
**Annual Inspection Report for Foreign-funded Enterprises
for the year of 2007**

Company Name: Shanghai Shining Biotechnology Co., Ltd.

Business License No.: 320815

Registration Authority: Shanghai Administration of Industry and
Commerce Pudong New District Branch

Filing Date: 2008-06-16

Prepared by Shanghai Administration of Industry and Commerce

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Declaration of Illegality and Relevant Circumstances of Enterprises

- 1. Enterprises change company names without the change of registration;
- 2. Enterprises change enterprise locations without the change of registration;
- 3. Enterprises change legal representatives without the change of registration;
- 4. Enterprises obtain the registration of enterprises by reporting untruthfully the registered capital;
- 5. Enterprises obtain the registration of enterprises by submitting false materials;
- 6. Founders or shareholders of enterprises don't contribute according to regulations;
- 7. Enterprises make investments abroad and establish enterprises but submit information about these events untruthfully;
- 8. Investors release or transfer funds after the establishment of enterprises;
- 9. Enterprises increase or reduce the registered capital without handling the change of registration according to the regulations;
- 10. Enterprises change the business scope approved for registration to carry out operation activities;
- 11. Enterprises do not handle the change of registration upon the expiration of the business period;
- 12. Limited liability companies do not handle the change of registration in case of changes of founders or stock rights;
- 13. Joint stock companies do not handle the change of registration in case of changes of founders or stock rights;
- 14. Enterprises do not report to the registration authority for record according to the regulations in the following situations: ① amendment to the Articles of Association but not involved with the items of registration; ② changes of directors, supervisors and managers; ③ proceeding to liquidation procedures and establishing the liquidation group; ④ setting up branches
- 15. Enterprises fabricate, alter, lease, lend, transfer or sell the Business License;
- 16. Enterprises take the liberty to set up branches without registration;
- 17. Enterprises do not open for business for more than 6 months or suspend the business more than 6 months by themselves;
- 18. Pre-approval licenses of permit and certificates are cancelled, suspended, withdrawn or ineffective;
- 19. Other activities which violate the industrial and administrative law and regulations.

Note: Enterprises which have illegal activities and relevant circumstances above shall mark “√” in “□” and explain in detail.

Specific illegal activities and relevant circumstances:

Relevant Information of Enterprises

State Taxation Registration Authority	Shanghai Municipal Bureau of State Taxation
Taxation Registration Certificate No.	310115631562587
Local Taxation Registration Authority	Shanghai Municipal Bureau of Local Taxation
Taxation Registration Certificate No.	310115631562587
Organization Structure code	63156258-7
Opening Bank (Basic account)	Bank of Communications Pudong New District Branch
Account in the Opening Bank (Basic Account)	310066111-010141005092
Enterprise Mailbox	Yulinglong999@hotmail.com

-Foreign-funded Enterprises 1-

Conditions of Contribution

Total investment	USD2,525,200	
Registered capital	Subscribed by Chinese parties	
	Subscribed by foreign parties	USD2,525,200
Paid-in capital	Paid by Chinese parties	
	Paid by foreign parties	USD2,525,200
Capital that shall be contributed in 2007	Chinese parties	
	Foreign parties	
Capital that was contributed actually in 2007	Chinese parties	
	Foreign parties	
Amount contributed by Chinese parties in the form of state-owned assets		RMB

Production and Operation Conditions in 2007

(Monetary Unit: Yuan)

Operation condition (select one and mark√)	<input type="checkbox"/> In preparation	<input checked="" type="checkbox"/> Launch of production and opening for business	<input type="checkbox"/> Suspense of business	<input type="checkbox"/> Liquidation
Sales (operating) income	3,113,404		Including: operating income of services	
Domestic sales	3,113,404		Including: turnover of services	
Total profits	-9,268,661		Net profits	-9,268,661
Losses	9,268,661		Total taxes	
Total assets	49,888,896		Including: long-term investment	
Total debts	102,039,254		Including: long-term debts	

-Foreign-funded Enterprises 2-

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Balance Sheet

Printed by: Shanghai Shining Biotechnology Co., Ltd.

For the year ended December 31, 2007

Monetary Unit: Yuan

Items	Line No.	Closing Amount	Opening Amount	Items	Line No.	Closing Amount	Opening Amount
Current Assets	1			Current Liabilities	47		
Cash	2	260,926.98	962,397.53	Short-term loans	48	32,048,639.78	54,603,748.94
□Held for trading financial assets	3			Held-for-trading financial liabilities	49		
# Short-term investments	4			Warrant payable	50		
Notes receivable	5			Notes payable	51		
Dividends receivable	6			Accounts payable	52	13,358,277.43	12,643,191.60
Interest receivable	7			Advance receipts	53	507,983.58	
Accounts receivable	8	6,642,666.60	5,392,398.03	Accrued payroll	54	735,073.78	215,963.11
Other receivables	9	8,928,243.36	2,004,777.69	□Including: Accrued payroll	55	514,988.43	-4,122.24
Accounts prepaid	10	847,098.23	72,287.00	# Welfare payable	56	220,085.35	220,085.35
Inventories	11	8,735,133.71	7,420,936.67	Taxes payable	57	81,734.10	599,235.35
Including: Raw material	12	931,860.62	907,161.09	Including: Taxes payable	58	81,699.48	32,698.72
Inventories (end products)	13	5,767,588.37	4,549,342.07	Interest payable	59		
Non-current assets maturing within one year	14			Dividend payable	60		
Other current assets	15		29,900.00	Other payables	61	49,393,717.64	11,190,561.54
Total current assets	16	25,414,068.88	15,882,696.92	Long-term noncurrent liabilities due in one year	62		
Fixed assets	17			Other noncurrent liabilities	63	5,913,827.63	5,624,991.63
□Available-for-sale financial assets	18			Total current liabilities	64	102,039,254.75	84,877,692.17
□Held-to-maturity investment	19			Noncurrent liabilities	65		
# Long-term bond investment	20			Long-term loans	66		
□Long-term accounts receivables	21			Bonds payable	67		
Long-term equity investments	22			Long-term payables	68		
# Stock right disposition	23			Special accounts payable	69		
□Investment Real Estate	24			Accrued liabilities	70		
Fixed assets-cost	25	34,367,354.76	33,958,618.14	□Deferred income taxes	71		
Less: Accumulated depreciation	26	9,892,526.73	7,845,319.10	# Deferred tax debit	72		
Fixed assets-net value	27	24,474,828.03	26,113,299.04	Other noncurrent liabilities	73		
Less: Reserve for fixed asset revaluation	28			Including: Special reserve fund	74		
Net fixed assets	29	24,474,828.03	26,113,299.04	Total noncurrent liabilities	75		
Construction in progress	30			Total liabilities	76	102,039,254.75	84,877,692.17
Project material	31			Owner's equity (stockholder's equity)	77		
Liquidation of fixed assets	32			Paid-in capital (stock)	78	20,480,000.00	20,480,000.00
□Productive biological assets	33			State capital	79		
□Oil & gas assets	34			Collective capital	80		
Intangible assets	35			Legal person's capital	81		
Including: Land use right	36			Including: State-owned person's capital	82		
□Development expenditure	37			Collective legal person's capital	83		
□Goodwill	38			Individual capital	84		
#* Acquired Business Price Difference	39			Foreign capital	85		
Long-term deferred expenses (deferred assets)	40			Capital surplus	86		
□Deferred income tax assets	41			Less: Treasury stock	87		
# Deferred assets debits	42			Surplus reserves	88		
Other noncurrent assets (other long-term assets)	43			□General risk provisions	89		
Including: Specially approved reserving materials	44			*# Unrealized investment losses (loss is -)	90		
Total noncurrent assets	45	24,474,828.03	26,113,299.04	Undistributed profits	91	-72,630,357.84	-63,361,696.21
				Including: Cash dividends	92		
				*Currency translation difference	93		
				Total parent company owner's equity	94		
				*Minority equity	95		
				Total owner's equity	96	-52,150,357.84	-42,881,696.21
				# Less: Capital loss	97		
				Total owner's equity (less capital loss)	98	-52,150,357.84	-42,881,696.21
Total capital	46	49,888,896.91	41,995,995.96	Total liabilities and owner's equity	99	49,888,896.91	41,995,995.96

Items with * are for consolidated financial statements; items with □ are for companies which comply with the new accounting standards; items with # are for companies which comply with the ASBE

