, diagnosis reagents, some antibiotics, amino acids for medical use, vitamins, blood products, bio-chemical medicines and some functional food was 15.7 billion RMB (US \$1.94 billion), accounting for approximately 50 percent of the total sales volume.

We believe that the Monoclonal Antibody Reagent Box segment has a huge upside potential. 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. The estimated production ability for 2004 was around 185 million dollars, which is a niche market when compared with other developed countries. Due to the huge population and potential market in China, this area is already being pursued by some pharmaceutical companies.

In order to explore possibilities in this field, a team of research scientists, who are graduates of top universities in the United States and therefore trained on the most advanced technology in this field, was hired in 2006 by us and our predecessor company. The Troponin T Diagnostic Kit and some other products from this group have proved to be 60% more effective at 50% less production cost when compared with other products.

If the research supports its development we plan to launch a Monoclonal Antibody Reagent Box series of products. More than five of our Monoclonal Antibody Reagent Box products are estimated to receive GMP certificates and to be launched in the upcoming years. We believe these products are 60% more reliable than those from their competitors. Moreover, we are in the process of building our own monoclonal antibody center, the necessary raw material for the products. Therefore, the company is able to achieve 50% of cost savings compared with most of its competitors, who have to purchase their raw materials from third parties.

With high and sustained demand in China, and insufficient supply, we believe that the Monoclonal Antibody Reagent Box segment has a substantial upside potential.

## **Sales**

We currently have approximately 25 independent sales distributors. Through those distributors we enjoy a large sales network. Together these distributors have more than 70 sales centers organized under 24 districts with more than 2,000 sales people. We believe these sales offices allow Renhuang products cover over 60% of China, including over 80% in the most populated areas.

## **Research & Developmnt Centers**

Our predecessor, Old Renhuang, owned R&D centers, including an Information Center, Cooperation Center, Research Center, and the Harbin Renhuang Marine Healthcare Medicine Center. Old Renhuang also owned and operated a Post-doctor Research Working Station, which was set up by the company and approved by the government, where post PhD students conducted research.

The R&D centers simulate real assembly lines, have advanced equipment, and substantial and advanced examination analysis instruments. A number of well recognized and respected pharmaceutical professors and research scientists in China are employed in the R&D centers. Over 50% of the employees in the centers have an advanced degree.

## **Market Analysis Summary**

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

Based on our research the annual revenue of the medicine market in China is estimated to be 500 billion RMB (US\$ 62.5 billion), of which 440 billion RMB (88 %) is derived from the prescription medicine market and the balance, 60 billion RMB (around US\$ 7.5 billion) relates to the non-prescription medicine market which constitutes 12% of the whole medical sales market.

We believe there are approximately 6,600 pharmaceutical companies in China, of which only 2,700 have received GMP Certificates. We are one of the GMP certified pharmaceutical companies. Our annual production capacity is currently 1.5 billion RMB (almost US \$200 million), which equals to a market share of 3%. As we approach full capacity, we anticipate increased production volume by acquisitions and/or additional production facilities.

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

Renhuang focuses its sales in three primary areas:

1. Over The Counter - OTC market.
2. Other drug stores located across the nation.
3. Hospitals, clinics and other medical institutions.

## **Industry Analysis**

### *World Trade Organization*

Due in part to the relaxation of trade barriers and China's access to the World Trade Organization ("WTO") in January 2002, our management believes that China will become one of the world's largest pharmaceutical markets by the middle of the twenty-first century. As a result, the Chinese market presents a significant opportunity for both domestic and foreign drug manufacturers.

### *The State Drug Administration ("SDA")*

The State Drug Administration ("SDA") of China has set up a classification administrative system in 1999 for prescription and OTC drugs. Since then, the SDA has issued a series of guidelines on the interpretation of the new classification system for labeling, usage instructions and packaging of OTC products. The SDA currently requires that pharmaceutical manufacturers clearly label drugs for OTC sales and distinguish them from those to be sold in hospitals as ethical drugs. We have instituted this policy as required by the SDA.

