Nutrastar International Inc. (NUIN – OTCQB)

Patented Technology Allows Nutrastar to Scale Production of Highly Sought-After Cordyceps Militaris. Product Shown to Treat Cancer and Nerve-related Ailments. Strong Sales Growth; Low Valuation.

Strong Buy

Summary and Investment Opportunity

- **Cordyceps Has Long History as Medicinal Treasure in China**
  For at least the last several hundred years, Cordyceps Sinensis has been considered one of the most sought-after treatments in Traditional Chinese Medicine (TCM), used routinely by Chinese nobility and royalty for such ailments as liver and kidney dysfunction, respiratory ailments, low energy, and impotence. Historically, this rare fungus has been found only underground in high-altitude caves, growing only on a substrate consisting of the larvae of a specific species of moth. Although widely known, its rarity has prevented its myriad benefits from being widely available. However, Nutrastar has developed and patented a process that allows the similar Cordyceps Militaris to be mass-produced, fueling its extremely strong sales and earnings growth and the recent introduction of its beverage line.

- **New Process and Old Remedy Create Extremely Large Domestic Market**
  Nutrastar strongly benefits from its products' basis in Cordyceps. This substance's long-standing reputation as a key premium ingredient in Traditional Chinese Medicine means that Nutrastar's products enjoy almost immediate market acceptance. This is especially true of its new beverage products, which have shown exceptional sales growth in just their first few weeks on the market. We believe this growth is likely to continue without the very large expenditures on sales and marketing that are usually required to establish a beverage brand.

- **Capacity Expansion Capable of Matching Demand Growth**
  The Company has expanded its production capacity from 55 tons to 72 tons over the last 12 months, and should reach 100 tons of capacity by mid-2012. Given that most of the buildings on NUIN's property are still vacant, we believe NUIN can continue to expand capacity without physical constraint for several years to come. **Note: in 2011 the Company's tax rates increased to 24% from 14%, negatively impacting earnings growth in 2011.**

- **Strong Business and Balance Sheet Not Adequately Reflected in Current Valuation**
  Nutrastar has a patented process for cultivating a highly desirable product on a cost-effective basis, and has translated that technology into a high growth, high-margin, financially strong company. In fact, we believe Nutrastar could in theory meet or exceed our 2011 estimates without ever needing to use even a small fraction of its cash reserves. Therefore, in arriving at our estimate of the Company's fair value, we first estimated the value of the business itself, and then simply added the net cash back in on a dollar-for-dollar basis. This calculation led us to a per-share value of almost exactly US$8.00, which we have established as our new 12-month price target. We have also initiated coverage of Nutrastar with a Strong Buy rating, and recommend aggressive purchase by risk-tolerant investors.

Company Overview

Nutrastar is one of China's largest producers and distributors of Cordyceps Militaris, a difficult-to-cultivate fungus, which has historically been considered a premium remedy within the discipline of Traditional Chinese Medicine (TCM). The Company's patented production process is allowing it to bring the benefits of its product to the masses for the first time, thus generating rapidly-growing, high-margin sales for the Company. The Company also recently introduced a new beverage line, which has shown very strong initial market acceptance. The shares of Nutrastar trade on the over-the-counter market (OTCQB) under the symbol NUIN.

Company Contact Information

Investor Contact:
Howard Gostfrand
American Capital Ventures
2875 NE 191 Street
Suite 904
Aventura, FL 33180
(305) 918-7000
www.amcapventures.com
info@amcapventures.com

Company Contact:
Robert Tick, Chief Financial Officer
roberttick@nutrastarintl.com

Recent Price: US$2.81

Financial Data

- **P&L (000s)**
  - **FY’09A**
    - Revenues: 15,332
  - **Q1 ’10A**
    - Revenues: 4,768
  - **Q2 ’10A**
    - Revenues: 5,458
  - **Q3 ’10A**
    - Revenues: 6,462
  - **Q4 ’10A**
    - Revenues: 7,554
  - **FY’10A**
    - Revenues: 24,242
  - **FY’11E**
    - Revenues: 32,046
  - **FY’12E**
    - Revenues: 44,865

  
  - **Rev. Growth**
    - FY’09A: 2.7%
    - Q1 ’10A: 63.4%
    - Q2 ’10A: 81.2%
    - Q3 ’10A: 99.6%
    - Q4 ’10A: 58.1%
    - FY’10A: 32.2%
    - FY’11E: 40.0%
    - FY’12E: 80.5%

  - **Gr. Margin**
    - FY’09A: 70.2%
    - Q1 ’10A: 77.8%
    - Q2 ’10A: 83.7%
    - Q3 ’10A: 81.8%
    - Q4 ’10A: 79.9%
    - FY’10A: 80.9%
    - FY’11E: 77.8%
    - FY’12E: 80.5%

  - **Op. Income**
    - FY’09A: 8,904
    - Q1 ’10A: 3,110
    - Q2 ’10A: 3,789
    - Q3 ’10A: 4,433
    - Q4 ’10A: 4,456
    - FY’10A: 15,788
    - FY’11E: 18,517
    - FY’12E: 25,854

