



China Pharmaceuticals, Inc. (CFMI)

SUMMARY

Symbol		CFMI
Current Price	\$	1.42
Target	\$	4.40
Fiscal Year		December

Revenue (in thous.)		EPS*
2008A	18,174	\$ 0.28
2009A	26,708	\$ 0.34
2010E	32,851	\$ 0.40
2011E	42,871	\$ 0.55

Balance Sheet Statistics (in thous.)		
Cash & Equivalent	\$	6,686
Working Capital	\$	9,243
Long-term Liab.	\$	-
Shareholders' Equity	\$	28,625
Book Value Per Share*	\$	1.09

Shares Outstanding (in thous.)*		32,042
Insider Ownership (%)		29.0
Institutional Ownership		N.A.
Market Cap (in thous.)	\$	45,499
52-Week Range	\$	0.51-1.92
Average Daily Trading Vol.		5,610
*Adjusted for reverse 5-for-6 reverse split		

Current Rating: Market Out Perform

Summary and Basis of Rating:

We are initiating our research coverage on China Pharmaceuticals, Inc. (China Pharmaceuticals) with a **Market Out Perform** rating and a 12-month target price of \$4.40. The Company, through its wholly-owned subsidiary, Xi'an Qinba Pharmaceutical Co. Ltd., is principally engaged in the manufacturing, marketing and sales of a variety of traditional Chinese medicines (TCM) and Western drugs in China.

In our view, China Pharmaceuticals offers investors an opportunity to invest in the huge and growing pharmaceutical market in China, the prospects of which are driven by a large population of 1.3 billion, increasing healthcare spending due to improving affordability as a result of rapid economic growth (thus increasing affluence), and the Chinese government's policy to increase spending on healthcare broadening the availability of healthcare insurance that will stimulate the demand for better quality healthcare services and drug products.

We like the Company's growth strategy of developing new drugs through its in-house research, as well as acquiring new drugs from outside research institutes only when certification and production approval is available to minimize cost and product development risk. The Company will significantly increase its expenditure on brand development through strategic advertisement on different media where management believes is most cost-effective. More important, the Company's multi-dimensional sales model targets directly the community hospitals, clinics and medical institutes at the county level, aiming to eliminate the profits made by different levels of distributors, which should enable it to improve profit margin and capture the vast potential of the fast growing drug market in the rural areas. Other growth drivers and attractions of the Company include facility upgrades at its Hanzhong factory to produce higher value drug products and improve operating efficiency, as well as the Company's debt-free, cash rich financial position that could facilitate growth through acquisitions of other companies.

The Company reported a 47.0% increase in sales to \$26.7 million and a 21.4% increase in net income for the fiscal year 2009. Financial results for the first quarter ended March 31, 2010 showed a 50.3% increase in sales to \$7.0 million and a 53.1% increase in gross profit to \$4.2 million over the corresponding period in 2009. Even though net income declined 14.1% to \$1.5 million in 1Q10 from \$1.8

million a year ago, it was mainly attributable to a total of \$1.6 million in one-off items related to the provision for impairment loss on intangible assets and a unjustified 25.9% effective tax rate against a statutory 15% tax rate for a high-tech enterprise under the People's Republic of China (PRC) Income Tax Law. Both items will not be repeated and could be revised downward at the fiscal 2010 year end. Based on our forecasts, the Company is expected to report a 23.0% increase in revenue to \$32.9 million in 2010, followed by a more robust 30.5% rise to \$42.9 million in 2011. Net income will rise 34.5% to \$12.0 million in 2010 and increase 45.9% to \$17.5 million in 2011.

China Pharmaceuticals' shares are trading at only 3.5 times our 2010 earnings projections and 2.6 times for 2011, which are in excess of 80% discount to the average PER for its comparable peers. Taking into account its relatively short operating history, its status as an illiquid stock trading on the OTC Bulletin Board market, we believe it is appropriate to apply a conservative 8.0 times prospective 2011 PER valuation to set our target price for the stock, which is at approximately 60% discount to the average 2011 PER for its peers. As such, we set our 12-month price target at \$4.40 for the stock and rate the stock **Market Out Perform**. We see the potential for further upward re-rating of its 12-month target price to higher PER rating upon the announcement of solid quarterly financial results to win investors' confidence in the coming few months. In addition, we expect the Company to actively seek a listing on the more prestigious exchange, such as Nasdaq, to bolster its corporate image and share trading liquidity. This could lead to further upward rating of the stock and its target price.

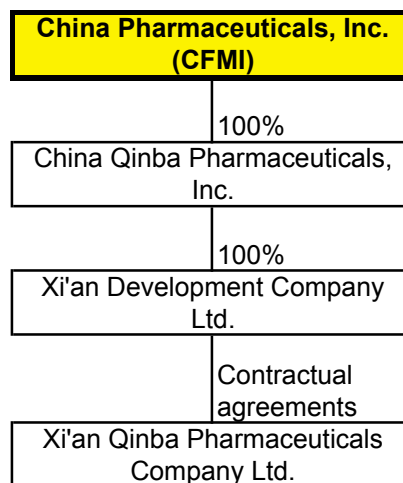
Company Profile

Xi'an Qinba Pharmaceutical Co., Ltd., incorporated in the PRC in 1969, is the principal operating company of China Pharmaceutical, Inc. (China Pharmaceuticals) and is in the business of manufacturing, marketing and sales of pharmaceuticals in China. China Qinba Pharmaceuticals was incorporated in Delaware on May 29, 2008. Xi'an Development is a "wholly owned foreign enterprise" incorporated in the PRC on August 18, 2008. Xi'an Development is a wholly owned subsidiary of China Qinba Pharmaceuticals. Through its wholly owned subsidiary Xi'an Development, and a number of contractual arrangements, the Company indirectly controls Xi'an Qinba Pharmaceutical Co. Ltd., a medical and pharmaceutical developer, manufacturer and marketer in the PRC. An Entrustment Management Agreement was entered into between Xi'an Development and Xi'an Qinba Pharmaceutical Co., Ltd. to which China Qinba Pharmaceuticals exercises control over the operations and business of Xi'an Pharmaceutical Co. Ltd through Xi'an Development. Pursuant to the Entrustment Management Agreement, China Qinba Pharmaceuticals shall receive all net profits and assume all operational losses of Xi'an Qinba Pharmaceutical Co., Ltd. through Xi'an Development.

On February 12, 2010, Allstar Restaurants (OTCBB:AREN) executed and consummated a Merger Agreement and Plan of Reorganization dated February 12, 2010. The "Merger Agreement", by and among Allstar Restaurants, (a Nevada corporation), Allstar Acquisitions Co., (a Delaware corporation), which is a wholly owned subsidiary of Allstar Restaurants, and China Qinba Pharmaceuticals, Inc., (a Delaware corporation). In the Merger Transaction, through its wholly-owned subsidiary Allstar Acquisitions Co., Allstar Restaurants acquired control of China Qinba Pharmaceuticals, Inc., (the parent company of Xi'an Development Co.), a wholly foreign-owned enterprise ("WFOE") organized under the

laws of the People's Republic of China, by issuing to all of the China Qinba Pharmaceuticals Shareholders shares of its Common Stock as consideration for all of the outstanding capital stock of China Qinba Pharmaceuticals. Pursuant to the Merger Agreement, the Company effected a name change from Allstar Restaurants to China Pharmaceuticals, Inc. The Company's trading symbol was changed to CFMI. The following diagram sets forth the current corporate structure of China Pharmaceuticals, Inc., giving effect to the Name Change Transaction consummated on March 3, 2010:

Chart 1. Company Organizational Structure



Source: Company document

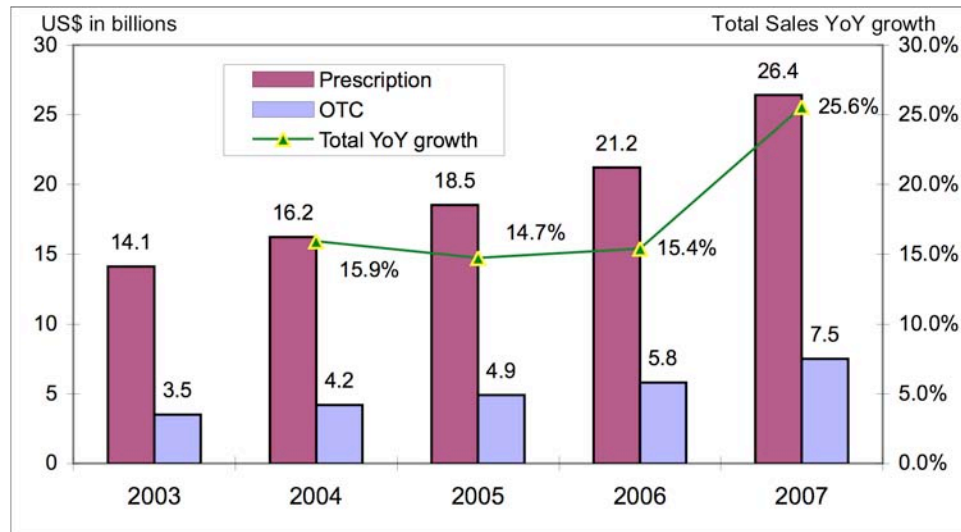
Industry Analysis

Structure and Trend

China accounts for approximately 20% of the world's population but only 1.5% of the global drug market. Despite the various critics of lack of intellectual property rights, poor corporate support for drug research, low visibility for drug approval procedures and price control on selected drug products, the pharmaceutical market in China has grown rapidly in recent years and has become the world's eighth largest drug market. According to Business Monitor International, the total sales of medicines in China, including prescription and over-the-counter medicines, was \$33.9 billion (approximately RMB 257 billion) in 2007, representing an increase of 25.6% from 2006 and a 2003-2007 CAGR of 17.8%. Business Monitor International estimated that the Chinese market became the eighth largest pharmaceutical market in the world in 2007, up from ninth in 2006. Sales of prescription medicines are the principal component of pharmaceutical expenditures in China and are mostly made in hospitals. According to Business Monitor International, sales of prescription medicines grew from \$14.1 billion in 2003 to \$26.4 billion in 2007, representing a CAGR of 17.0%. In 2007, total sales of prescription medicines represented 77.9% of China's total expenditure on medicine sales. The remaining expenditures were spent on over-the-counter medicines. In 2007, sales of over-the-counter (OTC) medicines amounted to \$7.5 billion, representing a CAGR of 21.0% from 2003 to 2007.



