

## Executive Summary

### BOPH Corporate Description:

*“Based in the city of Yantai, Shandong Province, China, Bohai Pharmaceuticals Group, Inc. is engaged in the production, manufacturing and distribution of herbal pharmaceuticals based on traditional Chinese medicine in China. Bohai’s medicines address common health problems such as rheumatoid arthritis, viral infections, gynecological diseases, cardiovascular issues and respiratory diseases. Bohai’s products are sold either by prescription through hospitals or Over the Counter through local pharmacies, hospitals and retail drug store chains. Bohai has approximately 600 employees, including approximately 300 sales representatives, operating from 20 offices throughout China. Bohai’s lead products, Tongbi Capsules and Tablets and Lung Nourishing Cream, are eligible for reimbursement under China’s National Medical Insurance Program.”*

### BOPH Target Market Drivers:

As China’s mass urbanization continues, BOPH’s target market is poised for significant growth driven by:

**Rising prosperity of Chinese people:** Chinese citizens have increased spending on medical goods and services from \$100 billion in 2007 to a projected \$145 billion in 2010.

**China’s Growing elderly population:** On average, health/medical costs of seniors are approximately five times those of younger people. The proportion of the China’s population aged 65 and over will rise from just 10% of the overall population in 1995 to 22% by 2030, according to the World Bank.

**Expanded national health insurance:** The PRC government in 2009 extended insurance coverage to rural areas, where the bulk of the population resides, greatly expanding the market for TCM pharmaceuticals.

**Increasing government spending on health care:** In the next three years, the PRC government’s health care investment will rise to \$125 billion, compared with \$96 billion for 2008. Direct health care subsidies of urban and rural residents will amount to \$57 billion.

**Governmental encouragement of Traditional Chinese Medicine:** Among its public health initiatives, the Chinese government officially supports use of TCM to enhance wellness and to treat chronic and acute diseases. This support includes such measures as coverage of TCM pharmaceuticals under national health insurance reimbursement program, and declaration of TCM as “national strategic industry.”

**Decreased competition in TCM industry:** Because of a heightened concern for safety and quality for drugs that are exported or used domestically, PRC government intervention and regulation of marketplace over the last few years has removed approximately 1,800 pharmaceutical manufacturers from China, and as of year end 2006, there were approximately 4,700 manufacturers.

**Outlook for BOPH:** As evidenced by the recently announced expansion of the Company’s line of pharmaceutical products, BOPH continues to develop a product offering that should enable the Company to drive ongoing revenue growth. Given the general Chinese macro healthcare and economic dynamics and the Company’s current market position, Murphy Analytics (MA) expects BOPH to deliver earnings of \$0.38 per fully diluted share in fiscal 2011, rising to \$0.65 per fully diluted share in fiscal 2012. Utilizing a price / earnings multiple of 15x derived from relevant broad market indices, this EPS performance translates into a potential stock price of \$5.70 based on expected fiscal 2011 results, and \$9.75 based on expected fiscal 2012 results. Averaging these two prices results in a potential price of approximately \$7.70, or approximately \$6.45 discounted at 20% to account for the expected fiscal 2012 results. Based on the Company’s strong historical performance and market position, and an expectation of continued revenue growth and profitability, Murphy Analytics is initiating coverage on BOPH with a 12-month price target of \$6.45.

<b>BOPH Recent Price</b>	<b>\$1.72</b>	<b>Please review the risk factors outlined later in this report and in the Company’s SEC filings and the important disclosures and disclaimers at the end of this report.</b>
<b>Outstanding Share Estimate</b>	<b>16,500,000</b>	
<b>BOPH - Market Cap Estimate</b>	<b>\$28.4 Million</b>	
<b>MA 12-Month Price Target</b>	<b>\$6.45</b>	

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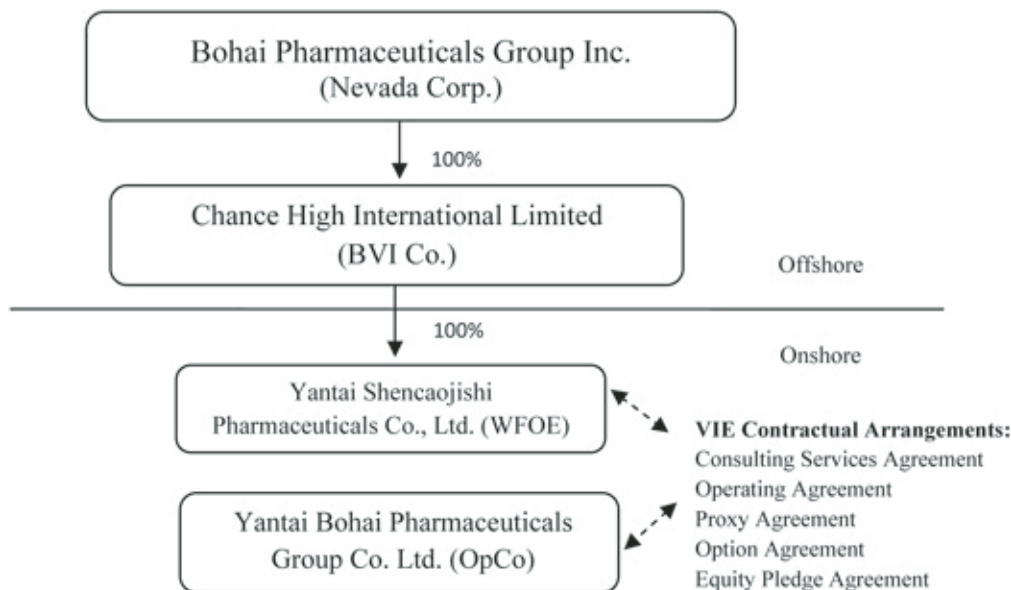
## BOPH History, Management, and Beneficial Ownership

### Corporate History:

Pursuant to a Share Exchange Agreement dated January 5, 2010, the Company acquired Chance High International Limited, a British Virgin Islands company (“Chance High”) from Chance High’s shareholders and, as a result, acquired Chance High’s indirect, controlled subsidiary, Yantai Bohai Pharmaceuticals Group Co., Ltd. (“Bohai”), and the Company acquired all of the outstanding equity securities of Chance High from the Chance High Shareholders, and the Chance High Shareholders transferred and contributed all of their Chance High Shares to the Company.

In exchange, the Company issued to Chance High Shareholders an aggregate of 13,162,500 newly issued shares of common stock. Chance High owns 100% of the issued and outstanding

capital stock of the Yantai Shencaojishi Pharmaceuticals Co., Ltd. (“WFOE”). On December 7, 2009, the WFOE entered into a series of variable interest entity contractual agreements (the “VIE Agreements”) with Bohai and its three shareholders, including Mr. Hongwei Qu, pursuant to which WFOE effectively assumed management of the business activities of Bohai and has the right to appoint all executives and senior management and the members of the board of directors of Bohai. Bohai entered into its current line of business in 2004.