  - **Op. Margin**
    - FY’09A: 58.1%
    - Q1 ’10A: 65.2%
    - Q2 ’10A: 69.4%
    - Q3 ’10A: 68.6%
    - Q4 ’10A: 59.0%
    - FY’10A: 65.1%
    - FY’11E: 57.8%
    - FY’12E: 57.6%

  - **Net Income**
    - FY’09A: 7,742
    - Q1 ’10A: 2,721
    - Q2 ’10A: 3,416
    - Q3 ’10A: 4,066
    - Q4 ’10A: 3,241
    - FY’10A: 13,444
    - FY’11E: 14,522
    - FY’12E: 26,079

  - **Net Margin**
    - FY’09A: 50.5%
    - Q1 ’10A: 57.1%
    - Q2 ’10A: 62.6%
    - Q3 ’10A: 62.9%
    - Q4 ’10A: 42.9%
    - FY’10A: 55.5%
    - FY’11E: 45.3%
    - FY’12E: 44.3%

  - **Dil. EPS**
    - FY’09A: 0.58
    - Q1 ’10A: 0.19
    - Q2 ’10A: 0.24
    - Q3 ’10A: 0.25
    - Q4 ’10A: 0.20
    - FY’10A: 0.93
    - FY’11E: 0.89
    - FY’12E: 1.22

  - **Dil. Shares**
    - FY’09A: 13,342
    - Q1 ’10A: 14,402
    - Q2 ’10A: 14,342
    - Q3 ’10A: 16,435
    - Q4 ’10A: 16,435
    - FY’10A: 16,274
    - FY’11E: 16,274
    - FY’12E: 16,274

Please see analyst certification and required disclosures on page 14 of this report.
Industry Analysis

Industry Background
The genus Cordyceps describes a group of fungi that primary grow on a substrate comprised of living insect tissue, namely moth larvae. In this genus, the most well known and important species is Cordyceps Sinensis, which has been used medicinally in regions of Tibet and China since at least the 1400s. A closely related species is called Cordyceps Militaris, which has a similar appearance and health benefit. These species of fungi have an elongated club or stem-like appearance and are often known as "caterpillar fungus," a name derived from the caterpillar bodies on which they have traditionally been found. This particular caterpillar is known to be found only in underground environments such as caves that occur at or over 13,000 above sea level; this has historically made Cordyceps Sinensis quite rare and expensive, with prices previously as high as US$10,000 per kilogram. Cordyceps Militaris, which is cultivated by Nutrastar, is similar to the more famous Cordyceps Sinensis in all important respects.

Cordyceps Products

For at least the past few hundred (and perhaps few thousand) years, the Cordyceps fungus has been a highly-sought after ingredient in many remedies within the discipline of Traditional Chinese Medicine. Some of the most important uses of this fungus include respiratory, liver, and kidney health, increased energy and libido, and treatment of impotence. Furthermore, certain compounds unique to this fungus have been shown to improve implant tolerance in human, and likely have pronounced anti-cancer effects. One of the potentially most important medicinally active compounds is the sugar-like cordycepin; its chemical formula and structure are shown below.

1 "Cordyceps Mushroom: A Potent Anticancer Nutraceutical", The Open Nutraceuticals Journal, 2010, Issue #3
Medicinally-Active Cordycepin, Found Only in Cordyceps

This compound has been shown to have several potentially useful effects, including prevention of tissue rejection in implant patients, and cancer fighting effects, specially related to inducing cellular apoptosis (cell "suicide").

Cultivation
Historically, Cordyceps have been found in the wild in small quantities; after harvest, they have typically been prepared for market by adding small wires inside of the fungus, which both improve their appearance and add to their weight (and value). Unfortunately, many small Cordyceps producers use inexpensive lead wire for this purpose, which can add a considerable amount of lead toxicity to the fungus itself.

However, the Company has pioneered a unique method of cultivating a similar fungus that does not require live moth larvae as a substrate. As a result, they have been able to cultivate the fungus on a large scale and for relatively low-cost, opening up the market for Cordyceps Militaris to a more mainstream consumer. This cultivation method is patented and difficult to accomplish; both the patent and the actual trade know-how possessed by the Company represent a significant barrier to entry to would-be market entrants.

Cordyceps Militaris Cultivation at Nutrastar International

The Company is not the only producer of cultivated Cordyceps Militaris in China; on the contrary, there are myriad small producers that provide products of varying quality throughout the PRC. The smaller producers lack the Company's ability to scale production, however, relying on small production runs based on antiquated "jar" technology. As a result, we believe the Company will be able to garner a larger and larger share of the market as it scales production and as its brands become more widely known and sought out.
Conclusion
The Cordyceps fungus is both medically valuable and (at least historically) very difficult to find or grow. There is very high demand for the substance in China at even a relatively high price point, and we believe that at a lower price point demand will expand dramatically. Nutrastar has a solid base of intellectual property surrounding its proprietary cultivation process, and we believe as a result it has a significant, long-term competitive advantage in the Cordyceps production and distribution industry. Furthermore, we believe this industry could experience an acceleration in growth rate if and when the Company's Cordyceps-based beverage products gain broad market traction.
Company Analysis

