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AOB's Potential Undisclosed Related Party Documented in Public Government Filings

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<td height="89" align="center" valign="middle"> Notice<p align="justify"><i>On August 7, 2009 AOB posted a statement on its website titled "AOBO Comments on Disclosure of Prior Land Acquisitions." AOB's new disclosures were related to this asensio.com report. asensio.com published a report to its registered users titled "AOB Comments on Property Transactions" based on the contents of AOB's August 7th new disclosures. To view AOB's posting click here. To view asensio.com's report click here.</i>

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Section 1: AOB Statements on \$70 Million Transaction Contradicted by Government Filings.

American Oriental Bioengineering, Inc. (NYSE: AOB) stated in a Form 8-K filed on January 7, 2009 that it had paid US\$69.98 million in cash to purchase buildings and land from Beijing Century East Fuel Power Science & Technology Research and Development Co. ("Beijing Century East"). The buildings and land were reportedly located in the "Beijing New Economic & Technology Development Zone."

The 8-K states, "There is no material relationship between AOB or its affiliates and the Seller. See Exhibit 1.

Documents filed with the China State Administration of Industry and Commerce ("SAIC") and Hong Kong Companies Registry ("HKCR") show that there appears to be a material relationship between AOB's chairman and Beijing Century East. The chairman and CEO of AOB is named Shujun "Tony" Liu. Tony Liu also appears as the sole director, chairman, and legal representative of the Hong Kong company that owns Beijing Century East, according to documents signed by Tony Liu and filed with the SAIC and HKCR.

SAIC documents show that 100% of the equity of Beijing Century East was acquired in 2007 by a company called Golden Dragon International Investment Enterprise Limited ("Golden Dragon"), incorporated in Hong Kong, making Beijing Century East a wholly-owned subsidiary of Golden Dragon. See Beijing Century East Articles of Association, Exhibit 2A, and translation, Exhibit 2B, and Beijing Century East Board of Directors Meeting and associated documents, Exhibit 3A, and

translation, Exhibit 3B.

Tony Liu is cited as the legal representative and chairman for Golden Dragon on the first page of Exhibit 2. Liu's signature appears on the last page of Exhibit 2A and the second page of Exhibit 3A. On the last page of Exhibit 2B there is a listing of Tony Liu as a shareholder of Beijing Century East, though this conflicts with other pages where Golden Dragon is listed as the sole shareholder of Beijing Century East. The capital contribution from Golden Dragon is listed as 50 million RMB, or about US\$7.3 million, on the first page of Exhibit 2A.

Records from the HKCR also show that Tony Liu is the sole director of Golden Dragon. See Exhibit 4. These documents can also be obtained online directly from the Hong Kong Companies Registry website.

From these documents, it appears that the \$69.98 million transaction described in AOB's January 8-K could be a related party transaction, though AOB claimed, "There is no material relationship between AOB or its affiliates and the Seller."

Section 2: Not Just \$70 Million Paid, Actually \$105 Million, Apparently to the Same Questionable Seller.

AOB's January 8-K discloses that the company spent \$69.98 million on December 31, 2008 on property to be used "as a Convention and Training Center" in the Beijing Economic & Technology Development Zone. However, AOB's 2008 Form 10-K states that the company spent \$104.9 million on buildings and land in the "Beijing Economic-Technological Development Area" ("BDA") during 2008. See excerpts from the 10-K's notes to the financial statements in Exhibit 5.

In addition to the \$69.98 million spent on December 31st, AOB apparently spent another \$34.9 million on Beijing property during the third quarter of 2008. AOB's Form 10-Q for the quarter ended September 30, 2008 shows that the company paid \$34.9 million for land and property relating to the "Beijing Yizhuang Project." See Exhibit 6.

No other statement referring to the Beijing Yizhuang Project by name is found in any of AOB's other SEC filings. The Yizhuang Project is also not mentioned in any of AOB's press releases. Yizhuang is apparently the name of a residential area within the BDA.

The 2008 10-K consolidates the \$34.9 million purchase with the \$69.98 million spent on December 31st, and states that the full \$104.9 million was spent on property in the BDA. AOB's accounting of the two purchases shows that they are very much related, though the company apparently did not make an effort to explain as much to investors.

Government records available from the BDA website show that Beijing Century East purchased two plots of land in 2003 and 2004. The disclosed sizes of the two land purchases by AOB exactly match the sizes of the two land purchases by Beijing Century East in 2003 and 2004, disclosed in government records.

Exhibit 7 shows lists of BDA land purchases from the government, obtained from the BDA website, titled "Summary of Land Grants for 2003" and "Summary of Land Grants for 2004." The name of the purchaser is in the third column, and the area of the land in square meters is in the fifth column. Two translators have independently confirmed that the highlighted rows refer to Beijing Century East. The area listed for the Beijing Century East purchases are 29,247.9 square meters and 22,008 square meters.

AOB disclosed in its January 8-K that the area of the land purchased in the \$70 million transaction was 22,008 square meters. In AOB's 2008 10-K, the total area of the land purchased in the BDA in 2008 was disclosed as 551,715 square feet. Converted to square meters, this figure is 51,256 square meters. Subtracting 22,008 square meters, disclosed in the 8-K, gives 29,248 square meters. Thus, the sizes of the land purchases in AOB's disclosures match the sizes of land acquired by Beijing Century East in the BDA disclosures.