## **The Current Chinese Pharmaceutical Market**

### *The introduction of the Chinese pharmaceutical industry*

Most of the recognized brands in China are manufactured by multi-national drug companies with higher market share than domestic brands. Based on our research, there are a total of approximately 6,600 drug companies approved by GMP producing a variety of traditional and modern Chinese medical products. The total productivity is about 370 thousand tons of 8,000 different types of finished products. Furthermore, Chinese drug companies produce 300 different types biotech products including vaccine, toxoid, antiserum, blood products, diagnosing reagent for internal and external use. Chinese drug companies are producing more than 11,000 types of medical instruments, including X-ray fault scanning imagery equipments and magnetic resonance equipments.

*—Market Shares of various pharmaceutical products*

*The current problems in the Chinese pharmaceutical industry*

- Most drug companies in China produce low quantities of a large number of products. Therefore, many big companies are producing similar drugs. Many of those products are based on low technology and obsolete production methods. It is common that companies have minimal R&D departments, and therefore, do not bring new drugs into the market. As a result, many of these companies with inefficient management have lower productivity.
- Many drug companies do not qualify to reach approval by GMP, which prevent those companies from reaching the national and international drug markets.
  - Patents and other intellectual property are not well protected well in China.
  - Limited access to financial markets makes it difficult to obtain financing for drug companies.
    - The competition in drug industry has growth space.

*The development trend in the Chinese drug market*

- The pharmaceutical market will continue to grow at a stable pace.
- The net growth of the aging population supports the demand for drug consumption.
- The rising living standard improves the demand for drugs. Average drug consumption per capita in China is 50% lower than other mid-developed countries. Therefore, following the development of rural areas, it is anticipated that the Chinese drug market offers great opportunities.
  - Habitual changes inside the drug consuming population.
    - More reasonable drug consuming habits.
  - Non-prescription drugs will enter the fast development phase.
    - Drug prices on the market will be more rational.
  - There will be fewer drug companies, but with large capacity.
    - More advanced circulation of medical products.
    - More competition in China's drug market



## **The Current State of the Biotech Industry in China**

### *Introduction of biotech industry in China*

The biotech industry in China has undergone fundamental improvements. According to government statistics, China's biological product market (which generally includes gene engineering drugs, vaccines, antibodies, and blood products) surpassed \$30.3 billion RMB in 2005, \$39.1 billion RMB in 2006, and \$44.6 billion RMB in 2007, and is growing in excess of 15 percent per year.

Biotech R&D has achieved big successes. In order to accelerate the development of the biotech industry, which is one of the most supported industries, the government has invested in biotech R&D. Biotech engineering and bio-drugs are making great progress and a series of key technologies has been built. The gene transfer technology between zoology and botany is mature. The hybrid rice has been promoted in large scale, and anti-gene cotton and tomato have become a reality. Tens of gene drugs are fast approaching the area of practical use. Therefore, the Chinese biotech R&D industry is rapidly becoming more mature and competitive.

### *Some common problems in the Chinese biotech industry*

Compared with the development of the international biotech industry, the domestic Chinese industry is still immature.

#### **Insufficient self-owned Intellectual property rights and limited competing ability.**

- In the United States, it is common that founders of bio-tech companies control more than 50% of equity and technology during the first and second stage of financing and the Venture Capital firms control less. With the expansion, including additional financing, the initial founders start to lose the control position. In China, intangible assets usually represent less than 35% of the total value.
- Essential key technologies and equipments such as important laboratories equipments, instruments and dosage etc are still lagging in biotech industry and most users rely on import. Companies who have the ability to produce those special equipments and instruments have earned international market recognition. Renhuang owns substantial intangible assets.

#### **Insufficient Capital investment and very limited R&D capability**

- Biotech industry is a high-tech investment in a high-risk and a high-reward industry. Therefore, insufficient capital is the most important problem which needs to be solved. At present, there are only six ways to provide capital to bio-tech companies: (i) founders' own money; (ii) public company investment (iii) third party investment; (iv) government venture capital; (v) mid to small-size company security fund from state science administration; and (vi) mid to small-size technology venture capital. The United States, which has the most advanced bio-tech development and bio-tech companies provides more financing opportunities to this industry. Despite this problem in the industry Renhuang successfully obtain capital and build a new state of the art R&D facility.