Corporate Overview
Nutrastar International, Inc., was founded in 2006 in Harbin, the capital of Heilongjiang province in Northeastern China. The Company's primary product is Cordyceps Militaris, a medicinally active fungus that is highly sought after by a large number of Chinese consumers due to its demonstrated and purported healing properties. The Company has built a very successful business since its inception just five years ago, and it now boasts net cash of approximately US$45.0M, with only $3.2M in current liabilities. Furthermore, US$800K of this US$3.2M is comprised of a non-cash, warrant-related liability, bringing cash liabilities down to just US$2.4M. Our estimate for 2011 sales is at over US$32.2M, and we expect the Company to earn (net) approximately US$14.5M on those revenues, or in the neighborhood of US$0.89 on a fully-diluted EPS basis. Although this EPS level would be slightly below that of 2010 EPS of 0.93, this is largely attributable to the 10% increase in the Company's tax rate, and due to both slightly lower gross margins in the beverage business as compared with the traditional Cordyceps business, and because the Company's shares outstanding expanded in Q3 2010, thereby diluting earnings per share to a small degree.

The Company primarily sells its product in dried, small-package form through its 140 directly-employed agents in 10 different provinces, to Chinese pharmaceutical companies in bulk packages, and through its own newly-opened retail outlet in the affluent section of Daquin City. Furthermore, the Company began sales of a new line of specialty beverage products through beverage distributors in mid-November of last year, and plans to launch a similar alcohol drink in the second half of this year. The Company trades on the over-the-counter OTCQB market under the symbol NUIN.

Products and Services
Nutrastar cultivates and sells the Cordyceps Militaris fungus in packaged form through its dedicated sales force, and also recently introduced a health beverage based on Cordyceps. Furthermore, the Company sells Cordyceps in bulk to pharmaceutical companies who in turn use Cordyceps as an ingredient in various health and medicinal products. Cordyceps is prized by myriad practitioners of and believers in Traditional Chinese Medicine, and have in medical studies been shown to have such diverse health benefits as prevention of cancer and impotency to promotion of lung, liver, and kidney health to a general increase in energy and focus. Although seemingly outlandish to many Westerners, these claims have been upheld by numerous academic and medical studies.\(^2\)

---
\(^2\) For more information and specific study citations, see article entitled "Cordyceps" by Holiday, Cleaver, and Wasser; published in Nov. 2005 issue of "Encyclopedia of Dietary Supplements: Dekker Encyclopedias"
In regards to both the Company's traditional dried Cordyceps product and the new bottled and can drink offering, the Company is targeting the rising upper middle class and upper class consumers in China. These well-educated consumers are familiar with Cordyceps, will appreciate the high quality of the Company's offering, and are likely to be relatively price-insensitive.

Production
The Company's current production facilities are located in rural northern China on the premises of a former prison. The Company has purchased this facility, which includes a multitude of free-standing buildings that the Company is systematically renovating for the production of its products. Given the sheer size of this facility and the number of buildings available for renovation, we believe the Company has room to grow without needing additional production real estate for the foreseeable future.

Nutrastar Production Facilities, Current (Renovated) and Future (Original-Condition)
The Company's production processes begin in the laboratory, where specialized workers isolate the Cordyceps spores and prepare them for use. These spores are then developed into immature Cordyceps in glass jars, and then transferred to large plastic bins where they will grow and mature into the final product. The entire growth cycle requires approximately 60 days from start to finish.

**Product Growth Cycles**

Once the Cordyceps mature, the company's production personnel harvest them from substrate, sort and grade them, and finally, package them for delivery to customers.

**Harvest and Packaging**

Nutrastar has several patents pertaining to its production processes, which are vastly superior to those of other Cordyceps cultivators. The Company's primary advantages lie in its ability to prepare Cordyceps substrate in bulk, and then in a highly controlled environment grow the Cordyceps in large quantities. This advantage is allowing it to build exceptional market share in the commercially cultivated Cordyceps industry, and should also allow it to scale production of its Cordyceps-based beverages as demand for them develops.

**Growth Strategy**

During the next 12 to 24 months, the Company's growth strategy is twofold: to increase its Cordyceps production capacity to over 100 tons by mid-2012, and to expand sales of both its traditional packaged Cordyceps product and its newly introduced health beverage products. We believe that the expansion of its
capacity to the level of 100 tons of production should be relatively straightforward, as it does not require an inordinate level of scale beyond that which the Company has already demonstrated (current annual production capacity is currently 72 tons). This additional production should lead directly to increased sales of the Company's core Cordyceps offering, which should expand both through additional distribution channels and through new Company-owned retail stores.

We do see more of a wild card in the Company's newly-introduced beverage line, however. While initial reports confirm that the new beverages are being well-received by the Chinese consumer, the high-end beverage industry is relatively crowded, and the successful entrant in this space has typically devoted a large amount of capital to general advertising and branding activities. Although the Company certainly has significant resources available for this purpose, there can be no guarantee that such expenditures would lead to significant success in this segment. Overall, we view the Company's beverage product as favorable and likely to succeed, a view which is strongly supported by its initial success since its introduction in mid-November 2010. Note that we have sampled both of the Company's new health beverages, and found the product to be quite enjoyable to drink. We do caution, however, that the product's initially strong sales are reflective of sales to distributors, and do not yet imply a high degree of market acceptance. We are waiting for the beverages' H1'11 sales report to better gauge the products' initial market appeal and success.