Chart 2: China's Prescription and OTC Medicines Sales



Source: Business Monitor International

The fundamental factors that are driving demand for medical and healthcare services include:

- The aging of China's huge 1.3 billion population, increasing life expectancy and prevalence of diseases that rise with increasing age such as arthritis, cardiovascular disease and cancer.
- Rapid economic growth and increasing affluence of the average population have led to an increase in affordability and higher demand for healthcare services.
- Active government support by providing a number of incentives and enacting programs as part of its Eleventh Five-Year Plan (2006-2010), which include increased funding for building additional hospitals, research centers and other healthcare facilities, enacting healthcare reforms and standards and subsidizing healthcare services for citizens.
- Increasing coverage of social medical insurance in China. The National Medical Insurance Program was introduced in 1999, originally launched as the Urban Worker Basic Medical Insurance Program, requires mandatory coverage of urban workers and their minor children. In 2007, a voluntary component called the Urban Resident Basic Medical Insurance Program was further implemented as part of the National Medical Insurance Program to cover the rest of the urban residents that are not covered by the Urban Worker Basic Medical Insurance Program.
- Increasing access to healthcare in rural areas. Since 2007, the PRC government has actively promoted the implementation of the New Rural Cooperative Medical Insurance Scheme, which extends insurance coverage to approximately 814 million rural residents.

Competition

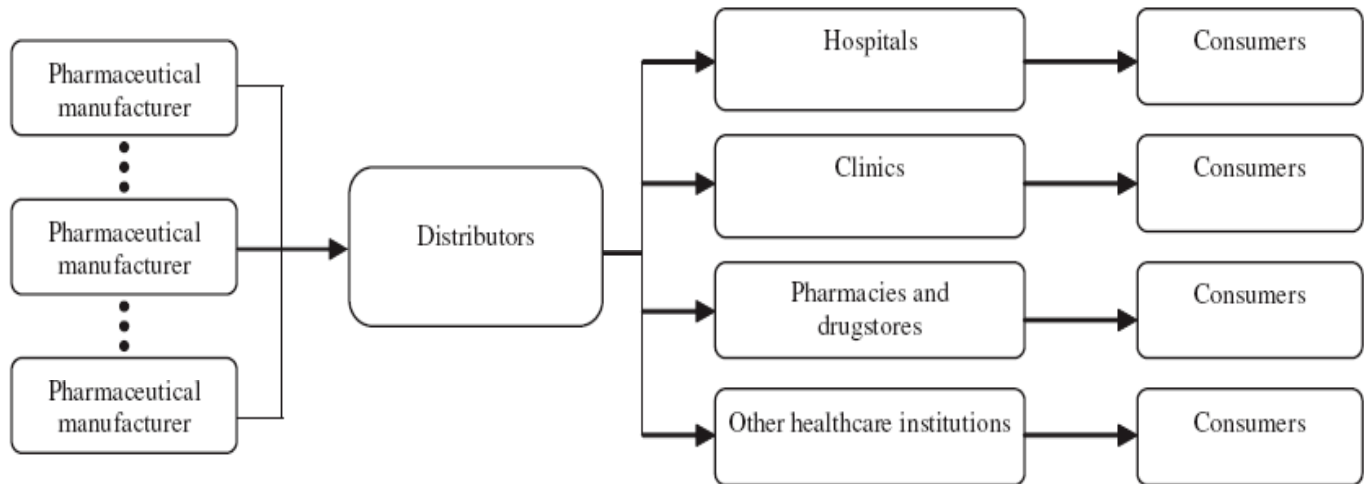
Competition in China's pharmaceutical industry is intense and is characterized by rapid and significant technological progress. Less efficient, smaller drug companies usually operate at a very slim margin or even at losses. Western pharmaceutical products have more than half of the market share of medications used in China, with Chinese pharmaceutical products making up the next largest part of the market. Western medicine is all made from chemosynthesis products, while traditional Chinese medicine (TCM) is made from botanical, animal and mineral components. Domestically produced pharmaceuticals are not as technologically advanced as Western products, but including both TCM and Western drugs they account for approximately 70% of the market sales in China. Domestic companies are mainly government-owned and fraught with overproduction and losses.

Anticipating the effects of World Trade Organization (WTO) entry and in an effort to compete with foreign firms, the Chinese government has decided to nurture its own large pharmaceutical companies by encouraging the consolidation of its government-owned companies which, even though the Company is not government-owned, may also present the Company with acquisition opportunities. According to government figures, China currently has about 3,500 drug companies, falling from more than 5,000 in 2004. The number is expected to drop further, as industry consolidation will continue.

Distribution

The pharmaceutical distribution market connects pharmaceutical manufacturers with pharmaceutical retailers, including hospitals, pharmacies, drugstores chains, independent community drugstores, community clinics and other points of sale retail outlets. Distributors play an important role in the pharmaceutical supply value chain by leveraging their economies of scale and operating expertise to purchase, store, resell and transport pharmaceutical products. The chart below illustrates the basic distribution of pharmaceutical products in China.

Chart 3. Distribution of China's Pharmaceutical Products



Source: Market information

In recent years, China's pharmacy enterprises have entered two new fields: e-business and the setting up of pharmacy retailing chain stores. It is estimated that most hospitals derived 25–60% of their revenue from prescription sales; hospitals remain the main outlets for distributing pharmaceuticals in China with a dominate market share of approximately 80%, while the OTC market (pharmacies, drugstore chains and community drugstores) accounts for the remaining 20% market share. The first channel of prescription medicines at city hospital has been recognized as "first terminal" and the OTC market has been described as the "second terminal". A major development of the drug distribution market is the proposed separation of medical treatment and medicine prescription at hospitals and the emergence of "third terminal" market, which include community hospitals, clinics and drugstores at the county level in the rural areas. While there is still no specific timetable for the implementation of separating medical treatment from medicine prescription at the hospitals, we believe such proposed change will result in major structural change in China's drug distribution market.

Regulations

As part of the government restructuring announced in March 1998, the Ministry of Health's Department of Drug Administration merged with the State Pharmaceutical Administration of China to become the State Drug Administration. As a result, the State Drug Administration oversees all drug manufacturing, trade and registration. In 2003, the State Drug Administration was restructured to become the State Food and Drug Administration (SFDA). Other former functions of the ministry have been assigned to different government bodies. The most important of these was the transfer of medical insurance responsibilities to the new Ministry of Labor and Social Security. SFDA now oversees all medications, both Western and TCM, as well as advertising.

The SFDA plans to cut the number of manufacturers from the current level of around 3,500 down to around 2,000 over the next few years by attrition and by requiring remaining firms to meet the new Good

Manufacturing Practices (GMP) standards (a system to ensure that products are consistently produced and controlled according to quality standards). In fact, SFDA required all pharmaceutical companies in China to obtain GMP certificates from SFDA by June 30, 2004 to be licensed to sell their drug products in China.

Pharmaceutical companies in China are subject to environmental laws and regulations stipulated in the national and the local environment protection bureaus in China. Relevant laws and regulations include provisions governing air emissions, water discharges and the management and disposal of hazardous substances and wastes. The PRC regulatory authorities require pharmaceutical companies to carry out environmental impact studies before engaging in new construction projects to ensure that their production processes meet the required environmental standards.

Advertisement Law of the People's Republic of China and Rules of Medicine Advertisements Management from State Admission for Industry and Commerce, Regulations on Control of Advertisements (tentative) from State Council provides guidelines for advertising prescription and OTC drugs and nutrients made by pharmaceutical companies. The rules limit where advertisements may be placed and govern the claims that may be made by the manufacturer.

The PRC government presently sets the prices of approximately 1,500 pharmaceuticals. These constitute approximately 10% of all distributed drugs. The prices for the remaining 90% (approximately, 12,000) pharmaceuticals are established by the market (the companies themselves). Corporations typically establish these prices based on operating costs, and market supply and demand. The Supervision Department of the PRC government will intervene only if there is a significant fluctuation in prices or a monopoly develops in a particular drug.

Outlook

Even though the profile of the pharmaceutical industry in China is low and accurate statistics are difficult to obtain, it is clear that the market potential for better-managed drug manufacturers and distributors is simply huge. Given that the manufacturing, marketing and drug distribution costs are relatively low compared to development costs, most drugs are sold to as wide a market as possible in order to maximize revenue and profit. On the other hand, there are various negative factors that have dampened profitability in the industry. These include:

- Government price controls with mandatory discounts on selected drugs.
- Competitive pricing pressures in the market and from multinational drugs companies.
- Parallel imports from low-wage countries.

According to the Beijing Development and Reform Commission report, the gross margin for the pharmaceutical industry dropped to 18.6% in 2005 after years of severe competition, and gross margin in selected areas has declined to less than 4% in recent years. Many medium-to-small size drug manufacturers and distributors are operating at very thin margins and/or losses while a majority of the

profit in the industry has gone to the pockets of a few large, better-managed companies with stronger resources. In conclusion, it is expected that the industry will undergo a period of consolidation, with the small players gradually leaving the market and the larger players getting even larger.

In short, China's robust economic growth, rising disposable income, its huge and aging population and government support will continue to stimulate growth in expenditures on healthcare. More importantly, the relatively low per capita total expenditures on healthcare relative to other major countries, as shown in Table 1 below, suggest great potential growth and a very prosperous outlook for the pharmaceutical industry in China.

Table 1. Healthcare Expenditure Of The Ten Largest Markets in 2006

Country	Total Expenditure	Per capita total expenditure on healthcare		CAGR of per capita total healthcare expenditure
	2006	2001	2006	2001 - 2006
	US\$ billion	US\$	US\$	%
U.S. of America	2010.2	4915	6714	6.4
Japan	335.6	2609	2626	0.1
Germany	318.8	3537	3870	1.8
France	262.5	3227	4278	5.8
United Kingdom	215.2	2478	3552	7.5
Italy	175.4	2358	3002	4.9
Canada	123.9	2853	3799	5.9
China	121.5	50	92	13.0
Spain	105.2	1596	2387	8.4

Source: World Health Organization

Company Products

China Pharmaceuticals is principally engaged in the research, development, manufacture, packaging, marketing and distribution of pharmaceutical products in China for human use for a variety of diseases and conditions. The product categories include high-volume and low-volume injections, tablets, capsules, granules, medicinal herbs and teas, syrups, oral solutions, and tincture. The product line consists of 131 varieties and 11 dosage forms. The Company's medicines are designed to treat every form of common diseases and indications from the common cold to diabetes. All of the Company's products and active pharmaceutical ingredients have the approval from the State Food and Drug Administration (SFDA), which is similar to the Food and Drug Administration (FDA) in the United States.

