

Business Plan



WEIFANG SHENGTAI PHARMACEUTICAL CO., LTD



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Management

President:

Chief Operating Officer and Investment Director:

Chief Financial Officer:

Deputy General Manager of Technical Department:

Deputy General Manager of Sales Department:

Deputy General Manager of Production Department:

Deputy General Manager of Quality Control Department:

Deputy General Manager and General Manager of Biotechnology Engineering:

Deputy General Manager and General Manager for Modified Starch:

Deputy General Manager of the Supply Department:

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I. Executive Summary

Introduction

Weifang Shengtai Pharmaceutical, Ltd. (Shengtai Pharmaceutical or the Company) is the market leader in China for the supply of pharmaceutical grade glucose used for medical purposes. The D-glucose form of glucose (also called dextrose) is one of the most important carbohydrates in biology and is the chief source of energy in the human body. As such it is used in a wide array of pharmaceutical products such as transfusions, intravenous drips, and more.

Large Market -The market for pharmaceutical grade glucose (dextrose) is very large and growing rapidly in China and other countries. In China alone, the demand for glucose continues to increase dramatically. From 2002-2004, it has already risen from 250,000 tons to 800,000 tons p.a., and the annual demand for glucose is expected to increase to 1.7 million tons p.a. by 2009.

Current Market Leader - Shengtai Pharmaceutical currently captures a 30% share of the pharmaceutical glucose market in China through its glucose series of products. The Company fully anticipates increasing its market share as the overall market continues to grow. Shengtai Pharmaceutical **ranks number one in China in terms of overall pharmaceutical glucose (dextrose) production output.**

Business Strategy -The Company has a clear and achievable business strategy. Over the next few years, Shengtai Pharmaceutical will migrate all of its sales, marketing and production efforts into the pharma grade glucose product line. This product line will enable the Company to achieve higher margins.

Competitive Advantage - The Company has a clear competitive advantage in this market because it is one of only a very few manufacturers in China capable of producing high quality, GMP-certified glucose product.

Shengtai Pharmaceutical History - Formerly a state-owned enterprise, Shengtai Pharmaceutical has evolved into a highly successful and profitable medical raw material manufacturer under the leadership of its Chairman and CEO, Mr. Liu Qingtai. The Company sells directly to hospitals as well as to regional and local distributors. It has sales and liaison offices in nine sales regions throughout China.

Revenues in 2005 were 135% greater than revenues in 2004. Net income in 2005 was 265% greater than in 2004.



Historical Financials (\$1,000's)			
	2003	2004	2005
Revenues	\$20,040	\$25,716	\$34,838
Net Income	\$761	\$1,885	\$4,986
Total Assets	\$17,269	\$24,944	\$33,757
Total Liabilities	\$13,589	\$19,292	\$24,193

Manufacturing Capabilities - To enhance its market leadership position in high-quality glucose production, the Company is implementing a vertical integration strategy to improve the quality and to ensure the supply of its raw material (cornstarch). A cornstarch production plant will be commissioned at the end of 2006 and will start production in early 2007. Half of the cornstarch produced will be used for glucose production, while the remainder will be sold in the open market.

Once the cornstarch production facility is up and running, Shengtai Pharmaceutical will then upgrade its glucose production facilities. This upgrade will allow for an increased production capacity as well as the ability to produce different type of glucose packaging. Once this upgrade of the glucose production facilities is completed (2007), the entire internally produced cornstarch will be consumed as raw materials for glucose production.

Success Factors - Three key factors will assure that Shengtai Pharmaceutical continues its successful growth:

1. The increasing market demand for pharmaceutical grade glucose in China and other countries
2. Integration of its own cornstarch manufacturing capabilities
3. Successful glucose production capacity increases

These factors will allow the Company to maintain its annual growth of 30% or more for the coming three to five years.

Financials - In 2005, Shengtai Pharmaceutical generated revenues of \$34.8 million with a net profit of \$4.98 million. The mainland China market comprises 95% of total revenue while 5% is generated from exporting to overseas countries. In 2006, the Company will generate revenue of \$51.8 million with EBITDA of \$11.2 million and net income of \$7.5 million. By 2010, Weifang Shengtai Pharmaceutical will achieve over \$147.8 million in revenues, EBITDA of \$30.4 million and more than \$21.5 million of net income.

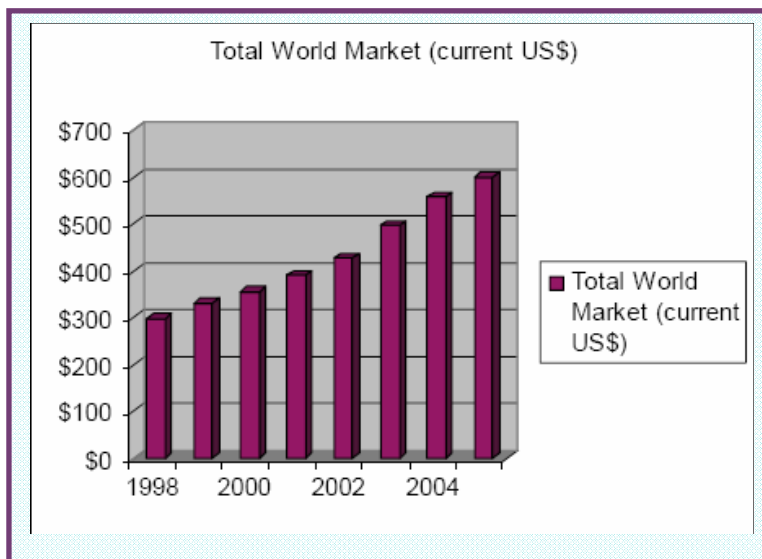


The Market Opportunity

Basic Market Trends - The China health industry is growing rapidly. More Chinese people are going to hospitals and more treatment methodologies involve the utilization of glucose solutions. Even without the increased patient visits, demand for pharma grade glucose would grow as more and more hospitals switch from mixing up their own Dextrose solutions.

Worldwide Pharmaceutical Market - The world's pharmaceutical market was valued at US \$450 Billion in 2004 and forecasted to reach US \$750 Billion by 2010.

Global Sales US\$B	1998	1999	2000	2001	2002	2003	2004	2005
Total World Market (current US\$)	\$298	\$331	\$356	\$390	\$427	\$497	\$559	\$602
Growth Over Previous Year (Constant US\$)	7%	11%	11%	13%	9%	10%	8%	7%



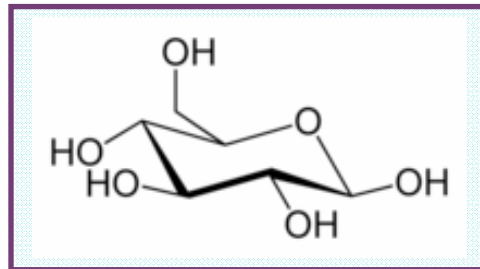
China's Pharmaceutical Market – With annual growth rates in the Chinese pharmaceutical industry exceeding 15% per year, China is a critically important market that no one can afford to ignore. Demand for better drugs and medical equipment is driving this market and will increase as the country modernizes and provides healthcare



to a population of 1.3 billion people. The population of China is served by around 310,000 medical and clinical institutions. China is one of the top 10 emerging pharmaceutical markets of the world, and is the second largest market of Asia after Japan. By 2010, China will become world's fifth largest pharmaceutical market after the USA, Japan, Germany, and France. It is projected that the China pharmaceutical market would be valued at US \$75 billion by 2010 producing 10% of global demand, and US \$120 billion by 2020.

Glucose (Dextrose) Demand in China - The growth in demand for Dextrose Monohydrate transfusion solutions is totally correlated to the growth of the pharmaceutical production and consumption trends and patterns. Contrary to overseas medical practices, medical transfusion is a much more common and well-accepted treatment routine all over China for all sort of ailments, ranging from expedient treatments for common cold, flu, and intestinal disorders to clinical restorative or recuperative prescriptions after surgical operations.

The China domestic production and supply for pharma grade glucose solutions is still very limited. Hospitals in China have no choice but to add medicines to Brine solutions or Dextrose solutions (whichever appropriate) for treatment purposes. Due to the possible pollution or mishandling during this mixing process, this practice carries a certain level of health risks for patients. The hygienic problem of on-site bed-side transfusion liquid mixing affects not only the hospitals in China, but also hospitals in other countries.



As the health industry in China continues to show strong growth, the market for nutritional and restorative glucose transfusion solutions is expanding rapidly. There is increasing demand for more compound electrolyte transfusion formulations. Likewise, nutritional transfusion products such as Xylitol, Maltose, dextrose-plus combinational solutions Fat Emulsion and Amino acid, Ascorbic Acid and Quinolones formulations (**which all utilize pharma grade glucose**) are in high demand. There is little to almost no domestic production in China for these newer types of transfusion formulations.

There is also a very strong need, as expressed by the hospital practitioners, to improve on the hygienic standard and the efficacy of the treatment transfusion. There are altogether 310,000 medical service providers such as hospitals, clinics, and health-care institutions serving the 1.3 Billion people of China.

Quality Demands - With the new cornstarch production complex coming on stream in 2007, quality assurance will be even stronger, thus enabling Shengtai Pharmaceutical to



take on more demanding quality standards as set out for medicated glucose-based transfusion. This will set the stage for the Company to expand its market share.

Business Model

Weifang Shengtai Pharmaceutical is engaged in the development, production and distribution of pharmaceutical and medicinal raw materials (e.g. Dextrose Monohydrate and Dextrose Anhydrous) and medicinal preparations (e.g. Starch, Dextrin, Polypropylene Resin II, Polypropylene Resin III. and Polypropylene Resin IV). The Company manufactures these materials at its sole manufacturing site in the Weifang county of China.

The Company has embarked upon an aggressive strategy to increase its market share and its business margins. This strategy involves several key components:

1. Vertical integration

Currently the Company buys its raw materials (cornstarch) from third parties. As part of its business plan, Shengtai Pharmaceutical is preparing to build its own cornstarch manufacturing facility and within 1-2 years will consume all cornstarch produced for its own product consumption. Until that point, excess cornstarch will be sold in the open market.

2. Migration higher portion of revenues to pharma grade glucose

By moving more of its production capabilities to pharma grade glucose, the Company will generate higher overall margins. In few hears, 100% of production facility will be dedicated to pharma grade glucose products

3. Brand Building

The Company has built a strong brand based on several key factors.

Highest Quality Product

Customers know that Shengtai Pharmaceutical products are of the highest quality and a purchasing agent knows that his/her job is safer when ordering from Shengtai Pharmaceutical.

Reliable Delivery and Supply

Shengtai Pharmaceutical has consistently provided reliable supply and delivery of its products.





Competitive Pricing

Customers know that the Company is among the most competitive and provides reasonable pricing of its products.

4. Increase international sales

By increasing its international sales, the Company will not only grow its revenue but it will also help increase margins.

The Company's main product line, pharmaceutical grade glucose, is sold to hospitals and medical supply companies throughout China using a direct sales force. Shengtai Pharmaceutical also sells to international distributors.

The Company markets through a variety of methods. These include print advertising, trade shows, the Internet and its web site.



Growth Opportunity

The Company's growth opportunities are outstanding. The expanded volume of pharmaceutical glucose production will result in a noticeable improvement in the average gross margin of Shengtai Pharmaceutical's business due to the fact that pharmaceutical glucose will compose a higher percentage of total volume of goods sold by the Company. The expanded volume of production will also ensure that Shengtai Pharmaceutical will have enough products to serve both the domestic and overseas market. Currently, the Company can only focus on the domestic market because of capacity constraints. It has had to turn away overseas customers that are willing to pay higher prices for its products.



With its expanded production capacity, Shengtai Pharmaceutical will have the strength and backings to fully exploit the full potential of the large capacity transfusion solution market in China and Asia. Shengtai Pharmaceutical is confident that it will become one of the top three PRC suppliers for glucose transfusion solutions to the Asian market before the end of 2010.



The Shengtai Pharmaceutical brand has generated a high level of customer loyalty and user satisfaction amongst hospital practitioners, and is an intangible asset for the Company to build its future markets. The market for the Company's products is growing and the Shengtai Pharmaceutical brand continues to generate greater market awareness.

Management

The Company's management team is well balanced in talents and experience and is supported by a highly qualified Board of Advisors. Key personnel are as follows

Mr. Liu Qingtai, President

Mr. Qingtai graduated from the Electrical Engineering faculty of the Shandong Technical University with a BSc degree in Feb 1982. Mr Qingtai started his senior management career in the production and management of pharmaceutical production, heading up Production Technology departments and then the whole production plant. A medicinal coating material technology that Mr. Qingtai jointly developed with the Shandong University has been certified by the Technology Development Bureau of the Shandong Province to be of International standard. Over the years, Mr. Qingtai has been endorsed by the Weifang City Government office as a Leading Technology Innovator and a Distinguished Pharmaceutical Production Director.