Income Statement

Prepared by: Shanghai Shining Biotechnology Co., Ltd

For the year 2007

Monetary Unit: Yuan

Items	Line No.	Current Year	Prior Year	Items	Line No.	Current Year	Prior Year
1. Total operating revenues	1	3,113,404.61	880,186.79	Including: Income from associates	22		
Including: operating revenues	2	3,113,404.61	880,186.79	3. Operating profit (loss expressed with "-")	23	-8,540,291.41	-3,148,731.07
Including: revenue from primary business	3	3,113,195.21	880,186.79	Add: Non-operating income	24	4,519.16	5,120.00
revenue from other business	4	209.40		Including: Gains from disposing noncurrent capital	25		
2. Total operating cost	5	11,653,696.02	4,028,917.86	Gains from nonmonetary capital exchange	26		
Including: operating costs	6	2,160,030.66	339,453.78	Government subsidy (subsidy revenue)	27		
Including: cost of primary business	7	2,159,974.26	339,453.78	Debt restructuring income	28		
cost of other businesses	8	56.40		Less: Non-operating expense	29	732,889.38	333,323.17
Tax and extra charges	9	1,608.34	2,973.00	Including: Loss of noncurrent capital disposal	30		
Sales expenses	10	6,187,941.67	2,810,093.95	Loss of nonmonetary capital exchange	31		
Administrative expenses	11	3,136,878.69	429,529.77	Loss of debt restructuring	32		
Including: Business reception fee	12	193,553.71	13,496.64	4. Total profit (loss expressed with "-")	33	-9,268,661.63	-3,476,934.24
R&D expenses	13	133,434.43	9,140.18	Less: Income tax	34		
Financial expenses	14	167,236.66	446,867.36	Add: #*Unrealized investment loss	35		
Including: Interest expense	15	164,838.22		5. Net profit (loss expressed with "-")	36	-9,268,661.63	-3,476,934.24
Interest income	16	-1,234.16	-677.11	Less: *Minority income and loss	37		
Net loss of foreign exchange (net loss is "-")	17			6. Net profit of parent company owner	38	-9,268,661.63	-3,476,934.24
□ Depreciation	18			7. Earnings per share	39		
Other	19			Basic earnings per share	40		
Add: Income from changes in fair value (loss is "-")	20			Diluted earnings per share	41		
Investment income (loss is "-")	21						

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**QINGDAO ZHENQING CERTIFIED PUBLIC ACCOUNTANTS
CO., LTD. SHANGHAI BRANCH**

Address: Room 503, No.201,
New Jinqiao Road, Shanghai City
Tel: 50313113 Fax: 50550908
Email: zqcpa@263.net

Audit Report

Qing-Zhen-Hu-Wai-Shen-Zi (2008) No.151

To Shanghai Shining Biotechnology Co., Ltd.,

We have audited the enclosed financial statements of Shanghai Shining Biotechnology Co., Ltd., including the balance sheet on December 31, 2007, profits statement, cash-flow statement, the statement of changes of the ownership interests and financial statements annotation for the year of 2007.

1. Responsibilities of the Company's management

The compilation of financial statements in accordance with the enterprise accounting standards and Enterprise Accounting System is the responsibility of the management of Shanghai Shining Biotechnology Co., Ltd., including: (1) designing, implementing and maintaining internal control related to the compilation of financial statements to make sure no significant misstatement caused by embezzlement or mistakes; (2) selecting and exerting appropriate accounting policies; (3) making reasonable accounting evaluations.

2. Responsibilities of the certified public accountants

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards of CICPA which requires us to plan and conduct the audit work and acquire reasonable guarantee for whether there is significant misstatement in the financial statements in compliance with the professional code of ethics.

An audit includes the implementation of audit procedures to obtain the audit evidence supporting the amounts and disclosures in the financial statements. The selected audit procedures lie on the judgment of certified public accountants, including the assessment of significant misstatement risk caused by the embezzlement or mistakes in the financial statements. During the risk assessment, we have considered internal control related to the compilation of financial statements to design appropriate audit procedures, but the purpose is not to express an opinion on the

efficiency of internal control. An audit also includes assessing the accounting policies concerned and significant accounting estimates made by management authority in charge, as well as evaluating the overall financial statement presentation.

We believe that our audit evidence is adequate and appropriate to provide a reasonable basis for our opinion.

3. Items resulting in the reservation of opinion

- (1) We were unable to carry out the stocktaking inspection and conduct satisfactory alternative auditing procedures to express an audit opinion on quantities, conditions and the rationality of delivery of ending inventories of Shanghai Shining Biotechnology Co., Ltd.
- (2) As the company was unable to provide all bank statement copies, we were unable to provide the confirmation and conduct satisfactory alternative auditing procedures to express an audit opinion on the rationality of ending balance of bank deposits of Shanghai Shining Biotechnology Co., Ltd.
- (3) Due to the restriction of the audit scope, we were unable to express an audit opinion on the rationality of ending balance of short-term loans of Shanghai Shining Biotechnology Co., Ltd.

4. Audit opinion

We believe that, the financial statements of Shanghai Shining Biotechnology Co., Ltd. conform to the regulations of enterprise accounting standards and Enterprise Accounting System issued; and in all the significant aspects fairly show the financial condition on December 31, 2007, the operation result and the cash-flow condition for the year of 2007 of the company.

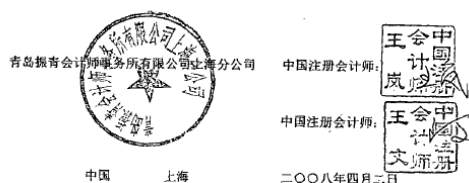
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Qingdao Zhenqing Certified Public Accountants Co., Ltd. Shanghai Branch (Sealed)
Shanghai, China

CPA: Wang Lan (Signed and sealed)

CPA: Wang Wen (Signed and sealed)



April 2, 2008

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Balance Sheet

Printed by: Shanghai Shining Biotechnology Co., Ltd.

For the year ended December 31, 2007

Monetary Unit: Yuan

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# Stock right disposition	23			Special accounts payable	69		
<input type="checkbox"/> Investment Real Estate	24			Accrued liabilities	70		
Fixed assets-cost	25	34,367,354.76	33,958,618.14	<input type="checkbox"/> Deferred income taxes	71		
Less: Accumulated depreciation	26	9,892,526.73	7,845,319.10	# Deferred tax debit	72		
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Other noncurrent assets (other long-term assets)	43			<input type="checkbox"/> General risk provisions	89		
Including: Specially approved reserving materials	44			*# Unrealized investment losses (loss is -)	90		
Total noncurrent assets	45	24,474,828.03	26,113,299.04	Undistributed profits	91	-72,630,357.84	-63,361,696.21
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				*Currency translation difference	93		
				Total parent company owner's equity	94		
				*Minority equity	95		
				Total owner's equity	96	-52,150,357.84	-42,881,696.21
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				Total owner's equity (less capital loss)	98	-52,150,357.84	-42,881,696.21
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Income Statement

Prepared by: Shanghai Shining Biotechnology Co., Ltd

For the year 2007

Monetary Unit: Yuan

Items	Line No.	Current Year	Prior Year	Items	Line No.	Current Year	Prior Year
1. Total operating revenues	1	3,113,404.61	880,186.79	Including: Income from associates	22		
Including: operating revenues	2	3,113,404.61	880,186.79	3. Operating profit (loss expressed with "-")	23	-8,540,291.41	-3,148,731.07
Including: revenue from primary business	3	3,113,195.21	880,186.79	Add: Non-operating income	24	4,519.16	5,120.00
revenue from other business	4	209.40		Including: Gains from disposing noncurrent capital	25		
2. Total operating cost	5	11,653,696.02	4,028,917.86	Gains from nonmonetary capital exchange	26		
Including: operating costs	6	2,160,030.66	339,453.78	Government subsidy (subsidy revenue)	27		
Including: cost of primary business	7	2,159,974.26	339,453.78	Debt restructuring income	28		
cost of other businesses	8	56.40		Less: Non-operating expense	29	732,889.38	333,323.17
Tax and extra charges	9	1,608.34	2,973.00	Including: Loss of noncurrent capital disposal	30		
Sales expenses	10	6,187,941.67	2,810,093.95	Loss of nonmonetary capital exchange	31		
Administrative expenses	11	3,136,878.69	429,529.77	Loss of debt restructuring	32		
Including: Business reception fee	12	193,553.71	13,496.64	4. Total profit (loss expressed with "-")	33	-9,268,661.63	-3,476,934.24
R&D expenses	13	133,434.43	9,140.18	Less: Income tax	34		
Financial expenses	14	167,236.66	446,867.36	Add: #*Unrealized investment loss	35		
Including: Interest expense	15	164,838.22		5. Net profit (loss expressed with "-")	36	-9,268,661.63	-3,476,934.24
Interest income	16	-1,234.16	-677.11	Less: *Minority income and loss	37		
Net loss of foreign exchange (net loss is "-")	17			6. Net profit of parent company owner	38	-9,268,661.63	-3,476,934.24
□ Depreciation	18			7. Earnings per share	39		
Other	19			Basic earnings per share	40		
Add: Income from changes In fair value (loss is "-")	20			Diluted earnings per share	41		
Investment income (loss is "-")	21						