For the past two years, the Company derived approximately 60-65% of its revenue from traditional Chinese medicines, with the balance coming from western drugs. Products are marketed under numerous brand names, including "ShuangTu", "JiaYi". "LuoYiShu", "JunLiQing", "Qinba DouJing", "ZhuoQing", and "Xiaonengren" for its pediatric series of drugs. We considered that the Company has a diversified product range, which should enable it to minimize the risk a sudden decline in sales of a single product due to emergence of a competitive substitute in the market. For example, during the fiscal year 2007, sales of Sodium Chloride Injection 250 ml accounted for 10.68% of the Company's revenue, as well

as no other single product accounted for more than 10% of its revenue. Other best selling products, such as Qiangli Pipa Lu 100 ml accounted for approximately 5.9% of total revenue and several other products accounted for more than 3% total revenue. An Appendix table at the end of this report shows the Company's key products and their indications.

Research and Development

China Pharmaceuticals develops new products through its in-house research and development department as well as through arrangements with several research institutes to develop new pharmaceutical products. The Company only pays these institutes for their research expenses if the research goals are accomplished, including certification of drugs and approval of drug production, and these achievements are then transferred to China Pharmaceuticals. Such arrangement with the outside research institutes is prudent and should avoid unnecessary high research and development cost. During the fiscal year ended December 31, 2008, the Company obtained certificates and approvals of drug production for thirteen new drug batches, ten of which have begun to sell in the market. The Company will continue to develop additional new drugs under this method in the future. For the past two fiscal years, the Company spent \$5.6 million to purchase the exclusive rights to certain new products from several research institutes and for ongoing in-house research and development activities. Going forward, management indicated that annual spending on research and development would be around \$3.0 million in each year of 2010 and 2011.

Sales and Marketing

China Pharmaceuticals currently markets its products to numerous distributors who distribute its products pursuant to distribution agreements to licensed healthcare providers such as community hospitals, clinics, pharmacies, and rural medical institutions. The Company currently has 35 active distribution agreements. In addition, it has a highly trained marketing team and maintains sales offices or agents in approximately 30 provinces throughout China. The sales network covers approximately 146 cities and is staffed by approximately 168 sales representatives with an average per representative of a decade of pharmaceuticals sales experience. To take advantage of the IT development, the Company also sells pharmaceutical products via the Internet and deliver product information on certain professional websites. The following table shows the organization of China Pharmaceutical's marketing network, which is divided into three sales departments, with Sales Department I further subdivided into nine districts which covers most of the provinces in China.

Table 2. Organization of Marketing Department

Sales Department I		
District	Province Covered	Person in Charge
A	Guangdong, Guangxi, Hainan	Cao Zhouping
B	Fujian, Jiangxi	Cao Zhouping
C	Hunan, Hubei, Anhui	Li Yige
D	Shandong, Henan	Li Yige
E	Hebei, Shanxi, Beijing, Tianjin	Li Yige
F	Yunnan, Guizhou	Cao Zhouping
G	Sichuan, Chongqing	Cao Zhouping
H	Heilongjiang, Jilin, Liaoning	Li Yige
I	Jiangsu, Zhejiang, Shanghai	Li Yige
	Inner Mongolia	Li Yige
	Xinjiang	Cao Zhouping
Sales Department II	In charge of Shaanxi Third-Terminal	He Junhui
Sales Department III	In charge of key client management	Zhang Lizhen
Customer Service Department	After-sale service, storage and transportation	Tan Yali

Source: Company website

In accordance with the Drug Control Law of the People's Republic of China, the Company uses a distribution system comprised of independent regional distributors. In a typical distribution contract, a distributor will be provided with certain sales targets for the term of the agreement according to a set retail price. At the end of the term, the Company pay the distributor a commission based on the annual sales made by the distributor. The distributor is provided a rebate for each product sold, and such rebate will increase as sales volume increase. If the distributor completes the sales minimum within the prescribed period, the distributor will be given greater economic incentives and future distribution opportunities. If the distributor fails to complete the sales task within the prescribed period, the Company will not renew the contract with the distributor.

Production Capacity and Expansion Plan

China Pharmaceuticals manufactures and packages its products at two factories, one located at Xixiang County in Hanzhong and one in Xi'an Jinghe Industrial Zone. Each facility is an independent production base that can process all stages of production, from raw materials to finish goods, including packaging. All of the complete production lines at each facility meet international food and drug safety guidelines. In specific, both facilities are in compliance with Good Manufacturing Practice (GMP) standards and have three GMP certificates dated March 9, 2006 (Certificated No. H0192 for Xi'an Production Base), January 8, 2007 (Certificate No, H4109 for Xi'an Production Base) and January 8, 2007 (Certificate No. 4119 for Hanzhong Production Base), respectively. The GMP certificates are valid for a term of five years and the pharmaceutical products production permits are subject to renewal every five years. Thus, the

Company's certificates remain valid until March 8, 2011, January 7, 2012 and January 7, 2012 respectively.

The Xi'an Jinghe factory was built in 2006 and is approximately 21,000 square meters with 7,000 square meters of sterilized area and 15,000 square meters of verdurization area. This facility primarily produces low-volume injection, troches, capsules, granules, species, syrups, oral solutions, tincture mixtures and lyophilized powder injections. This production facility has 219 sets of machines. According to management, the combined total value of different drugs producible at the Xi'an Jinhe factory can reach RMB 1 billion per year and current capacity utilization rate is only approximately 10%. Therefore, China Pharmaceuticals does not have to invest additional money to expand its production capacity to cope with the rapid increase in sales of various drugs in the next few years.

The Hanzhong factory was built in 1970 and is approximately 12,000 square meters with 800 square meters of sterilized area. This production facility has two production lines for high-volume injection and produces 38 pharmaceutical products with different specifications. This production facility primarily manufactures products of infusion kind. The factory has 47 sets of machines and supporting parts for pharmaceutical production from domestic and foreign suppliers. According to management, the current capacity utilization rate at the Hanzhong factory is approximately 70-80%, depending on the seasonal demand. Even though the existing production capacity should be able to meet current and near term demand growth, management has decided to invest over \$3.0 million to replace some old facilities and equipment at this factory. We concur with management's view that such investment is necessary and justified. By upgrading the facilities and equipment, the Company can produce more high value added pharmaceutical products to increase revenue and to improve profit margin. More important, the GMP certificate for the Hanzhong factory is up for renewal on January 7, 2012. Given that the Hanzhong factory was built in 1970, we believe it is necessary to invest some money to replace or upgrade certain facilities and equipment to ensure the renewal of GMP certificate.

In short, we do not expect any major capital expenditure on production capacity expansion in the coming two years.

Cost Control

As shown in the Company's profit and loss statements for 2008 and 2009, the Company's cost of sales accounted for 39% and 46.5% respectively of total revenue, which is significant compared to selling, general and administrative (S G & A) expenses that accounted for just 11.5% and 12.7% respectively of total revenue for the past two years. The raw materials used to manufacture the Company's products include various medicinal herbs, animal and mineral components for Chinese pharmaceutical products and chemosynthesis products for western medicines. Other major raw materials costs include packaging materials such as aluminum foil for tablet production.

To ensure uninterrupted supply and minimize the risk of fluctuation in the price of its raw materials, the Company purchases its raw materials from approximately 100 suppliers and generally utilizes more than three suppliers for each raw material. The Company also enters into trading agreements for the supply

of many of the raw materials used to manufacture and package its products. More specific, its Xi'an Pharmaceuticals Jinghe Branch has written agreements with substantially all of its suppliers. Table 3 below summarizes the five largest suppliers at each of the Jinghe Branch and Hanzhong Branch in 2009.

Table 3. Company's Five Largest Raw Material Suppliers, 2009

Xi'an Pharmaceuticals (Jinghe Branch)		
Supplier	Product	%
1 Shaanxi Daxin Plastics Co., Ltd.	Packaging Materials	19
2 Xi'an Acetar Bio-Tech Co., Ltd.	Raw Material and Supplementary	14
3 Kanghua Package Co., Ltd	Packaging Materials	6
4 Jieli Carton Company, Baoji City	Packaging Materials	6
5 Xi'an No. 1 Printing Factory	Packaging Materials	6
Xi'an Pharmaceuticas (Hanzhong Branch)		
1 Shaanxi Daxin Plastic Co., Ltd.	Raw Materials and Packaging Materials	23
2 Xi'an Xihu Glass Co., Ltd.	Raw Materials and Packaging Materials	16
3 Chongqing Beibei General Glass Apparatus Factory	Raw Materials and Packaging Materials	12
4 Shaanxi Dayang Label Co. Ltd.	Raw Materials and Packaging Materials	6
5 Shandong Zibo Maosheng Pharmaceutical Package Co. Ltd.	Raw Materials and Packaging Materials	6

Source: Company document

Growth Strategy and Earnings Drivers

To capture the huge potential in China's growing pharmaceutical market, China Pharmaceuticals will leverage on its relatively large manufacturing scale and strong financial resources to grow its revenue and profitability both organically and through acquisitions. Its growth strategy can be summarized as follows:

- **New Product Development:** The Company will continue to evaluate and develop additional product candidates, both through its in-house research and development department and collaboration with its research and development partners, to expand its product pipeline where it perceives an unmet need and commercial potential. At present, the Company has licenses to manufacture 131 drugs, of which 85 drugs are currently produced and sold in the market. Going forward, management plans to invest RMB 20 – 30 million per year on research and development on new drugs. Depending on the progress of approval by the relevant government authority, the Company expects to launch two to three new drugs for sale each year.
- **Focus on Brand Development:** China's pharmaceutical industry is highly competitive, with intense price competition among many similar or identical products in the market. Management recognized that building brand equity is crucial to generate and sustain profitable growth in the future. The Company plans to utilize its strong cash flow to invest in brand building through strategic advertisements on different media. We believe increasing investment on brand development is a correct move to promote sales in the longer term. However, management should carefully study the cost effectiveness of putting advertisements on different media to promote its brand name before

making any aggressive move, as advertisements on regional or national TV could cost millions of dollars without immediate impact of increasing sales.