#### **Insufficient educated human resources cause a gap between research and practical areas.**

- Due to the long training period of R&D personnel staffs, high quality research scientists stay outside of China. Therefore, there are not sufficient highly qualified research scientists available, especially those in combination of research and management skills. Renhuang has United States educated research scientists.

## Competitors

### *Acanthopanax Product Series*

- Hongdoushan Pharmaceuticals\*

Main Acanthopanax products are tablets, with approximately 8% of the market share of Acanthopanax tablets.

- Wangdashang Pharmaceuticals\*

Main Acanthopanax products are tablets and syrup, with approximately 5% and 2% of the market share, respectively.

- Lianhuahu Pharmaceuticals\*

Main Acanthopanax products are ointment and raw product, with approximately 15% and 10% of the market share, respectively.

- Harbin Shengyuan Pharmaceuticals\*

Main Acanthopanax products are Acanthopanax ointment, with approximately 10% of the market share.

*\* Information is based on our information and belief and is not guaranteed by us.*

### *Shark Power Healthcare Series*

- Beijing Saishali Company (approximately 15% market share)
- Shantou Xianle Pharmaceuticals (approximately 8% market share)
- Shanghai Zhongyang Donghai Pharmaceuticals (approximately 5% market share)

Our raw materials for Shark Power Healthcare products are imported indirectly from Australia at a price which we believe is 20% lower than that what the competitors pay, whose raw materials are from coastal areas in China.

### *Traditional Medical Products*

#### Tornado Pills

- Harbin Sanjing North Pharmaceuticals (approximately 18% market share)
- Harbin Huarui Pharmaceuticals (approximately 15% market share)
- Harbin Mingmu Pharmaceuticals (approximately 12% market share)

### Tianma Pills

- Sigpore Xinri Pharmaceuticals (approximately 20% market share)
- Guizhou Yibai Pharmaceuticals (approximately 18% market share)
- Sanjiu Pharmaceuticals (approximately 22% market share)

### Shengmai granulate

- Gansu Foci Pharmaceuticals (approximately 13% market share)
- Hubei Meibao Pharmaceuticals (approximately 10% market share)
- Nanning Weiwei Pharmaceuticals (approximately 6% market share)

### *Lysozyme Products*

We believe there are few companies with the ability to produce Lysozyme products on a large scale. It has big potential market. Based on our preliminary research we believe Lysozyme can be used in food antiseptic, which will have 40% higher sterilization effects than chemistry antiseptic with 80% lower costs than same kind products produced outside of China. The large-scale production of Lysozyme products will speed the development of cultivation industry.

### *Monoclonal Antibody Reagent Box Series Products*

- Beijing BGI-GBI Bio-tech Co., Ltd
- Shanghai Shisheng Cell Bio-tech Co., Ltd
- Beijing Wantai Biological Pharmacy Enterprise Co., Ltd.

At present, we do not believe any of our competitors have large-scale production ability. Speed Monoclonal Antibody Reagent Box for Muscle Calcium Protein Myocardial Infarction of Renhuang is very competitive in the market because of its advance technology. Our core technology is from Chinese research scientists educated in United States, and we plan to build antigen antibody store base with self-owned intellectual property rights, and we believe the product will become more reliable, and the price will be approximately 50% lower than that from its competitors with approximately 60% improvement in effects. Additionally, this product will be easy to use.

### **Competitive Edge**

#### *General*

We have stable management team with over 35 years in the pharmaceutical industry combined, which, when compared to Old Renhuang's historical numbers, generated historical annual growth in both sales and profits.

### Acanthopanax

Through the acquisition of Dongfanghong during 2003, we control approximately 70% of the wild resources of Acanthopanax, which product group accounts for approximately 50% of our revenue in 2007. The demand for products derived from Acanthopanax is at all time high. Our current market share is approximately 50%. Of the total wild resource of Acanthopanax in China, 94% is located in the Heilongjiang Province, most of which are controlled by Dongfanghong in the Wanda Mountain. We develop Acanthopanax products in our own plant and benefit from a fairly dominant position through resource control. We have reduced the cost of absorbing and producing Acanthopanax by 50% over the past two years. Through our research, we estimate that our cost of production is 30% lower than the competition.