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Cash Flow Statement

Prepared by: Shanghai Shining Biotechnology Co., Ltd

For the year 2007

Monetary Unit: Yuan

Item	Line no.	Amount of the current year	Amount of the previous year	Item	Line no.	Amount of the current year	Amount of the previous year
I. Cash flow generated by operating activities:	1	—	—	Net cash received from disposing the subsidiaries and other	21		
Cash received from sales of goods and rendering services	2	2,900,398.36	778,550.23	Cash paid relating to other investment activities	22		
Refunds of taxes	3			Sub-total of cash outflows of investment activities	23	408,736.62	164,417.00
Cash received relating to other operating activities	4	29,643,367.21	5,007,611.00	Net cash flow generated from investment activities	24	-408,736.62	-164,417.00
Sub-total of cash inflows	5	32,543,765.57	5,786,161.23	III. Cash flow generated by financing activities	25	—	—
Cash paid for goods and receiving services	6	1,476,925.68	2,080,935.02	Cash received from absorbing investments	26		
Cash paid to staffs and on behalf of employees	7	3,931,594.14	2,110,870.46	Including: cash received from minority investment	27		
Tax payments	8	277,808.61	482,060.04	Cash received from loans	28		7,425,766.84
Cash paid relating to other operating activities	9	3,027,282.59	4,982,027.59	Cash received relating to other financing activities	29		
Sub-total of cash outflows	10	8,713,611.02	9,655,893.11	Sub-total of cash inflows of financing activities	30		7,425,766.84
Net cash flow generated by operating activities	11	23,830,154.55	-3,869,731.88	Repayment of debts	31	22,719,947.38	3,863,118.06
II. Cash flow generated by investment activities	12	—	—	Cash paid for dividends and repaying interests	32		
Cash received from investment drawback	13			Including: paid for minority shareholders	33		
Cash received from investment income	14			Cash paid relating to other financing activities	34		
Net cash from disposing fixed, intangible and long-term assets	15			Sub-total of cash outflows of financing activities	35	22,719,947.38	3,863,118.06
Cash received from disposing subsidiaries and other	16			Net cash flow generated by financing activities	36	-22,719,947.38	3,562,648.78
Cash received from other activities relating to investment	17			IV. Influence of foreign exchange movement on cash	37		
Sub-total of cash from investment activities	18	-	-	V. Net increase in cash and cash equivalents	38	701,470.55	-471,500.10
Cash paid for fixed, intangible and other long-term assets	19	408,736.62	164,417.00	VI. The balance of beginning cash and equivalents	39	962,397.53	695,458.19
Cash paid for investment	20			VII. The balance of ending cash and equivalents	40	260,926.98	962,397.53

STATEMENT OF CHANGES IN OWNERSHIP INTERESTS

Prepared by: Shanghai Shining Biotech Co., Ltd. (Sealed)

For the year of 2007

Monetary unit: Yuan

Item	Line No	Amount of the current year									Complementary materials	Line no.	Amount	
		Ownership interests belonging to the parent company								Minority interests	Total ownership interests	I. Total state-owned capital and equity at the beginning of the year	33	
		Paid-in capital (or equity capital)	Capital reserve	Less: treasury stocks	Surplus reserve	General risk reserve	Undistributed profits	Others	II. Increase in state-owned capital and equity			34	-	
Column no.	0	1	2	3	4	5	6	7	8	9				
I. Ending balance of the previous year	1	20,480,000.00	-		-		-63,361,696.21			-42,881,696.21	(2) Unpaid appropriation	36		
Add: changes of accounting policies	2									-	(3) Increase in assets evaluation	37		
modification of previous mistakes	3									-	(4) Increase in liquidation of property and appraisal of assets	38		
II. Beginning balance of the current year	4	20,480,000.00	-	-	-	-	-63,361,696.21	-	-	-42,881,696.21	(5) Increase in definition of property rights	39		
III. Amount of increase or decrease in the current year (the decrease is filled with "-")	5	-	-	-	-	-	-9,268,661.83	-	-	-9,268,661.83	(6) Capital premium	40		
1. Net profits	6						-9,268,661.83			-9,268,661.83	(7) Donation received	41		
2. Profits and losses directly charged into the ownership interest	7	-	-	-	-	-	-	-	-	-	(8) Debt-to-equity reform	42		
(1) Net change value of the sound value of financial assets for sale	8									-	(9) Tax revenue return	43		
(2) Influences of other ownership interests of the invested company under the equity law	9									-	(10) Additional floating capital	44		
(3) Influences of income tax relating to items charged into the ownership interests	10									-	(11) Other factors determined by the central and local governments	45		
(4) Others	11									-	(12) Accumulation of operations	46		
Subtotal of 1 and 2	12	-	-	-	-	-	-9,268,661.83	-	-	-9,268,661.83	(13) Others	47		
3. Capital invested and decreased by owners	13	-	-	-	-	-	-	-	-	-	III. Decrease in state-owned capital and equity	48	-	
(1) Capital invested by owners	14									-	(1) Written-off upon the special approval of the state	49		
(2) Value for share payment charged into the ownership interest	15									-	(2) Setting aside gratuitously	50		
(3) Others	16									-	(3) Decrease in assets evaluation	51		
4. Distribution of profits	17	-	-	-	-	-	-	-	-	-	(4) Decrease in liquidation of property and appraisal of assets	52		
(1) Withdrawing surplus reserve	18									-	(5) Decrease in definition of property rights	53		
Including: statutory reserve	19									-	(6) Decrease in absorption of losses and suspended accounts of the previous years	54		
discretionary reserve	20									-	(7) Decrease of force majeure factors including natural disasters	55		
(2) Withdrawing general risk reserve	21									-	(8) Decrease in supporting operations due to their separation with core operations	56		
(3) Distribution to the owners (shareholders)	22									-	(9) Other factors determined by the central and local governments	57		
Including: profits that shall be submitted by state-owned enterprises (dividends and interests of state-owned stocks)	23									-	(10) Decrease in operations	58		
dividends of common stocks	24									-	(11) Payment of income of stated-owned capital by enterprises	59		
dividends of common stocks converted to equity stocks (capital)	25									-	Including: profits that should be submitted by state-owned enterprises	60		
(4) Others	26									-	dividends and interests of state-owned shares	61		
5. Internal transfer of ownership interests	27	-	-	-	-	-	-	-	-	-	revenue from transferring state-owned property rights	62		
(1) Capital reserve converted to the capital (or equity capital)	28									-	revenue of liquidation	63		
(2) Surplus reserve converted to the capital (or equity capital)	29									-	other income of stated-owned capital	64		
(3) Surplus reserve making up losses	30									-	(12) Others	65	-	
(4) Others	31									-	VI. Total state-owned capital and equity at the end of the year	66		
IV. Ending balance of the current year	32	20,480,000.00	-	-	-	-	-72,630,357.84	-	-	-52,150,357.84	V. Other state-owned funds at the end of the year	67		
											VI. Total state-owned assets at the end of the year	68		
											VII. Total consolidated state-owned assets at the end of the year	69		

Financial Statements Annotation for the Year of 2007

of Shanghai Shining Biotechnology Co., Ltd.

I. Basic information of the company:

The company is a limited liability company (wholly foreign-funded) invested and established by Sinosmart Group Inc. The company was established on August 20, 1999, registered with the approval of Shanghai Administration for Industry and Commerce and granted with the Business License of Enterprises as Legal Persons (the registration no.: Qi-Du-Hu-Pu-Zong-Zi No.320815 (Pudong)). The registered capital of the company is RMB20.48 million and the business period is fifty years. The legal representative is Song Jin'an.

Business scope: production of micro ecological capsule and functional food (the above-mentioned do not contain drugs), research and development of drugs, sales of our products and provision of relevant consultation services (subject to license where a license is required).

II. Significant accounting policies:

1. Accounting systems and principles

The company carries out enterprise accounting systems and enterprise accounting standards.

2. Fiscal year

The fiscal year is from January 1st to December 31st every year in the Gregorian calendar.

3. Accounting principles

The accounting principle of the company is accrual basis.

4. Valuation basis

The company takes the incurred cost method as the valuation basis.

5. Bookkeeping base currency

(1) The company takes RMB as the bookkeeping base currency.

(2) The company adopts the market exchange rate on the first trading day of the current month to convert to RMB for bookkeeping of economic businesses related to foreign currency. The foreign currency balance in the foreign currency account at the end of the current year is adjusted according to the market exchange rate of the current day and the difference is charged into financial expenses of the current month.

6. Calculation method of accounts receivable and provision for bad debts

(1) Accounts that should be received from enterprises accepting labor services due to provision of such services are typically entered into the account book as cost in its actual amount.