Sales and Distribution
The Company currently employs approximately 140 dedicated sales personnel and has nine major pharmaceutical customers/distributors that collectively cover ten provinces in the People's Republic of China. The Company provides pharmaceutical customers with "large pack" versions of its products, and provides smaller ready-to-consume packages to retailers and directly to consumers through its sales force. In addition, the Company's direct sales staff participate in various trade shows and seminars that help promulgate awareness and use of its products.

Location of Current Distributors and/or Sales Professionals

Note that the Company's Cordyceps production is based in Northeastern China, and its beverage line production operations are in Jiangsu, relatively close to Shanghai. That region of the PRC, which consists of Jiangsu, Anhui, Zhejiang as well as Greater Shanghai, has an approximate population of 205 million people - more than two-thirds of the population of the United States.

Competition
The market for Cordyceps fungus in China is both large and highly fragmented; to our knowledge Nutrastar is the only company that has managed to cultivate this product on an industrial scale. Other producers either cultivate small crops based on a glass-jar technology, or base their products on (Cordyceps Sinensis) caterpillar
fungus harvested from traditional moth larvae found in high-mountain caves. We believe that potential demand for Cordyceps fungus is likely to outstrip supply for many years to come, and given the Company's superior competitive position from the perspective of production capacity, we do not see a significant competitive threat on the horizon. On the contrary, we believe that the highly fragmented nature of Cordyceps industry creates great potential for an industrial-size producer such as Nutrastar International.

In terms of the Company's drink offering, the high-end health and energy drink market is fairly crowded and competitive, although no drink based on Cordyceps has yet gained market traction. So while we cannot be as certain of the Company's future success in the beverage market, we believe that its brand and the demand for Cordyceps-based products make its drinks very likely to succeed, and in a big way. We also believe that other Cordyceps producers lack the scale and technology necessary to support the likely demand a successful Cordyceps-based beverage offering. In summary, we believe that the Company faces relatively moderate and manageable competitive threats at this time, and is very likely to continue to grow its share of the large market for Cordyceps-related products.

**Key Management**
Nutrastar International employs a highly-seasoned leadership team, including several experienced operators and a highly-experienced, English-speaking CFO. The presence of these individuals on the team should allow the Company to continue to excel fundamentally while also doing an excellent job of communicating with the Street, thus maximizing shareholder value. Also, the Company's Board of Directors consists of seven individuals, four of whom are U.S. Citizens, and four of whom qualify as independent according to NYSE and Nasdaq rules.

**Lianyun Han, Chairperson, President, and Chief Executive Officer**
Ms. Han has extensive experience in operational management and business development. Ms. Han is the founder of the Company and has been the Chief Executive Officer, President, and the Chairperson of the Board of Directors since its formation in 2006. From 1998 to 2006, Ms. Han was the president of Heilongjiang Shuaiyi Technology Development Co., Ltd., a company engaged in the business of developing, manufacturing, marketing and selling high-tech agricultural products. Ms. Han holds a Bachelor's Degree in Chinese Language and Literature from Harbin Normal University.

**Robert Tick, Chief Financial Officer**
We believe Mr. Tick is an exceptionally valuable addition to the Company's management and governance teams, as he is a completely bilingual and bicultural with strong roots in both the United States and in the PRC. Mr. Tick has over sixteen years' experience in accounting and finance. Before joining the Company, he was the Chief Financial Officer of a telecom equipment provider; he has also held several senior financial positions with several other companies. Mr. Tick is a Certified Public Accountant and holds a B.S. in Accounting and Finance from San Francisco State University and an M.B.A. from Washington State University.

**Hongbing Hua, Chief Marketing Officer**
Mr. Hua has over fifteen years' experience in sales and marketing management. Prior to joining the Company, from 2003 to 2004, Mr. Hua was the Project General Planning Principle of Wanglaoji Herbal Tea, JDB Group, one of the largest herbal tea manufacturers in China. Previously, he was the VP Sales & Marketing of Beijing Huiyuan Beverage and Food Group Co., Ltd., a leading company engaged in the manufacture and sales of juice and other beverage products in China. Mr. Hua holds a Bachelor's Degree in International Finance from Tianjin University.

**Lichen Wang, Head of R&D**
Mr. Wang serves as the Technical and Deputy Director of the Institute of Edible Fungus, and has conducted extensive university research in the field of edible fungus.
Other Risks
During the last few months the U.S. equity markets for Chinese companies have been roiled by a few relatively high-profile frauds and accusation of fraud, which has dramatically lowered valuations across the sector. We believe this is largely the case because quality "due diligence" is far more difficult for U.S. based investors to accomplish in China than it is in the U.S., and unfortunately this situation has caused many good companies to suffer lower market valuations than they otherwise would. In our opinion Nutrastar clearly falls in this latter group.

In regards to the Company, one of the seemingly largest risks is the large cash balance on the Company's financial statements. Although we do not have a direct presence in China, we were able to speak directly with the Company's independent auditor at Crowe Horwath and the lead auditor thoroughly explained Crowe Horwath's rather extensive due diligence process. In terms of cash verification, Crowe Horwath actually sends individuals at random to branches of the banks that hold the Company's cash to verify its existence and to obtain signed verification directly from the bank. Short of actually going to China and conducting this due diligence ourselves, we felt that this was the highest possible level of comfort attainable. Overall we feel that the fraud risk in this Company is extremely low, given its base of operations in China, and we do not consider it a major investment consideration.