**Mr. Hongwei Qu**  
**President, Chief Executive Officer, and**  
**Chairman of the Board of Directors.**

Age 35. Mr. Qu became President, Chief Executive Officer, Interim Chief Financial Officer, Treasurer and Secretary as of January 5, 2010, and, became the sole director and Chairman of the board of directors effective as of January 16, 2010. From 2001 to May 2007, Mr. Qu was the founder and principal officer of Yantai Hongwei Medical Trading Co., a PRC company engaged in the wholesale of drugs and medical products and retail of medical devices. In May 2007, Mr. Qu took principal responsibilities for the acquisition of Bohai. From May 2007 until present, Mr. Qu has served as the General Manger and Executive Director of Bohai. Mr. Qu has significant experience in the medical and pharmaceutical sectors in China. Mr. Qu graduated from Shandong Economic University with a bachelor degree.

**Mr. Gene Hsiao**  
**Chief Financial Officer.**

Gene Hsiao, age 47, was appointed as the Company’s Chief Financial Officer in June 2010. Mr. Hsiao has over 15 years of experience in corporate finance and management. Prior to his appointment with the Company, Mr. Hsiao served as Chief Financial Officer for China Advanced Construction Materials Group Inc. (NasdaqGM:CADC) from 2008 to 2010, where he was responsible for all U.S. affairs as well as corporate finance functions in China. From 2000 to 2008, he served as Controller of Milligan and Company, LLC, where he managed the overall accounting and financial reporting functions as well as the company’s internal control processes. From 1997 to 1999, he

served as Finance Manager for J&J Snack Foods Corporation (NasdaqGS:JJSF), where he was responsible for financial reporting and SEC schedule preparation. From 1995 to 1997, he served as Accounting Supervisor of RCN Corporation (NasdaqGS:RCNI) and as the Senior Operation Analyst at ARAMARK Corporation from 1992 to 1995. Mr. received his B.S. degree from Drexel University in Philadelphia.

**Ning Tang**  
**Vice President - Operations.**

Mr. Tang, age 50, joined Bohai in 2007. His management experience spans more than two decades with a principal focus on the medical, pharmaceutical and environmental sectors. His past experience includes Vice General Manager of Yantai Zhongya Medical Company from 1987 to 1998 and Vice President of Yantai Yongchang Pharmaceutical Company from 1999 to 2005. Mr. Tang was also General Manager of Yantai Xiangyu Environmental Protective Equipment Company in 2006 and 2007.

**Chunhong Jiang**  
**Secretary and Treasurer.**

Ms. Jiang, age 45, joined Bohai in 2007. Ms. Jiang’s responsibilities include financial reporting, analysis and cost management. From 1994 to 2003, Ms. Jiang’s gained extensive experience as Financial Manager at Yantai Garment Company and, subsequently, Financial Manager at Yantai Furoo Trading Group from 2004 to 2007.

**BOPH Beneficial Ownership and Share Count**

<b>Name of Beneficial Owner</b>	<b>Common Shares Owned</b>	<b>% of Class Beneficially Owned</b>
Glory Period Limited	8,942,471	54%
Hongwei Qu	8,942,471	54%
Cawston Enterprises, Ltd.	812,500	5%
All Executive Directors and Officers as a Group	8,942,471	54%

*\*See SEC Filing Form 424B3 dated 8/13/10 for additional explanation of beneficial ownership and description of the 19.6 million shares registered for resale. As of 8/13/10, there were 16,500,000 outstanding common shares of BOPH. Common stock outstanding after the offering is up to 28,850,000 shares assuming full conversion or exercise of the notes, warrants and placement agent warrants. The Company will not receive proceeds from the sale of the common stock, but may receive up to \$15.84 million of proceeds from the exercise of the warrants.*

## Traditional Chinese Medicine

### PRC's<sup>1</sup> Development Outline for Modernization of Traditional Chinese Medicine (2002-2010)<sup>2</sup>:

Completed in 2002, “the outline defines and clarifies the important guiding principles for the modernization of TCM (Traditional Chinese Medicine), said Li Xueyong, deputy minister of science and technology. The main requirements for TCM development, according to the outline, include creating a platform for technical innovation, boosting standardization and basic research, developing new TCM products, promoting industrial development and protecting TCM resources for sustainable development. Both domestic and foreign experts attending the conference agree TCM represents the characteristics of China’s medical science and is an important component of Chinese culture. The TCM sector has great potential for development and the advantage to gain intellectual property rights for its numerous products. Li said the Chinese government highly values the development of TCM. By the year 2010, a modern TCM innovation system will be established along with a series of standards and norms for modern TCM products, a number of new TCM products and key technologies developed, and a competitive modern TCM industry be created.”

### History and Current Practice of TCM:

The roots of Traditional Chinese Medicine date back thousands of years and include a number of therapeutic approaches, including herbal medications, acupuncture, dietary manipulation, massage and others. Very early works of Chinese medical literature date back as much as 2,500 years, while other classics appeared approximately 2,000 years ago, during the Han Dynasty. Medicine in China continued to develop throughout the Middle Ages, when emperors commissioned the creation of various scholarly works that compiled and documented hundreds of medicines derived from herbs, animal sources and minerals, and described their therapeutic uses. In the 1950’s, TCM was further modernized and reformed by the government of the People’s Republic of China. In China, Traditional Chinese Medicine, while it can be

used as an alternative form of therapy, is often used alongside modern medicine. For its practitioners and advocates, TCM is a complete medical system that is capable of treating disease in all its forms, as well as promoting long term wellness and vigor. Many modern-day drugs have been developed from herbal sources, including drugs asthma and hay fever from ephedrine, hepatitis remedies from fruits and licorice roots and a number of anti-cancer agents from trees and shrubs.

***“Yin and Yang are the underlying principles of Chinese philosophy and medicine. Good health is believed to come from a balance of Yin (negative, dark, and feminine) and Yang (positive, bright, and masculine).”<sup>3</sup>***



Perspect Biol Med. 1974 Autumn;18(1):132-43.

1 [http://www.gov.cn/english/official/2005-08/02/content\\_19291.htm](http://www.gov.cn/english/official/2005-08/02/content_19291.htm)

2 <http://www.china.org.cn/english/2002/Nov/47819.htm>

3 [http://www.nlm.nih.gov/exhibition/chinesemedicine/yin\\_yang.html](http://www.nlm.nih.gov/exhibition/chinesemedicine/yin_yang.html)

## Highlights of the PRC Government 3-Year Health Care Plan

The Chinese plan<sup>1</sup> aims to provide “equitable and universal access to essential health care for all in China.” Highlights from the plan include the following:

- **\$124 Billion over 3 Years:** “Under the 850 billion yuan (124 billion U.S. dollars) plan for 2009 to 2011, the government promised universal access to basic health insurance, introduction of an essential drug system, improved primary health care facilities, equitable access to basic public health services and pilot reform of state-run hospitals.”
- **Rural Focus:** “The plan did not elaborate how the 850 billion yuan, including 331.8 billion yuan from the central budget, would be used. But it is widely expected to be spent on subsidizing basic medical insurance programs, supporting grassroots-level health facilities and in underdeveloped western and rural regions.”
- **90% Coverage Target:** “China wants to have more than 90% of its population covered by some sort of basis medical insurance by 2011.”
- **Government Authored List of Essential Drugs:** “To lower prescription costs, which have drawn much criticism, the government will promote a system of essential medicines for state-run hospitals, clinics and pharmacies. A list of essential drugs will be published this year.”
- **Cutting Hospital Service Cost is a Key Objective:** “The reformers want to designate essential drugs, at controlled prices, to cut the cost of hospital services, while promising to increase funding to non-profit state-run hospitals and clinics that will continue to be dominant service providers.”
- **Increased Focus on Minor Diseases:** “The insurance system’s principle will shift from major diseases to also covering minor diseases. Commercial medical care insurance will also be made available to meet individual needs, according to the guidelines.”
- **Basic Medical Insurance to Cover all Listed Drugs:** “The document said China will speed up the establishment of a drug supply system to ensure basic supply and safety. The system is based on a catalogue of necessary drugs that are produced and distributed under government control and supervision. The basic medical insurance will cover all listed drugs to effectively provide access to a range of basic medicines and to reduce quality problems, and prevent manufacturers and business people from circumventing the government’s price controls.”<sup>2</sup>
- **Targeting 900 Million Rural Farmers:** “China is backward in offering good public medical care. Hospitals in large cities are often full of hopeful patients who complain about how long they must wait to register at hospitals and be treated. The less-developed rural regions, where 900 million farmers live, are even worse off in terms of medical facilities and staff, and the gap has continued to widen with the country’s fast urbanization.”<sup>3</sup>
- **2,000 Hospitals, 3,700 Clinics, and 13,400 Health Service Centers to be Built:** “China will set up at least one clinic in every village within three years to improve the health care at grassroots level, according to an implementation plan for medical reform released by the State Council in Beijing on Tuesday. The government will also support the construction of 2,000 hospitals at the county level to guarantee that each county has a hospital that meets the national standard, the three-year plan (2009-2011) said, adding that more township hospitals and clinics will be built or expanded in 2009. The country will build or renovate 3,700 community clinics and 11,000 health service centers in urban areas within three years. The central government will also build 2,400 such centers in underdeveloped urban areas during the same period. In spite of the country’s economic progress, the development of health care services in rural areas has lagged behind because most medical facilities and doctors are in cities, the plan said.”<sup>4</sup>

<sup>2</sup> [http://www.gov.cn/english/2009-04/06/content\\_1278759.htm](http://www.gov.cn/english/2009-04/06/content_1278759.htm)

<sup>3</sup> [http://www.gov.cn/english/2009-04/07/content\\_1279230.htm](http://www.gov.cn/english/2009-04/07/content_1279230.htm)

<sup>4</sup> [http://www.gov.cn/english/2009-04/07/content\\_1279450.htm](http://www.gov.cn/english/2009-04/07/content_1279450.htm)

<sup>1</sup> [http://www.gov.cn/english/2009-04/07/content\\_1279122.htm](http://www.gov.cn/english/2009-04/07/content_1279122.htm)

## Highlights from the PRC Government White Paper: “Status Quo of Drug Supervision in China”

In July, 2008, The Information Office of the State Council published a white paper titled “*Status Quo of Drug Supervision in China*”. Following are highlights from the report:

- **With a 20% Compound Annual Growth Rate from 2000 – 2007, TCM Represents Approximately 27% of China’s Pharma Market:** *“Traditional Chinese medicine (TCM) and folk medicine are special characteristics and advantages of Chinese medical science, and also important parts of the splendid culture of the Chinese nation. So far, more than 9,000 kinds of TCM preparations have been approved by the state to be sold on the market, and about 58,000 approval numbers have been granted. In 2007, the industrial output value of TCM reached 177.2 billion yuan, accounting for 26.53 percent of the total pharmaceutical industrial output value. The Chinese government attaches great importance to TCM’s role in the prevention and treatment of diseases, has drawn up a series of administrative regulations and policies, works constantly to improve the supervision of TCM, and promotes the steady improvement of the quality of TCM.”*
- **“Constant improvement of the national TCM standards system:** *There are 7,014 national standards for TCM. Among them, the 2005 Pharmacopoeia of the People’s Republic of China records 582 kinds of Chinese crude drugs, prepared slices of Chinese crude drugs, fats and extracts, as well as 564 kinds of TCM preparations. Standards made by the ministry and bureaus record 438 Chinese crude drugs and prepared slices of Chinese crude drugs, 4,690 TCM preparations, 308 crude folk drugs and 432 folk drug preparations. To ensure the safety and efficacy of TCM injections, and establish effective quality control methods, the state is enhancing the standardization of TCM injections. In 2000, the state launched the “Improvement of Quality Standards of TCM Injections with the Production Permission and Work on Fingerprints Chromatogram”, and issued the Technological Requirements of Fingerprint Chromatogram Research of TCM Injections. At present, China is working hard to improve the safety and quality control and indices of 123 kinds of TCM injections sold on the market, fix the production areas of crude drugs of TCM injections, strictly control the quality of raw materials, intermediate products and finished products, and realize overall quality control for production and processing.”*

- **Protection to Encourage the Invention of New Drugs:** *“To prevent generic drugs from freely using the research and development data of new drugs, and therefore hindering the motivation for inventing new drugs, China earnestly fulfills its commitments to the WTO and implements a data protection system for drugs... Furthermore, the state implements special evaluation and approval procedures to encourage the invention of new drugs and the development and research of new drugs for treating difficult, complicated and severe diseases.”*
- **Heightened Attention to Safety and the Legal Manufacturing and Use of Drugs:** *“The state has been steadily increasing its financial investment into drug safety supervision, with the emphasis on improving the drug safety testing level and ability, and providing technical support for the drug safety supervision work... China attaches great importance to the building of a legal system for drug safety supervision. In 1984 the Drug Administration Law of the People’s Republic of China was adopted by the Standing Committee of the National People’s Congress (NPC). For the first time, the research, production, selling and use of drugs were covered by legal stipulations, and the legal responsibility for the production and sale of counterfeit and inferior drugs was defined. This symbolizes that China’s drug administration work is now managed in accordance with the law. This Law was revised in 2001 to unify drug standards and abolish regional standards; heighten the legal responsibility for the production and sale of counterfeit and inferior drugs; and define Good Manufacturing Practice (GMP) and Good Supply Practice (GSP) as legal requirements. The Drug Administration Law of the People’s Republic of China and other relevant laws and regulations provide a legal guarantee for drug administration ensuring the drug quality and protecting people’s legal rights of drug use.”*

# Chinese Economic Data from The US-China Business Council<sup>1</sup>

## USCBC Description<sup>2</sup>:

“The US-China Business Council, Inc. (USCBC) is a private, nonpartisan, nonprofit organization of roughly 220 American companies that do business with China. Founded in 1973, USCBC has provided unmatched information, advisory, advocacy, and program services to its membership for more than three decades. Through its offices in Washington, DC;

Beijing; and Shanghai, USCBC is uniquely positioned to serve its members’ interests in the United States and China. USCBC’s mission is to expand the US-China commercial relationship to the benefit of its membership and, more broadly, the US economy. It favors constructive engagement with China to eliminate trade and investment barriers and develop a rules-based commercial environment that is predictable and transparent to all parties.”