Ms. Duan Xiao

Ms. Xiao is a MBA Degree holder of the Xian Jiaotong University, and is the General Manager of the Shaanxi Aidi Investment Advisory Company Ltd. She has many years of senior management experience heading up Investment departments of state-owned enterprises and listed companies in China. She has extensive experience in corporate financing, merger and acquisition activities in the mainland.



Mr. Sun Wei, Chief Financial Officer

Mr. Sun graduated from the Xian Jiaotong University with a Financial Doctorate Degree. He was the Assistant Professor of the Technology Economics Faculty of the Xian Jiaotong University, and attended the Project Management Training program of the World Bank in 1996. He was the Visiting Professor of the Alberta



University of Canada and actively participated in the Sino-Canadian Joint Educational Initiatives. He is a member of the China Management Association.

Mr. Liu Yuanke, Deputy General Manager of Technical Department

Mr. Yuanke is a Science Degree holder who graduated from the Chemistry Faculty of the BaoTou College. From 1999 to 2000, he managed the process of technology upgrade and production equipment enhancement project, which enabled Shengtai to increase its annual output of oral glucose from 10,000 tons to 50,000 tons.

Mr. Meng Fanming, Deputy General Manager of Sales Department

Mr. Fanming was born in 1970, and graduated from the Shandong Institute of Chemistry in June 1991. From 1991 to 1994, Mr. Fanming worked as a Technician and Workshop Director in the Shandong Weifang Ammonium Nitrate Factory. From 1995 to 1998, he worked as Workshop Director and then Deputy General Manager of the Weifang Fifth Pharmaceutical Factory. He joined Shengtai in 1999 to take up the current position.

Mr. Wu Bolin, Deputy General Manager of Production Department

Mr. Bolin was born in 1968 and graduated from the Shandong Institute of Engineering with a Bachelor degree. After joining Shengtai, he and Mr. Liu Yuanke were both instrumental in upgrading the production capacity of oral glucose from an annual output of 10,000 tons to 50,000 tons.

Ms. Sun Shurong, Deputy General Manager of Quality Control Department

Ms. Shurong was born in 1971 and graduated from the Medicine Analysis Department of the Shandong Laiyang Hygiene School, and further her studies at the Physics Department of the Shandong Medical University. At Shengtai, she has taken up the positions of Workshop Technicians and Product Inspector before taking up here current role.





Mr. Zhang Guihai, Deputy General Manager and General Manager of Biotechnology Engineering:

Mr. Guihai graduated from the Chemistry Faculty of the Inner Mongolian BaoTou University in 1990. He is the Deputy General Manager of Shengtai Pharmaceutical, and also the General Manager of the Biotechnology Engineering business unit of the company. He led the team to set up the new production facilities of Shengtai Pharmaceutical in 2002 for the production of glucose and dextrose anhydrous. In 2003 his professional management has culminated in the issuance of the GMP certification by the State Drug Administration Bureau.

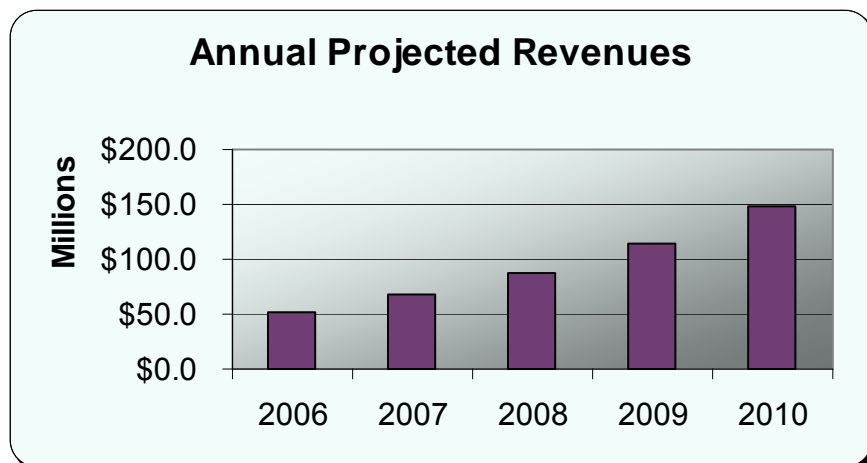
Ms. Tian Qiuxia, Deputy General Manager of the Supply Department

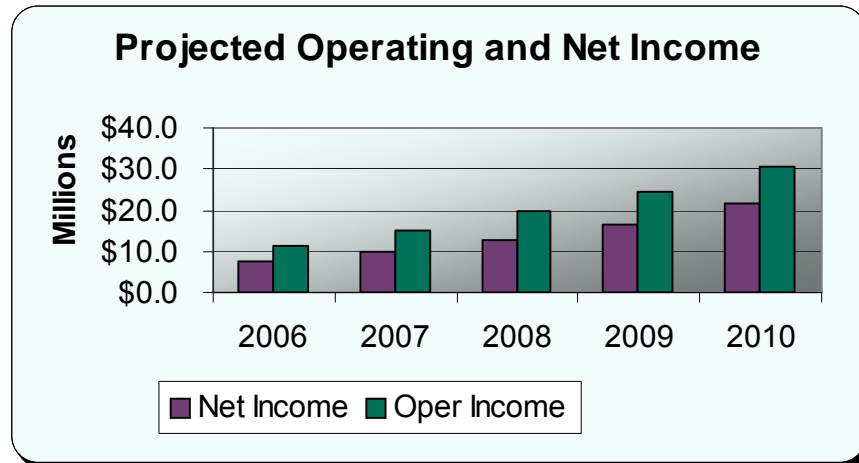
Ms. **Qiuxia**, was born in 1972 and graduated from the Cahngle Junior College. She served as the Manager of Sales Department in 2002, and now serves as the Deputy General Manager of Supply Department.

Financial Projections

Weifang Shengtai Pharmaceutical's financial projections show that the Company can utilize the requested funding to catalyze its growth efforts. The Company projects a steady growth with significant net income over the next five years as its business plan is implemented.

Five Year Projections (\$1,000's)					
	2006	2007	2008	2009	2010
Revenues	\$51,750	\$67,275	\$87,458	\$113,695	\$147,804
Operating Income	\$11,178	\$14,937	\$19,618	\$24,578	\$30,428
	22%	22%	22%	22%	21%
Net Income	\$7,478	\$9,721	\$12,638	\$16,429	\$21,537
	14%	14%	14%	14%	15%
Revenue Growth		130%	130%	130%	130%





Financial Needs and Use of Funds

The Company is seeking a \$15,000,000 equity investment to execute this business plan. Weifang Shengtai Pharmaceutical intends to use these funds primarily for building its cornstarch manufacturing facility, expanding its glucose production lines, sales, marketing and staffing expense. Remaining funds will be used for administrative and general working capital needs.



Professionals and Consultants

U.S. Legal Counsel

Guzov Ofsink LLC, New York, NY www.golawintl.com

Chinese Legal Counsel

Kaiwen Law Firm www.kaiwenlaw.com



U.S. Public Accounting Firm

Moore Stephens Wurth Frazer & Tolbet LLP, Walnut, CA. www.msftllp.com

Chinese Accounting Firm

Guangdong Yangcheng Certified Public Accountants Co., Ltd www.ycpa.com

Commercial Bank

Industrial and Commercial Bank of China

Investment Bank

Hickey Turner Capital, a division of Brill Securities, Inc. www.brillsec.com







II. The Enterprise

Mission Statement

Weifang Shengtai Pharmaceutical, Ltd. will become the leading supplier of pharmaceutical grade glucose products in China, and one of the top three in Asia. The Company will continually provide the finest and safest products on the market. Our products will be sought after for their consistent reliability and excellence. Our people will treat each customer with respect and we will be known for our outstanding customer service.

Business Objectives

Weifang Shengtai Pharmaceutical will continue to grow its business at 30% or more per year. To accomplish this, the Company in the next 12-24 months will:

- Construct and make operational a cornstarch manufacturing facility to assure its supply of raw materials
- Expand its glucose manufacturing capabilities
- Grow revenue in excess of \$67.2 million in 2007

In succeeding years, Weifang Shengtai Pharmaceutical will:

- Add additional transfusion and pharmaceutical glucose products
- Grow the amount of products it exports internationally
- Develop a reputation that will exceed competitors in every area
- Maintain excellent customer loyalty by placing strong emphasis in the areas of outstanding service and support
- Attain \$147.8 million in annual sales in 2010

Organization

1. Legal Structure

Weifang Shengtai Pharmaceutical, Ltd. was duly established as a Sino-foreign joint venture upon the Approval on Establishment of Weifang Shengtai as a Sino-foreign Joint Venture on February 1, 2004. A Certificate of Approval ([2004] 0413) was issued by the local branch of the Ministry of Commerce (MOC) in WeiFang on February 3, 2004, with registered capital of \$3.92 million. Shengtai Holding, Inc. was incorporated in the state of New Jersey on February 17, 2006, and acquired all the shareholdings of Weifang Shengtai Pharmaceutical,



Ltd. Weifang Shengtai Pharmaceutical, Ltd. is now a wholly subsidiary of Shengtai Holding, Inc.

2. Location

The Company's principal place of business is located in Changle county, Shandong province, well known as "the hometown of sapphire in China". It has state of the art manufacturing facilities covering a total area of 150,000 square meters. There are more than 1200 employees.



The Company also maintains nine field sales and marketing offices throughout China in Guangzhou, Shantou, Nanchang, Hanzhou, Suzhou, Wuhan, Guilin, Nanning, and Chengdu.



3. Intellectual Property

Shengtai Pharmaceutical maintains a website at www.chinagluco.com to market its products. The Company also owns various proprietary manufacturing techniques and processes. No other proprietary intellectual property is owned at this time.

Historical Background

Weifang Shengtai Pharmaceutical, Ltd. is the former Weifang Fifth Pharmaceutical Plant, which as previously a state-owned enterprise. In 1998, Weifang Fifth Pharmaceutical Plant could not pay back a \$5 million bank loan on time, and the pledged assets were taken over by the bank. On Feb 4, 1999, Mr. Qingtai Liu, the Chairman of Weifang Shengtai acquired all the assets of Weifang Fifth Pharmaceutical Plant for \$775,000 and established Weifang Shengtai Pharmaceutical, Ltd.

Shengtai Pharmaceutical quickly seized the opportunity to position itself favorably in the pharmaceutical glucose market. By making full use of the acquired assets, Mr Liu Qingtai and his management team transformed a bankrupt enterprise into a well-managed and profitable industry leader. Its pharmaceutical glucose series products are leaders in the medical transfusion market in China.

The assets acquired from the State-owned enterprise included both production equipment and 150,000 sq. meters of land. The land plots include a site in the city center as well as the site at the Industrial Development Zone. The production equipment has been upgraded and the utilization rate is currently around 90%. Currently, only 50% of the land area has been utilized.

Shengtai Pharmaceutical has enjoyed stable and un-interrupted growth in revenue and profit in the past three years. (See chart on next page)

Historical Financials (\$1,000's)			
	2003	2004	2005
Revenues	\$20,040	\$25,716	\$34,838
Net Income	\$761	\$1,885	\$4,986
Total Assets	\$17,269	\$24,944	\$33,757
Total Liabilities	\$13,589	\$19,292	\$24,193

Funding Analysis

The Company anticipates a capital requirement of \$15.0 million to expand its operations and implement its growth strategy. The funds are required to fund the cornstarch



production facility, purchase additional glucose production equipment and hardware, hire additional personnel and fund working capital requirements.

The Company balance sheet prior to this investment and immediately after start-up is shown in the table on the following page. Upon investment, Weifang Shengtai Pharmaceutical will spend \$7.4 million on capital expenses and \$8 million on buildings. Cash on hand after these expenditures will be \$2.5 million. (See table)

Balance Sheet Prior To and After Investment		
	Prior to Investment	After Investment
Assets		
Current Assets		
Cash	\$0	\$2,514,786
Accounts Receivable	\$0	\$8,625,000
Inventory	\$0	\$0
Other Current Assets	\$0	\$0
Total Current Assets	\$0	\$11,139,786
Fixed Assets		
Equipment	\$0	\$7,400,000
Accumulated Depreciation	\$0	(\$1,480,000)
Total Fixed Assets	\$0	\$5,920,000
Land & Property		
Land & Property	\$0	\$8,000,000
Accumulated Depreciation	\$0	(\$800,000)
Total Intangible Assets	\$0	\$7,200,000
Total Assets	\$0	\$24,259,786
Liabilities and Equity		
Current Liabilities		
Accounts Payable	\$0	\$1,781,786
Other Current Liabilities	\$0	\$0
Total Current Liabilities	\$0	\$1,781,786
Long Term Liabilities		
Bank Note	\$0	\$0
Total Long Term Liabilities	\$0	\$0
Total Liabilities	\$0	\$1,781,786
Shareholder Equity		
Preferred Stock	\$0	\$15,000,000
Common Stock	\$0	\$0
Additional Paid in Capital	\$0	\$0
Retained Earnings	\$0	\$0
Current Year Income (Loss)	\$0	\$7,478,000
Total Shareholder Equity	\$0	\$22,478,000
Total Liabilities and Equity	\$0	\$24,259,786



III. The Business Concept and Need

Market Need

Medical transfusion was first developed and used in 1832, and since then more than 200 different types of transfusion solution formulas have been adopted for various medical treatments. The world output for transfusion products is around 5 Billion bottles per annum.