Another (and probably the least well understood) risk facing investors in NUIN shares is the Company's rather complex ownership structure. Nutrastar International is a Nevada corporation that "owns" the actual operating company and its subsidiaries in the PRC (Heilongjiang Shuaiyi New Energy Development Co.) through what is known as a variable interest entity, or VIE. The basic principle of a VIE is that its economic interest in the PRC-based operating company is accomplished through a variety of contractual instruments, which makes this structure inherently less secure than an actual ownership structure. These instruments give Nutrastar International (through its wholly-owned PRC subsidiary Harbin Baixin Biotech Development Co. Ltd.) various rights to control the PRC-based operating company and its subsidiaries, and derive economic value from it. Although the VIE is a structure commonly found in many U.S. traded Chinese companies, it relies on legal action under PRC law as the only recourse, if the PRC operating company and/or its founders cannot or will not live up to their contractual obligations to the U.S. parent and/or its subsidiary companies. This situation is further complicated by the fact that voting control of both parties to these contracts is held by the same founders and founder-controlled legal entities.

In the case of Nutrastar, the contractual instruments in effect include the following:

- **A technical services agreement** that provides that Nutrastar's PRC-based subsidiary will receive a performance-based service fee.
- **An exclusive purchase option agreement** that gives Harbin Baixin (the wholly-owned subsidiary of Nutrastar) the right to purchase part or all of the equity in Heilongjiang at an exercise price equal to the lowest price permitted by PRC law.
- **A voting rights proxy agreement** under which the Founders and Heilongjiang irrevocably granted Harbin Baixin and its designates to exercise all voting rights as a shareholder of Heilongjiang.
- **An equity pledge agreement** under which the Founders pledged all of their equity interests in Heilongjiang to Harbin Baixin to secure full and complete performance of their obligation under these agreements.

This rather complicated corporate structure entails risks to U.S. investors that we are incapable of completely assessing, as they are based in part on current and future laws in the PRC pertaining to foreign ownership and operation of PRC-based companies. However, we do acknowledge that the general trend in the PRC has been towards laws more favorable to foreign investors; it is these laws that have (in part) spurred the immense foreign investment in China over the last one to two decades. Although we cannot predict the future trend in PRC law, we believe it is in the best interest of China to protect and encourage foreign investment under this system, which should be comforting to investors in VIE companies. NUIN's ownership structure is as follows:
Please refer to the Company's public SEC filings, including the recently filed 2010 10-K, for more information about the Company's ownership structure.

**Financial Analysis**

Financial analysis of the Company is relatively straightforward, as it has very little debt and an uncomplicated asset structure, with physical assets consisting only of its facilities and the production equipment it employs. However, due to the convertible nature of a Preferred stock issued in a Reg D financing completed in 2010, accounting rules require that a portion of net income be reallocated to the value of the preferred stock's beneficial conversion feature, based on the change in calculated value of that feature from one period to the next. This reallocation increases additional paid-in capital and reduces the carrying value of the preferred stock on the balance sheet - as such, it is a non-cash item and (historically) has caused net income to be understated vis-à-vis what it would have been had such rules not been in place. Also, the pre-established tax code under which the Company was launched and has been operating since its inception was structured so that Company would get an initial tax-free period followed by a three-year tax "holiday" which effectively entitled them to a total discount of nearly 50%. Unfortunately, this tax holiday ended on December 31st, 2010, and since that time the Company has been accruing and paying its taxes at the normal effective rate of approximately 24%. Since it has also recently begun to experience lower overall gross margins due increased costs associated with the launch of the new beverage products, we expect a temporary reduction in the Company's sales and earnings growth rates, which will likely persist for the next 2-3 quarters. Our expectation of reduced growth rates for the remainder of 2011 is reflected in our financial models.
Valuation and Investment Opinion

We believe that the current market environment for U.S.-traded small-cap Chinese equities is highly irrational at this point in time, as the market seems to be punishing all Chinese companies with systematically lower valuations across the board. In our opinion, this has been mostly the market's knee-jerk response to a few a few isolated but highly publicized fraud discoveries over the last few quarters. We believe as time goes on the solid companies in this sector, such as Nutrastar, will slowly but surely regain investor confidence. As this happens, valuation multiples in the sector should re-normalize at significantly higher, more normal levels. This will clearly benefit those investors who take positions now, when multiples are so artificially low.

In terms of a more traditional peer group analysis, Nutrastar does trade at significantly lower price-to-earnings and price-to-sales ratios than its most of its competitor's do, as shown below. We attribute this to the still maturing nature of the Company's business and the degree to which it is not yet widely followed by the Street. Both the current market irrationality and Nutrastar's continued maturation will strongly favor investors who own the stock at current levels.