(2) Identification standards of bad debts: accounts receivable that couldn't be recovered in accordance with liquidation procedures specified with the law due to the cancellation or bankruptcy of obligors; accounts receivable that couldn't be recovered due to the death of obligors who leave no property or no one to undertake the obligation; accounts receivable that couldn't be recovered as the obligors don't perform the obligation of debt repayment within the time limit and it is proved that the accounts couldn't be recovered and are cancelled after verification according to the management authority of the company.

(3) The company adopts the allowance method for calculation of bad debts.

7. Inventories

The purchases of inventories are calculated according to the actual costs while their deliveries are calculated according to the weighed average method.

8. Fixed assets and their depreciation

The purchase of fixed assets or new fixed assets is calculated according to the actual costs.

The depreciation of fixed assets adopts the straight line method, namely accrued on average within the estimated service life from the next month of usage after deducting the estimated net value of fixed assets from their original value.

Assets Type	Estimated residue	Estimated service life
Machines	10% of the original value	15 years
Transportation facilities	10% of the original value	8 years
Office equipment	10% of the original value	8 years

9. Identification of sales

The sales of goods: the delivery of goods, the transfer of their ownerships to the buyers and the receipt of payment or evidence of receiving the payment are identified as the realization of sales.

Revenues of labor services: the provision of labor services and the receipt of payment or evidence of receiving the payment are identified as the realization of revenues.

10. Major taxes of the company:

Value-added tax	rate of 17%
River course fees	rate of 0.5%
Enterprise income tax	rate of 15%

III. Major items in the balance sheet

1. Monetary funds

	Ending balance	Beginning balance
	<u>260,926.98</u>	<u>962,397.53</u>
Including: cash	80,505.12	144,830.08
bank deposits	180,421.86	817,567.45

2. Accounts receivable

	Ending balance	Beginning balance
	<u>6,642,666.60</u>	<u>5,392,398.03</u>
Aging analysis: within 1 year	1,001,638.78	
within 1-2 years	5,641,027.82	
Mainly: RT-MART	1,079,877.69	
Tongyi Cultural Trading Co., Ltd.	1,214,904.00	

3. Advance payment

	Ending balance	Beginning balance
	<u>847,098.23</u>	<u>72,287.00</u>
Aging analysis: within 1 year	18,000.00	
within 1-2 years	829,098.23	
Mainly: Shanghai Art-Designing Co., Ltd.	200,000.00	
Changshu Television	196,600.00	

4. Other accounts receivable

	Ending balance	Beginning balance
	<u>8,928,243.36</u>	<u>2,004,777.69</u>
Aging analysis: within 1 year	4,032,487.33	
within 1-2 years	4,895,756.03	
Mainly: funds of disbursement	4,206,994.79	
Zhuliu Cultural Company	785,673.34	
agency funds of courts	585,428.00	

5. Inventories

	Ending balance	Beginning balance
Raw materials	931,860.62	907,161.09
Goods in process	1,325,366.19	1,254,114.98
Goods shipped on installment sales	710,318.53	710,318.53
Inventory goods	5,767,588.37	4,549,342.07
Total	<u>8,735,133.71</u>	<u>7,420,936.67</u>

6. Fixed assets

Type of fixed assets	Beginning balance	Increase in the current year	Decrease in the current year	Ending balance
Machines	32,799,185.10	128,778.62		32,927,963.72
Office equipment	258,029.00	121,779.00		379,808.00
Transportation facilities	901,404.04	158,179.00		1,059,583.04
Total	<u>33,958,618.14</u>	<u>408,736.62</u>		<u>34,367,354.76</u>

7. Accumulated depreciation

Type of fixed assets	Beginning balance	Increase in the current year	Decrease in the current year	Ending balance
Machines	7,515,168.42	1,953,528.84		9,468,697.26
Office equipment	68,523.67	72,423.44		140,947.11
Transportation facilities	261,627.01	21,255.35		282,882.36
Total	<u>7,845,319.10</u>	<u>2,047,207.63</u>		<u>9,892,526.73</u>

8. Short-term loans

	Ending balance	Beginning balance
	<u>32,048,639.78</u>	<u>54,603,748.94</u>
Including: Bank of Shanghai Zhoujiadu Branch	5,000,000.00	
China National Investment & Guaranty Co., Ltd.	6,281,750.38	
Agricultural Bank of China Jinqiao Branch	20,766,889.40	

As the loans of Agricultural Bank of China Jinqiao Branch were in preparation for rescheduling of debts, the interests were not paid or accrued.

9. Accounts payable

	Ending balance	Beginning balance
	<u>13,358,277.43</u>	<u>12,643,191.60</u>
Aging analysis: within 1 year	859,907.00	
within 1-2 years	12,498,370.43	
Mainly: Focus Advertisement Co., Ltd.	4,677,461.51	
Zhonghu Company	4,016,875.20	

10. Advance receivable

	Ending balance	Beginning balance
	<u>507,983.58</u>	
Aging analysis: within 1 year	507,983.58	
Mainly: the central office of Jiangyin market	105,257.00	

11. Staff's remuneration payable

	Ending balance	Beginning balance
	<u>735,073.78</u>	<u>215,963.11</u>
Including: wages payable	514,988.43	
welfare fund payable	220,085.35	

12. Taxes payable

	Ending balance	Beginning balance
	<u>81,734.91</u>	<u>599,235.35</u>
Main taxes: value-added tax payable	70,862.08	
Individual income tax payable	10,837.40	

13. Other accounts payable

	Ending balance	Beginning balance
	<u>49,393,717.64</u>	<u>11,190,561.64</u>
Aging analysis: within 1 year	45,205,776.94	
within 1-2 years	4,187,940.70	
Mainly: Yan Yihong	7,924,290.76	

14. Accrued expenses

	Ending balance	Beginning balance
	<u>5,913,827.63</u>	<u>5,624,991.63</u>
Including: loans' interests	5,619,551.63	
rentals	294,276.00	

15. Paid-in capital

Investor	Registered capital (RMB)	Paid-in capital (RMB)	Proportion in the registered capital
Sinosmart Group Inc.	20,480,000.00	20,480,000.00	100%

The above-mentioned capital of RMB20.48 million was verified in the capital verification report (Xin-Chang-Kuai-Shi-Bao-Zi (2005) No.11374) issued by Shanghai BDO Yangtze River Certified Public Accountants Co. Ltd.

16. Undistributed profits

Ending balance	Beginning balance
72,630,357.84	-63,361,696.21

V. Major items in the profits statement

1. Operating revenues

	Amount of the current year	Amount of the previous year
	<u>3,113,404.61</u>	<u>880,186.79</u>
Including: revenue from primary businesses	3,113,195.21	880,186.79
revenue from other businesses	209.40	

2. Operating costs

	Amount of the current year	Amount of the previous year
	<u>2,160,030.66</u>	<u>339,453.78</u>
Including: cost of primary businesses	2,159,974.26	880,186.79
Cost of other businesses	56.40	

3. Taxes and surcharges

River course fees	Amount of the current year	Amount of the previous year
	<u>1,608.34</u>	<u>2,973.00</u>

4. Sales expenses

	Amount of the current year	Amount of the previous year
	<u>6,187,941.67</u>	<u>2,810,093.95</u>
Main items: wages	2,389,725.64	
rental fee	1,030,571.64	

5. Management expenses

	Amount of the current year	Amount of the previous year
	<u>3,136,878.69</u>	<u>429,529.77</u>
Main items: wages	1,341,257.30	

6. Financial expenses

	Amount of the current year	Amount of the previous year
	<u>167,236.66</u>	<u>446,867.36</u>

Main items: interest expenditure	164,838.22	
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7. Non-operating revenue

Amount of the current year	Amount of the previous year
<u>4,519.16</u>	<u>5,120.00</u>

8. Non-operating expenditure

	Amount of the current year	Amount of the previous year
	<u>732,889.38</u>	<u>333,323.17</u>
Including: the payment to the Agricultural Bank of China (the joint liability due to guarantee)	661.000.00	

V. All matters relating to taxes are subject to the amount verified by the taxation authorities.

Qingdao Zhenqing Certified Public Accounts Co., Ltd. Shanghai Branch (Sealed)

**QINGDAO ZHENQING CERTIFIED PUBLIC ACCOUNTANTS
CO., LTD. SHANGHAI BRANCH**

**Adjustment Form of Taxable Income for the year of 2007
of Shanghai Shining Biotechnology Co., Ltd.**

Monetary unit: Yuan

Adjustment items and detailed items	Description	Amount of adjustment	
		Increase	Decrease
Management expenses/sales expenses – business reception fee	Overexpenditure by calculating in accordance with pre-tax expenditure standards	199,130.69	
Non-operating expenditure/sales expenses	Without legal notes	632,120.00	
Non-operating expenditure – administrative fine\ overdue fine	Items that shall not be listed into expenditure before tax	59,489.38	
Non-operating expenditure – losses of assets	Losses of counterfeit currency shall not be listed into expenditure before tax	200.00	
Total		890,940.07	
Net increase that should be adjusted in the taxable income of the current year		890,940.07	
Total profits listed in the audited profits statement		-9,268,661.63	
Taxable income of the current year after adjustment		-8,377,721.56	

Note: 1. The form shall be attached to the audit report;

2. The adjustment table of taxable income is the audit opinion of the certified public accountants and the approval of the final taxable income of the company is subject to the verification of the local taxation bureau.