### *Other Advantages Over the Competition*

In addition to advantages related specifically to Acanthopanax, our business possesses the following advantages:

- The ability to upgrade our products by using our follow-up research projects enables us to continue its product developments.
- We have developed a unique independent innovation system, which will provide a powerful support to the R&D of new products.
- We have excellent relations with provincial, city and regional our government and have been awarded outstanding levels of status.
  - We own a state of the art research and production facility.
  - Our credit rating is AAA by the major banks in China
  - We have United States educated research scientists.
- Through efficiency and state of the art production facilities, we believe our production costs, are on an average, 30- 50% lower than those of the competition.
- Through our approximately 25 independent sales distributors there are more than 70 regional sales offices, covering 50% of Mainland China staffed with a sales force of more than 2,000.
  - We have a top-level management team.

### **Research & Development**

We have constructed a strong independent innovation system, which will provide a powerful support to the R&D of new products as follows:

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

We plan to continually upgrade our products by using follow-up research projects. This continued development will be focusing on the following three areas: (1) the development of biotech products, with the focus on practical applications of Lysozyme and Hyperoxide mutase, and the research and development of gene engineering drugs just to mention a few; (2) the research and development of Chinese traditional medicine products, including but not limited to additional use of Acanthopanax and Shizandra Berry; and (3) research and development of Western drugs for generic production, where we are able to complete the generation replacement of traditional drugs shortly.

### *Information Center*

We utilize the marketing network system and direction oriented information system to provide fixed period and in-fixed period market feedback information, market demand information, evaluation of new products inside and outside of China, domestic and foreign authority research topic and product technology feedback information.

### *Teamwork Center*

During 2006 our predecessor company, Old Renhuang, 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. Old Renhuang had also formed long-term strategic partnerships and other research and work related relationships with some of the most prominent research organizations with the purpose of researching and developing new products together.

Currently, we are closely related to the National Navy Pharmaceutical Research Center located in Shanghai, China bio-tech drug research center (Shanghai Research Base), Second Military Medicine University in Shanghai, and Beijing Ellionbio Research Center, Beijing to mention a few. Furthermore, we have research cooperation with Russia Academic School Far-east division and Australia Scientific Research Center.

### *Research Center and Mid-Testing Base*

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

### *Renhuang Bio-Tech Drugs and Healthcare Products Research Center*

This facility is mainly focused R&D on bio-tech drugs and healthcare products, and medicine intermediates.

### *Post-doc Research Workstation*

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

## **Official Accomplishments**

- We have a well-established and excellent working relationship with the Chinese government on various levels. For example, we have obtained support from different level governments including provincial, city and regional government, which enabled our rapid development. We undertake various research projects on a national level, where the government has praised our accomplishments.
- Government has appraised us as “The Best Quality and Credit Company”, “The Company with The Best Social Image”, and “The Most Trustful Consumer Products Company”.
  - Our bank credit rating is AAA.
- Our Lysozyme and Hyperoxide mutase projects have been included into the most important nation level project in State Scientific Administration.
- Biotech drug garden has been included into the national transforming projects of North Eastern China heavy industry base, and in the projects which can get zero interests loan from government.
- For the years of 2006 and 2007 we were granted a tax holiday and concession, which entitled us to a full exemption from corporate income taxes through December 2007. Beginning in 2008, we will receive a special income tax rate of 15% since we are a wholly foreign-owned company, which entitles us to a tax exemption for certain enterprises.

## Marketing Strategy

We primarily market our products through four business channels: OTC Market, Direct Sales, Wholesale, and Raw Material. We are a highly technology-oriented niche company that has developed name recognition for its quality products. Through our approximately 25 independent sales distributors our products are being sold by more than 2,000 sales people divided into 70 sales offices in 24 regions across Mainland China. Furthermore, we have strong alliances with distributors who have powerful channel relationships but lack manufacturing or product development capabilities.