- **Multi-dimensional Sales Model:** At present, the Company maintains sales offices or agents in approximately 30 provinces throughout China. The sales network covers approximately 146 cities and is staffed by approximately 168 well-experienced sales representatives. Its drug products are sold to distributors with Good Supplying Practice (GSP) certificate, which will in turn sell the products to hospitals, clinics, pharmacies and drugstores and other healthcare institutions before reaching the final consumers. China Pharmaceuticals will continue to rely on these marketing channels, which has been described as the “first terminal” and “second terminal” markets, discussed in an earlier section of this report, to grow its business.

The Company’s new strategy to drive revenue is to focus on sales and distribution targeting at the “third terminal” market, which include community hospitals, clinics and rural medical institutions at county levels that are not served directly by major drug distributors. Management plans to promote drug sales through holding academic seminars and conferences and to develop drugstore franchises outside the major cities at the county level to serve the smaller communities where there is growing demand for non-prescription drugs because of the increasing access to healthcare services in rural areas. The new marketing strategy is aiming at eliminating the profits made by different levels of distributors before the drugs are sold to the ultimate consumers. The Company’s initial plan is to focus on some 2,800 counties within China to develop the “third terminal” drug market to drive revenue.

In short, we welcome management’s initiative to develop the “third terminal” drug market, as it should enable the Company to make higher profit by selling its products directly to smaller distributors at the rural community. Management indicated that it has successfully implemented such marketing strategy at over 100 counties. We will closely monitor this progress and the positive impact on profit margin.

- **Improving Profit Margin:** This will entail optimization of its manufacturing process and minimizing production costs. In specific, management will evaluate the stability of raw material, semi-finished products to generate statistics on storage duration and shelf life of its products to minimize waste. In addition, the current upgrading of the production facilities and equipment at the Hanzhong factory will not only enable the Company to improve its operating efficiency, but also allow the Company to produce higher value, higher margin pharmaceutical products.
- **Planned Acquisitions:** Other than increasing its revenue and profit organically, the Company is also studying plans to leverage on its strong financial position and its status as a U.S. Listed Company to acquire other pharmaceutical companies. The criteria for the acquisition would be the key drug products of the target company can complement China Pharmaceuticals’ current product portfolio and can sell the products through the Company’s existing marketing platform. Given that China’s pharmaceutical market is highly competitive, with many less efficient and smaller companies operating at losses or at slim profit margins, we believe there exist ample opportunities for China Pharmaceuticals to grow its business through acquisitions. Management indicated that the Company is actively seeking acquisition targets with annual revenue of not less than RMB 100 million. For the time being, we do not expect that the Company can conclude any major acquisition in 2010. Looking

further ahead, with its debt-free, cash-rich financial position and strong cash flow from operations in the coming years, we expect the Company can successfully acquire one to two smaller drug companies to drive revenue and earnings in 2011, even though we have not factored in any such contribution in our earnings model.

Risk Factors

- **Highly Competitive Market:** China Pharmaceuticals is operating in a highly competitive pharmaceutical industry in China, which is characterized by rapid and significant technological progress. Competition includes large pharmaceutical companies both within and outside China, many of which have greater research and development capabilities and financial resources than China Pharmaceuticals, so there is no guarantee that the Company can maintain its success in a number of its drug products. In the event the Company has to cut prices to prevent a decline in product sales, its revenue and profitability could suffer.
- **Product Acceptance From End-users.** China Pharmaceuticals future success is critically dependent upon the widespread acceptance of its current and future products and services. However, there is no guarantee that the availability of substitutes in the market would not affect the demand for the Company's drug products by end-users.
- **Fluctuation in Raw Material Costs:** About 60-65% of the Company's sales are derived from traditional Chinese medicines, which raw materials include medicinal herbs, animal and mineral components. Supply of these raw materials can be subject to weather conditions and natural disaster such as flooding, drought and earthquake etc. If prices of these raw materials spike, the Company may not be able to transfer the rising cost of raw materials to its customers. Profit margin of the Company may suffer.
- **Product Liability Actions:** The Company currently does not maintain product liability insurance. It may be held liable if any products it developed, or made using its technology, causes injury or is found unsuitable during product testing, manufacturing, marketing and sales or use. The liability could be substantial and the occurrence of such loss or liability may have a material adverse impact on its business, financial condition and prospects.
- **Loss of Key Personnel:** The Company's success has been dependent on management, sales and marketing, and pharmaceutical factory operational expertise of key personnel. There can be no assurance that the Company will be able to retain these officers after the term of their employment contracts. The loss of these officers could have a material adverse impact on the Company's business, financial condition and results of operations. The Company does not carry key man insurance for any of its key personnel and will not purchase such insurance to protect against a loss of key personnel.
- **Inability to Develop New Drugs:** The Company's future growth and survival depends on its ability to consistently discover, develop and commercialize new products and improve its existing technology and platforms. Thus, if it fails to make sufficient investments in research, be attentive to consumer needs or does not focus on the most advanced technology, more effective or advanced products of other companies could surpass its current and future products.

- **Failure to Renew Certificates, Permits and Licenses:** The operation of a pharmaceutical enterprise and the manufacturing of pharmaceutical products in China are subject to various PRC laws and regulations. The Company currently has all the necessary certificates, licenses and permits for its business operation. In specific, the Company's GMP certificate is valid for a term of five years and the pharmaceutical products production permits are subject to renewal every five years, and each must be renewed before its expiration, if applicable. If its GMP certificates for its two factories at Hanzhong and Jinghe Industrial Zone expire without renewal by January 7, 2012 and March 8, 2011 respectively, the Company will have to terminate its business.
- **Protection of Proprietary Rights and Operating Without Infringing The Proprietary Rights Of Others:** The patent positions of pharmaceutical enterprises in China are uncertain and involve complex legal and factual questions for which important legal principles are largely unresolved. Although intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. In addition, when seeking regulatory approval for some of its products, the Company may be required to certify to regulatory authorities, including the SFDA that such products do not infringe upon third party patent rights.

Management Profile

GUOZHU WANG – Chief Executive Officer and Chairman: Mr. Wang was appointed Chief Executive Officer of China Pharmaceuticals, Inc. on February 12, 2010. Mr. Wang has been China Qinba Pharmaceuticals' CEO since November 5, 2008 and China Qinba Pharmaceuticals' Chairman since November 15, 2008. He was also Chairman of Xi'an Pharmaceuticals since August 2007. Mr. Wang served as Chairman of the Board at Shandong Cide Pharmaceuticals, Inc., where he was in charge of overall operations of the Company from May 2004 until August 2007. Mr. Wang was also employed at Jilin Aodong Medicine Industry Group Co., Ltd., Shandeng Sales Company as General Manager in charge of sales from May 2003 until May 2004.

GUIPING ZHANG – President and Director: Mr. Zhang was appointed president of China Pharmaceuticals, Inc. on February 12, 2010. Mr. Zhang has been the China Qinba Pharmaceuticals' General Manager since November 5, 2008, and a Director of China Qinba Pharmaceuticals since November 15, 2008. From August 2007 to November 2008, Mr. Zhang was General Manager and Vice President with Xi'an Pharmaceuticals and responsible for the overall operations and management of the Xi'an Pharmaceuticals. He was Chairman of the Board of Xi'an Pharmaceuticals from 2001 through August 2007. Mr. Zhang attended Shandong University majoring in Micro-organism Engineering and graduated in July 1989.

TAO LEI – Chief Financial Officer: Mr. Lei was appointed Chief Financial Officer of China Pharmaceuticals, Inc. on February 12, 2010. Prior to his appointment Mr. Lei was CFO of Xi'an Pharmaceuticals since May of 2009. Previous to Mr. Lei's employment with Xi'an Pharmaceuticals, Mr. Lei was employed with Shaanxi Baifu Investment Company from April 2006 to May 2009 as CFO. Mr. Lei was the Finance Manager of Xi'an Zhonghui Shopping Mall from June 2000 to March 2006. After

completing his Accounting degree in 1996 from Xi'an Union University, Mr. Lei obtained his Auditor designation in 1997 and his Accountant designation in 1998.

ZAIZHI CHENG - Director: From January 2005 to December 2009, Mr. Cheng was employed with Shandong Tianyue Pharmaceuticals Co., Ltd., as Chief Financial Officer. From January 2003 to December 2004, Mr. Cheng was employed with Shandong Fangzhou Mi Co., Ltd., as Chief Financial Officer. From May 2001 to December 2002, Mr. Cheng was employed with Guangdong Zhongshan Xiaoya Jinglin Air Conditioner Factory, as Executive Vice President. From May 1997 to May 2001, Mr. Cheng was employed with Shandong Yinchu Industry Co., Ltd., as Chief Financial Officer. Mr. Cheng majored in accounting and received his diploma from Shandong University.

XIAOGANG ZHU - Director: Mr. Zhu is currently employed with China Recycling Energy Corp as General Manager and is also employed with Xi'an TCH Energy Technology Co. Ltd. as Chief Financial Officer. Mr. Zhu has held these positions since 2007. From 2005 to 2007, Mr. Zhu was employed with China Natural Gas, Inc. as Chief Financial Officer as well as the Chief Financial Officer of Xi'an Xilan Natural Gas Co., Ltd. From 2000 to 2005, Mr. Zhu was employed with Xi'an Dapeng Biological Technology Co., Ltd. as Vice General Manager. Mr. Zhu was graduated from Shaanxi Institute of Finance and Economics, whose major was accounting, with a designation of Senior Accountant.

MICHAEL SEGAL - Director:

Mr. Segal received a B.B.A. in marketing and economics from the University of Miami in Florida. Mr. Segal joined the Company board of directors in 2010. Since 2001, Mr. Segal has been President of Segal Cirone Services Inc., a financial consulting company that advises institutions, banks and high net worth individuals. He is a Principal, Options Compliance Principal and an Executive of B & B Securities Inc., members of the New York Stock Exchange. Mr. Segal currently is a director of China Agri Business Inc. (CHBU.BB), China Power Equipment Inc. (CPQQ.BB), SunGame Corp (SGMZ.BB), and Dong Ke Pharmaceuticals Inc. (VIRZ.BB). From 2006 through December 2009, Mr. Segal served on the board of Biostar Pharmaceuticals Inc. (BSPM).