The world's pharmaceutical market was valued at US \$450 Billion in 2004 and forecasted to reach US \$750 Billion by 2010. China's share as a percentage of total global demand is expected to grow from 5% in 2004 to 10% in 2010, and by then will become the fifth largest market (US \$75 Billion) for medicines in the world.

The growth in demand for Dextrose Monohydrate transfusion solutions is totally correlated to the growth of the pharmaceutical production and consumption trends and patterns. Contrary to overseas medical practices, medical transfusion is a much more common and well-accepted treatment routine all over China for all sort of ailments, ranging from expedient treatments for common cold, flu, and intestinal disorders to clinical restorative or recuperative prescriptions after surgical operations. There are altogether 310,000 medical service providers such as hospitals, clinics, and health-care institutions serving the 1.3 Billion people of China.

Cornstarch is the raw material for the production of glucose and value-added modified starch. China is the top corn producer of Asia, and the Shandong province (Shengtai is situated in the Weifang county of Shandong) is the top corn-producing province of China. Although corn price is rising in the United States because of the recent plans to produce fuel from corn, the price of corn in China is rising at a much milder rate, with the rise primarily due to the increased demand for glucose and starch products.

Consequently, there is clearly a market need for an organization that can provide reliable, safe and consistent pharmaceutical grade glucose products to the domestic China market. Such an organization is ideally situated to continue rapid growth as the demand for these types of products accelerates.

Products

Shengtai Pharmaceutical manufactures two categories of products.

Pharmaceutical and medicinal materials

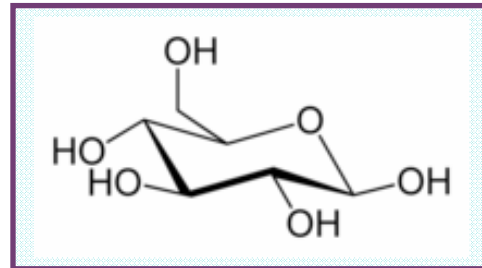


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These materials are the major and higher value-added products of the Company. They include:

Dextrose Monohydrate Series

- Dextrose Monohydrate Transfusion (25kg/bag)
- Dextrose Monohydrate Oral in big bags (720kg/bag)
- Dextrose Monohydrate Oral in small bags (25kg/bag)
- Dextrose Anhydrous (25kg/bag)
- Dextrose Monohydrate Oral for export (25kg/bag)
- Dextrose Monohydrate transfusion for export (25kg/bag)
- Dextrose Anhydrous for export (25kg/bag)



Starch, Dextrin, Polypropylene Resin II, Polypropylene Resin III, and Polypropylene Resin IV

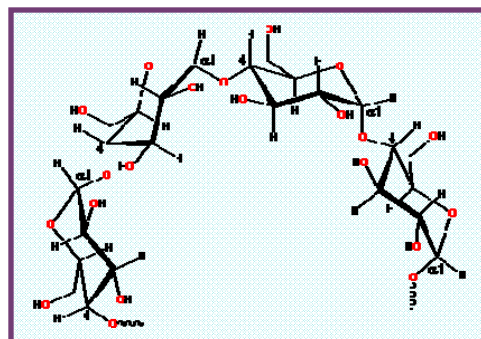
Shengtai Pharmaceutical also supplies the following glucose and starch products to the pharmaceutical and hospital markets:

- Multivitamin glucose (500g/bag)
- Glucose base solution
- Pharmaceutical grade starch (25kg/bag)

Food, Beverage and Processing Industries Products

Beside the pharmaceutical grade glucose and starch products (which are higher value-added and have a higher margin), Shengtai Pharmaceutical also produces the following raw materials for the food, beverage and processing industries:

- Industrial glucose
- Industrial glucose for export
- Syrup for export
- Starch for export
- Avermectins
- Dextrin
- Dextrin for export
- Avermectins Ointment





Avermectins refinement
Maltose
Maltitol

Production History

Dextrose Monohydrate Oral			
	2003	2004	2005
Quantity produced (in tons)	42,765	37,884	51,933
Revenue (millions)	11Mil	10.8Mil	15.3Mil
% of total revenue	65.0%	48.0%	50.0%
Profit margin (%)	21.0%	25.5%	16.0%
% of total profit contributed by this product category	71.0%	51.9%	37.0%

Dextrose Monohydrate for Transfusion			
	2003	2004	2005
Quantity produced (in tons)	12,601	24,927	30,080
Revenue (millions)	\$4.3	\$8.7	\$10.2
% of total revenue	26.0%	38.0%	34.0%
Profit margin (%)	20.3%	20.9%	32.0%
% of total profit contributed by this product category	27.0%	40.0%	49.0%

Collectively, these three products generated most of the revenue and nearly all the profit for Shengtai Pharmaceutical.

Collective Dextrose Products			
	2003	2004	2005
Quantity produced (in tons)	222	3,163	4,379
Revenue (millions)	\$15.4	\$20.9	\$27.4
% of total profit contributed by this product category	100.0%	99.9%	100.0%

Shengtai Pharmaceutical ranks number one in China in terms of overall pharmaceutical glucose (dextrose) production output.



The Production Process

Shengtai Pharmaceutical's primary product is glucose, which is made from enzyme-converted cornstarch. The glucose produced by Shengtai Pharmaceutical has the following characteristics: low heat, endotoxin in bacteria lower than 0.125Eu/ml, high purity, and the production standard is lower than 0.06Eu/ml.

Glucose is made using cornstarch as the raw material. The steps required are:

1. The starch is converted into emulsion
2. Alpha-Amylase Glucoamylase is added
3. The emulsion from the chemical reaction of the two will be cleaned and dried after filtering, discoloring, ion exchange, inspissation, crystallization and separation.
4. The cleaned and dried end-product of the above process is glucose

Under normal operating environment, the finished product rate is 100%, with zero rejects and wasted product. In the case of a power outage or equipment mal-function, sub-standard output will be detected by the quality control procedure, and will be placed back into the production process for re-processing again. Using quality control and re-processing, there is not any reject or wasted product.

The three most important ingredients for glucose production are starch, enzyme preparations and active carbon. The suppliers for these raw materials are:

Starch

Shouguang Shengtai Starch Company Ltd. Shouguang Shengtai is a contracted production facility under the management of Shengtai Pharmaceutical. The contracted production facility has been used in the past few years to ensure stable supply of quality starch to Shengtai Pharmaceutical.

Enzyme Preparations

Novozymes, a reputable Danish supplier

Active Carbon

Fujian Sha County Qingshan Chemical Carbon Corporation, is one of the major active carbon producers in China

The production equipment consists primarily of the Separation machine and Crystallization machine. The suppliers are:



Separation Machine

Guangzhou Guangzhong Enterprise Group Corporation, a big state-owned enterprise in China

Crystallization Machine

Xian Space Engineering Equipment Co Ltd, a leading producer of glucose production equipment

Cornstarch Manufacturing Facility

Shengtai Pharmaceutical is building a new cornstarch production complex with annual production capacity of 300,000 tons next door to the existing glucose production plant. The new cornstarch production facility is scheduled to be commissioned at the end of 2006 year and will start production in January 2007. 50% of its output (i.e. 150,000 tons per year) will be used as raw materials for glucose production, and the other 50% will be sold to customers in the food, beverage, pharmaceutical and industrial sectors.

This is a very important upstream vertical integration mechanism to ensure steady and cost-effective supply of cornstarch for the production of quality glucose by Shengtai Pharmaceutical. The Company is fortunate enough to be situated in the Shandong province, the top corn production province of China. Locally harvested corn can easily, cost-effectively and efficiently be transported to Shengtai Pharmaceutical's new cornstarch production plant for processing. All these favorable factors added together will protect Shengtai Pharmaceutical from the price volatility of cornstarch in the commodity market.

In 2007, 50% of the cornstarch produced by the new plant will act as raw materials for glucose production, while the other 50% will be sold at the open market. After the existing glucose production facility has been upgraded in 2007, at least 70% of the cornstarch produced by the in-house plant will be utilized as ingredients for glucose production, enabling Shengtai Pharmaceutical to increase its revenues both from the domestic and overseas markets.

The cornstarch production complex consists of the following parts:

- ◇ Corn storage
- ◇ Cornstarch production line
- ◇ Warehouse for finished products (cornstarch)
- ◇ Logistical and delivery coordination center
- ◇ Environmental-friendly waste-water treatment facilities

The total investment for the Cornstarch production complex is approximately US \$18-20 Million.



The new cornstarch production complex will benefit Shengtai Pharmaceutical as follows:

- Low-cost and stable supply of high-quality raw materials (i.e. cornstarch) for glucose production
- The stable raw material supply will enable Shengtai Pharmaceutical's existing glucose production plant to operate at 100% capacity
- Reduced transportation costs of raw materials, because the new cornstarch plant is next door to the glucose production plant
- Quality assurance for raw materials will enable Shengtai Pharmaceutical to develop new and higher- quality pharmaceutical glucose products categories of higher added value

Upgraded Glucose Manufacturing Capacity

Due to current constraints, the glucose production facility operates at around 85% capacity. Despite these constraints, Shengtai Pharmaceutical has recorded increased revenue from 2005 to 2006 including a 23% increase for oral pharmaceutical glucose, a 3% increase for Dextrose Monohydrate transfusion solution, and a 2% increase for Dextrose Anhydrous.

With the new cornstarch production facilities coming into service at the end of 2006, the capacity of the glucose production facility can be fully utilized to serve the rising market demand.

As part of the expansion plans for next year, Shengtai Pharmaceutical plans to upgrade its existing glucose production facilities to produce more higher-added-value glucose products. After this upgrade, at least 70% of the cornstarch produced by the new plant will be used as raw materials for glucose production.

Quality Control

Shengtai Pharmaceutical's production facilities are fully certified for GMP, ISO9002 and HACCP international quality standards. The rate of quality output (outputs conforming to pharmaceutical glucose product specifications) is maintained at 100%.

A three-tier quality control system (production team level, workshop level, and management accountability for quality) ensures that all products are produced in a pollution-free, contamination-free and efficient production environment following strict quality-oriented procedures. The warehouse for finished products is adjacent to the production line, and is managed under the same stringent hygienic requirements.



The Quality Control Department is responsible for the supervision, management and quality assurance of the whole production process. The General Manager of the Quality Control Department is directly accountable for the quality of all products. To make all responsible staff accountable for the quality of the product, Shengtai Pharmaceutical adopts a three-tier Quality accountability system:

- 1) The team of workers on-duty is responsible for the smooth operation of the production process by adhering to the proper procedures. The intermediate outputs from each production steps are sampled checked to ensure that the final output is of the specified quality standard.
- 2) The different divisions of the production plant (consisting of different equipment) will be regularly checked and maintained to ensure proper operation. The quality of the water to be used in the production process is regularly checked. The level of presence of atomic particles and microbes in the production sites is regularly checked to eliminate contamination.
- 3) The quality of all outputs are vetted by the General Manager of the Quality Control Department, and ultimately approved by the CEO. A full set of written quality checking records are maintained by the above groups of executives and personnel.

The Quality Index of the manufactured glucose is summarized as follows:

Properties: white crystal, granular powder, odorless, sweet taste, easy soluble in water, slightly soluble in alcohol
Specific rotatory power: +52.0 degrees--- +53.5degrees
Dry loss: ≤9.5%
Chloride: <0.02%
Sulfate: <0.02%
Alcohol-insoluble matter: ≤5mg
Ferrous salt: <0.002%
Ignition residue: 0.08%
Heavy metal: ≤20ppm
Arsenide: <2ppm
Sulfite and soluble starch: appear yellow when added to an iodine test solution.

The Quality indexes of Dextrose Monohydrate Transfusion (Liquid glucose)

Perceptual index:
Appearance: colorless without the impurity that can be seen by naked eye
Odor: no unusual odor



Taste: Clear sweet

Physical and chemical index

Solid substance: more than 84%

DE: 38-42

PH: 4.6 -6.0

Maltose content: 8% - 20%

Transmittance (426nm): more than 94

Coke Temperature: more than or equal to 125

Ash: no more than 0.3%

Hygienic index:

As: not more than 0.5mg/Kg

Pb: not more than 0.5mg/Kg

Bacterium total: not more than 1,000/g

E. coli: not more than 30/100g

Pathogen: No



IV. The Market

Industry Overview and Trends

Transfusion Solution and Glucose

The Clinical transfusion process was first put to use in 1832. In the past 160 years, clinical transfusion has grown from its rather limited choice of the original physiological brine to more than 200 different kinds of transfusion medium. The diverse range of transfusion medium could be grouped under five categories:

- Body fluid balance (Isohydria)
- Nutritional transfusion
- Dialyzate
- Plasma expander
- Therapeutic transfusion (including herbal transfusion)

Dextrose Monohydrate is widely used in the medical and clinical environment for restorative and nutritional purposes, e.g. a solution of pure glucose (Dextrose or D-glucose) has been recommended for use by subcutaneous injection as a restorative after severe operations, or as a nutritive in wasting diseases, a liter of 5% solution (which is isotonic with the blood) being injected in the course of 24 hours; it has also been used to augment the movements of the uterus. Dextrose Monohydrate is widely used in hospital and clinical institutions in China on a daily basis, and is covered by the Government-subsidized Medical Insurance Scheme.