<table>
<thead>
<tr>
<th>Company Name and Symbol</th>
<th>Price per Share*</th>
<th>Market-Cap*</th>
<th>Current P/E based on '11 EPS</th>
<th>Price/Sales Estimate (2011)*</th>
<th>Est. '11 Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nutrastar Intl. (NUIN – OTCQB)</td>
<td>2.81</td>
<td>45.73</td>
<td>3.2x</td>
<td>1.43x</td>
<td>32%</td>
</tr>
<tr>
<td>Amer. Oriental Bioengineering (AOB - NYSE)</td>
<td>1.30</td>
<td>101.63</td>
<td>5.4x</td>
<td>0.31x</td>
<td>12.1%</td>
</tr>
<tr>
<td>China Nutrifruit Group (CNGL - AMEX)</td>
<td>1.55</td>
<td>57.05</td>
<td>N/Ax</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>China-Biotics (CHBT - NasdaqGS)</td>
<td>8.12</td>
<td>179.86</td>
<td>4.54x</td>
<td>1.25</td>
<td>17.7%</td>
</tr>
</tbody>
</table>

*Market data as of market close, 5/25/11; Per-share data for NUIN computed from fully diluted common shares outstanding

Conclusion

Nutrastar is the industry leader in a rapidly growing consumer market in China, the world's most populous consumer economy. The Company has a patent-protected method for cultivating Cordyceps fungus on a large scale basis, which its myriad competitors have so far failed to replicate. Given the strong demand for Cordyceps and Cordyceps-based products in China, and given Nutrastar's strong management team, operating track record, financial position, and new product portfolio, we believe Nutrastar is both extremely undervalued and very well positioned to continue experiencing success in executing its business plan. Since we based our internal valuation process on an ultra-conservative forward P/E multiple assumption of just six times our FY2011 year-end net earnings estimate of US0.89 per share, we believe significant upside to our price targets exists. Based on our analysis, we are setting our 12-month price target US$8.00 per share, and initiating coverage of NUIN shares with a Strong Buy Rating. Note that each share of NUIN share is worth US$2.62 in net cash.
Our Rating System
We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

### Explanation of Ratings Issued by Harbinger Research

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRONG BUY</td>
<td>We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.</td>
</tr>
<tr>
<td>BUY</td>
<td>We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.</td>
</tr>
<tr>
<td>STRONG SPECULATIVE BUY</td>
<td>We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.</td>
</tr>
<tr>
<td>SPECULATIVE BUY</td>
<td>We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.</td>
</tr>
<tr>
<td>NEUTRAL</td>
<td>We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.</td>
</tr>
<tr>
<td>SELL</td>
<td>We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.</td>
</tr>
</tbody>
</table>

### Analyst Certification
I, Brian R. Connell, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.
Disclaimer
This report was prepared for informational purposes only. Harbinger Research, LLC (“Harbinger”) was paid in the amount of US$20,000 for the preparation and distribution of this report, and for research coverage for a period of one (1) year, by the Company. All information contained in this report was provided by Nutrastar International, Inc. (“Company”). To ensure complete independence and editorial control over its research, Harbinger has developed various compliance procedures and business practices including but not limited to the following: (1) Fees from covered companies are due and payable prior to the commencement of research; (2) Harbinger, as a contractual right, retains complete editorial control over the research; (3) Analysts are compensated on a per-company basis and not on the basis of his/her recommendations; (4) Analysts are not permitted to accept fees or other consideration from the companies they cover for Harbinger except for the payments they receive from Harbinger; (5) Harbinger will not conduct investment banking or other financial advisory, consulting or merchant banking services for the covered companies.

Harbinger did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company is relying solely upon information provided by the companies for the accuracy and completeness of all such information. The information provided in the Report may become inaccurate upon the occurrence of material changes, which affect the Company and its business. Neither the Company nor Harbinger is under any obligation to update this report or ensure the ongoing accuracy of the information contained herein. This report does not constitute a recommendation or a solicitation to purchase or sell any security, nor does it constitute investment advice. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. This report does not provide all information material to an investor’s decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Information about past performance of an investment is not necessarily a guide to, indicator of, or assurance of, future performance. Harbinger cannot and does not assess, verify or guarantee the adequacy, accuracy, or completeness of any information, the suitability or profitability of any particular investment, or the potential value of any investment or informational source. Harbinger and its clients, affiliates and employees, may, from time to time, have long or short positions in, buy or sell, and provide investment advice with respect to, the securities and derivatives (including options) thereof, of companies mentioned in this report and may increase or decrease those positions or change such investment advice at any time. Harbinger is not registered as a securities broker-dealer or an investment adviser either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority.

ALL INFORMATION IN THIS REPORT IS PROVIDED “AS IS” WITHOUT WARRANTIES, EXPRESSED OR IMPLIED, OR REPRESENTATIONS OF ANY KIND. TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, HARBINGER EQUITY RESEARCH, LLC WILL NOT BE LIABLE FOR THE QUALITY, ACCURACY, COMPLETENESS, RELIABILITY OR TIMELINESS OF THIS INFORMATION, OR FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES THAT MAY ARISE OUT OF THE USE OF THIS INFORMATION BY YOU OR ANYONE ELSE (INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF OPPORTUNITIES, TRADING LOSSES, AND DAMAGES THAT MAY RESULT FROM ANY INACCURACY OR INCOMPLETENESS OF THIS INFORMATION). TO THE FULLEST EXTENT PERMITTED BY LAW, HARBINGER EQUITY RESEARCH, LLC WILL NOT BE LIABLE TO YOU OR ANYONE ELSE UNDER ANY TORT, CONTRACT, NEGLIGENCE, STRICT LIABILITY, PRODUCTS LIABILITY, OR OTHER THEORY WITH RESPECT TO THIS PRESENTATION OF INFORMATION.