Financial Statement Analysis

Recent Financial Results

China Pharmaceuticals announced its financial results for the fiscal year ended December 31, 2009 on April 15, 2010, and subsequently its financial results for the first quarter ended March 31, 2010 on May 17, 2010. As shown in Table 4, the Company recorded a 47.0% increase in sales to \$26.7 million in 2009, compared to \$18.2 million in 2008. Gross profit rose a less robust 29.0% to \$14.3 million in 2009 from \$11.1 million a year ago, primarily due to a 75.0% jump in cost of sales as a result of the increase in the price of raw materials for its drug products, particularly medicinal herbs and mineral components for its TCM. This, along with the 62.5% increase in selling, general and administrative expense in 2009, and a slightly higher effective tax rate of 16.8% in 2009 compared to 15.0% in 2008, had resulted in a less impressive 21.4% increase in net income to \$8.9 million in 2009, against \$7.3 million in 2008. EPS were \$0.28 in 2009, compared to \$0.23 in 2008.

For the first quarter of 2010 ended March 31, 2010, the Company reported a 50.3% increase in sales to \$7.1 million, compared to \$4.7 million in the same period in 2009. Gross profit reported a slightly higher growth of 53.1% to \$4.2 million in 1Q10 compared to \$2.7 million in 1Q09, with gross margin improved to 60.0% from 58.9% for the two periods respectively. More stable raw material prices were the major reason for the improved gross margin and the Company management will continue to monitor closely the market conditions for its raw materials supply and negotiate better terms with its raw material suppliers to control cost of sale. Income from operation in 1Q10 amounted to \$2.1 million, down 3.2% from \$2.2 million in 1Q09. This was mainly attributable to the significant 267.7% jump in selling, general and administrative expense to \$2.1 million in 1Q10 from just \$0.6 million a year ago. Such increase in selling, general and administrative expense was primarily due to some \$1.6 million of one-off expense related to the provision for impairment loss on intangible assets. In addition, there was a 70.2% increase in provision for income taxes to \$0.54 million in 1Q10 compared to \$0.32 million in 1Q09, with effective tax rate increased to 25.9% in 1Q10 from 15.0% a year ago. As a result, net income for 1Q10 declined 14.2% to \$1.5 million from \$1.8 million in 1Q09.

In short, we consider the Company's financial results for the past two years and the first quarter of 2010 as encouraging, with strong top-line growth and stable gross margin. The significant increase in selling, general and administrative expense in 1Q10 has been inflated by a one-off provision for impairment in intangible asset. In addition, we expect the effective tax rate will be adjusted downward to around 15-16% level for the full year 2010, given that China Pharmaceuticals is a high-tech enterprise under the PRC Income Tax Law to enjoy a preferential tax rate of 15%.

Table 4. Recent Results Analysis

	12 Mths Ended December 31		YoY Growth	3 Mths Ended March 31		YoY Growth
	2008A	2009A		2009A	2010A	
Sales	18,174,003	26,708,285	47.0%	4,693,433	7,053,199	50.3%
Cost of sales	(7,090,427)	(12,408,035)	75.0%	(1,929,294)	(2,820,178)	46.2%
Gross profit	11,083,576	14,300,250	29.0%	2,764,139	4,233,021	53.1%
Selling, general & admin. expenses	(2,084,026)	(3,386,961)	62.5%	(574,985)	(2,114,086)	267.7%
Income from operation	8,999,550	10,913,289	21.3%	2,189,154	2,118,935	-3.2%
Other income (expenses)						
Interest income	32,635	12,531	-61.6%	12,401	120	-99.0%
Other income	13,014	145,382	1017.1%	591	-	-100.0%
Interest expense	(407,183)	(350,211)	-14.0%	(81,241)	(29,653)	-63.5%
Other expense	(3,687)	(14,900)	304.1%	-	-	
Total other income (expenses)	(365,221)	(207,198)	-43.3%	(68,249)	(29,533)	-56.7%
Income before taxes	8,634,329	10,706,091	24.0%	2,120,905	2,089,402	-1.5%
Provision for income taxes	(1,296,191)	(1,798,712)	38.8%	(318,136)	(541,526)	70.2%
Net Income	7,338,138	8,907,379	21.4%	1,802,769	1,547,876	-14.1%
EPS - Basic	0.23	0.28	20.6%	0.06	0.05	-14.2%
- Diluted	0.23	0.28	20.6%	0.06	0.05	-14.2%
Margin Analysis						
Gross margin	61.0%	53.5%		58.9%	60.0%	
Operating margin	49.5%	40.9%		46.6%	30.0%	
Net margin	40.4%	33.4%		38.4%	21.9%	
Cost analysis (as % of revenue)						
Cost of sales	39.0%	46.5%		41.1%	40.0%	
Selling, general & admin. expenses	11.5%	12.7%		12.3%	30.0%	
Tax rate (%)	15.0%	16.8%		15.0%	25.9%	

Note: EPS stated above are before the 5-for-6 reverse split effective June 08, 2010.

Source: Company document

Profit Forecasts

The financial results for the fiscal year 2008 and 2009 and the first quarter financial results for 2009 and 2010 indicated that China Pharmaceuticals would continue to be a major beneficiary of the fast growing pharmaceutical market in China, with sustaining increase in drug sales in the coming years. In the absence of major fluctuation in raw material prices, gross margin is likely to maintain around 60%. Given that selling, general and administrative (S G & A) expense in 1Q10 has been inflated by the one-off provisions on impairment loss on intangible assets, we expect such expense to decline in the rest of this year. However, such expense would remain at relatively high level compared to that in the previous year. In 2Q10, we expect certain professional fees related to the Company's listing in the first quarter of this year will be booked into account, whereas the Company will increase spending on marketing and related efforts to drive sales. Elsewhere, we forecast an effective tax rate of 16.4% for 2010.

Based on the above assumptions, we forecast the Company to report a 23.0% increase in sales to \$32.9 million in 2010, up from \$26.7 million in 2009. Gross margin is estimated to improve to 60.1% in 2010 from 53.5% in 2009, as management has taken measures to negotiate with its suppliers to obtain raw materials at more stable prices. Given that the Company had repaid its entire bank borrowing in 1Q10, total other income and expense would be minimal. Based on a statutory Enterprise Income Tax rate of 15%, we estimate the full year effective tax rate will decline from 25.9% in 1Q10 to 16.4% for the full year 2010. As such, total net income for 2010 will amount to \$12.0 million, up 34.5% from \$8.9 million in 2009. EPS will be \$0.40 in 2010, up from \$0.34 in 2009.

For the fiscal year 2011, we forecast the Company's sales will increase 30.5% to \$42.9 million from \$32.9 million a year ago. We assume cost of sales to remain relatively stable and the Company will achieve a gross margin of 59.4% in 2011, down slightly from 60.1% in 2010. Gross profit will increase 29.1% to \$25.5 million in 2011 from \$19.7 million in 2010. Operating profit should increase at a fast rate of 43.7% to \$20.6 million in 2011 from \$14.4 million in 2010, as selling, general and administrative expense show a 10.2% year-over-year decline due to the absence of one-off provision on impairment loss on intangible assets and absence of professional fees related to its public listing in 2010. Net income for 2011 will record a hefty 45.9% increase to \$17.5 million from \$12.0 million in 2010. EPS are estimated at \$0.55 for 2011, up from \$0.40 in 2010.



Table 5. Consolidated Income Statement, 2008A - 2011E

Fiscal Year Ends December 31	2008A	1Q09A	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Sales, net	18,174,003	4,693,433	26,708,285	7,053,199	7,227,262	8,869,821	9,700,908	32,851,191	8,574,161	9,002,869	11,575,117	13,718,657	42,870,804
Cost of sales	(7,090,427)	(1,929,294)	(12,408,035)	(2,820,178)	(2,898,132)	(3,539,059)	(3,860,961)	(13,118,330)	(3,481,109)	(3,664,168)	(4,687,922)	(5,569,775)	(17,402,974)
Gross profit	11,083,576	2,764,139	14,300,250	4,233,021	4,329,130	5,330,763	5,839,947	19,732,860	5,093,051	5,338,701	6,887,195	8,148,882	25,467,830
S G & A expenses	(2,084,026)	(574,985)	(3,386,961)	(2,114,086)	(1,211,456)	(992,533)	(1,047,139)	(5,365,214)	(1,045,837)	(1,094,132)	(1,244,030)	(1,435,933)	(4,819,933)
Income from operation	8,999,550	2,189,154	10,913,289	2,118,935	3,117,674	4,338,230	4,792,808	14,367,647	4,047,214	4,244,569	5,643,164	6,712,950	20,647,897
Other income													
Interest income	32,635	12,401	12,531	120	180	225	250	775	1,006	1,055	1,093	1,206	4,360
Other income	13,014	591	145,382	-	-	-	-	-	-	-	-	-	-
Interest expense	(407,183)	(81,241)	(350,211)	(29,653)	-	-	-	(29,653)	-	-	-	-	-
Other expense	(3,687)	-	(14,900)	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	(365,221)	(68,249)	(207,198)	(29,533)	180	225	250	(28,878)	1,006	1,055	1,093	1,206	4,360
Income before income taxes	8,634,329	2,120,905	10,706,091	2,089,402	3,117,854	4,338,455	4,793,058	14,338,769	4,048,220	4,245,624	5,644,257	6,714,156	20,652,257
Provision for income taxes	(1,296,191)	(318,136)	(1,798,712)	(541,526)	(467,678)	(650,768)	(694,993)	(2,354,966)	(611,281)	(645,335)	(874,860)	(1,033,980)	(3,165,456)
Net income	7,338,138	1,802,769	8,907,379	1,547,876	2,650,176	3,687,687	4,098,064	11,983,803	3,436,939	3,600,289	4,769,397	5,680,176	17,486,801
Other comprehensive income	260,635	6,401	31,277	(18,284)	(10,255)	6,263	6,758	(15,518)	(10,552)	(11,235)	6,577	13,208	(2,002)
Comprehensive income (loss)	7,598,773	1,809,170	8,938,656	1,529,592	2,639,921	3,693,950	4,104,822	11,968,285	3,426,387	3,589,054	4,775,974	5,693,384	17,484,799
Net income per common share													
Basic	0.28	0.07	0.34	0.06	0.08	0.12	0.13	0.40	0.11	0.11	0.15	0.18	0.55
Diluted	0.28	0.07	0.34	0.06	0.08	0.12	0.13	0.40	0.11	0.11	0.15	0.18	0.55
Weighted average common shares													
Basic	26,125,000	26,385,531	26,302,083	26,395,833	32,041,667	32,041,667	32,041,667	29,783,333	32,041,667	32,041,667	32,041,667	32,041,667	32,041,667
Diluted	26,125,000	26,385,531	26,302,083	26,395,833	32,041,667	32,041,667	32,041,667	29,783,333	32,041,667	32,041,667	32,041,667	32,041,667	32,041,667
Margin Analysis													
Gross margin (%)	61.0%	58.9%	53.5%	60.0%	59.9%	60.1%	60.2%	60.1%	59.4%	59.3%	59.5%	59.4%	59.4%
Operating margin (%)	49.5%	46.6%	40.9%	30.0%	43.1%	48.9%	49.4%	43.7%	47.2%	47.1%	48.8%	48.9%	48.2%
Pretax margin (%)	47.5%	45.2%	40.1%	29.6%	43.1%	48.9%	49.4%	43.6%	47.2%	47.2%	48.8%	48.9%	48.2%
Net margin (%)	40.4%	38.4%	33.4%	21.9%	36.7%	41.6%	42.2%	36.5%	40.1%	40.0%	41.2%	41.4%	40.8%
Cost Analysis (as % of revenue)													
Cost of sales	39.0%	41.1%	46.5%	40.0%	40.1%	39.9%	39.8%	39.9%	40.6%	40.7%	40.5%	40.6%	40.6%
S G & A expenses	11.5%	12.3%	12.7%	30.0%	16.8%	11.2%	10.8%	16.3%	12.2%	12.2%	10.7%	10.5%	11.2%
Tax rate (%)	15.0%	15.0%	16.8%	25.9%	15.0%	15.0%	14.5%	16.4%	15.1%	15.2%	15.5%	15.4%	15.3%
Growth Analysis (YoY)													
Sales			47.0%	50.3%				23.0%	21.6%	24.6%	30.5%	41.4%	30.5%
Gross profit			29.0%	53.1%				38.0%	20.3%	23.3%	29.2%	39.5%	29.1%
Operating profit			24.0%	-1.5%				31.7%	91.0%	36.1%	30.1%	40.1%	43.7%
Net income			21.4%	-14.1%				34.5%	122.0%	35.9%	29.3%	38.6%	45.9%
EPS - Basic			20.6%	-14.2%				18.8%	82.9%	35.9%	29.3%	38.6%	35.6%
S G & A expenses			62.5%	267.7%				58.4%	-50.5%	-9.7%	25.3%	37.1%	-10.2%