Qingdao Zhenqing Certified Public Accounts Co., Ltd. Shanghai Branch (Sealed)

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Annual Inspection for the Year of 2008
Annual Inspection Report for Foreign-funded Enterprises

Company Name: Shanghai Shining Biotechnology Co., Ltd.

Business License Registration No.: 320815

Registration Authority: Shanghai Administration for Industry and
Commerce Pudong New District Branch

Filing Date: May 25, 2009

Prepared by Shanghai Administration for Industry and Commerce

Translation for Pages 68 of 84

Relevant Information of Enterprises

State Taxation Registration Authority	Shanghai Municipal Bureau of State Taxation	Taxation Registration Certificate No.	310115631562587
Local Taxation Registration Authority	Shanghai Municipal Bureau of Local Taxation	Taxation Registration Certificate No.	310115631562587
Opening Bank (Basic account)	Bank of Communications Pudong New District Branch	Account in the Opening Bank (Basic Account)	310066111-010141005092
Organization Structure code	631562587	Enterprise Mailbox	Yulinglong999@hotmail.com

Conditions of Contribution

Total investment	USD2,525,200	
Registered capital	Subscribed by Chinese parties	USD0.0000
	Subscribed by foreign parties	USD2,525,200
Paid-in capital	Paid by Chinese parties	USD0.0000
	Paid by foreign parties	USD2,525,200
Capital that shall be contributed in 2008	Chinese parties	USD0.0000
	Foreign parties	USD0.0000
Capital that was contributed actually in 2008	Chinese parties	USD0.0000
	Foreign parties	USD0.0000
Amount contributed by Chinese parties in the form of state-owned assets	RMB0.0000	

Production and Operating Results in 2008

(Monetary unit: Yuan)

Operation condition (select one and mark√)	<input type="checkbox"/> In preparation	<input checked="" type="checkbox"/> Launch of production and opening for business	<input type="checkbox"/> Suspension of business	<input type="checkbox"/> Liquidation
Sales (operating) income	3,694,922	Including: operating income of services		0
Domestic sales	3,694,922	Including: turnover of services		0
Total profits	-9,056,082	Net profits		
Losses	9,056,082	Total taxes		394,265
Total assets	60,130470	Including: long-term investment		0
Total debts	117,536,910	Including: long-term debts		0

Certificate of Assigned Representative or Consigned Agent

for Annual Inspection of Enterprises

Name of the assigned representative or authorized agent: Yan Yihong Tel: 02158347628

Authorization: handling annual inspection procedures of 2008

- including Annual inspection of branches
- excluding

Name: Yan Yihong
 Gender: Female
 Date of Birth: May 29, 1963
 Address: No.2, Building 18, No.223,
 Funiu Road, Zhongyuan District, Zhengzhou City
 Citizen ID No.: 41010219630529302X



I hereby confirm and promise that all the contents contained in the annual inspection report do not contain any fraudulent information and all the financial statements and other materials submitted are true and effective, and that I'm willing to bear any legal and related responsibilities caused due to the inaccuracy of such documents.

Signatures and seal of the legal representative: Song Jin'an (Signed and sealed)

Seal of the company: Shanghai Shining Biotechnology Co., Ltd. (Sealed)

Dated: June 4, 2009

-Foreign-funded Enterprises 3-

Income Statement

Prepared by: Shanghai Shining Bio-technology Co., Ltd

For the year 2008

Monetary Unit: Yuan

	Line	Current	Prior		Line	Current	Prior
Items	No.	Year	Year	Items	No.	Year	Year
1. Total operating revenues	1	3,694,921.51	3,113,404.61	Including: Income from associates	22		
Including: operating revenues	2	3,694,921.51	3,113,404.61	3. Operating profit (loss expressed with "-")	23	-8,556,184.56	-8,540,291.16
Including: revenue from primary business	3	3,694,921.51	3,113,195.21	Add: Non-operating income	24	8,614.81	4,519.16
revenue from other business	4		209.4	Including: Gains from disposing noncurrent capital	25		
2. Total operating cost	5	12,251,106.07	11,653,696.02	Gains from nonmonetary capital exchange	26		
Including: operating costs	6	2,238,844.38	2,160,030.66	Government subsidy (subsidy revenue)	27		
Including: cost of primary business	7	2,238,844.38	2,519,974.26	Debt restructuring income	28		
cost of other businesses	8		56.40	Less: Non-operating expense	29	508,512.57	732,889.38
Tax and extra charges	9	3,234.02	1,608.34	Including: Loss of noncurrent capital disposal	30		
Sales expenses	10	7,095,393.90	6,187,941.67	Loss of nonmonetary capital exchange	31		
Administrative expenses	11	2,921,309.90	3,136,878.69	Loss of debt restructuring	32		
Including: Business reception fee	12		193,553.71	4. Total profit (loss expressed with "-")	33	-9,056,082.32	-9,268,661.63
R&D expenses	13		133,434.43	Less: Income tax	34		
Financial expenses	14	-7,676.13	167,236.66	Add: #*Unrealized investment loss	35		
Including: Interest expense	15		164,838.22	5. Net profit (loss expressed with "-")	36	-9,056,082.32	-9,268,661.63
Interest income	16	-611.22	-1,234.16	Less: *Minority income and loss	37		
Net loss of foreign exchange (net loss is "-")	17			6. Net profit of parent company owner	38	-9,056,082.32	-9,268,661.63
□ Depreciation	18			7. Earnings per share	39		
Other	19			Basic earnings per share	40		
Add: Income from changes In fair value (loss is "-")	20			Diluted earnings per share	41		
Investment income (loss is "-")	21						

Items with * are for consolidated financial statements; items with □ are for companies which comply with the new accounting standards; items with # are for companies which comply with the ASBE

Balance Sheet

Printed by: Shanghai Shining Biotechnology Co., Ltd.

For the year ended December 31, 2008

Monetary Unit: Yuan

	Line	Closing	Opening		Line	Closing	Opening
Items	No.	Amount	Amount	Items	No.	Amount	Amount
Current Assets	1	—	—	Current Liabilities	47		
Cash	2	936,935.39	260,926.98	Short-term loans	48	6,281,750.38	32,048,639.78
□Held for trading financial assets	3			Held-for-trading financial liabilities	49		
# Short-term investments	4	—		Warrant payable	50		
Notes receivable	5	—		Notes payable	51		
Accounts receivable	6	7,090,507.61	6,642,666.60	Accounts payable	52	13,715,379.89	13,358,277.43
Accounts prepaid	7	1,286,899.93	847,098.23	Advance receipts	53	1,693,789.43	507983.58
Dividends receivable	8	—		Accrued payroll	54	356,598.81	735,073.78
Interest receivable	9	—		□Including: Accrued payroll	55		514,988.43
Other receivables	10	17,227,558.12	8,928,243.36	# Welfare payable	56	220,085.35	220,085.35
Inventories	11	10,808,876.44	8,735,133.71	Taxes payable	57	-82,767.64	81,734.91
Including: Raw material	12	951,733.51	931,860.62	Including: Taxes payable	58	-82,277.48	81,699.48
Inventories (end products)	13	7,482,216.29	5,767,588.37	Interest payable	59		
Non-current assets maturing within one year	14			Dividend payable	60		
Other current assets	15			Other payables	61	89,364,055.20	49,393,717.64
Total current assets	16	37,350,777.49	25,414,068.88	Long-term noncurrent liabilities due in one year	62		
Fixed assets	17			Other noncurrent liabilities	63	6,208,103.63	5,913,827.63
□Available-for-sale financial assets	18			Total current liabilities	64	117,536,909.70	102,039,254.75
□Held-to-maturity investment	19			Noncurrent liabilities	65		
# Long-term bond investment	20			Long-term loans	66		
□Long-term accounts receivables	21			Bonds payable	67		
Long-term equity investments	22			Long-term payables	68		
# Stock right disposition	23			Special accounts payable	69		
□Investment Real Estate	24			Accrued liabilities	70		
Fixed assets-cost	25	34,485,759.49	34,367,354.76	□Deferred income taxes	71		
Less: Accumulated depreciation	26	11,706,067.44	9,892,526.73	# Deferred tax debit	72		
Fixed assets-net value	27	22,779,692.05	24,474,828.03	Other noncurrent liabilities	73		
Less: Reserve for fixed asset revaluation	28			Including: Special reserve fund	74		
Net fixed assets	29	22,779,692.05	24,474,828.03	Total noncurrent liabilities	75		
Construction in progress	30			Total liabilities	76	117,536,909.70	102,039,254.75
Project material	31			Owner's equity (stockholder's equity)	77		
Liquidation of fixed assets	32			Paid-in capital (stock)	78	20,480,000.00	20,480,000.00
□Productive biological assets	33			State capital	79		
□Oil & gas assets	34			Collective capital	80		
Intangible assets	35			Legal person's capital	81		
Including: Land use right	36			Including: State-owned person's capital	82		
□Development expenditure	37			Collective legal person's capital	83		
□Goodwill	38			Individual capital	84		
#* Acquired Business Price Difference	39			Foreign capital	85		
Long-term deferred expenses (deferred assets)	40			Capital surplus	86	3,800,000.00	
□Deferred income tax assets	41			Less: Treasury stock	87		
# Deferred assets debits	42			Surplus reserves	88		
Other noncurrent assets (other assets)	43			□General risk provisions	89		
Including: Specially reserving materials	44			*# Unrealized investment losses (loss is -)	90		
Total noncurrent assets	45	22,779,692.05	24,474,828.03	Undistributed profits	91	-81,686,440.16	-72,630,357.84
				Including: Cash dividends	92		
				*Currency translation difference	93		
				Total parent company owner's equity	94		
				*Minority equity	95		
				Total owner's equity	96	-57,406,440.16	-52,150,357.84
				# Less: Capital loss	97		
				Total owner's equity (less capital loss)	98	-57,406,440.16	-52,150,357.84
Total capital	46	60,130,496.54	49,888,896.10	Total liabilities and owner's equity	99	60,130,496.54	49,888,896.91

