

GUANGXI LING FENG PHARMACEUTICAL COMPANY LIMITED
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

14. PAID-IN CAPITAL

The paid-in capital of the Company is as follows:

NAME OF SHAREHOLDER -----	DECEMBER 31, 2005		DECEMBER 31, 2004	
	AMOUNT	%	AMOUNT	%
Harbin Xiao Sheng Advertising Group	\$ 1,435,303	34%	\$ 1,435,303	34%
Yu xiaosheng	1,196,086	29%	1,196,086	29%
Jiang hui	845,716	20%	845,716	20%
Li jinhua	346,865	9%	346,865	9%
Individual employees	340,710	8%	340,710	8%
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	\$ 4,164,680	100%	\$ 4,164,680	100%
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Also see Note 16.

15. COMMITMENTS AND CONTINGENCIES

Capital Commitment

The Company entered into an unconditional purchase commitment during 2005 for construction. The future obligations of the Company under this commitment are as follows:

2006	\$ 139,636
Thereafter	--

Total	\$ 139,636
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Lease Commitment

As of December 31, 2005, the Company had remaining outstanding commitments with respect to its non-cancellable operating lease for its office in Beijing of \$4,411 to be paid in 2006.

Rental expense for the year ended December 31, 2005 and 2004 was \$52,932 and \$51,065, respectively.

Research and Development Agreements

On October 31, 2005, Nanning Ke Ju Medical Research Institute and the Company entered into agreements for internal testing and preparation of the technical material to be reported to the State Drug Administration. The aggregate amount for the testing is \$109,043 and as of December 31, 2005, the remaining commitment for the Company was \$45,495.

16. SUBSEQUENT EVENTS

On February 19, 2006, all the shareholders of the Company agreed to transfer their interests to Mr. Yu Xiaosheng for consideration of \$707,554. After the share transfer, Mr. Yu Xiaosheng owned 100% interest in the Company.

On April 18, 2006, the Company's shareholder reached an agreement with American Oriental Bioengineering Inc. ("AOBO") to complete an acquisition transaction. Pursuant to the agreement, in consideration for all the outstanding capital stock of the Company, the sole stockholder of the Company is entitled to receive from American Oriental Bioengineering Inc. an aggregate purchase price equal to 2.5 times of the Company's total revenues for the year ended December 31, 2005, consisting of 1.2 million shares of the AOBO's common stock, par value \$0.001 per share, or approximately 1.9% of the outstanding common stock of AOBO as of April 24, 2006, and cash in the amount of approximately \$20 million.