Glucose is added to nutritive enemata for rectal alimentation. Its use has also been recommended for rectal injection and by the mouth in delayed chloroform poisoning. Glucose is directly applied to the human body to improve energy levels and stamina; to detoxify; to cure hypoglycemia, cold and fever, dizziness, prostration, and myocarditis etc.

Glucose is used by the pharmaceutical and chemical industry in various ways. By using different reaction mechanism, different types of chemical compounds are produced, e.g. using the self-oxidation and combination mechanism to produce calcium gluconate, zinc gluconate, and glucorone; using the hydroreduction mechanism to produce sorbic alcohol and mannoalcohol, or using modern technology to produce Vitamin B2, glutamine, ribose, etc.

Glucose exists in nature in many forms, and it is named from the grape because of its high glucose content. Free glucose not only exists in plant, especially in fruit, but also in honey and animal. For normal human body, every 100ml of blood usually contains 80-120 mg glucose. Glucose is the ingredient for many saccharide compounds such as



saccharose, maltose, starch, glycogen and vitamin, etc. The properties of glucose are summarized as: white crystal with sweet taste, easy soluble in water, difficult to dissolve in alcohol, insoluble in organic solvents such as ether, chloroform, neutral reaction to litmus.

Liquid glucose is a transparent and viscous liquid, and is produced by the action of enzymes on refined cornstarch. Glucose is formed by the hydrolysis of many carbohydrates, including sucrose, maltose, cellulose, starch and glycogen. Fermentation of glucose by yeasts produces ethyl alcohol and carbon dioxide. Glucose is made industrially by the hydrolysis of starch under the influence of diluted acid, or more commonly, under that of enzymes.

Glucose is used for many different purposes, e.g. as the essential element and most basic medical material for improvement of health condition; as the raw materials for food and beverages, or as the substitute of Saccharose. With the technological advancement of food and beverage production industry, and also as a response to the demand from consumers for more healthy food and drinks, producers are using more and more glucose as raw materials. Glucose is also used in the animal medicine industry, e.g. as a drinking water agent or carrier in a wide variety of animal medicine.

World Pharmaceutical Market

Pharmaceutical Market Trends, 2006-2010 by BioPortfolio showed the global pharmaceutical market forecast increasing 6.9% over the next five years to US \$842 billion in 2010. During the same time period, strong growth in the 10 European markets, that joined the European Union in 2004, will help to boost European sales. Generating combined sales of US \$18.1 billion, there were a total of 16 new blockbuster drugs in 2005. Total pharmaceutical sales from the top 10 companies accounted for more than 40% of the total market.¹

The Pharmaceutical Business Review says, *“Positive economic growth, stabilizing political structures, growing patient populations, and increasing direct foreign investment in the emerging markets of Brazil, Russia, India and China (BRIC) are creating significant opportunities for pharmaceutical companies to expand into these markets and maximize future revenue potential. Pharmaceutical sales across the BRIC economies grew by 22.3% in 2005, compared to single digit growth in the major markets of the US, Europe and Japan.”*²

According to IMS, a leading forecast provider of market intelligence to the pharmaceutical and healthcare industries, 2005 total global pharmaceutical sales grew 7% at constant exchange rates, to \$602 billion. In the ten major markets, audited growth was 5.7% in 2005. IMS audits covers 95% of the market, while the remaining 5% are estimates.

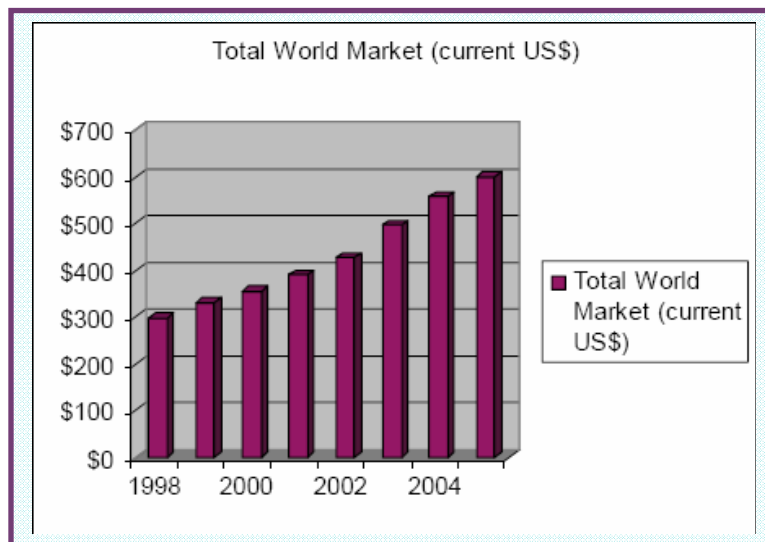


The following charts from the give an overview of the global pharmaceutical market as of 2005: ³

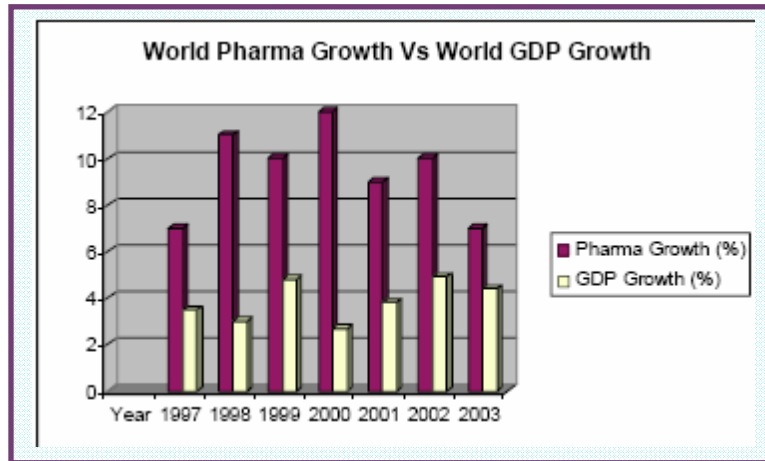
Global Pharmaceutical Sales, 1998 – 2005

Global Sales US\$B	1998	1999	2000	2001	2002	2003	2004	2005
Total World Market (current US\$)	\$298	\$331	\$356	\$390	\$427	\$497	\$559	\$602
Growth Over Previous Year (Constant US\$)	7%	11%	11%	13%	9%	10%	8%	7%

Source: IMSHealth.com

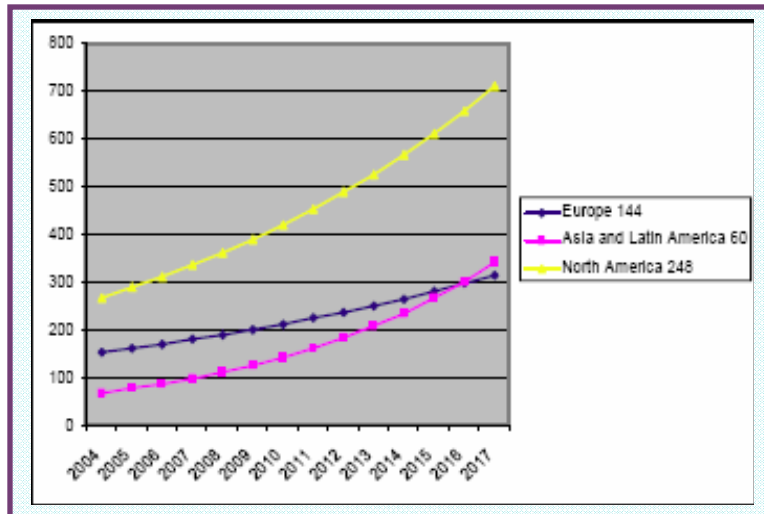


World Audited Market	2005 Sales (US\$B)	% Global Sales	% Growth Year-over-Year (Constant \$)
North America	\$265.7	47.0%	5.2%
Europe	169.5	30.0	7.1
Japan	60.3	10.7	6.8
Asia, Africa and Australia	46.4	8.2	11.0
Latin America	24.0	4.2	18.5
Total IMS Audited*	\$565.9	100%	6.9%



Source: IMShealth.org and Indexmundi.com

Growth in developing markets especially Asian and Latin America are strong and look to eclipse Europe as the second largest drug market by 2015.



China Pharmaceutical Market

With annual growth rates in the Chinese pharmaceutical industry exceeding 15% per year, China is a critically important market that no one can afford to ignore. Demand for better drugs and medical equipment is driving this market and will increase as the country modernizes and provides healthcare to a population of 1.3 billion people. The population of China is served by around 310,000 medical and clinical institutions. China is one of the top 10 emerging pharmaceutical markets of the world, and is the second largest market of Asia after Japan. By 2010, China will become world's fifth largest



pharmaceutical market after the USA, Japan, Germany, and France. It is projected that the China pharmaceutical market would be valued at US \$75 billion by 2010 producing 10% of global demand, and US \$120 billion by 2020.

The value of China pharmaceutical goods produced in 1970 was US \$21.7 billion. Currently China's pharmaceutical market is valued at over \$54.6 billion, according to an article in the July/August 2006 edition of the magazine *Pharmaceutical Manufacturing*. China produces a little less than 25% of the U.S. pharma market valued at \$240 billion. Projections show global pharmaceutical values will expand to US \$750 billion in 2010.

IMS says that the total pharmaceutical market will expand at a compound annual growth rate of 5-8% over the next five years. North America and Europe are each projected to grow at a 5-8% pace; Asia Pacific/Africa, 9-12%; Latin America, 7-10%; and Japan, 3-6%. Emerging markets including China, Korea, Mexico, Russia and Turkey, all experienced double-digit growth, outpacing global performance and signaling important shifts in the marketplace.

Global demand for pharmaceuticals will continue to increase; with developing countries now being economically more prosperous and capable to spend more money on improvement of health care, the global pattern of pharmaceutical consumption will continue to evolve. Murray Aitken, IMS senior vice president, Corporate Strategy said, *“As growth in mature markets moderates, industry attention is shifting to smaller, developing markets that are performing exceptionally well. Many of these countries are experiencing significant GDP growth—which helps finance improvements in their healthcare systems, increases patient access, and fuels the double-digit growth we are seeing. Pharmaceutical manufacturers are working to address the unmet healthcare needs in these markets as a means to improve overall business performance.”*

Another area of growth in China, at 20% to 30% per year, is biopharmaceuticals. In 2005 the revenue from biopharmaceutical production in China reached levels of \$4.2 billion, up from \$860 million in 2000. Although China's export of biopharmaceuticals is in its infancy, with 2005 exports of \$478 million, up 51% over the prior year, the industry is growing quickly. Biopharmaceutical sales in China are still less than 10% of the total Chinese pharmaceutical market, but with sales of almost \$4 billion, the market is impressive.^{2, 5, 6}

Major Export Countries for Pharmaceutical Products

The major producers of chemical pharmaceutical raw materials are Western Europe, North America, Japan, China and India. Western Europe is a net exporter exporting 50% of its total production. North America is a major importer, with its own products only able to satisfy 20% of its total demand. Japan is more or less self-sufficient in the meantime, but is evolving to become a net importer. China and India have emerged into two major exporters for pharmaceutical raw materials, exporting 30-40% of its total output.



The total annual chemical drug-base production of China is around 500,000 tons, consisting of raw materials for the production of anti-biotic, vitamins, pain-killers and hormonal drugs etc, and is second only to USA. China and India are emerging to become the major exporters in these product and raw material categories. The production of pharmaceutical raw materials does not require cutting-edge technology and expensive R&D. Both China and India are highly competitive in terms of price and economy of scale.

The Industrial Structure of the Pharmaceutical Raw Material Manufacturing Segment of China

China as a country had put a lot of emphasis on the production of pharmaceutical raw materials in the past 40-50 years. In the past ten years or so, quite a number of big international pharmaceutical companies have moved their off-patent, non-patented or more-polluting productions to Mainland China.

Both factors have contributed to the growth of this specific segment in China. The players of this industry segment could be categorized into three groups: firstly the huge state-owned or government-subsidized pharmaceutical companies taking up 30% of market share; secondly the foreign-owned or Sino-foreign Joint ventures taking up 60% of market share, and with the bulk of smaller firms competing for the remaining 10%. Shengtai is one of the strongest players in the second category.

Market Analysis and Projections for Clinical Transfusion Products in China

Transfusion solutions are one of most commonly used clinical prescriptions in hospitals and health care institutions. Dextrose Monohydrate is one of the five most important types of medical prescriptions in China, and is one of the most widely used pharmaceutical materials in most clinical settings in the Mainland. The total production volume of transfusion solutions grew from 1.38 billion bottles in 1995 to 2.91 billion bottles in 2001, i.e. annual growth of around 16.1%. The types of transfusion solutions grew from 40 to more than 80 types of medical transfusion formulations.

