

November 11, 2009

AOB's Questionable CAXG Acquisition and Interesting Dominica Passport Numbering.

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<td height="89" align="center" valign="middle"> Notice<p align="justify"><i> In the past AOB has issued public statements regarding reports published by asensio.com. In the event that asensio.com receives comments from AOB on the report below, asensio.com will provide such comments to its users, and state whether the company's comments alter any conclusion or assertion in the report. Investors may also contact AOB concerning issues raised in this report. </i>

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On April 16, 2008, American Oriental Bioengineering, Inc. (NYSE: AOB \$4.57) paid \$18 million in cash for a 38% stake in China Aoxing Pharmaceutical Co., Inc. (OTC: CAXG \$1.24), according to AOB's and CAXG's SEC filings. (See AOB's filing and CAXG's filing.) According to CAXG's 2008 10-K, on April 16, 2008, CAXG 'simultaneously' acquired Shijazhuang Lerentang Pharmaceutical Company, Ltd. ("LRT") for \$22.9 million, comprised of \$12.4 million in cash from the funds it received from AOB and 8 million shares of CAXG common stock valued at \$10.5 million.

One year before AOB's investment in CAXG (and CAXG's simultaneous acquisition of LRT), CAXG stated that it had signed a letter of intent to acquire LRT for "approximately \$10 Million," according to CAXG's 2007 10-K.

Like AOB, CAXG is a Chinese company listed in the U.S. through a reverse merger. AOB's CAXG investment presents several issues.

CAXG's auditor is a firm called Paritz & Company, P.A. Paritz has one office in Hackensack, New Jersey.

Paritz has given CAXG a "going concern" qualification for the past four consecutive years, commencing in 2006, two years prior to AOB's investment. Even after AOB's investment, Paritz still found that CAXG's working capital deficit raises "substantial doubt about its ability to continue as a going concern." The auditor also notes that "the Company is in default of the repayment of note payable-bank of \$6,094,428." (Click here to see auditor's letters from past four CAXG 10-Ks.)

CAXG's restated 2007 earnings show interest expense of more than \$16 million with under \$2 million of revenue. CAXG also restated its earnings for 2006. (Click here to see

2006 and 2007 income statement.)

In 2008, CAXG recorded a gain on “change in fair value of warrant and derivative liabilities” of \$8.5 million, which was greater than CAXG’s \$7.1 million in revenue for the year. ([Click here](http://asensio.com/AOB/CAXG/F.pdf) to see 2008 and 2009 income statement.)

CAXG reported an operating loss each fiscal year since its reverse merger in 2006.

AOB and CAXG appear to be connected by Warner Technology and Investment Corp. and possibly American Union Securities.

Warner obtained an [option to acquire 551,415 CAXG shares](http://www.asensio.com/AOB/CAXG/3.pdf) in connection with CAXG’s reverse merger, and also later [served as consultant](http://www.asensio.com/AOB/CAXG/4.pdf). Warner’s [English website](http://www.asensio.com/AOB/CAXG/5.mht) describes its business as “assisting private companies seeking to become public company [sic] through IPO or reverse merger processes” and cites [AOB as one of its “case studies”](http://www.asensio.com/AOB/CAXG/6.mht). Warner also appears as an agent for AOB in certain of AOB’s [SEC filings from 2002](http://www.asensio.com/AOB/CAXG/7.pdf), around the time of AOB’s reverse merger. Warner’s Chinese website shows a [statement from Huakang Zhou](http://www.asensio.com/AOB/CAXG/8.mht), Warner’s chairman, discussing arranging AOB’s reverse merger and working with American Union Securities to arrange financing ([see translation](http://www.asensio.com/AOB/CAXG/9.pdf)).

[American Union Securities](http://www.asensio.com/AOB/CAXG/10.pdf) is currently majority owned by Dong Dong “Peter” Zhou, who may be related to Huakang Zhou of Warner. American Union’s founder, former majority owner and former President, [John C. Leo](http://www.asensio.com/AOB/CAXG/11.pdf), was a director of CAXG from the time of CAXG’s reverse merger in April 2006 until January 2007.

A person named [Jason Liu](http://www.asensio.com/AOB/CAXG/12.pdf) has appeared on websites for Warner and American Union apparently as an employee of Warner and consultant to American Union. A Jason Liu also appears as a shareholder of a Hong Kong company, [Silver Linkage Holdings Limited](http://www.asensio.com/AOB/CAXG/13.pdf), where AOB’s Chairman Tony Liu is the controlling shareholder, according to filings with the Hong Kong Companies Registry (“HKCR”). Silver Linkage is discussed in a [previous asensio.com report](http://www.asensio.com/Reports/ReportView.aspx?ReportId=988). HKCR filings show Jason Liu transferring his Silver Linkage shares to Tony Liu in 2008. Like Tony Liu, Jason Liu is listed in HKCR filings with a [passport from the Commonwealth of Dominica](http://www.asensio.com/AOB/CAXG/14.pdf), with a passport number two digits apart from [Tony Liu’s](http://www.asensio.com/AOB/CAXG/15.pdf).