Any and all opinions, estimates or forecasts herein regarding Nutrastar International Inc.’s performance are made solely by Harbinger Research, and do not represent the opinions, forecasts or predictions of Nutrastar International Inc. or its management, whatsoever.
Harbinger Research is an independent equity research firm with a focus on providing coverage to small-cap companies. Our mission is to help our clients achieve fairer market valuations, an expanded shareholder base, improved liquidity, and easier access to capital markets. We do this by providing insightful, in-depth research reports and by making sure those reports are widely distributed and made available to both institutional and individual investors. We strive to deliver superior research coverage and the result is compelling—consistent coverage from industry-expert analysts that is well written and consists of insightful analysis, cogent arguments, and in-depth financial models. To learn more about Harbinger Research and view our research reports, we invite you to visit our website located at www.harbingerresearch.com.

**Analyst Highlight**

**Brian R. Connell, CFA**

Mr. Connell has over 15 years’ experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.
## Nutrastar International (NUIN - OTCQB) Profit and Loss Model

### Profit and Loss Model

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year-over-year growth rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost of sales</td>
<td>4,605</td>
<td>4,564</td>
<td>1,057</td>
<td>888</td>
<td>1,178</td>
<td>1,515</td>
<td>4,638</td>
<td>1,370</td>
<td>1,541</td>
<td>1,936</td>
<td>2,258</td>
<td>7,104</td>
<td>8,749</td>
</tr>
<tr>
<td>Gross profit</td>
<td>8,385</td>
<td>10,768</td>
<td>3,712</td>
<td>4,570</td>
<td>5,284</td>
<td>6,038</td>
<td>19,604</td>
<td>4,426</td>
<td>5,159</td>
<td>6,864</td>
<td>8,493</td>
<td>24,942</td>
<td>36,116</td>
</tr>
<tr>
<td>Gross margin</td>
<td>64.5%</td>
<td>70.2%</td>
<td>77.8%</td>
<td>83.7%</td>
<td>81.8%</td>
<td>81.9%</td>
<td>81.4%</td>
<td>76.4%</td>
<td>77.0%</td>
<td>78.0%</td>
<td>79.0%</td>
<td>77.8%</td>
<td>80.5%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling expenses</td>
<td>196</td>
<td>508</td>
<td>172</td>
<td>233</td>
<td>305</td>
<td>382</td>
<td>1,093</td>
<td>410</td>
<td>600</td>
<td>1,100</td>
<td>1,300</td>
<td>3,410</td>
<td>6,000</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>1,416</td>
<td>1,356</td>
<td>430</td>
<td>547</td>
<td>546</td>
<td>1,200</td>
<td>2,723</td>
<td>521</td>
<td>637</td>
<td>836</td>
<td>1,021</td>
<td>3,015</td>
<td>4,262</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,612</td>
<td>1,864</td>
<td>602</td>
<td>781</td>
<td>851</td>
<td>1,583</td>
<td>3,816</td>
<td>931</td>
<td>1,237</td>
<td>1,936</td>
<td>2,321</td>
<td>6,425</td>
<td>10,262</td>
</tr>
<tr>
<td>% of Sales</td>
<td>12.4%</td>
<td>12.2%</td>
<td>12.6%</td>
<td>14.3%</td>
<td>13.2%</td>
<td>21.0%</td>
<td>15.7%</td>
<td>16.1%</td>
<td>18.5%</td>
<td>22.0%</td>
<td>21.6%</td>
<td>20.0%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Operating income</td>
<td>6,772</td>
<td>8,904</td>
<td>3,110</td>
<td>3,789</td>
<td>4,433</td>
<td>4,456</td>
<td>15,788</td>
<td>3,495</td>
<td>3,923</td>
<td>4,928</td>
<td>6,171</td>
<td>18,517</td>
<td>25,854</td>
</tr>
<tr>
<td>Operating margin</td>
<td>52.1%</td>
<td>58.1%</td>
<td>65.2%</td>
<td>69.4%</td>
<td>68.6%</td>
<td>59.0%</td>
<td>65.1%</td>
<td>60.3%</td>
<td>58.5%</td>
<td>56.0%</td>
<td>57.4%</td>
<td>57.6%</td>
<td>57.6%</td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income (expense), net</td>
<td>30</td>
<td>82</td>
<td>33</td>
<td>34</td>
<td>25</td>
<td>32</td>
<td>124</td>
<td>40</td>
<td>50</td>
<td>65</td>
<td>85</td>
<td>165</td>
<td>225</td>
</tr>
<tr>
<td>Gain (loss) due to foreign exchange</td>
<td>(20)</td>
<td>(15)</td>
<td>0</td>
<td>(16)</td>
<td>(116)</td>
<td>(131)</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income (expense), net</td>
<td>12</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in fair value of warrants</td>
<td>131</td>