Shengtai is the top producer of Dextrose Monohydrate transfusion solutions as well as Dextrose Anhydrous. These products are the raw material or base solutions for pharmaceutical manufacturers to add on specific medical formulation to produce medicated transfusion. The industrial customers of Shengtai are the producers of medicated transfusion solutions. There are 18 producers with annual production of more than 30 million bottles, two producers with annual production exceeding 100 million bottles, and 46% of all production is from the top 50 producers.

New transfusion packages have also been adopted, e.g. pharmaceutical graded plastic transfusion bag, instead of the traditional glass transfusion bottles. These new packages



account for 5% of the total annual consumption which equals 150 Million bottles per year.

Challenges and Opportunities for the Clinical Transfusion Producers of China

China's clinical transfusion solution products are competitive internationally in terms of price and economy of scale, but the competitive advantages are primarily restricted to more traditional and basic products. If China is to improve its competitiveness, then the following factors must be considered seriously:

- Limited R&D and product development
- Lack of unique intellectual property
- Packaging needs to be improved for better clinical hygiene and ease of use
- Quality for some producers are not stable

There are more than 200 types of transfusion solutions developed and used in overseas countries, and the annual per capital consumption is more than 3 bottles. China has only around 50 types of transfusion products, and the per capital consumption is around 2.15 bottles. Most of the consumptions are for Dextrose Monohydrate, Sodium Chloride, Dextrose Sodium Chloride, and then a little bit of amino acid (due to the limited type of products and the low volume of production).

As for medicated transfusion, the types of products produced and consumed in the Mainland are primarily Xacin, Metronidazole and Tinidazole, and their markets have been constrained by the low production capacity and variety of formulations. There is no producer of Xylitol, Maltose, or Dextrose-plus transfusion solutions in China.

World Population Projections

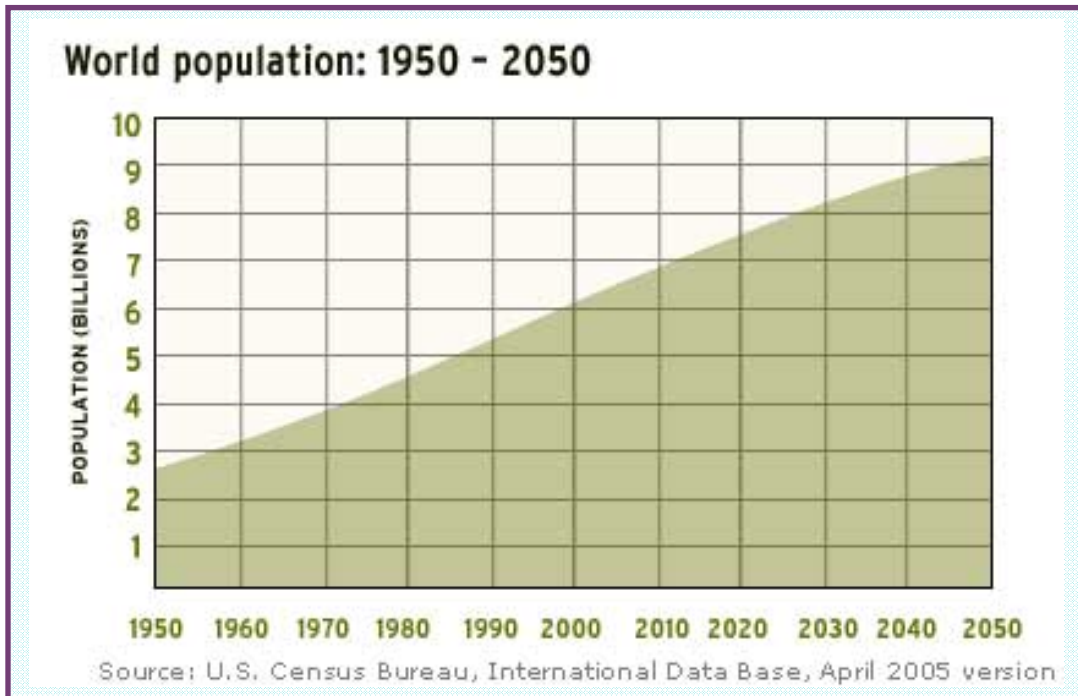
In 2005, pharmaceutical growth worldwide was driven by increased longevity of populations, rising wealth, innovative new products, and new applications for existing products. Last year, 40% of total market growth was fueled by the introduction of new products, including 30 new molecular entities launched in key markets.

According to Leonard David of MSNBC, projections showed as of February 25 at 7:16 p.m. the world's population reached 6.5 billion people setting a population milestone. According to the report, on average, 4.4 people are born every second around the globe. Robert Bernstein of the Bureau's Public Information Center advised LiveScience of the International Programs Center at the U. S. Census Bureau that in six years, on October 12, 2012 at 4:36 p.m. ET, the Earth will be home to 7 billion residents. These are estimates, of course, but clear trends emerge from the data behind them.

A report issued by the Bureau in March 2004 noted that world population hit the 6 billion mark in June 1999. *"This figure is over 3.5 times the size of the Earth's population at the*



beginning of the 20th century and roughly double its size in 1960,” the study explained. Even more striking is that the time required for the global population to grow from 5 billion to 6 billion — just a dozen years — was shorter than the interval between any of the previous billions.



In 2006, Earth’s population is nearly four times the number it was in 1900. (See chart below)

AROUND THE WORLD

- __ People born every minute: 261
- __ Population in the year 1000: 310 million
- __ Population in the year 1900: 1.6 billion
- __ Population in the year 2050: 9.0 billion
- __ Number of people ever born*: 106 billion

*Estimate as of 2002
Source: Population Reference Bureau

Most countries will experience population growth through 2050, as the world adds a projected 3 billion more people to the total. The market trend clearly indicates a growing need for the types of products that Shengtai Pharmaceutical provides. It suggests that the Company should have excellent growth prospects.⁴



Target Market

Shengtai Pharmaceutical targets the following types of customers:

- Hospitals
- Health Care Institutions
- Medical supply companies
- Physician offices
- Pharmaceutical companies
- Medical supply exporters
- Food and beverage companies

The Company targets these types of businesses within China and will expand its exporting business as it increases its production capabilities.

Customer Buying Decisions

Shengtai Pharmaceutical has identified the following factors that can be used to encourage potential customers to select the Company's products:

- High quality, pharmaceutical grade products
- Certified product reliability
- On-time deliveries
- New and improved medicinal products and packaging
- Excellent service and support
- Excellent referrals

The Company believes it is well positioned to take advantage of these key factors to help assure its success.

Business Opportunities

Domestic Market Size

The market in China for Shengtai Pharmaceutical products is very large and growing rapidly. There are more than 310,000 medical service providers such as hospitals and health care institutions all over China



2003 China Census Bureau Population by Age/ Residence

单位: 万人

(10 000 persons)

年 份 Year	年底总人口 Total Population (year-end)	按 性 别 分 By Sex				按 城 乡 分 By Residence			
		男 Male		女 Female		城镇总人口 Urban		乡村总人口 Rural	
		人口数 Population	比重(%) Proportion	人口数 Population	比重(%) Proportion	人口数 Population	比重(%) Proportion	人口数 Population	比重(%) Proportion
1978	96259	49567	51.49	46692	48.51	17245	17.92	79014	82.08
1980	98705	50785	51.45	47920	48.55	19140	19.39	79565	80.61
1985	105851	54725	51.70	51126	48.30	25094	23.71	80757	76.29
1989	112704	58099	51.55	54605	48.45	29540	26.21	83164	73.79
1990	114333	58904	51.52	55429	48.48	30195	26.41	84138	73.59
1991	115823	59466	51.34	56357	48.66	31203	26.94	84620	73.06
1992	117171	59811	51.05	57360	48.95	32175	27.46	84996	72.54
1993	118517	60472	51.02	58045	48.98	33173	27.99	85344	72.01
1994	119850	61246	51.10	58604	48.90	34169	28.51	85681	71.49
1995	121121	61808	51.03	59313	48.97	35174	29.04	85947	70.96
1996	122389	62200	50.82	60189	49.18	37304	30.48	85085	69.52
1997	123626	63131	51.07	60495	48.93	39449	31.91	84177	68.09
1998	124761	63940	51.25	60821	48.75	41608	33.35	83153	66.65
1999	125786	64692	51.43	61094	48.57	43748	34.78	82038	65.22
2000	126743	65437	51.63	61306	48.37	45906	36.22	80837	63.78
2001	127627	65672	51.46	61955	48.54	48064	37.66	79563	62.34
2002	128453	66115	51.47	62338	48.53	50212	39.09	78241	60.91

2003 China Census Bureau Health Institutions

单位: 个

(unit)

年 份 Year	总 计 Total	医院, 卫生院 Hospitals	疗养院 Sanatoriums	门诊部, 诊所 Clinics	专科防治院(所, 站) Specialized Prevention & Treatment Centers or Stations
1978	169732	64309	389	94395	887
1980	180553	65315	470	102474	1138
1985	200866	59342	640	126604	1566
1989	206724	61613	651	128112	1747
1990	208734	62126	650	129332	1781
1991	209036	62768	642	128665	1818
1992	204787	61006	639	125873	1845
1993	193586	60460	600	115161	1872
1994	191742	67524	587	105984	1905
1995	190057	67460	582	104406	1895
1996	322566	67556	528	237153	1887
1997	315033	67479	506	229474	1893
1998	314097	66614	503	229349	1889
1999	310996	66385	503	226588	1877
2000	324771	65944	471	240934	1839
2001	330348	64840	461	248061	1783
2002	306038	63858	365	219907	1839



Export Market

The export market is a lucrative market that Shengtai Pharmaceutical will further develop and expand. Due to the very strong domestic demand and the production constraints, the Company historically could only serve a fraction of the export market. The amount of revenue generated by domestic and export sales are summarized as follows:

Domestic vs. Export Sales (millions)			
	2003	2004	2005
PRC domestic sales (millions)	\$16.0	\$19.0	\$27.0
Export sales (millions)	\$0.8	\$3.5	\$3.5
PRC domestic sales as a percentage of total sales	95.0%	85.0%	89.0%

The export figures for the Dextrose Monohydrate series products to the top three export markets are summarized as follows:

South Korea

Import approval permit issued in 2003

Products exported: Dextrose Monohydrate Oral & Dextrose Anhydrous

2003	2004	2005	2006 Jan-July
\$54,100	\$342,955	\$149,280	\$65,180

Russia

Import approval permit issued in 2004

Products exported: Dextrose Monohydrate Oral, Dextrose Monohydrate transfusion

2004	2005	2006 Jan-July
\$317,016	\$100,000	\$132,115

Australia

Import approval permit issued in 2003

Product exported: Dextrose Monohydrate Oral

2003	2004	2005	2006 Jan-Jul
\$20,000	\$124,450	\$42,780	\$37,335

Singapore (plus re-export to Thailand)

Import approval permit issued in 2003

Products exported: Dextrose Monohydrate Injection

2003	2004	2005	2006 Jan-Jul



SHENGTAI

\$5,510 \$216,750 \$89,725 \$7,200

The increase in the cost of cornstarch has caused an increase in the price of the glucose products in 2005. Despite the price hike, most of Shengtai Pharmaceutical's products have been quickly purchased by its domestic clients, leaving a very small volume of goods for export.

With China being the major corn-producing region of Asia, and Shandong being the major corn-producing province of China, the cost advantage of Shandong-based glucose producers is very obvious. Shengtai Pharmaceutical has only started to tap the export markets such as South Korea, Russia, Australia and Singapore and sixty other overseas countries. Taking into consideration the geographical proximity and cross-cultural similarities with the Northern and South-Eastern Asian markets, high-quality and top-brand PRC glucose producers such as Shengtai Pharmaceutical should have obvious competitive advantages over competitors from Europe and North America, both in terms of product price, delivery lead-time and customer service responsiveness.

With the upstream vertical integration program now being implemented and ready in January 2007, Shengtai Pharmaceutical will be able to stabilize its raw material costs (i.e. cornstarch) with its in-house cornstarch production complex, thus enabling the glucose production facility to produce at 100% capacity. This will enable Shengtai Pharmaceutical to produce more both for the domestic and export markets. The glucose production facility will then be upgraded in 2007 to have an increased annual output, further reinforcing Shengtai Pharmaceutical's ability to become the market leader in China and a leading export to Asian markets in 2008.

Competition

Shengtai Pharmaceutical is the leading producer in Dextrose Monohydrate transfusion solution in China, taking up 30% of the overall market share. The other suppliers of Dextrose Monohydrate transfusion solutions are pharmaceutical production lines with a diversified range of medicinal products. Shengtai Pharmaceutical is perhaps the only manufacturer that has its primary focus on producing high-quality Dextrose Monohydrate transfusion solution.

In terms of Oral Dextrose Monohydrate, . Shengtai Pharmaceutical is one of the top five producers of China. The other suppliers are manufacturing companies with a diversified range of industrial glucose and cornstarch products. Most of the competitors put more emphasis on volume production of medium to low value-added products, while Shengtai Pharmaceutical focuses more on quality production of high value-added products.