<b>General Economic and Financial Indicators, 2000-2009</b> (All figures are in billions of RMB or percent unless otherwise indicated)					
Main indicators	2000	2001	2002	2003	2004
GDP	9,921.5	10,965.5	12,033.3	13,582.3	15,987.8
Real GDP growth (%)	8.4	8.3	9.1	10.0	10.1
Consumer price index	0.4	0.7	-0.8	1.2	3.9
Industrial value-added output*	2,539.5	2,832.9	3,299.5	4,199.0	5,480.5
% growth	17.8	11.6	16.5	27.3	30.5
Fixed-asset investment	3,291.8	3,721.3	4,350.0	5,556.7	7,047.7
% growth	10.3	13.0	16.9	27.7	26.8
Retail sales	3,910.6	4,305.5	4,813.6	5,251.6	5,950.1
% growth	9.7	10.1	11.8	9.1	13.3
Urban per capita disposable income (RMB)	6,280.0	6,859.6	7,702.8	8,472.2	9,421.6
% growth	7.3	9.2	12.3	10.0	11.2
Rural per capita net income (RMB)	2,253.4	2,366.4	2,475.6	2,622.2	2,936.4
% growth	1.9	5.0	4.6	5.9	12.0
Unemployment rate**	3.1	3.6	4.0	4.3	4.2

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Industrial value-added output*
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Fixed-asset investment
% growth
Retail sales
% growth
Urban per capita disposable income (RMB)
% growth
Rural per capita net income (RMB)
% growth
Unemployment rate**

	2005	2006	2007	2008	2009
GDP	18,321.7	21,192.4	25,730.6	30,067.0	33,535.3
Real GDP growth (%)	10.4	11.6	13.0	9.0	8.7
Consumer price index	1.8	1.5	4.8	5.9	-0.7
Industrial value-added output*	7,218.7	9,107.6	11,704.8	NA	NA
% growth	31.7	26.2	28.5	12.9	11.0
Fixed-asset investment	8,877.4	10,999.8	13,732.4	17,282.8	22,484.6
% growth	26.0	23.9	24.8	25.9	30.1
Retail sales	6,717.7	7,641.0	8,921.0	10,848.8	12,534.3
% growth	12.9	13.7	16.8	21.6	15.5
Urban per capita disposable income (RMB)	10,493.0	11,759.5	13,785.8	15,780.8	17,175
% growth	11.4	12.1	17.2	14.5	8.8
Rural per capita net income (RMB)	3,254.9	3,587.0	4,140.4	4,760.6	5,153.0
% growth	10.8	10.2	15.4	15.0	8.2
Unemployment rate**	4.2	4.1	4.0	4.2	NA

1 <http://www.uschina.org/statistics/economy.html>  
 2 <http://www.uschina.org/more.html>

## BOPH Operations

### Operational Overview:

Bohai currently produces 10 TCM pharmaceutical products, all derived from herbal and organic sources, including both prescription and nonprescription over-the-counter (OTC) medicines. These medicines address a number of areas of health and wellness including respiration, rheumatism, digestion, cardiovascular/heart health, cerebrovascular/brain health, gynecology, injury healing, general health supplements, flu, antiviral applications and antibiotics. In addition to the 10 medicines currently in production, Bohai holds the rights to produce 19 other herb-based pharmaceutical formulations; the Company has no plans to commence the manufacturing and distribution of these additional products unless current business conditions change.

Bohai's strategy is to patent the formula used to manufacture its Lung Nourishing Cream and leverage the "protected" status of two of its key pharmaceutical products. Protected status grants

exclusive or near-exclusive manufacturing and distribution rights in China, enabling the Company to aggressively increase market penetration throughout the world's most populous nation. Bohai prices its medicines well under the government-mandated cap and at a premium to most competitors. Bohai's near-term strategy will focus on two of its flagship products - Lung Nourishing Cream, used to treat asthma and other respiratory ailments, and Tongbi Capsules and Tablets, used for several forms of arthritis.

### Bohai Product and Revenue Mix:

In fiscal year 2009, Bohai produced 1.35 billion tablets and capsules, 30 million bags/granules (370m. granules), 15 million bottles/units of concentrated, decoctions, 10 million bottles/units of syrup, 1 million bottles/units of tinctures, and 1 million bottles/units medical wine. Bohai products include:

Yantai Bohai Product	Ailments Treated	FY 2009 Revenue	Protection Status	Availability
Tongbi Capsules and Tablets	Rheumatoid Arthritis	\$18.7 38%	Protected Until 2016 Exclusive	Rx
(Run Fei Gao) Lung Nourishing Cream	Lung and breathing ailments	\$12.8 26%	Patent Applied	OTC
Shangtongning Tablets	Back pain, muscular soreness, joint pain	\$7.5 15%	Renewal Pending Non Exclusive	OTC
Zhuangyuan Shenhailong Medicinal Wine	Fatigue, insomnia, impotence	\$2.7 5%	No	OTC
Danqi Tablet	Blood circulation	\$2.2 4%	No	Rx
Fukangning	Menstrual issues	\$2.1 4%	No	OTC
Bazhen Yimu Gao	Feminine blood deficiency	\$1.9 4%	No	OTC
Huoxue Shujin Ding	Muscle pain, hand and foot numbness	\$1.1 2%	No	Rx
(Kanggan Keli) Anti-influenza Granules	Flu	\$0.9 2%	Protected Non Exclusive	OTC

**Raw Materials:**

The principal raw materials used in production are honey, laiyang pear paste, Sichuan fritillaria, pangolin, and Chinese

angelica. Approximately 30% of raw materials are purchased from one supplier. The Company expects ample supply of raw materials to remain available for the foreseeable future.

**Fritillaria cirrhosa<sup>1</sup>**



*“Fritillaria refers to the bulb (corm) of Fritillaria cirrhosa (see Figure 1) or Fritillaria thunbergii (see Figure 2) of the Lily Family (Lilaceae). The Chinese name, beimu, refers to the appearance of the bulb being similar to that of the cowry shell (bei) of which the plant is the source (mu = mother)... According to traditional descriptions that are found in the later texts, fritillaria is slightly cold, and affects the lungs (to clear heat and moisten dryness, used for hot-type bronchitis with dry cough) and the heart (to calm heart fire). Fritillaria is also used for treating lumps beneath the skin, such as scrofulous swellings and breast lumps. Zhebeimu is often used for the treatment of lumps (the moistening property attributed to chuanbeimu is not needed); it has been adopted into some Chinese herb formulas for treating cancers.”*

**Chinese Angelica<sup>2</sup>**



*“Dong quai ( Angelica sinensis ), also known as Chinese Angelica, has been used for thousands of years in traditional Chinese, Korean, and Japanese medicine. It remains one of the most popular plants in Chinese medicine, and is used primarily for health conditions in women. Dong quai has been called “female ginseng,” based on its use for gynecological disorders (such as painful menstruation or pelvic pain), recovery from childbirth or illness, and fatigue/low vitality. It is also given for strengthening xue (loosely translated as “the blood”), for cardiovascular conditions/high blood pressure, inflammation, headache, infections, and nerve pain.”*

**Honey Extract<sup>3</sup>**

*“Sugars are the major constituents of a honey extract. It is made up of 80-90% fructose and glucose, and includes minerals, vitamins and amino acids. Honey is sweet and contains no toxic substance. It is mainly used to combat evil influences in the heart and abdomen. Honey can improve digestion, enhance appetite, soothe the nerves, improve the quality of sleep, and boost the body’s immunity. Bean curds and honey should not be eaten together because gypsum is added when making bean curds. Mixing gypsum and honey will lead to the formation of solids and can lead to indigestion.”*

1 <http://www.itmonline.org/arts/fritillaria.htm>; Subhuti Dharmananda, Ph.D., Director, Institute for Traditional Medicine, Portland, Oregon  
 2 <http://www.nlm.nih.gov/medlineplus/druginfo/natural/patient-dongquai.html>  
 3 <http://www.ninjiom.com/hongkong/herbsknowledge/menu.html>

**Research / Development, Intellectual Property and Brand Identity:**

The Company relies primarily on a 3rd party for research and development, but because most TCM is based on standardized formulas, BOPH incurs relatively low research and development expense, and currently has only two products under development. Company products are marketed under the trademark “Xian Ge”, which is registered with the PRC State Administration for Industry and Commerce. The quality, efficacy and strong brand recognition of Bohai products allow the Company to charge premium pricing, and because of this reputation, the Company expects there would be a minimal decline, if any, for products that are no longer “protected.”