<td>302</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merger-related costs</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total other income (expense)</td>
<td>(2,068)</td>
<td>73</td>
<td>34</td>
<td>149</td>
<td>239</td>
<td>(547)</td>
<td>(125)</td>
<td>455</td>
<td>50</td>
<td>65</td>
<td>90</td>
<td>580</td>
<td>225</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>4,756</td>
<td>8,977</td>
<td>3,144</td>
<td>3,938</td>
<td>4,672</td>
<td>3,909</td>
<td>15,663</td>
<td>3,950</td>
<td>3,973</td>
<td>4,993</td>
<td>6,261</td>
<td>19,097</td>
<td>26,079</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>975</td>
<td>1,235</td>
<td>423</td>
<td>523</td>
<td>606</td>
<td>668</td>
<td>2,219</td>
<td>942</td>
<td>948</td>
<td>1,191</td>
<td>1,494</td>
<td>4,575</td>
<td>6,222</td>
</tr>
<tr>
<td>Implied Tax Rate</td>
<td>20%</td>
<td>14%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>Income net</td>
<td>3,781</td>
<td>7,742</td>
<td>2,721</td>
<td>3,416</td>
<td>4,066</td>
<td>3,241</td>
<td>13,444</td>
<td>3,008</td>
<td>3,025</td>
<td>3,802</td>
<td>4,767</td>
<td>14,522</td>
<td>19,857</td>
</tr>
<tr>
<td>Net margin</td>
<td>29.1%</td>
<td>50.5%</td>
<td>57.1%</td>
<td>62.6%</td>
<td>62.9%</td>
<td>42.9%</td>
<td>55.5%</td>
<td>51.9%</td>
<td>45.1%</td>
<td>43.2%</td>
<td>44.3%</td>
<td>45.3%</td>
<td>44.3%</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>24</td>
<td>24</td>
<td>9</td>
<td>169</td>
<td>542</td>
<td>567</td>
<td>1,287</td>
<td>512</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>3,805</td>
<td>7,766</td>
<td>2,730</td>
<td>3,585</td>
<td>4,608</td>
<td>3,808</td>
<td>14,731</td>
<td>3,520</td>
<td>3,025</td>
<td>3,802</td>
<td>4,767</td>
<td>14,522</td>
<td>19,857</td>
</tr>
<tr>
<td>Net income per common share, basic</td>
<td>0.31</td>
<td>0.59</td>
<td>0.19</td>
<td>0.24</td>
<td>0.28</td>
<td>0.23</td>
<td>0.94</td>
<td>0.21</td>
<td>0.21</td>
<td>0.26</td>
<td>0.33</td>
<td>1.00</td>
<td>1.37</td>
</tr>
<tr>
<td>Net income per common share, diluted</td>
<td>0.31</td>
<td>0.58</td>
<td>0.19</td>
<td>0.24</td>
<td>0.25</td>
<td>0.20</td>
<td>0.93</td>
<td>0.18</td>
<td>0.19</td>
<td>0.23</td>
<td>0.29</td>
<td>0.89</td>
<td>1.22</td>
</tr>
<tr>
<td>Wtd. Av. shares outstanding, basic</td>
<td>12,199</td>
<td>13,132</td>
<td>14,313</td>
<td>14,333</td>
<td>14,333</td>
<td>14,333</td>
<td>14,328</td>
<td>14,513</td>
<td>14,513</td>
<td>14,513</td>
<td>14,513</td>
<td>14,513</td>
<td>14,513</td>
</tr>
<tr>
<td>Wtd. Av. shares outstanding, diluted</td>
<td>12,199</td>
<td>13,342</td>
<td>14,402</td>
<td>14,342</td>
<td>16,435</td>
<td>16,435</td>
<td>14,476</td>
<td>16,274</td>
<td>16,274</td>
<td>16,274</td>
<td>16,274</td>
<td>16,274</td>
<td>16,274</td>
</tr>
</tbody>
</table>
## Nutrastar International (NUIN - OTCQB) Balance Sheet
(Audited on 12-31-10)

<table>
<thead>
<tr>
<th>3/31/2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>Restricted cash</td>
</tr>
<tr>
<td>Accounts receivable</td>
</tr>
<tr>
<td>Inventories</td>
</tr>
<tr>
<td>Prepayments and other receivables</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
</tr>
<tr>
<td>Intangible assets, net</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
</tr>
<tr>
<td><strong>Liabilities and shareholders' equity</strong></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
</tr>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Other payables and accruals</td>
</tr>
<tr>
<td>Payable for intangible assets</td>
</tr>
<tr>
<td>Income tax payable</td>
</tr>
<tr>
<td>Due to related parties</td>
</tr>
<tr>
<td>Preferred stock dividend payable</td>
</tr>
<tr>
<td>Acquisition payable</td>
</tr>
<tr>
<td>Warrant-related liabilities</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
</tr>
<tr>
<td><strong>Shareholders equity</strong></td>
</tr>
<tr>
<td>Preferred stock, 197,706 issued, see notes</td>
</tr>
<tr>
<td>Common stock, 14,332,731 issued and outst.</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
</tr>
<tr>
<td>Statutory reserves</td>
</tr>
<tr>
<td>Retained earnings</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
</tr>
<tr>
<td><strong>Total shareholders' equity</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
</tr>
</tbody>
</table>