Some of the competitors of the Company are listed below. They are coded as follows:

(trans = competitor in Dextrose Monohydrate Transfusion solution)



(oral = competitor in Oral Dextrose Monohydrate)

(andh = competitor in Dextrose Anhydrous)

- Dong Ping Rui Xing Petrochemical Company Ltd., with diversified production interests in petrochemical, leather, and medicinal products. (trans)
- North China Pharmaceutical Production Company Ltd., primarily focuses in the production of drugs for infection prevention, oncology drugs, and immunity enhancement drugs etc. (trans)
- Ci Feng Pharmaceutical Production Company Ltd., with a diversified production portfolio of industrial raw materials, medicinal products and animal drugs. (trans)
- Yi Kan Pharmaceutical Production Company Ltd., a producer of industrial materials and glucose products. (trans)
- Hebei Shengxue Company Ltd., a producer of a diversified range of industrial cornstarch and glucose products (trans), (andh)
- Northern China Kan Yin Pharmaceutical Product Company Ltd., a producer of vitamin products, cornstarch and glucose products. (trans)
- Shandong Xi Wang Company Ltd., a producer of industrial glucose, cornstarch, and animal feed. (oral)
- QingHuangDao Lihua Glucose Company Ltd., a producer of glucose, cornstarch, and animal feed (oral)
- Hebei Hua Ying Glucose Company Ltd., a producer of glucose and cornstarch products (oral)
- Cargill USA (trans), (oral)
- CPI USA (oral) (andh)
- Roquette, a major producer of starch and glucose products in France (trans), (andh)
- Cerestar, a major producer of starch and glucose product of Italy (trans), (andh)



- Hebei Zhou Ping Rui Xue Glucose Company Ltd., a producer of glucose products (andh)
- Hebei Linhua Glucose and medicinal production Company Ltd., a producer of pharmaceutical-grade glucose product (andh)

Competitive Advantage

Shengtai Pharmaceutical is a well-known and well-respected supplier enjoying excellent competitive advantages in the market. These include:

1. High Quality

The quality of Shengtai Pharmaceutical's products is the highest in the market. Quality control procedures and processes have been discussed earlier in this business plan.

2. Loyal Customers

The Company has a sizable, stable and loyal customer base consisting of hospitals, health care institutions and pharmaceutical manufacturers. The customers demand high quality products and Shengtai Pharmaceutical has proved itself to be able to provide consistently high quality transfusion solutions. As a result, customer loyalty is very high, and the Advertising-marketing-PR costs are very limited. The kind of product Shengtai Pharmaceutical sells lends itself to long term customers since changing brands to a different company and then getting a poor quality product could ruin the career of the purchasing agent.

3. Holder of CSDA approval permit for the production of pharmaceutical dextrose transfusion products

4. Easy and inexpensive access to locally produced raw materials

Corn is the main raw material needed to produce dextrose and the Shandong Province, where Shengtai Pharmaceutical is located, is the leading corn production province of China. The neighboring counties of Weifang are cornfields.

5. Plenty of room for expansion

The assets acquired during the state-owned enterprise privatization exercise included both land and production equipment. Only half of the land is being used, leaving ample room for further expansion.

6. Proprietary production techniques

The Company has developed various proprietary production techniques that



V. Growth Strategy

Strategic Initiatives

Shengtai Pharmaceutical has developed the following initiatives to achieve its growth goals:

- Vertically integrate its manufacturing capabilities by building and operating a cornstarch plant
The new cornstarch processing complex will lower production costs and improve profit margin because higher-quality and lower cost raw materials will be produced in-house and there will be no transportation cost because the cornstarch plant is next door to the glucose production line. This will shield the Company from external cornstarch price fluctuation, thus protecting or improving profit margin (current profit margin for Dextrose Monohydrate transfusion product is above 20%) for its overall pharmaceutical raw material product portfolio
- Increase its glucose production capabilities to be able to meet market demand
Enough products would be produced to satisfy both domestic and overseas market demand. Overseas demand had not been fully satisfied in the past because products have been sold out due to strong domestic demand in China. The 300,000 tons cornstarch processing complex would supply enough raw materials to uplift production volume to further increase sales volume to an expanding domestic client base and fulfill more overseas orders which offer higher margin
- Develop new products
Beyond the pharmaceutical-grade products, some of the industrial-grade products could be further refined and transformed into higher-margin products (e.g. modified starch, glucose-transformed nutraceutical raw materials, etc.). The Company has in the pipeline biotechnology product formulas that could be deployed to serve emerging market segments in the next few years.



- Expand its marketing and sales efforts to identify and secure additional domestic customers and increase its export sales
- Continue to provide the highest quality products at competitive pricing
- Provide reliable and safe products and a satisfying experience for every customer

The Company believes it can reasonably achieve these goals with the proper financing.

Cornstarch Production Technology Improvement Project

To maintain its market leadership and expand its revenue bases, Shengtai Pharmaceutical has embarked on the following vertical integration and capacity expansion project. The project is called the Cornstarch Production Technology Improvement Project with production capacity of 300,000 tons per annum.

Currently, the Company has a large production scale of glucose, and the raw materials (such as Cornstarch emulsion, corn slurry etc.) are in great demands. The raw materials have been provided by other companies for a long time. In order to lower the cost of production, Shengtai Pharmaceutical temporarily rented a starch company which can produce 120 thousand tons of corn starch per year.

However, there are some issues with this. First, the workshop, technique and equipment of the rented company are very old, and the environment is hard to control. Secondly, according to the expanded production requirements of glucose to satisfy the future market demand, a larger yield of cornstarch is needed. Also, since the rented company is 60 kilometers away from Shengtai Pharmaceutical, the freight volume is large and creates a higher manufacturing cost.

Therefore, the company has implemented the Cornstarch Production Technology Improvement Project. Through several years of efforts, the company has made great achievements on glucose non-waste technology, efficient utilization of energy, yield and quality improvement. The glucose is not only manufactured in a pure and reliable form, but the manufacturing process also creates low pollution, low energy consumption and low cost. In addition, through renting a starch company, Shengtai Pharmaceutical has also accumulated abundant experience in domestic and international advanced equipment and techniques, environment protection and cost saving. These processes and education will all be used in the Cornstarch Production Technology Improvement Project.

Upon completion of this project, the product ability of the Shengtai Pharmaceutical will be upgraded to 300 thousand tons annually and the Company will be able to process 450 thousand tons corn. This will play a crucial role in enhancing the company's competitiveness and profit. After finishing this project, the cornstarch emulsion can be



used as the material for other products directly to produce medical starch with good quality, which will increase the production quantity, optimize the product structure, and enhance the company's competitiveness.

The cornstarch company is planned to be constructed to the north of Shengtai Pharmaceutical. The project has many advantages: 1) Shengtai Pharmaceutical has lots of experience in starch processing and advanced techniques, 2) the starch company will be constructed on the expropriated site of the Shengtai Pharmaceutical plant side and there is no need to expropriate any additional land, 3) the plant side has a complete power and steam supply system, and a well will be drilled for water supply, 4) the supplies of raw material, supplementary material as well as the packing material of the project are sufficient and 5) the construction of the project takes strong insurance measures in terms of firefighting, environment protecting and safety working.

Shengtai Pharmaceutical will utilize advanced equipment and reliable techniques. The whole production process is heat-cycle and enclosed. Consequently, a better production environment and throughput as well as a higher quality of product will be possible and the company will gain both societal and economical benefit.

Cornstarch Product Series

Cornstarch is an important material of food, medicines, paper, textiles, chemistry and ferment industry. Cornstarch can be processed into modified starch, starch sugar, alcohol, sorbitol, Vitamin C, lysine, lactic acid, etc, which can be widely used in many fields. As an industrial raw material, starch has great market potentials. Along with the continuing development, in recent years the market demands for starch increases by 11% every year. The company intends to introduce international equipment to manufacture top grade starch, which can be used as the raw materials of the current products and secure the high quality of the current products. During starch producing process, the company can obtain many byproducts, such as albumen flour, corn slurry, embryo, fiber feedstuff, etc.

Demand Forecast for Cornstarch

Among the starch consumption in China, monosodium glutamate takes 30%, medicine takes 20% and further processed products such as finished starch-noodles accounts for 15%, and others (including food, commerce and coating materials) takes 15%. It is reported that the annual output in China in 2001 is about 4.6 million tons among, which 1.5 million tons to 1.6 million tons was used in glucose and 0.7 million tons to 0.8 million tons was used in food. The starch used in glucose and food accounts for 47.8% among the total output. The market demand for starch is increasing continually, and many starch manufactures have formed its economic scale and meet the environment protection standards. Therefore, upon satisfying the environment protection standards, this cornstarch project is feasible and there still exists market competitiveness in China.



The starch industry is not only a basic industry, but also a food industry and it develops very quickly. The international annual output of starch was about 7 million tons in the 1970s, 18 million tons in the 1980s, 20 million tons in the 1990s, and over 46 million tons currently. The current annual output of cornstarch is about 37 million tons, which accounts for 81% of the total starch, and the other 9 million tons is tapioca, wheat and potato starch.

Starch byproducts also have large market demands. Albumen flour, corn slurry, and fiber feedstuff can be used as feed. With the continuing demands for meat, eggs, milk and aquatic products, the demands for feedstuff also increases continually. Embryo is widely used as the raw material of corn oil and the demands for embryo depends on the output and sales of corn oil.

Analysis on the Price of Cornstarch

Shandong is a corn planting center, so cost of the raw material is very low, which is a unique advantage. Additionally, along with more expansion of economic scale and strict and reasonable internal controls, the Company anticipates that the cost of the finished products will be lower than the average market price in this industry.

Production Plan and Scale

The improvement of cornstarch product line is accord with the national industrial policy to “encourage the process and comprehensive utilization of agricultural products”. With this project, not only can improve Shengtai Pharmaceutical improve its current cornstarch economics; it can also can form a deep-processing industrial chain. Thus, the Company can optimize the product structure, adopt advanced technique and equipment, strictly control the release and disposal of pollution to met environmental guidelines. Accordingly, the quality of the product and the yield capability will be improved to satisfy the market demand.

Based on the company’s own demand and market analysis and verification of cost and yield of investment, the economics of the Cornstarch Production Technique Improvement Project is confirmed. The production scale can meet the company’s basic production demand, and excess production and by-products can be sold into the general market. The technique for production is mature, and the supplies of the raw and supplementary materials are sufficient. Thus, the designed yielding capability and the production scale are fit for the market.

Major Customers

Shengtai Pharmaceutical targets customers within China, as well as other countries. The existing clientele of the Company consists of hospitals and pharmaceutical companies. A list of the major customers for Mainland China is as follows:



- Zhejiang Hisn Pharmaceutical Co Ltd
- Shouguang Tianli Biological Technology Co Ltd
- Guangdong Weishiya Health Food Co Ltd
- Lianyungang Roquette Co Ltd
- Sichuan Kelun Pharmaceutical Co Ltd
- Beijing Double-Crane Pharmaceutical Co Ltd
- Huayuan Changfu Pharmaceutical Group
- Anhui Fengyuan Pharmaceutical Group
- Huayu Wuxi Pharmaceutical Co Ltd
- Chengdu Qingshan Pharmaceutical Co Ltd
- Guangdong Duole Dairy Co Ltd
- Hong Kong Xiehe Group
- Redox Australia
- PBI Thailand
- SGN Korea

Brand Strategy

The Company has built a strong brand based on several key factors.

High Quality Product

Customers know that Shengtai Pharmaceutical products are of the highest quality and a purchasing agent knows that his/her job is safer when ordering from Shengtai Pharmaceutical.

Reliable Delivery and Supply

Shengtai Pharmaceutical has consistently provided reliable supply and delivery of its products.

Innovative Products

The Company will develop a reputation for providing innovative medicinal products.

Competitive Pricing

Customers will know that the Company will be among the most competitive and will provide reasonable pricing of its products.

Marketing Strategy

Shengtai Pharmaceutical's marketing strategy is focused on the value that is provided through its products. Marketing efforts emphasize the high quality, reliability and peace of mind that customers receive by utilizing the products.

Shengtai Pharmaceutical employs a variety of marketing activities to fuel its customer acquisition process. These include:



- **Optimize its web site to describe and promote the business**

The Company will maintain its web site to communicate to all targeted market segments. It will present a consistent message to all market segments and the key decision makers that will be targeted as part of the integrated sales and marketing strategy. The web site will also present useful information and assurances to customers wanting to utilize the product.

The comprehensive strategy will focus providing a professional appearance of the site, demonstrating the value of the products and services to a varied audience, increasing competitive edge within the marketplace, and addressing internal and external content issues that may have a negative impact.

- **Utilize Referrals**

The Company will encourage and support the power of word-of-mouth and honest opinions of its customers to help drive product sales.

- **Print advertising**

The Company will take out ads in trade publications that are matched to its targeted audiences.