Items with * are for consolidated financial statements; items with □ are for companies which comply with the new accounting standards; items with # are for companies which comply with the ASBE

**QINGDAO ZHENQING CERTIFIED PUBLIC ACCOUNTANTS
CO., LTD. SHANGHAI BRANCH**

Address: Room 503, No.201,
New Jinqiao Road, Shanghai City
Tel: 50311571 Fax: 50550908
Email: zqcpa@263.net

Audit Report

Qing-Zhen-Hu-Wai-Shen-Zi (2009) No.134

To Shanghai Shining Biotechnology Co., Ltd.,

We have audited the enclosed financial statements of Shanghai Shining Biotechnology Co., Ltd., including the balance sheet on December 31, 2008, profits statement, cash flow statement, the statement of changes of the ownership interests and financial statements annotation for the year of 2008.

1. Responsibilities of the Company's management

The compilation of financial statements in accordance with the enterprise accounting standards and Enterprise Accounting System is the responsibility of the management of Shanghai Shining Biotechnology Co., Ltd., including: (1) designing, implementing and maintaining internal control related to the compilation of financial statements to make sure no significant misstatement caused by embezzlement or mistakes; (2) selecting and exerting appropriate accounting policies; (3) making reasonable accounting evaluations.

2. Responsibilities of the certified public accountants

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards of CICPA which requires us to plan and conduct the audit work and acquire reasonable guarantee for whether there is significant misstatement in the financial statements in compliance with the professional code of ethics.

An audit includes the implementation of audit procedures to obtain the audit evidence supporting the amounts and disclosures in the financial statements. The selected audit procedures lie on the judgment of certified public accountants, including the assessment of significant misstatement risk caused by the embezzlement or mistakes in the financial statements. During the risk assessment, we have considered internal control related to the compilation of financial statements to design appropriate audit procedures, but the purpose is not to express an opinion on the

efficiency of internal control. An audit also includes assessing the accounting policies concerned and significant accounting estimates made by management authority in charge, as well as evaluating the overall financial statement presentation.

We believe that our audit evidence is adequate and appropriate to provide a reasonable basis for our opinion.

3. Items resulting in the reservation of opinion

- (4) We were unable to carry out the stocktaking inspection and conduct satisfactory alternative auditing procedures to express an audit opinion on quantities, conditions and the rationality of delivery of ending inventories of Shanghai Shining Biotechnology Co., Ltd.
- (5) As the company was unable to provide all bank copies, we were unable to provide the confirmation and conduct satisfactory alternative auditing procedures to express an audit opinion on the rationality of ending balance of bank deposits of Shanghai Shining Biotechnology Co., Ltd.
- (6) Due to the restriction of the audit scope, we were unable to express an audit opinion on the rationality of ending balance of short-term loans of Shanghai Shining Biotechnology Co., Ltd.

4. Audit opinion

We believe that, the financial statements of Shanghai Shining Biotechnology Co., Ltd. conform to the regulations of enterprise accounting standards and Enterprise Accounting System issued; and in all the significant aspects fairly show the financial condition on December 31, 2008, the operation result and the cash-flow condition for the year of 2008 of the company.

(There is no text in this page)

Qingdao Zhenqing Certified Public Accountants Co., Ltd. Shanghai Branch (Sealed)
Shanghai, China

CPA: Wang Lan (Signed and sealed)
CPA: Wang Wen (Signed and sealed)

April 3, 2009

Balance Sheet

Printed by: Shanghai Shining Biotechnology Co., Ltd.

For the year ended December 31, 2008

Monetary Unit: Yuan

	Line	Closing	Opening		Line	Closing	Opening
Items	No.	Amount	Amount	Items	No.	Amount	Amount
Current Assets	1	—	—	Current Liabilities	47		
Cash	2	936,935.39	260,926.98	Short-term loans	48	6,281,750.38	32,048,639.78
□Held for trading financial assets	3			Held-for-trading financial liabilities	49		
# Short-term investments	4	—		Warrant payable	50		
Notes receivable	5	—		Notes payable	51		
Accounts receivable	6	7,090,507.61	6,642,666.60	Accounts payable	52	13,715,379.89	13,358,277.43
Accounts prepaid	7	1,286,899.93	847,098.23	Advance receipts	53	1,693,789.43	507983.58
Dividends receivable	8	—		Accrued payroll	54	356,598.81	735,073.78
Interest receivable	9	—		□Including: Accrued payroll	55		514,988.43
Other receivables	10	17,227,558.12	8,928,243.36	# Welfare payable	56	220,085.35	220,085.35
Inventories	11	10,808,876.44	8,735,133.71	Taxes payable	57	-82,767.64	81,734.91
Including: Raw material	12	951,733.51	931,860.62	Including: Taxes payable	58	-82,277.48	81,699.48
Inventories (end products)	13	7,482,216.29	5,767,588.37	Interest payable	59		
Non-current assets maturing within one year	14			Dividend payable	60		
Other current assets	15			Other payables	61	89,364,055.20	49,393,717.64
Total current assets	16	37,350,777.49	25,414,068.88	Long-term noncurrent liabilities due in one year	62		
Fixed assets	17			Other noncurrent liabilities	63	6,208,103.63	5,913,827.63
□Available-for-sale financial assets	18			Total current liabilities	64	117,536,909.70	102,039,254.75
□Held-to-maturity investment	19			Noncurrent liabilities	65		
# Long-term bond investment	20			Long-term loans	66		
□Long-term accounts receivables	21			Bonds payable	67		
Long-term equity investments	22			Long-term payables	68		
# Stock right disposition	23			Special accounts payable	69		
□Investment Real Estate	24			Accrued liabilities	70		
Fixed assets-cost	25	34,485,759.49	34,367,354.76	□Deferred income taxes	71		
Less: Accumulated depreciation	26	11,706,067.44	9,892,526.73	# Deferred tax debit	72		
Fixed assets-net value	27	22,779,692.05	24,474,828.03	Other noncurrent liabilities	73		
Less: Reserve for fixed asset revaluation	28			Including: Special reserve fund	74		
Net fixed assets	29	22,779,692.05	24,474,828.03	Total noncurrent liabilities	75		
Construction in progress	30			Total liabilities	76	117,536,909.70	102,039,254.75
Project material	31			Owner's equity (stockholder's equity)	77		
Liquidation of fixed assets	32			Paid-in capital (stock)	78	20,480,000.00	20,480,000.00
□Productive biological assets	33			State capital	79		
□Oil & gas assets	34			Collective capital	80		
Intangible assets	35			Legal person's capital	81		
Including: Land use right	36			Including: State-owned person's capital	82		
□Development expenditure	37			Collective legal person's capital	83		
□Goodwill	38			Individual capital	84		
#*Acquired Business Price Difference	39			Foreign capital	85		
Long-term deferred expenses (deferred assets)	40			Capital surplus	86	3,800,000.00	
□Deferred income tax assets	41			Less: Treasury stock	87		
# Deferred assets debits	42			Surplus reserves	88		
Other noncurrent assets (other assets)	43			□General risk provisions	89		
Including: Specially reserving materials	44			*# Unrealized investment losses (loss is -)	90		
Total noncurrent assets	45	22,779,692.05	24,474,828.03	Undistributed profits	91	-81,686,440.16	-72,630,357.84
				Including: Cash dividends	92		
				*Currency translation difference	93		
				Total parent company owner's equity	94		
				*Minority equity	95		
				Total owner's equity	96	-57,406,440.16	-52,150,357.84
				# Less: Capital loss	97		
				Total owner's equity (less capital loss)	98	-57,406,440.16	-52,150,357.84
Total capital	46	60,130,496.54	49,888,896.10	Total liabilities and owner's equity	99	60,130,496.54	49,888,896.91