**Manufacturing with Powerful Distribution throughout China Is Expected to Drive Revenue and Earnings Growth:**

The Company’s manufacturing is conducted in the city of Yantai in Shandong province in a state-of-the-art 18,000 square-meter facility that meets or exceeds the latest Good Manufacturing and Quality Management Practice standards (referred to in China as “GMP”).

The Company produces its medicines in tablets, capsules, granules, concentrated decoctions / extracts, syrups, tinctures and medical wine. Distribution of Bohai products is managed and executed by more than 300 full time employees located in 20 offices throughout China. BOPH Distribution and marketing initiatives include:

- (a) expanded hospital presence,
- (b) expanded distribution to the rural market,
- (c) expanded prescription medicine sales organization, and
- (d) expanded team to drive OTC market share through promotion and targeted advertising.

By utilizing this powerful distribution platform and by employing mass media and other marketing methods to build awareness of its brand, the Company expects to significantly grow revenues and earnings. Additionally, the Company expects that this expanded distribution platform will serve as a highly effective platform for new products launched with the premium Bohai brand.



	<p><b>Governor:</b> <a href="#">Han Yuqun</a></p> <p><b>Capital:</b> Jinan</p> <p><b>Government office address:</b> 1 Shengfu Qianjie, Jinan City</p> <p><b>Tel:</b> 531-8606 2094</p> <p><b>Postcode:</b> 250011</p> <p><b>Website:</b> <a href="http://www.shandong.gov.cn">www.shandong.gov.cn</a></p>	<p><b>Geographic location</b></p> <p>Situated in the lower reaches of the Yellow River, on China's eastern coast line, the province's territory consists of the Shandong Peninsular and adjacent inland. Protruding into the conjunction area of the Bohai Sea and the Yellow Sea, the peninsula faces the Liaodong Peninsular of Liaoning Province over the sea. Its inland adjoins the provinces of Hebei, Henan, Anhui and Jiangsu. The province stretches 420 km from south to north and 700 km from east to west, covering an area of 156,700 sq km.</p>
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Source: <http://www.china.org.cn/english/features/ProvinceView/156474.htm>

**The Market Opportunity:**

Sales of TCM pharmaceuticals in China reflect the central but still growing role these therapies play in medical care in that nation. BOPH estimates that in 2005, total sales revenue for Chinese herbal medicine manufactured in China was \$13.6 billion, accounting for 26% of all medicine manufactured in China, producing a total profit of \$1.76 billion and accounting for 29% of the total profit of the Chinese drug industry.

In 2006, there were approximately 1,400 Chinese herbal medicine manufacturers with an annual growth rate of 15%, much higher than the comparable period GDP growth. As a result of the increasing wealth of China and an aging population, the PRC's Information Office of the State Council estimates that in 2010, China's market for herbal medicines will exceed \$24 billion in sales. While the near-term focus will be on penetration of the PRC market, the Company also will consider expansion into other area with a growing awareness of TCM, including Southeast Asia, Europe and the U.S.

**BOPH – Pharmaceutical Market Competition:**

According to SFDA in China, there were approximately 5,071 pharmaceutical manufacturing companies in the PRC as of the end of June 2004, of which approximately 3,237 manufacturers obtained certificates of Good Manufacturing Practices Certification (“GMP”). After GMP certification became a mandatory requirement on July 1, 2004, approximately

1,834 pharmaceutical manufacturers were forced to cease production, and the PRC government has eliminated all manufacturing from non-GMP certified sources. Only the 3,237 pharmaceutical manufacturers with GMP certifications may continue their manufacturing operations. As of the end of 2006, there were 4,682 enterprises manufacturing medicines and formulation in China.

The certificates, permits, and licenses required for pharmaceutical operation in the PRC create a potentially significant barrier for new competitors seeking entrance into the market. Despite these obstacles, BOPH faces competitors that will attempt to create, or are already marketing, products in the PRC that are similar to those of the Company. In terms of specific competition on the Chinese mainland, the Company believes it enjoys a unique reputation for quality and efficacy. As an example of a similarly focused Chinese medicine manufacturer, BOPH sees Hong Kong based Nin Jiom<sup>1</sup> as a comparable operation because of the quality of its products, state of the art technology and emphasis on quality control.

<sup>1</sup> <http://www.ninjiom.com/hongkong/en/home.html>

## BOPH – Unaudited Financial Condition and Results

<b>Financial Condition as of 3/31/10</b>	
<b>Current Assets</b>	\$35 million including \$15.6 million in cash and equivalents.
<b>Current Liabilities</b>	\$8.6 million including \$4.4 million in short-term borrowings.
<b>Working Capital</b>	\$26.5 million, a current ratio of 4.1 times. Working capital was \$13.7 million at 12/31/09.
<b>Total Assets</b>	\$62.2 million including \$17.3 million in intangible assets representing pharmaceutical formulas and \$7.9 million in net property, plant and equipment.
<b>Total Liabilities</b>	\$14 million including: Long term liabilities consist of \$5.3 million in derivative liabilities and \$121,000 in convertible notes.
<b>Stockholders' Equity</b>	\$48.2 million with retained earnings of \$29.4 million, additional paid in capital of \$9.6 million and capital reserve of \$5.8 million. Book value per outstanding common share of \$2.96.

<b>Operating Results for Fiscal Q3 Ended 3/31/10</b>	
<b>Sales</b>	\$15.3 million for fiscal Q3 2010, an increase of 22% over fiscal Q3 2009. Sales for the 9-month period ended 3/31/10 was \$46.1 million, an increase of 29% over the previous year.
<b>Gross Profit</b>	\$12.5 million for fiscal Q3 2010, an increase of 21% over fiscal Q3 2009. Gross profit for the 9-month period ended 3/31/10 was \$37.9 million, an increase of 29% over the previous year. Gross profit margin for the 9-month period ended 3/31/10 was 81%.
<b>Operating Expenses</b>	Selling / general / administrative expense increased 20% to \$9.2 million for the fiscal Q3 2010.
<b>Operating Income</b>	\$2.9 million for fiscal Q3 and \$9.1 million for the 9-months ended 3/31/10, increases of 14% and 23% respectively over the prior periods.
<b>Net Income</b>	\$3.1 million for fiscal Q3 2010, and increase of 49% over fiscal Q3 2009. Net income for the 9-months ended 3/31/10 was \$7.8 million, an increase of 25% over the prior period.