Note: Number of shares outstanding and EPS have been adjusted backward for the 5-for-6 reverse split effective June 08, 2010

Source: Company documents and TGR estimates

Balance Sheet

As shown in Table 6, China Pharmaceuticals has a very strong balance sheet. Liquidity position, as measured by the current and quick ratios, was 2.82 times and 2.74 times respectively as of the end of 2009, up from 1.68 times and 1.64 times respectively at the end of 2008. Total working capital amounted to \$9.2 million in 2009, up from \$4.8 million in 2008, with total debt to equity amounted to just 8.7% in 2009, down from 20.8% in 2008. The Company was in a net cash position with net cash per share of \$0.16 in 2009 and \$0.04 in 2008. Inventory period was 12 days in 2009 and 13 days in 2008, while account receivable period improved sharply from 105 days in 2008 to 48 days in 2009.

For the first quarter ended March 31, 2010, the Company's financial position improved further, with current and quick ratios rising to 6.60 times and 6.60 times respectively. Meanwhile, working capital and net cash per share increased further to \$11.0 million and \$0.21 respectively. During the period, China Pharmaceuticals repaid all of its outstanding borrowing and became a debt-free Company.

Looking ahead, we expect the Company to report continuing improvement in its financial position. It is because the Company has very limited capital expenditure on production facility expansion other than the facilities and equipment upgrades at the Hanzhong factory. Meanwhile, strong cash flow from its pharmaceutical manufacturing and marketing operation will continue to bolster its financial position in the coming years. In the absence of major acquisitions, we expect the Company's current ratio to improve to 5.30 times in 2010 and 6.24 times in 2011, while quick ratio will increase to 5.13 times and 5.98 times respectively. Elsewhere, working capital is expected to increase to \$18.0 million in 2010 and rise to \$31.8 million in 2011. Cash on hand will increase sharply from \$14.7 million in 2010 and rise to \$28.1 million in 2011. With such ample liquidity on hand, we believe management will actively seek acquisitions in the market to drive further growth.

Table 6. Consolidated Balance Sheet 2008A - 2011E

Fiscal Year Ended December 31	2008A	2009A	1Q 2010A	2010E	2011E
ASSETS					
Current Assets					
Cash and cash equivalent	5,049,188	6,685,630	5,518,587	14,725,994	28,095,477
Cash pledged	193,657	-	-	-	-
Accounts receivables	5,204,418	3,525,544	5,538,987	4,433,800	5,596,304
Due from officer	-	5,427	5,420	5,420	5,420
Inventories	249,716	396,513	1,014	732,771	1,598,736
Prepayments and other receivables	734,660	708,761	652,327	795,313	897,628
Trade deposit paid	320,780	2,991,628	1,256,280	1,429,595	1,694,826
Total Current Assets	11,752,419	14,313,403	12,972,615	22,122,893	37,888,391
Property and equipment, net	8,101,407	7,686,245	7,584,281	9,453,559	9,879,265
Construction in progress	-	3,373,819	3,368,965	1,056,298	-
Intangible assets, net	7,113,137	8,321,329	8,194,203	10,339,667	12,488,099
Total Assets	26,966,963	33,694,796	32,120,064	42,972,417	60,255,756
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts payable	1,793,187	744,880	515,229	1,433,571	2,186,213
Bank acceptance payment	193,657	-	-	-	-
Accrued expenses and other payables	449,561	778,290	351,827	798,810	903,936
Trade deposit received	179,484	83,879	12,092	170,402	236,064
Short-term bank loans	3,800,058	2,493,692	-	-	-
Amount due to a shareholder	32,885	-	-	-	-
Value-added tax payable	234,513	318,142	545,329	553,764	798,329
Income tax payable	314,448	651,399	541,481	1,213,957	1,945,282
Total Current Liabilities	6,997,793	5,070,282	1,965,958	4,170,504	6,069,824
Long-term Liabilities					
Long-term bank loans	292,312	-	-	-	-
Total Liabilities	7,290,105	5,070,282	1,965,958	4,170,504	6,069,824
Stockholders' Equity					
Preferred stock	3,145	3,168	3,168	3,168	3,168
Common stock	25	2	2	2	2
Paid-in capital	6,580,780	6,580,780	6,580,780	6,580,780	6,580,780
Subscription receivable	(10,000)	(1,000)	(1,000)	(1,000)	(1,000)
Statutory reserves	1,247,175	2,137,797	2,292,585	2,351,577	2,586,734
Accumulated other comprehensive loss	41,266	72,543	54,259	66,825	75,223
Retained earnings	11,814,467	19,831,224	21,224,312	29,800,561	44,941,024
Total Stockholders' Equity	19,676,858	28,624,514	30,154,106	38,801,913	54,185,931
Total Liabilities and Stockholders' Equity	26,966,963	33,694,796	32,120,064	42,972,417	60,255,756
Ratio Analysis					
Current ratio (times)	1.68	2.82	6.60	5.30	6.24
Quick ratio (times)	1.64	2.74	6.60	5.13	5.98
Working capital (\$)	4,754,626	9,243,121	11,006,657	17,952,389	31,818,567
Total debt/equity (%)	20.8%	8.7%	-	-	-
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net cash per share (\$)	0.04	0.16	0.21	0.49	0.88
Book value per share (\$)	0.75	1.09	1.14	1.30	1.69
Inventory turnover (times)	28	31		18	11
Inventory period (days)	13	12		20	34
Account receivable turnover (times)	3	8		7	8
Account receivable period (days)	105	48		49	48

Source: Company document and TGR estimates

Cash Flow Statement

As shown in the cash flow statement to follow in Table 7, China Pharmaceuticals' cash flow is expected to show sustaining improvement in the coming two years. Total cash flow from operating activities has shown significant increase to \$8.9 million in 2009 from \$5.3 million in 2008. Based on our forecast 34.5% increase in net income to \$12.0 million in 2010 and a further 45.9% increase in net income to \$17.5 million in 2011, we project net cash provided by operating activities will increase to \$13.2 million and \$16.4 million in 2010 and 2011 respectively.

We discussed with management the \$1.6 million of provision for impairment loss on intangible assets, which is mainly attributable to land use rights and proprietary technologies. Management has differing views with the U.S. auditor on such treatment, as value of land use right in China is expected to rise in the longer term, making provision on land use rights unnecessary. Meanwhile, the provision on acquired proprietary technologies should be related to the proprietary technologies and certification of new drugs it has acquired from other research institutes but not yet put into production. Management will discuss in greater detail with the U.S. auditor to reverse this provision, and reversal could have a positive impact on the Company's earnings and operating cash flow in 2010.

In 2010 and 2011, the Company will continue to invest \$2.6 million and \$3.0 million respectively on acquiring new drugs from outside research institutes. In the absence of new Company acquisitions, we do not expect any significant cash outlay in the coming two years. With its strong cash flow and cash balance, the Company has repaid its entire outstanding bank borrowing debts in the first quarter of this year and is unlikely to engage in any fund raising exercise for the rest of this year and probably next year unless it has identified acquisition targets of significant size.