- **Web advertising (pay-per-click)**

The Company will buy ads for various search words and phrases (e.g. “glucose”) on Google and Yahoo and the major Chinese search engines.

- **Trade Shows**

The Company will conduct seminars at various trade show events describing its products.

- **Search engine optimization (SEO)**

The Company will optimize its web site so that people doing ‘natural’ searches will see the web site link on the first page of the search. Shengtai Pharmaceutical will invest in improving its yield in search engine results. The Company will continue to refine its SEO strategy by optimizing to new key words. The Company may also engage an SEO expert to help in its SEO strategy.



Sales Strategy

Shengtai Pharmaceutical has a Major Account team selling the products directly to major hospitals and big pharmaceutical companies in different provinces of China. At the same time, the Company distributes its products via a nationwide network of regional distributors and local sales agents.

By efficient management of this hybrid sales and distribution strategy, Shengtai Pharmaceutical became the market leader in Dextrose Monohydrate and Dextrose Anhydrous. In addition to the China market, Shengtai Pharmaceutical has begun building a sizable overseas market for its Dextrose Monohydrate injection, oral Dextrose Monohydrate and Dextrose Anhydrous.



VI. Management and Personnel

Management

The Company's management team is well balanced in talents and experience and is supported by a highly qualified Board of Advisors. Key personnel are as follows

President: **Mr. Liu Qingtai**

Mr. Qingtai was born in June 1957, and graduated from the Electrical Engineering faculty of the Shandong Technical University with a BSc degree in Feb 1982. Before taking up senior management roles in pharmaceutical companies, he has worked for the power generation plants and wireless equipment manufacturers in the Chang Le County. From 1990 onwards, Mr. Qingtai started his senior management career in the production and management of pharmaceutical production, heading up Production Technology departments and then the whole production plant.

Under his leadership, the Chang Le Pharmaceutical Company had successfully developed unique production techniques for the production of glucose and medicinal coating products, and has won Technology Innovation awards issued by the Chang Le County, Weifang City and the Shandong provincial government offices. The medicinal coating material technology that Mr. Qingtai jointly developed with the Shandong University has been certified by the Technology Development Bureau of the Shandong Province to be of International standard.

Over the years, Mr. Qingtai has been endorsed by the Weifang City Government office as a Leading Technology Innovator and a Distinguished Pharmaceutical Production Director.

Chief Operating Officer and Investment Director: **Ms. Duan Xiao**

Ms. Xiao is a MBA Degree holder of the Xian Jiaotong University, and is the General Manager of the Shaanxi Aidi Investment Advisory Company Ltd. She has many years of senior management experience heading up Investment departments of state-owned enterprises and listed companies in China. She has extensive experience in corporate financing, merger and acquisition activities in the mainland.



Chief Financial Officer: Mr. Sun Wei

Mr. Wei graduated from the Xian Jiaotong University with a Financial Doctorate Degree. He was the Assistant Professor of the Technology Economics Faculty of the Xian Jiaotong University, and attended the Project Management Training program of the World Bank in 1996. He was the Visiting Professor of the Alberta University of Canada and actively participated in the Sino-Canadian Joint Educational Initiatives. He is a member of the China Management Association.

Deputy General Manager of Technical Department: Mr. Liu Yuanke

Mr. Yuanke was born in 1966, and is a Science Degree holder who graduated from the Chemistry Faculty of the BaoTou College. From 1999 to 2000, he managed the process of technology upgrade and production equipment enhancement project, which enabled Shengtai to increase its annual output of oral glucose from 10,000 tons to 50,000 tons. He is a good example of how Shengtai retains good staff. Before taking up his current role, he was initially Workshop Director, and then was promoted to the Head of Production Department, and finally he was promoted to the present position. He participated in the “Production of solid glucose with enzyme” project and won a Scientific Progress Award in the Shandong province.

Deputy General Manager of Sales Department: Mr. Meng Fanming

Mr. Fanming was born in 1970, and graduated from the Shandong Institute of Chemistry in June 1991. From 1991 to 1994, Mr. Fanming worked as a Technician and Workshop Director in the Shandong Weifang Ammonium Nitrate Factory. From 1995 to 1998, he worked as Workshop Director and then Deputy General Manager of the Weifang Fifth Pharmaceutical Factory. He joined Shengtai in 1999 to take up the current position.

Deputy General Manager of Production Department: Mr. Wu Bolin

Mr. Bolin was born in 1968 and graduated from the Shandong Institute of Engineering with a Bachelor degree. After joining Shengtai, he and Mr. Yuanke (mentioned above) were both instrumental in upgrading the production capacity of oral glucose from an annual output of 10,000 tons to 50,000 tons.



Deputy General Manager of Quality Control Department:

Ms. Sun Shurong

Ms. Shurong was born in 1971 and graduated from the Medicine Analysis Department of the Shandong Laiyang Hygiene School, and further her studies at the Physics Department of the Shandong Medical University. At Shengtai, she has taken up the positions of Workshop Technicians and Product Inspector before taking up the current role.

Deputy General Manager and General Manager of Biotechnology Engineering: Mr. Zhang Guihai

Mr. Guihai was born in 1966, and graduated from the Chemistry Faculty of the Inner Mongolian BaoTou University in 1990. He is the Deputy General Manager of Shengtai Pharmaceutical, and also the General Manager of the Biotechnology Engineering business unit of the company.

He led the team to set up the new production facilities of Shengtai Pharmaceutical in 2002 for the production of glucose and dextrose anhydrous. In 2003 his professional management has culminated in the issuance of the GMP certification by the State Drug Administration Bureau. In 2004, he led the team to develop Avermectins product formula, and now he is leading the team to produce and distribute the Avermectins products to the market.

Deputy General Manager and General Manager for Modified Starch:

Mr. Hao JiHui

Mr. JiHui was born in 1973, and is a Deputy General Manager and the General Manager for the Modified Starch business unit of Shengtai Pharmaceutical. He joined the Company in 1995, and was heavily involved in the sales and distribution of the Company's product in the past few years. He was promoted to take up the position of General Manager for the Modified Starch business unit of Shengtai Pharmaceutical in 2004.

Deputy General Manager of the Supply Department: Ms. Tian Qiuxia

Ms. Qiuxia was born in 1972 and graduated from the Cahngle Junior College. She served as the Manager of Sales Department in 2002, and now serves as the Deputy General Manager of Supply Department.



Directors

Mr. Liu Qingtai
Ms. Duan Xiao
Mr. Wu Bolin
Mr. Zhang Guihai
Mr. Hao JiHui

Personnel

The monthly salaries of the four highest compensated executives are:

Mr. Liu Qingtai - \$750
Mr. Wo Bolin - \$625
Mr. Hao Jilin - \$500
Mr. Zhang Guihai - \$440
Ms. Tian QiuXia - \$440

Shengtai Pharmaceutical has 1,200 full-time staff with 560 of them having engineering backgrounds.



VII. Risk Factors

Distinguishing the Company to Customers

The Company must be able to reach its customers in an economical fashion and prove itself as a reliable vendor.

Mitigation Strategy:

Execute marketing and sales programs. Participate in industry events. Maximize sales activities.

Attracting and Retaining Qualified Staff

Shengtai Pharmaceutical must be able to attract qualified professionals to its staff. This is critical to the growth and reputation of the business. It will be imperative that the Company develops loyalty among its employees in order to reduce turnover.

Mitigation Strategy:

Provide excellent working conditions. Provide competitive pay. Implement an industry competitive benefit plan. Provide an enjoyable work environment and give incentives. Compensate employees fairly and timely. Implement employee recognition programs.

Retaining a Loyal Customer Base

Shengtai Pharmaceutical must be certain that it continues to garner rave customer reviews.

Mitigation Strategy:

Exceed customer expectations to assure referrals. Mitigate customer issues fairly and expeditiously. Assure product quality. Provide reliable delivery.

No Barriers to Entry

Competitors could enter the market.

Mitigation Strategy:

Execute business plan. Provide highest quality and best service.



Deregulation of Drug Price Control by the PRC Government

The Ministry of Health (MOH) is gradually modernizing the regulatory mechanisms of the mainland China pharmaceutical and health care sectors. The price control on medicines and drugs has been under review and will gradually be abolished.

According to the review papers issued by the former State Development Planning Committee (SDPC) in July 2000 relating to the reform of the price management mechanism of medicinal products:

1. The basic medicines covered by the Government-subsidized Medical Insurance scheme (GMIS) will still be regulated (the price of Class A and a few special-purpose drugs will be regulated by SDPC, while the price for Class B drugs will be set by the Price management officials at the provincial level);
2. The price of medicines not covered by GMIS will be deregulated and price levels would be determined by the demand and supply of the market

In 2001, the former SDPC had reviewed and lowered the price levels of most of the drugs covered by GMIS. From 2002 onwards, the effect of the price reduction of GMIS-covered drugs became more visible with the expanded implementation of the GMIS to most provinces in China. While this government-initiated drug price deregulation has benefited the general public, the policy had forced pharmaceutical producers to review its management effectiveness in order to remain competitive.

Mitigation Strategy:

Improve internal management, production quality, techniques and efficiency. Reinforce the loyalty of its clientele. Grow its customer bases by the expansion of its sales and distribution network to uplift the sales volume to counter the effect of lower prices. Become even more market driven and serve clients with new product formulas and product sizes. Develop new, higher value-added and higher margin products for new markets. Increase its export volume to developed countries.

Lack of Economy of Scale

Currently there are around 3,000 pharmaceutical producers in China with GMP certification. For the specific sector of pharmaceutical raw material producers, the scale of their operations is relatively small when compared to chemical drug producers and Traditional Chinese medicines manufacturers.



Mitigation Strategy:

Leverage its strong R&D capabilities to develop newer models of large capacity transfusion products which serve the needs of the market. Improve its product portfolio structure by introducing new product formulas and product sizes demanded by its expanding clientele. Develop biochemical drugs to serve its expanding clientele.

Delay or Failure in New Product Development

Shengtai Pharmaceutical must be certain that its product development efforts adhere to acceptable timelines and that those new product efforts are successful.

Mitigation Strategy:

Develop and follow highly structured project plans. Utilize third-party experts to review plans and projects.

Over Expansion of Production Capabilities

The Company must not over-produce or build facilities that cannot be utilized.

Mitigation Strategy:

Complete rigorous sales and market analysis of demand for products. Identify potential export customers that could and would purchase excess production.

Loss of Product License

Success in a specialized and regulated business: Participation in the PRC pharmaceutical glucose business requires the approval and production license issued by the China State Food & Drug Administration (CFDA). Shengtai Pharmaceutical must be certain that its license is not revoked.

Mitigation Strategy:

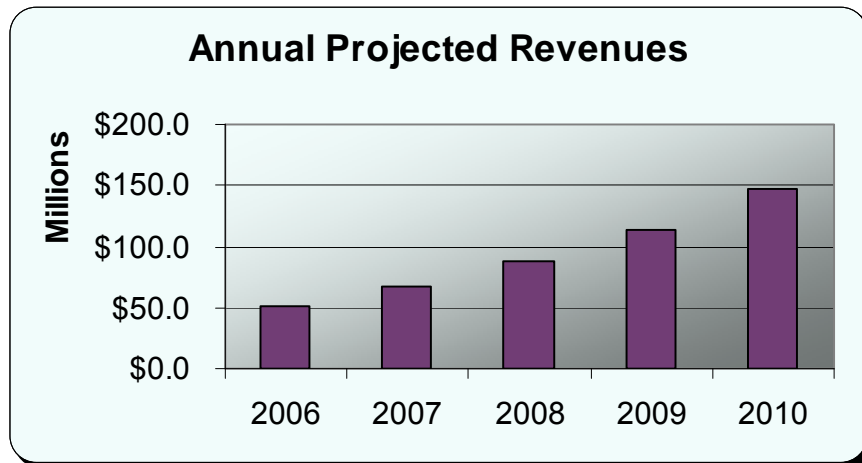
Adhere to quality certifications. Meet all environmental regulations. Maintain relationships with government agencies.



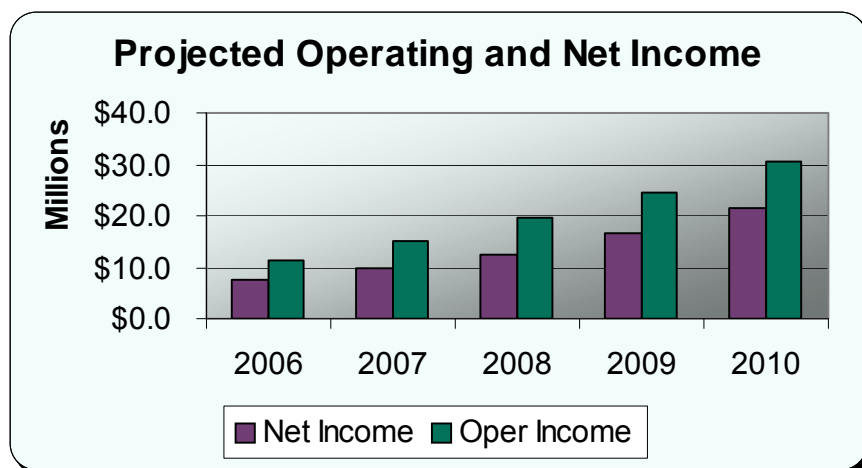
VIII. Financial Projections

Profit and Loss

Shengtai Pharmaceutical projects significant revenue growth over the several years. The Company anticipates it can grow annual revenues to \$147 million by 2010. This will generate an operating profit of more than \$30 million and a net income of more than \$21.5 million.