**Notes Issued in Connection with the Private Placement:**

In connection with the January 2010 private placement, BOPH offered and sold \$12,000,000 worth of Notes convertible into 6,000,000 shares of common stock. The Company received \$9.7 million in net proceeds. The Notes are unsecured, payable on January 5, 2012 and carry an interest rate of 8% per annum payable quarterly in arrears. At the option of each holder, the Notes may be converted into common stock at a price of \$2 per share, which conversion price is subject to customary weighted average and stock based anti-dilution protection. BOPH issued Warrants to purchase a total of 6.6 million shares of common stock in conjunction with the private placement. Each Warrant entitles the holder to purchase one share of common stock, exercisable in whole or in part, at an initial exercise price per share of \$2.40. The use of proceeds from the financing includes:

- Advertising, Corporate and Product Brandings (Approximately 40%)
- Creation of a sales team to develop 600 new hospitals (Approx. 16%)
- Development of a rural marketing team (Approx. 16%)

- Recruitment and training for senior management and regional sales managers (>2%)
- Working Capital (Approximately 5%)
- Investor Awareness Program (Approximately 5%)
- Transaction Expenses (Approximately 14%)

On June 30, 2010, BOPH and Euro Pacific Capital as “Investor Representative” amended the financing agreement. Pursuant to the Agreement, the anti-dilution protection provisions in the Notes, Warrants and Agent Warrants were eliminated and a provision precluding net cash settlement of the Notes, Warrants and Agent Warrants was added. In return, and subject to certain non-financing exceptions, the Company agreed not to issue any new equity securities at a price per share below \$2.20 until the earlier of: (i) January 5, 2013 or (ii) the date on which, collectively with any prior conversions or exercises of Notes and Warrants, 75% of the principal face value of the Notes in the aggregate have been converted into shares of Common Stock and Warrants representing, in the aggregate, 75% of the aggregate shares of Common Stock underlying the Warrants have been exercised. Subject to limited exceptions, management of the Company will also be encumbered by these restrictions for the shares of Common Stock held by them.

Illustration of Historical Cash Flows and Annualized Year To Date Results	Fiscal Year Ended 6/30/08	%	Fiscal Year Ended 6/30/09	%	9 Months Ended 3/31/10	%	9 Months Ended 3/31/10 Annualized
Sales	\$38,172,513		\$50,170,014		\$46,072,455		\$61,429,940
Less: Sales Tax	(\$629,489)	1.6%	(\$821,400)	1.6%	(\$729,975)	1.6%	(\$973,300)
Net Sales	\$37,543,024	98.4%	\$49,348,614	98.4%	\$45,342,480	98.4%	\$60,456,640
Cost of Sales	(\$5,950,680)	15.6%	(\$7,975,267)	15.9%	(\$7,475,740)	16.2%	(\$9,967,653)
Gross Profit	\$31,592,344	82.8%	\$41,373,347	82.5%	\$37,866,740	82.2%	\$50,488,987
Selling / General / Administrative Expense	(\$22,608,164)	59.2%	(\$31,347,139)	62.5%	(\$28,208,753)	61.2%	(\$37,611,671)
Interest Expense	(\$234,101)	0.6%	(\$184,404)	0.4%	(\$538,008)	1.2%	(\$717,344)
Operating Income	\$8,750,079	22.9%	\$9,841,804	19.6%	\$9,119,979	19.8%	\$12,159,972
Non-Operating Income	\$8		\$49,447		\$18,864		\$25,152
Non-Operating Costs	(\$835)		(\$36,366)		\$807,681		\$1,076,908
Income Before Taxes	\$8,749,252	22.9%	\$9,854,885	19.6%	\$9,946,524	21.6%	\$13,262,032
Income Taxes	(\$2,303,712)	26.3%	(\$1,906,985)	19.4%	(\$2,193,931)	22.1%	(\$2,925,241)
Net Income	\$6,445,540	16.9%	\$7,947,900	15.8%	\$7,752,593	16.8%	\$10,336,791

Source: Murphy Analytics



## Illustration and Discussion of Potential BOPH Cash Flows

Illustration of Potential BOPH Cash Flows			
<b>Assumptions</b>			
Revenue Growth Rate	25.0%	Sales Tax %	1.6%
Cost of Sales %	16.0%	Tax Rate %	25.0%
S/G/A Growth Rate	10.0%	P/E Multiple	15.0
	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Fiscal 2012</b>
Sales	\$62,000,000	\$77,500,000	\$96,875,000
Less: Sales Tax	(\$992,000)	(\$1,240,000)	(\$1,550,000)
Net Sales	\$61,008,000	\$76,260,000	\$95,325,000
Cost of Sales	(\$9,920,000)	(\$12,400,000)	(\$15,500,000)
Gross Profit	\$51,088,000	\$63,860,000	\$79,825,000
Selling / General / Administrative Expense	(\$40,000,000)	(\$44,000,000)	(\$48,400,000)
Interest Expense	(\$750,000)	(\$1,300,000)	(\$1,400,000)
Operating Income	\$10,338,000	\$18,560,000	\$30,025,000
Non-Operating Income	\$0	\$0	\$0
Non-Operating Costs	\$0	\$0	\$0
Income Before Taxes	\$10,338,000	\$18,560,000	\$30,025,000
Income Taxes	(\$2,584,500)	(\$4,640,000)	(\$7,506,250)
Net Income	\$7,753,500	\$13,920,000	\$22,518,750
Implied Future Market Cap	\$116,302,500	\$208,800,000	\$337,781,250
Fully Diluted Share Count	28,850,000	28,850,000	28,850,000
Implied EPS	\$0.27	\$0.48	\$0.78
Implied Share Price	\$4.03	\$7.24	\$11.71

Source: Murphy Analytics

- **Revenue Growth Rate:** Analyst estimate based on historical Bohai performance and general market growth.
- **Sales Tax / Cost of Sales / Tax Rate:** Estimate derived from historical Bohai results.
- **Selling / General / Administrative:** S/G/A Expense is an analyst estimate based on the assumption that there will be additional costs related to operating as a publicly traded company. The S/G/A growth rate is an analyst estimate.
- **Interest Expense:** Based on historical results plus 8% interest payable on \$12 million of convertible notes.
- **Non-Operating Income / Expense:** Prior to fiscal Q3 2010, non-operating income / expense typically nearly offset each other or represented a minor contribution to net income and because the Q3 10 expenses were non-recurring, non-operating income and expense has been ignored for purposes of this illustration.
- **Assumed P/E Multiple:** Based on historical growth rates, potential future growth rates and the general market opportunity, a price / earnings multiple of 15.0x seems supportable in light of the various fund metrics presented later in this report.