Table 7. Consolidated Cash Flow Statement

Fiscal Year Ended December 31	2008A	2009A	1Q2010A	2010E	2011E
Cash Flows From Operating Activities					
Net income	7,338,138	8,907,379	1,547,876	11,983,803	17,486,801
Adjustments to reconcile net income to net cash flow provided by operating activities:					
Depreciation and amortization	639,339	818,446	230,072	982,135	1,178,562
Provision for impairment loss on intangible assets	-	737,315	1,630,846	-	-
Loss on assets disposed	12,745	6,649	-	-	-
Changes in operating assets and liabilities					
Cash pledged	(193,657)	193,657	-	-	-
Accounts receivable	(2,866,193)	1,678,874	(3,644,289)	(908,256)	(1,162,504)
Due from officer	-	(5,427)	7	-	-
Prepaid and other receivables	(667,543)	25,899	56,434	(86,552)	(102,315)
Trade deposit paid	(55,554)	(2,670,748)	1,735,248	1,562,033	(265,231)
Inventory	592,354	(146,797)	395,499	(336,258)	(865,965)
Accounts payable and accrued expense	(227,149)	(719,578)	(656,114)	(688,691)	(752,642)
Bank acceptance payable	187,451	(193,657)	-	-	-
Trade deposit received	100,357	(95,605)	(71,787)	(86,523)	(65,662)
Due to shareholders	3,537	(32,885)	-	-	-
VAT tax payable	82,745	83,629	227,187	235,622	244,565
Income tax payable	304,372	336,951	(109,918)	562,558	731,325
Total adjustment	(2,087,196)	16,723	(206,815)	1,236,068	(1,059,866)
Net cash provided by (used in) operating activities	5,250,942	8,924,102	1,341,061	13,219,871	16,426,935
Cash Flows From Investing Activities					
Purchase of property and equipment	(10,041)	(12,697)	(981)	(125,000)	(25,600)
Construction in progress	-	(3,373,819)	4,853	20,000	-
Intangible assets	(2,612,990)	(2,342,743)	-	(2,562,531)	(3,016,589)
Proceeds of assets disposed	15,562	-	-	-	-
Net cash used in investing activities	(2,607,469)	(5,729,259)	3,872	(2,667,531)	(3,042,189)
Cash Flows From Financing Activities					
Borrowings from short-term bank loan	3,536,818	2,903,036	-	-	-
Repayment of short-term bank loan	(3,678,291)	(4,501,714)	(2,493,692)	(2,493,692)	-
Proceeds on issuance of stock	500,000	9,000	-	-	-
Net cash provided by (used in) financing activities	358,527	(1,589,678)	(2,493,692)	(2,493,692)	-
Effect of exchange rate changes	236,224	31,277	(18,284)	(18,284)	(15,263)
Net increases (decreases) in cash	3,238,224	1,636,442	(1,167,043)	8,040,364	13,369,483
Cash and cash equivalent, beginning balance	1,810,964	5,049,188	6,685,630	6,685,630	14,725,994
Cash and cash equivalent, ending balance	5,049,188	6,685,630	5,518,587	14,725,994	28,095,477
Supplementary disclosures					
Interest payment	407,183	345,490	29,653	-	-
Income tax payment	991,820	1,147,313	651,399	1,648,476	2,215,819

Source: Company document and TGR estimates

Conclusion and Valuation

In our view, China Pharmaceuticals is operating in the highly competitive but fast growing pharmaceutical market in China, the prospects of which are driven by rising demand for healthcare services in a large and aging population of 1.3 billion. Rapid economic growth and the rising affluence of the average population have led to the increasing affordability of medical services, while the Chinese government is also broadening the availability of healthcare insurance to cover medical costs in China. To capture the huge potential in China's growing pharmaceutical market, the Company will leverage on its relatively large manufacturing scale and strong financial position to grow its revenue and profitability both organically and through acquisitions in the coming years. In the near term, the Company will focus on brand development and increase its marketing efforts to drive sales, as well as investing in new drugs development through in-house research and development and collaboration with outside research institutes. On the cost side, the Company will optimize its manufacturing process and upgrading production facilities to improve operation efficiency. We believe these efforts will be able to propel revenue and net income in the coming years.

As show in the data in Table 8 below, we are using several Hong Kong-listed pharmaceutical companies as comparable peers for the valuation of China Pharmaceuticals. Similar to China Pharmaceuticals, these companies have their principal operations in China's pharmaceutical market and are widely covered by stockbrokers with forecast of net income in the coming two years. Even though China Pharmaceuticals' market capitalization is much smaller than those of its peers, its operating margin at 40.9% in 2009 is the second highest among its peers and is more than double the industry average of 19.9%. Elsewhere, the Company's ROE at 31.1% and price/book of 1.3 times are the most attractive compared to its peers. Based on our earnings forecast, the Company is trading at prospective 2010 and 2011 PER of just 3.5 times and 2.6 times respectively, compared to the average PER of 24.8 times in 2010 and 20.5 times in 2011 for its peers. Given that the Company's debt-free and cash rich financial position that will minimize the risk of the stock on the downside, we believe its current low valuation is unjustified.

Taking into account its relatively short operating history, its status as an illiquid stock trading on the OTC Bulletin Board, market, we believe it is appropriate to apply a conservative 8.0 times prospective 2011 PER valuation to set our target price for the stock, which is at approximately 60% discount to the average 2011 PER for its peers. As such, we expect a 12-month price target of \$4.40 for the stock. We see the potential for further upward re-rating of its 12-month target price to higher PER rating upon the announcement of solid quarterly financial results to win investor's confidence in the coming few months. Thus, we initiate our coverage of the stock with a **Market Out Perform** rating.

Table 8. Valuation and Peer Comparisons (Please use updated Peers Comparison Table from Excel)

Company	Symbol	Share Price		Operating Margin (09A)	2009A	PER (X)		Price/Book (09A)	ROE (09A)
		Jul 06, 2010	Mkt Cap.			2010E	2011E		
China Shineway	2877.HK	HK\$21.15	HK\$17,491	43.6%	20.1	23.2	21.3	5.7	28.3%
Shandong Weigao	8199.HK	HK\$31.95	HK\$13,678	30.0%	47.8	36.2	28.0	10.3	21.6%
Sinopharm	1099.HK	HK\$28.00	HK\$19,328	2.8%	52.7	42.3	31.3	5.8	7.8%
Guangzhou Pharmaceutical	0874.HK	HK\$6.12	HK\$1,346	6.9%	20.3	19.5	16.4	1.4	6.2%
China Pharmaceutical	1093.HK	HK\$4.43	HK\$6,800	16.7%	7.0	9.0	11.8	1.3	18.8%
United Laboratories Ltd.	3933.HK	HK\$9.77	HK\$12,213	14.9%	21.7	17.4	14.6	3.7	17.0%
Sino Biopharmaceutical	1177.HK	HK\$2.86	HK\$13,647	24.6%	32.6	26.1	20.4	5.2	16.0%
Average:			12,072	19.9%	28.9	24.8	20.5	4.8	16.5%
China Pharmaceutical, Inc.	CFMI	US\$1.42	US\$45.50	40.9%	4.2	3.5	2.6	1.3	31.1%

Sources: AASTocks.com; www.etnet.com.hk; TGR estimates

Appendix I. List of Company Products and Their Indications

No.	Product Name	Indications
1	Metronidazole and Glucose Injection	Varieties of tract infections caused by Anaerobion, trichomoniasis and amebic dysentery.
2	Sodium Chloride Injection	Hypotonicity dehydration solvent or thinner for injection.
3	Glucose and Sodium Chloride Injection	Body fluid loss; supply body fluid, electrolyte, energy preoperation, intraoperation and postoperation.
4	Glucose Injection	Supply energy and body fluid, total, total parenteral nutrition, hypoglycemia, hypertonic solution for dehydrating agent.
5	Compound Sodium Chloride Injection	Hypotonicity dehydration solvent or thinner for injection.
6	Mannitol Injection	Hydrocephalus, glaucoma, edema caused by deep burning or scald, acute renal failure and ascites.
7	Heartleaf Houltuynia Herb Injection	Clear heat, detoxification, promote diuresis. Used for lung abscess, phlegm, cough, urinary tract infections.
8	Sterilized Water for Injection	Solvent of sterilized powder for injection, thinner of injection, or wash solution for operation endoscope in urology Surgery.
9	Zedoary Turmeric Oil and Glucose Injection	Viral pneumonia, viral influenza, encephalitis, myocarditis, viral enteritis, mumps, stomatitis.
10	Zedoary Turmeric Oil and Glucose Injection	Anti-viral drug for children's viral pneumonia.
11	Citicoline Sodium and Glucose Injection	Irritable neurocranium trauma, disturbance of consciousness after brain operation.
12	Fluconazole Injection	Mycotic infections by candida, cryptococcosis, coccidioidomycosis.
13	Fructose Sodium Diphosphate Injection	Hypophosphataemia angina, acute myocardial infarction and arrhythmia of coronary heart disease and myocardial ischemia of cardiac failure.
14	Matrine and Sodium Chloride Injection	Chronic active hepatitis, chronic prolonged hepatitis.
15	Glycerin Sodium Chloride Injection	High osmosis dehydrant. Reduce high cranial pressure caused by intracerebral hemorrhage, cerebral infarction, trauma, meningitis and brain tumor.
16	Xylitol and Sodium Chloride Injection	Supply heat, improve glycometabolism and remove ketonemia, used as substitute of sugar for diabetics.
17	Ligustrazine Hydrochloride Glucose Injection	Insufficient blood supply, cerebral embolism, angiitis, coronary heart disease, angina.
18	Levofloxacin and Glucose Injection	Respiratory tract infections, urinary tract infections, genital tract infections, skin soft tissue infections, enteral infections, septicemia.
19	Dexamethasone Sodium Phosphate Injection	Hypoadrenocorticism, rheumatoid arthritis, cerebral edema, congenital adrenal cortical hyperplasia.
20	Atropine Sulfate Injection	Toxic shock caused by serious infection, internal organs angina, preanesthetic medication, antiarrhythmic.
21	Kanamycin Sulfate	Systemic infections caused by various gram negative bacteria.
22	Gentamycin Sulfate	Urinary tract infection, septicemia, skin soft tissue infection, enteral infection caused by ordinary pathogen and preoperative prophylactic medication.
23	Hydrocortisone Injection	Toxic symptom caused by various infections, hypocorticoidism caused by various infections, anaphylactic shock.
24	Lappaconitine Hydrobromide for Injection	Non-addictive analgesics, strong analgesic effect, have effect of local anaesthesia, temperature reduction, antifebrile and detumescence.
25	Vitamin B12 Injection	Pernicious anemia, megaloblastic anemia, anemia caused by antifolate drugs, stearrhea.
26	Procaine Hydrochloride Injection	Local anesthetics, used for infiltration anesthesia, mental conduction block.
27	Bupleurum injection	Clear heat, relieve exterior syndrome, for cold treatment. Fever of influenza and malaria.