### *Four-Pronged Approach to Achieve Market Goals*

**First**, the goal is to build brand names for products, which is well under way. In non-urban areas, 90% of the Chinese population lives in the countryside with lower income. Due to a diverse strategy, adjusted to the lower income consumer, we believe our traditional drugs will have a relatively high level of penetration in those areas. Distribution to end-consumers is obtained through our own sales personnel without middlemen cost.

**Second**, we are using key cities like Beijing and Shanghai as geographical sales centers with the purpose to establish its brands with the established distribution centers that distribute to major drug chain stores in the urban and suburban areas around the city. Our approach is to use selected cities as sample target, supported by initial promotion and investments enabling the products entry into the well-known drug chain stores. In addition, we are exploring multiple sales channels.

**Third**, we focus on top-level hospitals in the country, which have the highest quality standard and stringent approval procedures for new products and brands. Traditionally, hospitals in China are divided into different levels due to different functions. Junior level hospital only care for small areas, mid-level one will care for several areas, and senior level one will handle different, larger regions. By focusing on the top tier of the hospital industry, our strategy is to work from top down and gain access to mid and low level hospitals when it brands and products have been established in the higher ranks.

**Fourth**, we use exclusive technology and absolute resource control (Acanthopanax) to promote our products in the domestic media, including television, radio, newspaper, magazine and trade publications. At a more mature stage of our domestic coverage, it is anticipated that we will have a substantial impact of Lysozyme and Hyperoxide mutase, through innovations and core technology, developed and owned by us that have been appraised by established specialists as the primary technology and innovations in the world related thereto. The biggest advantages are cost and quality when compared to traditional products.

## Sales Strategy

Our sales team uses quantity targets to realize the management of sales of products, from where the sales team is rewarded. The regular sales force are independent sales distributors to purchase our product directly from us to sell to their customers and client. These independent sales distributors may receive a rebate of the purchase price on certain products based on volume of product sold. Our products will reach drug stores, hospitals and end consumer across China through this sales network.

*Sales Team*

Our sales team uses quantity targets to realize the management of sales of products, from where the sales team is rewarded. Each sales office is organized with full time managerial and financial functions organized under a general representative officer. The vast majority of the regular sales force are independent sales distributors to purchase our product directly from us to sell to their customers and client. These independent sales distributors may receive a rebate of the purchase price on certain products based on volume of product sold. Our products will reach drug stores, hospitals and end consumer across China through this sales network.

*The Location of Our Independent Distributors' Sales Offices in China.*

In conjunction with the general sales managers, provincial managers and regional managers, we set a sales target at the beginning of every year. Based on monthly sales reports and general control mechanisms, budget is thereafter revised as needed.

**Sales channels related to leading products**

As noted above, we sell our products to our independent sales distributors, who in turn sell our products to their customers and clients. We believe, through discussions with our independent sales distributors, that our products are primarily sold through the following methods:

<b>Marketing Model</b>	<b>Share of revenues</b>	<b>Products selling</b>	<b>Payment Time Frame</b>
OTC	65% 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 method	19% of total revenue	Shark Power health care products, Acanthopanax final products.	Cash Payment
Whole Sale products	16% of total revenue	Acanthopanax final products and “Tornado Pills”.	Payment calculated and paid monthly when products sold.

**Customers**

Our primary independent sales distributors are listed in the table below. These are the sales distributors that account for more than 5% of our revenue. The revenue figures listed below are revenues received from these distributors before any reduction for any volume rebates we may have paid to these distributors.



Customer	Revenue Before Rebate (RMB)	Revenue Before Rebate (USD)	Revenue %
Baojin Yang	28,791,830.77	3,743,233.72	10.74%
Gang Hua	27,411,358.97	3,563,758.20	10.22%
Hui Zhao	24,173,054.70	3,142,745.39	9.01%
Jing Hua	15,096,400.00	1,962,687.05	5.63%
Hongtao Zhang	14,930,709.40	1,941,145.57	5.57%
Xuchang Li	14,835,735.04	1,928,797.93	5.53%
Li Dai	14,412,581.20		