Items with * are for consolidated financial statements; items with □ are for companies which comply with the new accounting standards; items with # are for companies which comply with the ASBE

Income Statement

Prepared by: Shanghai Shining Bio-technology Co., Ltd

For the year 2008

Monetary Unit: Yuan

Items	Line No.	Current Year	Prior Year	Items	Line No.	Current Year	Prior Year
1. Total operating revenues	1	3,694,921.51	3,113,404.61	Including: Income from associates	22		
Including: operating revenues	2	3,694,921.51	3,113,404.61	3. Operating profit (loss expressed with "-")	23	-8,556,184.56	-8,540,291.16
Including: revenue from primary business	3	3,694,921.51	3,113,195.21	Add: Non-operating income	24	8,614.81	4,519.16
revenue from other business	4		209.4	Including: Gains from disposing noncurrent capital	25		
2. Total operating cost	5	12,251,106.07	11,653,696.02	Gains from nonmonetary capital exchange	26		
Including: operating costs	6	2,238,844.38	2,160,030.66	Government subsidy (subsidy revenue)	27		
Including: cost of primary business	7	2,238,844.38	2,519,974.26	Debt restructuring income	28		
cost of other businesses	8		56.40	Less: Non-operating expense	29	508,512.57	732,889.38
Tax and extra charges	9	3,234.02	1,608.34	Including: Loss of noncurrent capital disposal	30		
Sales expenses	10	7,095,393.90	6,187,941.67	Loss of nonmonetary capital exchange	31		
Administrative expenses	11	2,921,309.90	3,136,878.69	Loss of debt restructuring	32		
Including: Business reception fee	12		193,553.71	4. Total profit (loss expressed with "-")	33	-9,056,082.32	-9,268,661.63
R&D expenses	13		133,434.43	Less: Income tax	34		
Financial expenses	14	-7,676.13	167,236.66	Add: #*Unrealized investment loss	35		
Including: Interest expense	15		164,838.22	5. Net profit (loss expressed with "-")	36	-9,056,082.32	-9,268,661.63
Interest income	16	-611.22	-1,234.16	Less: *Minority income and loss	37		
Net loss of foreign exchange (net loss is "-")	17			6. Net profit of parent company owner	38	-9,056,082.32	-9,268,661.63
□ Depreciation	18			7. Earnings per share	39		
Other	19			Basic earnings per share	40		
Add: Income from changes In fair value (loss is "-")	20			Diluted earnings per share	41		
Investment income (loss is "-")	21						

Items with * are for consolidated financial statements; items with □ are for companies which comply with the new accounting standards; items with # are for companies which comply with the ASBE

Cash Flow Statement

Prepared by Shanghai Shining Biotechnology Co., Ltd

For the year 2008

Monetary Unit: Yuan

Item	Line no.	Amount of the current year	Amount of the previous year	Item	Line no.	Amount of the current year	Amount of the previous year
I. Cash flow generated by operating activities:	1	—	—	Net cash received from disposing the subsidiaries and other	21		
Cash received from sales of goods and rendering services	2	4,261,101.74	2,900,398.36	Cash paid relating to other investment activities	22		
Refunds of taxes	3	36,813,460.39		Sub-total of cash outflows of investment activities	23	118,404.73	408,736.62
Cash received relating to other operating activities	4		28,240,426.11	Net cash flow generated from investment activities	24	-118,404.73	-408,736.62
Sub-total of cash inflows	5	41,074,562.13	31,140,824.47	III. Cash flow generated by financing activities	25	—	—
Cash paid for goods and receiving services	6	5,110,329.24	1,476,925.68	Cash received from absorbing investments	26		
Cash paid to staffs and on behalf of employees	7	2,529,644.97	3,931,594.41	Including: cash received from minority investment	27		
Tax payments	8	508,731.92	277,808.61	Cash received from loans	28		
Cash paid relating to other operating activities	9	6,466,320.46	3,027,282.59	Cash received relating to other financing activities	29		
Sub-total of cash outflows	10	14,615,026.59	8,713,611.02	Sub-total of cash inflows of financing activities	30	—	
Net cash flow generated by operating activities	11	26,459,535.54	22,427,213.45	Repayment of debts	31	25,665,122.40	22,719,947.38
II. Cash flow generated by investment activities	12	—	—	Cash paid for dividends and repaying interests	32		
Cash received from investment drawback	13			Including: paid for minority shareholders	33		
Cash received from investment income	14			Cash paid relating to other financing activities	34		
Net cash from disposing fixed, intangible and long-term assets	15			Sub-total of cash outflows of financing activities	35	25,665,122.40	22,719,947.38
Cash received from disposing subsidiaries and other	16			Net cash flow generated by financing activities	36	-25,665,122.40	-22,719,947.38
Cash received from other activities relating to investment	17			IV. Influence of foreign exchange movement on cash	37		
Sub-total of cash from investment activities	18	—	—	V. Net increase in cash and cash equivalents	38	676,008.41	-701,470.55
Cash paid for fixed, intangible and other long-term assets	19	118,404.73	408,736.62	VI. The balance of beginning cash and equivalents	39	260,926.98	962,397.53
Cash paid for investment	20			VII. The balance of ending cash and equivalents	40	936,935.39	260,926.98

Financial Statements Annotation for the Year of 2008

of Shanghai Shining Biotechnology Co., Ltd.

I. Basic information of the company:

The company is a limited liability company (wholly foreign-funded) invested and established by Sinosmart Group Inc. The company was established on August 20, 1999, registered with the approval of Shanghai Administration for Industry and Commerce and granted with the Business License of Enterprises as Legal Persons (the registration no.: 310115400062347 (Pudong)). The registered capital of the company is RMB20.48 million and the business period is fifty years. The legal representative is Song Jin'an.

Business scope: production of micro ecological capsule and functional food (the above-mentioned do not contain drugs), research and development of drugs, sales of our products and provision of relevant consultation services (subject to license where a license is required).

II. Significant accounting policies:

1. Accounting systems and principles

The company carries out the Enterprise Accounting Systems.

2. Fiscal year

The fiscal year is from January 1st to December 31st every year in the Gregorian calendar.

3. Accounting principles

The accounting principle of the company is accrual basis.

4. Valuation basis

The company takes the incurred cost method as the valuation basis.

5. Bookkeeping base currency

(1) The company takes RMB as the bookkeeping base currency.

(2) The company adopts the market exchange rate on the first trading day of the current month to convert to RMB for bookkeeping of economic businesses related to foreign currency. The foreign currency balance in the foreign currency account at the end of the current year is adjusted according to the market exchange rate of the current day and the difference is charged into financial expenses of the current month.

6. Calculation method of accounts receivable and provision for bad debts

(1) Accounts that should be received from enterprises accepting labor services due to provision of such services are typically entered into the account book as cost in its actual amount.

(2) Identification standards of bad debts: accounts receivable that couldn't be recovered in accordance with liquidation procedures specified with the law due to the cancellation or bankrupt of obligors; accounts receivable that couldn't be recovered due to the death of obligors who leave no property or no one to undertake the obligation; accounts receivable that couldn't be recovered as the obligors don't perform the obligation of debt repayment within the time limit and it is proved that the accounts couldn't be recovered are cancelled after verification according to the management authority of the company.

(3) The company adopts the allowance method for calculation of bad debts.

7. Inventories

The purchases of inventories are calculated according to the actual costs while their deliveries are calculated according to the weighed average method.

8. Fixed assets and their depreciation

The purchase of fixed assets or new fixed assets is calculated according to the actual costs.

The depreciation of fixed assets adopts the straight line method, namely accrued on average within the estimated service life from the next month of usage after deducting the estimated net value of fixed assets from their original value.