No.	Product Name	Indications
28	Lidocaine hydrochloride Injection	Local anesthetics, antiarrhythmic.
29	Analgin Tablets	Clear heat and kill pain.
30	Compound Sulfamethoxazole Tablets	Sulfa antibacterial drug.
31	Inosine Tablets	Coenzyme drug, improve metabolism, for various liver and heart diseases, leukocytopenia, central retinitis, optic atrophy.
32	Metronidazole Tablet	Amebicide, antitrichomonal agent, Anti-anaerobic bacteria.
33	Vitamin C Tablets	Vitamin C, prevent and treat scurvy.
34	Occrycetin Tablets	Broad spectrum antibiotics. Used for rickettsiosis, brucellosis, mycoplasma pneumoniae, Chlamydia infection, sensitive Gram-positive cocci, subinfection caused by coccus-negative.
35	Lidan Paishi Pian	Clear heat and promote diuresis, cholagogue and remove calculi, biliary tract infection, cholecystitis.
36	Rhubarb Sodium Bicarbonate Tablets	Stomachic and acid making. Used for inappetence and hyperchlorhydria.
37	Dried Yeast Tablets	Vitamin medicine.
38	Berberine Hydrochloride Tablets	Antibacterial drug, used for intestinal infection of dysentery bacillus.
39	Compound Tablet of Fritillary Bulb	Clear lung heat, eliminate phlegm, and relieve cough and asthma. Used for wind cold cough and asthma, chest distress, acute and chronic bronchitis.
40	Compound tablet of red sage root	Activate blood and dissolve stasis, regulate vital energy and alleviate pain, used for chest distress and angina.
41	Qinghuo Zhimai Pian	Clear heat, detoxification and purgation.
42	Xanthinol Nicotinate Tablets	Ischemic cerebrovascular diseases like cerebral infarction and thrombosis, brain damages like apoplectic sequela, cerebral trauma, brain surgery sequela, also used for thromboangitis obliterans and phlebitis.
43	Tolperisone Hydrochloride Injection	Central muscle relaxant, vasodilatation. Increase blood volume, used for atherosclerosis and apoplexy sequela.
44	Fufang Huzhang Anmin Pian	Clear heat and detoxification, used for fever, rhinorrhoea, headache, faucitis.
45	Berberine Hydrochloride and Trimethoprim Tablets	Gastroenteropathy caused by sensitive bacteria, intestinal infection like bacillary dysentery.
46	Fufang Qiguanyan Pian	Relieve inflammation, reduce phlegm, relieve asthma, for acute and chronic bronchitis.
47	Qinggan Pian	Clear heat and detoxification, cholagogue and remove calculi. Used for cold and fever, throat irritation, parotitis, muggy jaundice.
48	Paracetamol, Caffeine, Artificial Cow-bezoar and chlorphenamine Maleate Tablets	Relieve fever, headache, blocked nose, sore throat and sneezing caused by common cold and influenza.
49	Sanhuang Pian	Clear heat and detoxification, purge pathogenic fire, purgation. Used for body heat, conjunctival congestion, ulcers in mouth and nose, throat irritation, bleeding gum, upset and thirsty, yellow urine, constipation, acute gastroenteritis, and dysentery.
50	Norfloxacin Capsules	Urinary tract infections, gonorrhoea, prostatitis, enteric infections, typhoid, salmonella bacterial infections.
51	Paracetamol, Caffeine, Artificial Cow-bezoar and chlorphenamine Maleate capsules	Relieve fever, headache, blocked nose and sore throat caused by common cold and influenza.
52	Compound Rifampicin Capsules	Various tuberculosis, improve tolerance with other anti-tuberculosis drugs, shorten treatment period, reduce adverse reaction, defer occurrence of antibiotic-resistant bacteria. Used for extrapulmonary tuberculosis, leprosy, common bacterial infections.

No.	Product Name	Indications
53	Pediatric Paracetamol Artificial Cow-bezoar and Chlorphenamine Maleate Granules	Relieve headache, fever, sore throat and blocked nose caused by cold.
54	Isatis Root Granules	Clear heat and detoxification, cool blood, relieve sore throat, detumescence. Used for body heat, sore throat, tonsillitis and parotitis.
55	Yinhua Ganmao Chongji	Clear heat, relieve exterior syndrome, relieve sore throat, cold, fever, headache, throat irritation.
56	Ganmao Tuire Keli	Clear heat and detoxification. Used for respiratory tract infection, acute tonsillitis and faucitis.
57	Runhou Yaocha	Good for lung and can reduce internal heat, smooth throat, purge, engender saliva, relieve sore throat, clear throat, invigorate spleen, nourish kidney and revive energy. Used for dry throat, sore throat, foreign body sensation.
58	Inosine Oral Solution	Coenzyme drug, improve metabolism, for various liver and heart diseases, leukocytopenia, thrombocytopenia central retinitis, optic atrophy.
59	Compound Guaiacol Potassium Sulfonate Oral Solution	Relieve cough and phlegm.
60	Xiao'aiping Koufuye	Anticancer, relieve asthma, diminish inflammation. Used for esophageal cancer, gastric cancer, lung cancer, liver cancer, Lymphoma, colon cancer, Cervical cancer, septicemia. Also for radiation treatment, chemotherapy, post-operation treatment, chronic bronchitis, bronchial asthma.
61	Qiangli Pipa Lu	Nourish yin and clear lung heat, relieve cough, eliminate phlegm, repeated cough, bronchitis.
62	Xiao'er Zhike Tangjiang	Clear phlegm and relieve cough. Used for pediatric cough caused by cold.
63	Zhike Pipa Lu	Clear lung heat, relieve cough, eliminate phlegm. cough, phlegm, xerostomia caused by wind-heat. Used for bronchitis cough and pediatric cold.
64	Banxia Tangjiang	Clear cough and reduce phlegm, and bronchitis.
65	Fritillary and Loquat Syrup	Clear heat and ventilate lung, clear phlegm and relieve cough. Used for cough and phlegm, sore and swelling throat, chest distress, cold, chronic bronchitis caused by wind heat invading lung and internal heat.
66	Fei'er Tangjiang	Pediatric nutrient, hypofunction of spleen and stomach, do not feel like eating.
67	Sufei Ke Tangjiang	Cough and phlegm, bronchitis.
68	Zinc Sulfate Syrup	Anti zinc deficiency drug, used for pediatric slow growth, malnutrition, anorexia, oral ulcer, post-surgery wound healing caused by zinc deficiency.
69	Orange Tincture	Fragrant and promote digestion.
70	Weiling Heji	Nourish yin and blood, soothe nerves. Used for over fatigue, neurasthenia, amnesia and insomnia.
71	Methyrosanilinium Chloride Solution	Sterilization and antiseptis. Used for superficial injury, anabrosis, ulcer and skin infection.
72	Merbromin Solution	Skin mucosa ulcer and injury sterilization.
73	Iodine Tincture	Sterilization and antiseptis.
74	Zingiberis Tincture	Promote digestion and dispel cold.
75	Weiling Heji	Promote digestion, acid-making, kill pain. Used for gastritis, gastric ulcer and duodenal ulcer.
76	Baixuanxiatare Pian	Clear unusual mucilaginous substance, bile, sepsis, detumescence, antipruritics. Used for tinea manuum, tinea corporis, tinea pedis, tinea versicolor, psoriasis, allergic dermatitis, shingles and acne.
77	Isosorbide Mononitrate Injection	Long term treatment of coronary heart disease, prevent angina, continuous angina treatment of post myocardial infarction, treat chronic congestive heart disease with digitalis or diuretics.

No.	Product Name	Indications
78	Azithromycin for Injection	Used for infection caused by sensitive strains, like intravenous drip of community-acquired pneumonia caused by Chlamydia pneumoniae, mycoplasma pneumoniae, staphylococcus aureus, streptococcus pneumoniae.
79	Clindamycin Phosphate Injection	Serious infection caused by staphylococcus aureus and anaerobic bacteria. Ideal effect of osteomyelitis caused by sensitive bacteria.
80	Fleroxacin	Mainly used for systematic infection treatment, like acute respiratory infection, urinary infection, gynecological infection, ordinary otolaryngology infection and skin soft tissue infection.
81	Naoxingqing Capsule	Increase pipe, vein and brain blood, improve blood and oxygen supply status of heart and brain tissue, and increase electrophoretic mobility of erythrocyte. Used for coronary heart disease, angina, cerebral arteriosclerosis, ischemic cerebrovascular disease.
82	Weili Capsule	Kill pain and promote circulation, digestion and gall. Used for improper diet, phlegm, vomit, stomachache, bad appetite, constipation, acute gastritis and cholecystitis.
83	Zhiyanxiao Capsule	Clear heat and detoxification, promote circulation, stop bleeding, kill pain and swelling. Used for old patients' hemorrhoids symptom like dyschizia, hematochezia hemorrhoids inflammation and anal fissure.
84	Yinyangsuo Capsule	Treat renal and impotence, promote body fluid production. Used for impotence, ache and weak at waist and knee, body fluid deficiency, and dizziness.
85	Stanch Capsule	Clear heat and cool blood. Used for menorrhagia, nose bleed, hemoptysis, hematemesis and emptysis caused by blood heat.

Ratings Definitions

TriPoint Global Research's rating system is divided into five major classifications:

- **Market Out Perform**
- **Market Perform**
- **Rating Suspended**
- **Market Under Perform**
- **Avoid**

Note: When measuring against the comparable market index, the index used will be the Russell 2,000 index; a small-cap stock market index featuring the bottom 2,000 stocks in the Russell 3000 Index.

1. **Market Out Perform** rating indicates the degree to which the analyst believes the shares are undervalued in relation to the comparable market index and its peers. The analyst price target will reflect belief that the performance of the stock price has the potential to be a minimum of 10% above the comparable index. Among the factors that could cause the analyst to add a speculative comment to the rating are the degree of financial risk represented by an investment in the shares, the market where the stock is listed, and the trading volume. These factors will be detailed in the report.
2. **Market Perform** rating indicates that the stock market price may follow the comparable market index.
3. **Rating Suspended** indicates that the analyst believes there may be corporate vents, such as announced financing or restatements of past earnings that make determination of a rating impossible at the time.
4. **Market Under Perform** indicates that the analyst regards the company's valuation is overvalued in relation to the comparable market index and its peers. The analyst price target will reflect belief that the performance of the stock price has the potential to be a minimum of 10% below the comparable index. In addition, there may be corporate events that lead to the lower performance than the measured market index.
5. **Avoid** rating indicates that the current fundamentals of the company have certain fundamental events that need to be addressed and corrected. The analyst believes it is prudent to stand aside until these events are corrected. The price target for the Avoid rating is suspended.

Stanley Ng

Prior to joining TGR, Stanley Ng had over 20 years of research experience in the Hong Kong, China and Japan stock markets with foreign and HK listed stockbrokers. He has been Head Of Research for several brokerage firms in the city. Most recently he served as research director for Universal Investment (HK) Ltd., and His prior firms included Tung Tai Securities Limited, Drake & Morgan/Rexcapital Securities, and Standard Chartered Securities Ltd. He holds a BSc from Tennessee Tech University, and a MSc from Texas Tech University.

Analyst Certification:

I, Stanley Ng, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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