## PowerShares Dynamic Biotechnology & Genome Portfolio (Fund) and Dynamic Pharmaceuticals Portfolio (Fund)

<p><b>PowerShares Dynamic Biotechnology &amp; Genome Portfolio (Fund)<sup>1</sup></b></p>	<p><b>PowerShares Dynamic Dynamic Pharmaceuticals Portfolio (Fund)<sup>2</sup></b></p>
<p><b>Recent 52 Week Performance:</b></p>  <p>PBE Daily</p>	<p><b>Recent 52 Week Performance:</b></p>  <p>PJP Daily</p>
<p><b>Recent Top Holdings:</b></p> <ul style="list-style-type: none"> <li>Genzyme Corp. 6.71%</li> <li>Biogen Idec Inc. 5.66%</li> <li>Sigma-Aldrich Corp. 5.14%</li> <li>Illumina Inc. 5.03%</li> <li>Amgen Inc. 4.99%</li> <li>Waters Corp. 4.61%</li> <li>Gilead Sciences Inc. 4.47%</li> <li>Abraxis BioScience Inc. 4.39%</li> <li>Life Technologies Corp. 4.33%</li> <li>Talecris Biotherapeutics Holdings Corp. 3.44%</li> </ul>	<p><b>Recent Top Holdings:</b></p> <ul style="list-style-type: none"> <li>Eli Lilly &amp; Co. 5.27%</li> <li>Bristol-Myers Squibb Co. 5.24%</li> <li>Amgen Inc. 5.03%</li> <li>Abbott Laboratories 5.01%</li> <li>Merck &amp; Co Inc 4.99%</li> <li>Johnson &amp; Johnson 4.80%</li> <li>Pfizer Inc. 4.77%</li> <li>Gilead Sciences Inc. 4.50%</li> <li>Genzyme Corp. 3.69%</li> <li>Valeant Pharmaceuticals International 3.20%</li> </ul>
<p><b>Recent Select Metrics:</b></p> <ul style="list-style-type: none"> <li>Price/Earnings Multiple: 17.7x</li> <li>Average Market Cap: \$7.6 billion</li> <li>Price/Book Multiple: 3.0x</li> <li>Return on Equity: 9.9%</li> <li>1 Year Performance: 24%</li> <li>Ticker: <b>PBE</b></li> </ul>	<p><b>Recent Select Metrics:</b></p> <ul style="list-style-type: none"> <li>Price/Earnings Multiple: 11.0x</li> <li>Average Market Cap: \$35.5 billion</li> <li>Price / Book: 2.3x</li> <li>Return on Equity: 20.6%</li> <li>1 Year Performance: 20.3%</li> <li>Ticker: <b>PJP</b></li> </ul>

1 <http://www.invescopowershares.com/products/overview.aspx?ticker=pbe>

2 <http://www.invescopowershares.com/products/overview.aspx?ticker=pjp>

## PowerShares Golden Dragon Halter USX China Portfolio (Fund) and PowerShares Zacks Small Cap Portfolio (Fund)

<p><b>PowerShares Golden Dragon Halter USX China Portfolio (Fund)<sup>1</sup></b></p>	<p><b>PowerShares Zacks Small Cap Portfolio (Fund)<sup>2</sup></b></p>
<p><b>Recent 52 Week Performance:</b></p> 	<p><b>Recent 52 Week Performance:</b></p> 
<p><b>Recent Top Holdings:</b></p> <ul style="list-style-type: none"> <li>Baidu Inc. ADS 5.92%</li> <li>PetroChina Co. Ltd. ADS 5.37%</li> <li>China Mobile Ltd. ADS 5.21%</li> <li>Aluminum Corp. of China Ltd. ADS 4.77%</li> <li>China Telecom Corp. Ltd. ADS 4.56%</li> <li>China Unicom (Hong Kong) Ltd. ADS 4.48%</li> <li>Yanzhou Coal Mining Co. Ltd. ADS 4.46%</li> <li>China Life Insurance Co. Ltd. (ADS) 4.33%</li> <li>China Petroleum &amp; Chemical Corp. ADS 4.26%</li> <li>CNOOC Ltd. ADS 4.25%</li> </ul>	<p><b>Recent Top Holdings:</b></p> <ul style="list-style-type: none"> <li>Diamond Mngmt &amp; Tech Consultants Inc. 0.59%</li> <li>Newpark Resources Inc. 0.58%</li> <li>Ultratech Inc. 0.54%</li> <li>Power-One Inc. 0.54%</li> <li>Inergy Holdings L.P. 0.54%</li> <li>Calavo Growers Inc. 0.54%</li> <li>American Physicians Capital Inc. 0.54%</li> <li>Liquidity Services Inc. 0.53%</li> <li>K12 Inc. 0.53%</li> <li>Cyberonics Inc. 0.53%</li> </ul>
<p><b>Recent Select Metrics:</b></p> <ul style="list-style-type: none"> <li>Price/Earnings Multiple: 16.1x</li> <li>Average Market Cap: \$21.6 billion</li> <li>Price/Book Multiple: 1.8x</li> <li>Return on Equity: 14.3%</li> <li>1 Year Performance: 8.8%</li> <li>Ticker: <b>PGJ</b></li> </ul>	<p><b>Recent Select Metrics:</b></p> <ul style="list-style-type: none"> <li>Price/Earnings Multiple: 13.9x</li> <li>Average Market Cap: \$560 million</li> <li>Price / Book: 1.5x</li> <li>Return on Equity: 10%</li> <li>1 Year Performance: 15.5%</li> <li>Ticker: <b>PZJ</b></li> </ul>

<sup>1</sup> <http://www.invescopowershares.com/products/overview.aspx?ticker=pgj>

<sup>2</sup> <http://www.invescopowershares.com/products/overview.aspx?ticker=pzj>

## U.S. Dollar and Chinese Yuan Renminbi

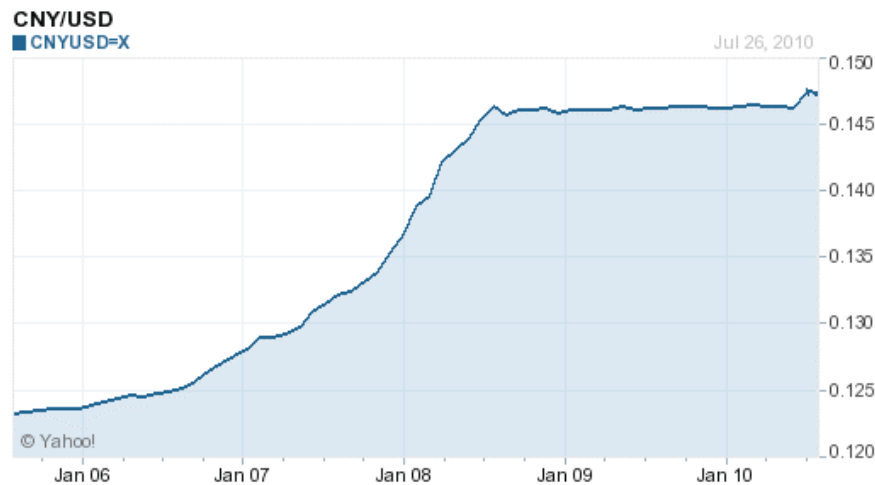
### Background on China's Currency Policy:

Beginning in July of 2005, the PRC government changed its policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, the value of the Renminbi has fluctuated within a narrow and managed band against a basket of certain foreign currencies. However, the Chinese government has come under increasing U.S. and international pressure to revalue the Renminbi or to permit it to trade in a wider band, which many observers believe would lead to substantial appreciation of the Renminbi against the U.S. dollar and other major currencies. There can be no assurance that Renminbi will be stable against the U.S. dollar.

### Historical and Recent Conversion Relationship:

Following are the recent conversion rates and a chart showing the appreciation of the Chinese Yuan (CNY) versus the United States dollar (\$). Recent conversion rates were:

**1 CNY = \$0.1475**  
**\$1 = 6.781 CNY**



Source: Yahoo!