The Company believes it will be profitable on an annual basis. Profitability (net income) grows to \$21.5 million in Year 5.

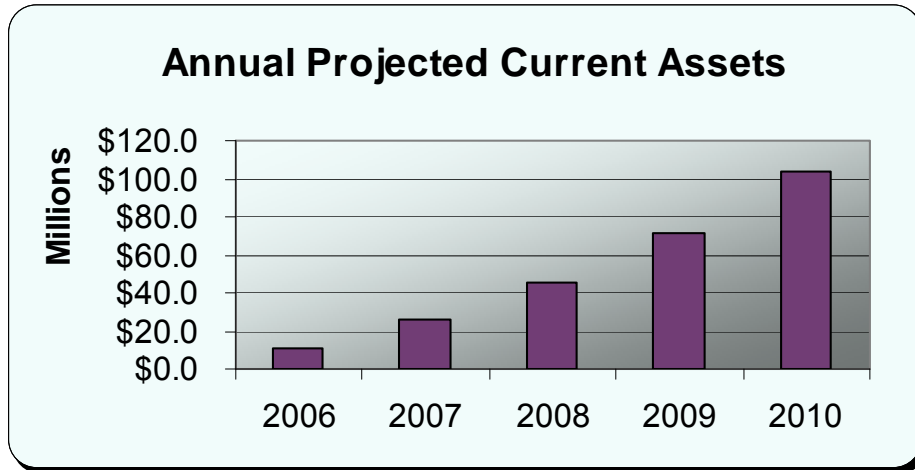


A full set of P&L projections (annually for five years) is shown in the Appendix.



Balance Sheet

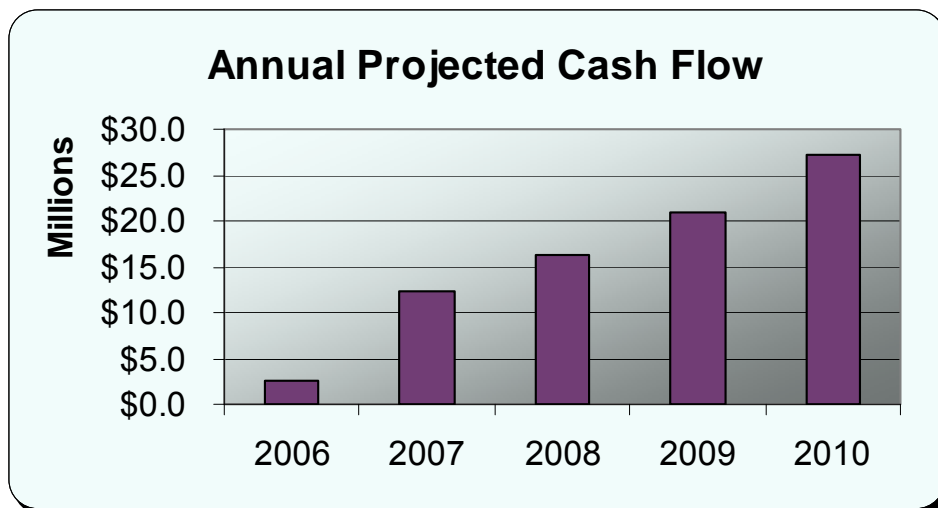
With the projected top line revenues, management of expenses and the expected financial investment the Company's balance sheet remains strong. (See graph below)



Full balance sheet details (annually for five years) are shown in the Appendix.

Cash Flow

Shengtai Pharmaceutical's operations show adequate cash flow to support the business. The twelve-month and five-year cash flow projections are positive, as profitability remains strong. This is shown in the following graph.



Complete cash flow statements for the next five years are shown in the Appendix.



IX. Use of Proceeds

Use of Proceeds

The Company requires \$15.0 million in capital to execute this business plan. The following table shows the sources and uses of those funds.

Sources and Uses of Proceeds	
Sources	
Loan	\$0
Equity	\$15,000,000
Cash from Operations	\$2,914,786
Total Sources	\$17,914,786
Uses	
Inventory	\$0
Equipment	\$7,000,000
???	\$100,000
???	\$100,000
???	\$100,000
Other	\$100,000
Land and Buildings	\$8,000,000
Working Capital	\$2,514,786
Total Uses	\$17,914,786

Capital Improvements

The Company is opening a new cornstarch manufacturing facility. It is also expanding its glucose manufacturing capabilities.

Equipment, Computer, Software, and Furniture Purchases

Shengtai Pharmaceutical will spend \$15.4 million in Year 1 and \$1.4 million in Year 2 on capital expense items. These purchases will include, but not be limited to, the following:

Capital Expenditures					
	2006	2007	2008	2009	2010
Equipment	\$7,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
???	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
???	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
???	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Other	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Land & Buildings	\$8,000,000	\$0	\$0	\$0	\$0
Total Expenditures	\$15,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000



Staff Additions

The Company will continue to hire professional staff to support operations and service customers. Some of the funds will be used to cover hiring and employee start-up expenses.

Working Capital

The remaining capital investment will be used for working capital to support sales, marketing, product development and administrative expenses.



X. Investor Return Strategy

Shengtai Pharmaceutical is seeking a \$15.0 million equity investment to execute its business plan. The Company believes that the investor can achieve a fair return on this investment.

Investor return should come through increased valuation of the Company as revenues grow, the balance sheet becomes stronger, and the Company attains a market leadership position.

The Company believes that it can achieve an excellent valuation in the next five years. The following table shows some analogous industry segments and their current (09/23/06) P/E (Price to Earnings or Price to EBITDA) ratios.

Industry Segments		
Speciality Chemicals	PE	41
Drug Related Products	PE	62
Medical Eqmt & Supplies	PE	21

Using the above multiples as the high end and current private equity financing P/E or ranges at the low end, Shengtai Pharmaceutical believes it can achieve potential valuations as follow.

Potential Valuations (millions)		
	2009	2010
EBITDA Multiple		
10.0	\$246	\$304
21.0	\$516	\$639
50.0	\$1,229	\$1,521
Based on current projections		

The Company plans to expand its markets served and thereby increase the scale, market value and attractiveness of the business.

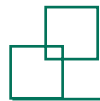
The amount requested provides the Company with adequate cash reserve should revenue targets take longer to reach. Furthermore, management believes the business plan and pro forma's presented here illustrate that this investment carries a reasonable level of risk to the investor.



XI. References

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APPENDICES



APPENDICES

Pro Forma – 5 Year P & L

Profit and Loss Statement						
		2006	2007	2008	2009	2010
		<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Revenues						
	Total Revenues	\$51,750,000	\$67,275,000	\$87,458,000	\$113,695,000	\$147,804,000
	Operating Profit (loss)	\$11,178,000	\$14,937,000	\$19,618,000	\$24,578,000	\$30,428,000
		21.6%	22.2%	22.4%	21.6%	20.6%
Other Income/Expense						
	Depreciation	(\$1,690,000)	(\$2,500,000)	(\$3,500,000)	(\$3,750,000)	(\$3,800,000)
	Loan Interest	(\$690,000)	(\$1,000,000)	(\$1,250,000)	(\$1,500,000)	(\$1,502,000)
	Total Other	(\$2,380,000)	(\$3,500,000)	(\$4,750,000)	(\$5,250,000)	(\$5,302,000)
	EBT	\$8,798,000	\$11,437,000	\$14,868,000	\$19,328,000	\$25,126,000
	Taxes	\$1,320,000	\$1,716,000	\$2,230,000	\$2,899,000	\$3,589,000
	Net Income	\$7,478,000	\$9,721,000	\$12,638,000	\$16,429,000	\$21,537,000
		14.5%	14.4%	14.5%	14.5%	14.6%

APPENDICES



Pro Forma – 5 Year Balance Sheet

Balance Sheet						
	Opening	2006 Proj	2007 Proj	2008 Proj	2009 Proj	2010 Proj
Assets						
Current Assets						
Cash		\$2,514,786	\$14,947,952	\$31,111,874	\$52,002,171	\$79,096,066
Accounts Receivable		\$8,625,000	\$11,212,500	\$14,576,333	\$18,949,167	\$24,634,000
Inventory		\$0	\$0	\$0	\$0	\$0
Other Current Assets		\$0	\$0	\$0	\$0	\$0
Total Current Assets		\$11,139,786	\$26,160,452	\$45,688,207	\$70,951,338	\$103,730,066
Fixed Assets						
Equipment		\$7,400,000	\$8,800,000	\$10,200,000	\$11,600,000	\$13,000,000
Accumulated Depreciation		(\$1,480,000)	(\$3,240,000)	(\$5,280,000)	(\$7,600,000)	(\$10,200,000)
Total Fixed Assets		\$5,920,000	\$5,560,000	\$4,920,000	\$4,000,000	\$2,800,000
Land & Property						
Land & Property		\$8,000,000	\$8,000,000	\$8,000,000	\$8,000,000	\$8,000,000
Accumulated Depreciation		(\$800,000)	(\$1,600,000)	(\$2,400,000)	(\$3,200,000)	(\$4,000,000)
Total Other Assets		\$7,200,000	\$6,400,000	\$5,600,000	\$4,800,000	\$4,000,000
Total Assets		\$24,259,786	\$38,120,452	\$56,208,207	\$79,751,338	\$110,530,066
Liabilities and Equity						
Current Liabilities						
Accounts Payable		\$1,781,786	\$5,921,452	\$11,371,207	\$18,485,338	\$27,727,066
Other Current Liabilities		\$0	\$0	\$0	\$0	\$0
Total Current Liabilities		\$1,781,786	\$5,921,452	\$11,371,207	\$18,485,338	\$27,727,066
Long Term Liabilities						
Bank Note		\$0	\$0	\$0	\$0	\$0
Total Long Term Liabilities		\$0	\$0	\$0	\$0	\$0
Total Liabilities		\$1,781,786	\$5,921,452	\$11,371,207	\$18,485,338	\$27,727,066
Shareholder Equity						
Preferred Stock		\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
Common Stock		\$0	\$0	\$0	\$0	\$0
Additional Paid in Capital		\$0	\$0	\$0	\$0	\$0
Retained Earnings		\$0	\$7,478,000	\$17,199,000	\$29,837,000	\$46,266,000
Current Year Income (Loss)		\$7,478,000	\$9,721,000	\$12,638,000	\$16,429,000	\$21,537,000
Total Shareholder Equity		\$22,478,000	\$32,199,000	\$44,837,000	\$61,266,000	\$82,803,000
Total Liabilities and Equity		\$24,259,786	\$38,120,452	\$56,208,207	\$79,751,338	\$110,530,066



APPENDICES

Pro Forma – 5 Year Cash Flow

Cash Flow Analysis	2006	2007	2008	2009	2010
	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Cash from Operations					
Net Income	\$7,478,000	\$9,721,000	\$12,638,000	\$16,429,000	\$21,537,000
Accounts Receivable Increase	(\$51,750,000)	(\$67,275,000)	(\$87,458,000)	(\$113,695,000)	(\$147,804,000)
Accounts Receivable Paid	\$43,125,000	\$64,687,500	\$84,094,167	\$109,322,167	\$142,119,167
Change in Inventory	\$0	\$0	\$0	\$0	\$0
Accounts Payable Increase	\$21,381,433	\$28,294,560	\$37,102,497	\$48,267,075	\$62,633,664
Accounts Payable Paid	(\$19,599,647)	(\$24,154,894)	(\$31,652,742)	(\$41,152,944)	(\$53,391,936)
Add Back Note interest	\$0	\$0	\$0	\$0	\$0
Add Back Depreciation&Amortization	\$2,280,000	\$2,560,000	\$2,840,000	\$3,120,000	\$3,400,000
Total Cash from Operations	\$2,914,786	\$13,833,166	\$17,563,921	\$22,290,298	\$28,493,895
Cash from Investing					
Purchases of P&E	(\$7,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)
Purchases of Intangibles	(\$8,000,000)	\$0	\$0	\$0	\$0
Total Cash from Investing	(\$15,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)
Cash from Financing					
Proceeds from Debt	\$0				
Payments on Debt	\$0	\$0	\$0	\$0	\$0
Equity	\$15,000,000	\$0	\$0	\$0	\$0
Total Cash from Financing	\$15,000,000	\$0	\$0	\$0	\$0
Change in Cash	\$2,514,786	\$12,433,166	\$16,163,921	\$20,890,298	\$27,093,895
Opening Balance	\$0	\$2,514,786	\$14,947,952	\$31,111,874	\$52,002,171
Ending Cash Balance	\$2,514,786	\$14,947,952	\$31,111,874	\$52,002,171	\$79,096,066