Therefore, it appears that the extra \$34.9 million spent by AOB during the third quarter was also related to Beijing

Century East, which appears to be a related party, though AOB claimed it had "no material relationship" with Beijing Century East.

AOB's 2008 10-Qs show that AOB set aside deposits on its balance sheet earlier in 2008, and the deposits were used in the purchases of Beijing property, according to the 10-Q for the quarter ended September 30, 2008. From this it appears that the AOB transactions with Beijing Century East were anticipated beginning in the second quarter of 2008, when the "Deposit for long-term assets" line-item appeared on AOB's balance sheet.

AOB made no disclosures to investors concerning the ultimate purpose for funds set aside in deposits. Even after the \$34.9 million purchase in the third quarter of 2008, AOB did not provide any disclosures to investors concerning the seller or even a description of the assets purchased beyond that they were related to the "Beijing Yizhuang Project," nor did the company disclose plans or obligations to complete the additional \$70 million purchase.

In total, AOB made purchases constituting 30% of its total shareholders' equity at year-end 2008 in transactions conducted through what appears to be an undisclosed related party. The \$104.9 million reportedly spent by AOB also represents 91% of the funds AOB received from investors in its \$115 million convertible notes offering, completed in July 2008.

Section 3: Bestkey International.

The purported undisclosed related party in both AOB property transactions is more complicated than it first appears. In 2007, Beijing Century East was acquired by Golden Dragon. Complicating matters are filings with the HKCR showing that Golden Dragon is owned by Bestkey International LTD. ("Bestkey"), a British Virgin Islands company. See Exhibit 8.

Bestkey was an entity reportedly involved in the reverse merger of AOB's China-based operating company, Harbin Three Happiness Bioengineering Co., Ltd., into an American shell company, then called Internet Golf Association, Inc., to form AOB. The reverse merger was reportedly completed on June 26, 2002, according to AOB's SEC filings. AOB's Form 10-K for fiscal 2002 describes the merger as follows: "This was a triangular merger with Bestkey International, Ltd, a British Virgin land's [sic] corporation, and has been treated as a reverse merger for accounting purposes."

None of AOB's SEC filings provide an explanation of why the company saw it necessary to structure the transaction through Bestkey. No agreements showing the actual transfer of equity and associated terms have been provided by the company.

However, a document filed with the SAIC office in Harbin, China, "Approval of the Articles of Association for Harbin Sanle Bio-engineering Co., Ltd.," shows an equity transfer by AOB executives, including Shujun "Tony" Liu, to Bestkey dated 2003. See Exhibit 9A and translation, Exhibit 9B. The "triangular" merger was supposed to have been completed in June 2002, according to AOB's SEC filings.

Bestkey is listed in AOB's 10Ks as a wholly owned subsidiary from 2002 (when the reverse merger occurred) until 2006. In the 2005 10-K, the notes to the audited financial statements state, "Bestkey International, Ltd is an inactive company."

AOB stopped listing Bestkey as a subsidiary in its 2007 10-K, the same year that the equity of Golden Dragon was transferred to Bestkey. Golden Dragon then purchased the equity of Beijing Century East later in 2007, according to documents filed with the HKCR and the SAIC. AOB has not provided enough information on Bestkey to know whether or not it is still a subsidiary. AOB did not provide shareholders with disclosures concerning the any sale or disposition of Bestkey, if such occurred.

The only public document on Bestkey available from the British Virgin Islands Financial Services Commission, Registry of Corporate Affairs shows only that Bestkey International Limited was registered in January 2002, and that the company has a registered address matching the address listed for Bestkey in the HKCR documents, where Bestkey

is listed as the sole shareholder of Golden Dragon. See [Exhibit 10](http://www.asensio.com/AOB/Exhibit10.pdf).

It is unclear what role Bestkey may have played in the property transactions and where funds for both property transactions were directed, without further evidence. However, if Bestkey was a wholly-owned subsidiary of AOB throughout 2007 and 2008, then it would mean that AOB actually bought the Beijing property in question with Golden Dragon's acquisition of Beijing Century East back in 2007, unless Bestkey was sold or disposed of without public disclosure. Without further disclosures from AOB to determine the cash flow and form of agreements in the transactions, AOB's shareholders face indeterminable risk on nearly \$105 million, representing 53% of shareholders' paid-in capital.

Section 4: AOB's Lack of Independent Valuation Creates Appearance of Irregularity.

The information contained in filings with the SAIC and HKCR shows an apparent discrepancy with the statements made in AOB's 8-K filed on January 7, 2009. The SAIC and HKCR documents show what appears to be an undisclosed related party in the \$70 million real estate purchase that AOB reportedly completed on December 31, 2008. Disclosures from the BDA and AOB's 10-K suggest that a further \$34.9 million was spent by AOB on property in the same area, bought from the same party.

Given the discrepancy, and given the appearance of Tony Liu as a director of companies on both sides of the transactions, AOB should have taken steps to ensure for itself and for investors that there were no irregularities in the transactions.

Tony Liu's presence on both sides of the transactions would normally require forming an independent committee from the board of directors to hire advisors and obtain an independent appraisal and valuation. In such a way, AOB could have avoided the appearance of any irregularity.

Based on AOB's disclosures in its 2008 10-K, it is doubtful such steps were taken. There are no notes to the audited financial statements disclosing any related party transactions, a step required under U.S. GAAP for any material transactions between related parties. Thus, AOB may incur legal liability as a result of its questionable handling of these highly irregular and material expenditures.