Assets Type	Estimated residue	Estimated service life
Machines	10% of the original value	15 years
Transportation facilities	10% of the original value	8 years
Office equipment	10% of the original value	8 years

9. Identification of sales

The sales of goods: the delivery of goods, the transfer of their ownerships to the buyers and the receipt of payment or evidence of receiving the payment are identified as the realization of sales.

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10. Major taxes of the company:

Value-added tax	rate of 17%
Enterprise income tax	rate of 18%

11. Reserves are not accrued in the current year based on the experience of previous years and the actual situation of the current year.

III. Major items in the balance sheet

1. Monetary funds

	Ending balance	Beginning balance
	<u>936,935.39</u>	<u>260,926.98</u>
Including: cash	227,165.92	80,505.12
bank deposits	709,769.47	180,421.86

2. Accounts receivable

	Ending balance	Beginning balance
	<u>7,090,507.61</u>	<u>6,642,666.60</u>
Aging analysis: within 1 year	4,507,169.64	
more than 1 year	2,583,337.97	
Mainly: RT-MART	1,079,877.69	
TESCO	447,392.76	
Leiyunshang Pharmaceutics Co., Ltd.	402,160.30	

3. Advance payment

	Ending balance	Beginning balance
	<u>1,286,899.93</u>	<u>847,098.23</u>
Aging analysis: within 1 year	670,828.64	
more than 1 year	616,071.29	
Mainly: Harbin High-tech (Group) Co., Ltd.	468,396.64	
Changshu Television	196,600.00	

4. Other accounts receivable

	Ending balance	Beginning balance
	<u>17,227,558.12</u>	<u>8,928,243.36</u>
Mainly: Runying Company	4,806,302.69	
Ren Hong	1,438,914.93	
Song Jin'an	1,370,860.97	

5. Inventories

	Ending balance	Beginning balance
(1) Raw materials	951,733.51	931,860.62
(2) Goods in process	1,664,608.11	1,325,366.19
(3) Goods shipped on installment sales	710,318.53	710,318.53
(4) Inventory goods	7,482,216.28	5,767,588.37
Total	<u>10,808,876.44</u>	<u>8,735,133.71</u>

6. Fixed assets

Type of fixed assets	Beginning balance	Increase in the current year	Decrease in the current year	Ending balance
Machines	32,927,963.72	32,000.00		32,959,963.72
Office equipment	379,808.00	86,404.73		466,212.73
Transportation facilities	1,059,583.04			1,059,583.04
Total	<u>34,367,354.76</u>	<u>118,404.73</u>		<u>34,485,759.49</u>

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7. Accumulated depreciation

Type of fixed assets	Beginning balance	Increase in the current year	Decrease in the current year	Ending balance
Machines	9,468,697.26	1,714,576.64		11,183,273.90
Office equipment	140,947.11	72,211.34		213,158.45
Transportation facilities	282,882.36	26,752.73		309,635.09
Total	<u>9,892,526.73</u>	<u>1,813,540.71</u>	-	<u>11,706,067.44</u>

8. Short-term loans

	Ending balance	Beginning balance
	<u>6,281,750.38</u>	<u>32,048,639.78</u>
Including: China National Investment & Guaranty Co., Ltd. Shanghai Branch	6,281,750.38	

9. Accounts payable

	Ending balance	Beginning balance
	<u>13,715,379.89</u>	<u>13,358,277.43</u>
Aging analysis: within 1 year	1,025,569.51	
more than 1 year	12,689,810.38	
Mainly: Focus Advertisement Co., Ltd.	4,677,461.51	
Zhonghu Company	4,016,875.20	

10. Advance receivable

	Ending balance	Beginning balance
	<u>1,693,789.43</u>	<u>507,983.58</u>
Mainly: sales of franchises	1,313,480.83	

11. Staff's remuneration payable

	Ending balance	Beginning balance
	<u>356,598.81</u>	<u>735,073.78</u>
Including: social insurance and public reserve funds payable	136,513.46	514,988.43
welfare fund payable	220,085.35	220,085.35

12. Taxes payable

	Ending balance	Beginning balance
	<u>-82,767.64</u>	<u>81,734.91</u>
Main taxes: value-added tax payable	-88,363.93	
individual income tax payable	6,086.45	
river course management fees	-490.16	

13. Other accounts payable

	Ending balance	Beginning balance
	<u>89,364,055.20</u>	<u>49,393,717.64</u>
Mainly: Shanghai Jinshan Industrial Co., Ltd.	53,868,278.49	
Shanghai Meilanjing Technology Co., Ltd.	14,100,000.00	

14. Paid-in capital

Investor	Registered capital (RMB)	Paid-in capital (RMB)	Proportion in the registered capital
Sinosmart Group Inc.	20,480,000.00	20,480,000.00	100%

The above-mentioned capital of RMB20.48 million was verified in the capital verification report (Xin-Chang-Kuai-Shi-Bao-Zi (2005) No.11374) issued by Shanghai BDO Yangtze River Certified Public Accountants Co. Ltd.

There is no change in the current year.

15. Capital reserve

	Ending balance	Beginning balance
Other capital reserve (acquired by debt forgiveness)	3,800,000.00	-

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16. Undistributed profits

Ending balance	Beginning balance
<u>-81,686,440.16</u>	<u>-72,630,357.84</u>

V. Major items in the profits statement

1. Operating revenues

	Amount of the current year	Amount of the previous year
	<u>3,694,921.51</u>	<u>3,113,404.61</u>
Including: revenue from primary businesses	3,694,921.51	3,113,195.21
revenue from other businesses	-	209.40

2. Operating costs

	Amount of the current year	Amount of the previous year
	<u>2,238,844.38</u>	<u>2,160,030.66</u>
Including: cost of primary businesses	2,238,844.38	2,159,974.26
cost of other businesses	-	56.40

3. Taxes and surcharges

	Amount of the current year	Amount of the previous year
	<u>3,234.02</u>	<u>1,608.34</u>
Including: river course management fees	3,234.02	

4. Sales expenses

	Amount of the current year	Amount of the previous year
	<u>7,095,393.90</u>	<u>6,187,941.67</u>
Main items: wages	1,509,992.99	
Promotion expenses	1,479,129.37	
advertisement expenses	2,083,800.00	

5. Management expenses

	Amount of the current year	Amount of the previous year
	<u>2,921,309.90</u>	<u>3,136,878.69</u>
Main items: wages	859,187.02	
traveling expense	293,096.66	
business reception fee	238,156.47	

6. Financial expenses

	Amount of the current year	Amount of the previous year
	<u>-7,676.13</u>	<u>167,236.66</u>
Main items: interest expenditure (filled with “-“)	-611.22	
others	<u>-11,450.00</u>	
service charges	<u>4,385.09</u>	

7. Non-operating revenue

	Amount of the current year	Amount of the previous year
	<u>3,808,614.81</u>	<u>4,519.16</u>
Mainly: compensation of the court	3,800,000.00	

8. Non-operating expenditure

	Amount of the current year	Amount of the previous year
	<u>508,512.57</u>	<u>732,889.38</u>
Including: public donation expenditure	<u>410,012.65</u>	
fines and overdue fines	50,266.92	
the payment to the Agricultural Bank of China	48,233.00	

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9. Income Tax

Amount of the current year	Amount of the previous year
-	-

The income tax rate of the company is 18%. The total profits of the company in the current year are RMB -5,256,082.32. The enterprise income tax isn't liquidated yet. The account forms will be a in the next year if there is a difference.

V. All matters relating to taxes are subject to the amount verified by the taxation authorities.

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**QINGDAO ZHENQING CERTIFIED PUBLIC ACCOUNTANTS
CO., LTD. SHANGHAI BRANCH**

**Adjustment Form of Taxable Income for 2008
of Shanghai Shining Biotechnology Co., Ltd.**

Monetary unit: Yuan

Adjustment items and detailed items	Description	Amount of adjustment	
		Increase	Decrease
Management expenses/sales expenses – business reception fee	Overexpenditure	238,681.16	
Sales expenses – advertisement expense	Overexpenditure	1,529,561.77	
Non-operating expenditure – donation expenditure	Direct donation shall not be deducted	10,000.00	
Non-operating expenditure – fines and overdue fines	Item that shall not be deducted before tax	50,266.92	
Capital reserve – debt forgiveness	The increase shall be adjusted in tax payment	3,800,000.00	
Total		5,628,509.85	-
Net increase that should be adjusted in the taxable income of the current year		5,628,509.85	
Total profits listed in the audited profits statement		-9,056,082.32	
Less: losses made up for previous years		9,367,386.82	
Taxable income of the current year after adjustment		-12,794,959.29	

Note: 1. The form shall be attached to the audit report;

2. The adjustment table of taxable income is the audit opinion of the certified public accountants and the approval of the final taxable income of the company is subject to the verification of the local taxation bureau.