## BOPH Risks

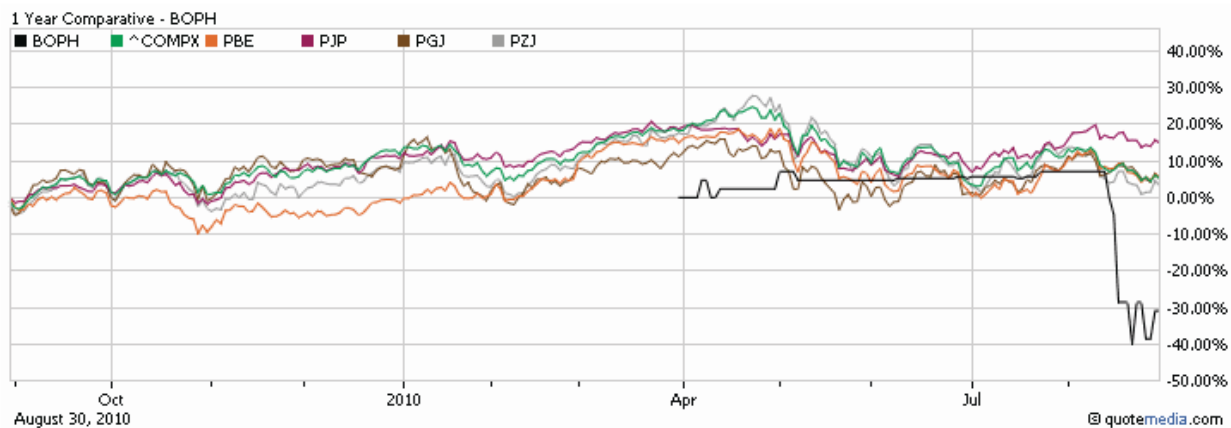
In addition to currency risk and a number of political, governmental and other risks unique to companies with operations in China, BOPH operations and share performance is subject to a number of risks and uncertainties, outlined in detail in Company filings with the SEC. These filings should be read in conjunction with this report. These risks include the potential failure to:

- Obtain sufficient working capital to support the business
- Maintain or protect intellectual property
- Expand the product offering and maintain product quality. For the fiscal year ended 6/30/09, four products accounted for approximately 79% of revenues.

- Manage expanding operations and continue to fill orders in time
- Maintain adequate control of expenses through anticipated growth
- Implement and adapt product development, marketing, sales, and acquisition strategies
- Integrate any future acquisitions
- Anticipate and adapt to changing conditions in the Chinese herbal medicines industry, governmental regulations, competitive environment and technology.

## BOPH and Comparable ETF Performance Chart from Quotemedia.com

<b>BOPH:</b> Bohai Pharmaceuticals Group, Inc.	<b>^CompX:</b> Nasdaq Composite	<b>PBE:</b> PowerShares Dynamic Biotechnology & Genome Portfolio
<b>PJP:</b> PowerShares Dynamic Pharmaceuticals Portfolio	<b>PGJ:</b> PowerShares Golden Dragon Halter USX China Portfolio	<b>PZJ:</b> PowerShares Zacks Small Cap Portfolio



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new products and services that compete with those offered by the Company, competitive pressures, economic and political conditions, changes in consumer behavior, the introduction of competing products having technological and/or other advantages, and other risks not contemplated by the Company or by MA. These and other risks are described in the Company’s filings with the Securities and Exchange Commission. These filings should be read in conjunction with the MA report. MA was paid \$8,500 by the Company through Trilogy Capital Partners in advance of the publication of this Initiation Report. MA assumes no responsibility to update information concerning the Company. MA owns no shares in the Company. MA does not provide investment banking services. No part of the compensation to MA is tied to any content contained in this report or any view expressed in this report. The Analyst for this report Patrick J. Murphy, CFA, has over 15 years of investment and transaction analysis across a range of asset classes including microcap equities, commercial real estate debt and equity, municipal derivatives and public finance, venture capital, fixed income, commercial MBS and mortgage REIT’s. In addition to his work with Murphy Analytics, Mr. Murphy also serves as a consultant to a municipal derivatives advisory firm. Mr. Murphy is an alumnus of the University of Notre Dame (1991), with an undergraduate degree in Economics, and earned a Masters Degree in Finance from St. Louis University in 1997. Mr. Murphy is a CFA Charterholder and a member of the CFA Society of St. Louis. I, Patrick J. Murphy, hereby certify that all views expressed in this report accurately reflect my personal views about the Company, and that no part of my compensation was or will be related to the views expressed in this report.

## Overview of the OTCBB<sup>1</sup>

The OTC Bulletin Board® (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ® or a national securities exchange. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and should not be confused with The NASDAQ Stock Market<sup>SM</sup>. There are no minimum quantitative standards which must be met by an issuer for its securities to be quoted on the OTCBB; however, the new Eligibility Rule limits quotations on the OTCBB to the securities of issuers that are current in their reports filed with the SEC or other regulatory authority. Issuers do not have any filing or reporting requirements with The NASDAQ Stock Market, Inc., or FINRA. Market Makers will be required to provide the periodic financial reports filed by OTCBB issuers with the SEC or other regulatory authorities pursuant to the Eligibility Rule. NASDAQ has no business relationship with the issuers of securities quoted on the OTCBB. Investors must contact a broker/dealer to trade OTCBB securities. Investors do not have direct access to the OTCBB service. The Securities and Exchange Commission's (SEC's) Order-Handling Rules which apply to NASDAQ-listed securities do not apply to OTCBB securities. It is important to note that FINRA has no regulatory authority over OTC Bulletin Board issuers. FINRA's responsibilities include establishing rules governing its broker/dealer members' business conduct; setting qualification standards for securities industry professionals; examining members for their financial and operational condition as well as their compliance with appropriate rules and regulations; investigating alleged violations of securities laws; disciplining

violators of applicable rules and regulations; and responding to inquiries and complaints from investors and members. Due to the high level of risk involved in investing in Penny Stocks, the SEC created Rule 15g-2, which makes it "unlawful for a broker or dealer to effect a transaction in any penny stock for or with the account of a customer unless, prior to effecting such transaction, the broker or dealer has furnished to the customer a document containing the information set forth in Schedule 15G, Rule 15g-100, and has obtained from the customer a manually signed and dated written acknowledgement of receipt of the document." (SEC Rule 15g-2(a), Risk Disclosure Document Relating to the Penny Stock Market). If you believe that you have been defrauded by an OTC Bulletin Board issuer, you may file a complaint with your State Securities Regulator or contact the SEC's Office of Investor Education and Assistance.

### **Additional Information Relating to Recent Trading Data**

Due to certain recent disruptions in the marketplace relating to quotations on the OTC Bulletin Board operated by FINRA (OTCBB), incomplete trading data may exist for certain companies like Bohai. Real-time trading data for Bohai on the OTCQB market is available through the below link. Readers are advised that OTCQB market is operated by the owner of [otcm.com](http://otcm.com), and Murphy Analytics as well as Bohai Pharmaceuticals Group, Inc., make no representation or warranty regarding the OTCQB market.

For real-time trading data for Bohai on the OTCQB market, including Level 2 quotes, please visit: [www.otcm.com/stock/boph/quote](http://www.otcm.com/stock/boph/quote).

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<sup>1</sup> <http://www.otcbb.com/investorinformation/investorinfo.stm>