



Nutrastar International Inc.

<http://www.syxny.net>



Research Report for Nutrastar International Inc. (NUIN)

by China Growth Partners Inc.

June 15, 2010





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Potential risks and uncertainties include, but are not limited to, such factors as unanticipated changes in product demand, interruptions in the supply, downturns in the Chinese economy, changes in applicable laws and/or regulations, and other information detailed from time to time in the Company's filings and future filings with the United States Securities and Exchange Commission. Accordingly, although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.



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Nutrastar International Inc. is a nutraceutical company engaged in the production and distribution of Chinese Golden Grass based organic and specialty food products.

Chinese Golden Grass is one of the most highly regarded and sought after nutrients in Chinese Culture. Nutrastar is the worlds largest producer.

- Operations are based in Harbin, the capital of Heilongjiang Province and the 10th largest city in China (population 10 million)
- 302 employees- with 21 in R&D and 132 in sales and marketing
- Distribution network covers more than 10 provinces in China

Ticker: NUIN

Fiscal Year End: Dec. 31st

Recent Price: \$3.15 (on 6/10/2010)

52 Week Range: \$1.01-\$5.00

Shares Outstanding: 14,312,731

Cash Flow From Operations: \$9.3M USD

Market Cap: \$45.8M USD

2009 Revenue: \$15.3M USD

2009 Net Income \$7.7M USD

2009 EPS: .58

Trailing PE: 5.3

Legal: Pillsbury Winthrop

Shaw Pittman LLP

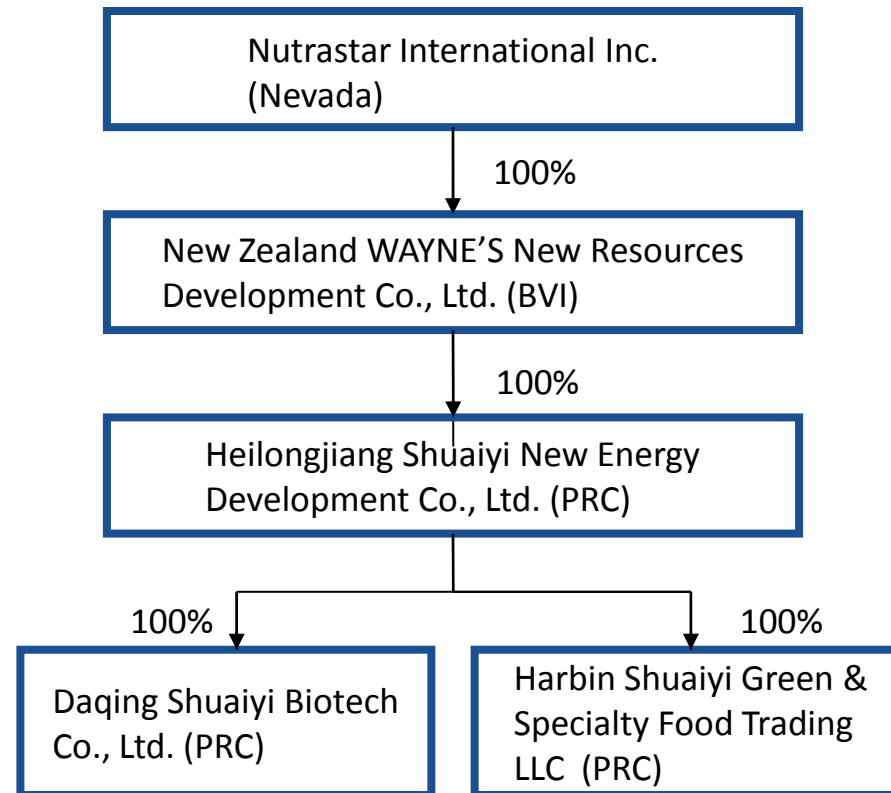
New York, NY

Auditor: AGCA, Inc.

Arcadia, CA



Corporate Structure





Investment Highlights

- Leadership Position
 - Worlds largest Golden Grass planting base
 - 19% market share in China for Golden Grass products
 - Annual production capacity of 55 tons & expanding to 65 by end of 2010
- Global demand estimated to be 5x greater than China's total production capacity
- High barriers to entry (patented biotechnology used in cultivation process, with additional patents pending)
- Extremely high margins (70.2% for 2009, increasing to 77.9% in the first quarter of 2010)
- 66% management ownership
- Strong Research and Development program in cooperation with the China Institute of Science
- Expansion of sales and distribution network currently underway
- Strong balance sheet with \$23.3M USD cash
- Steady cash flow from operations (\$9.3M USD in 2009)
- Very low Accounts Receivable balance/many customers pay cash upfront
- 2010 "make good" net income \$9M USD
- 2011 "make good" net income \$11M USD



Chinese Golden Grass, (*Cordyceps Militaris*), is a species of parasitic fungus that is typically found in the north-eastern mountains of China. It is a precious ingredient in TCM (Traditional Chinese Medicine) as it is widely believed to offer high medical and health benefits by nourishing the *yin*, boosting the *yang*, and improving lung and kidney function. Both Eastern and Western research has shown that *Cordyceps Militaris* may boost the immune system and can be used as a supplement for the treatment of hypertension, in the treatment of certain cancerous tumors, and has been used in treating arteriosclerosis and gastrointestinal disorders.



Chinese Golden Grass
Cordyceps Militaris

In addition to TCM compounds, Chinese Golden Grass is used in organic and specialty foods, beverages, and other products in China.

An October 2009 research report by the Freedonia Group states that demand for nutraceutical ingredients worldwide is projected to advance 6.2 percent annually to \$21.8 billion USD in 2013. Moreover, the report emphasizes that China and India will emerge as the most rapidly expanding nutraceutical ingredient markets as strong economic growth allows them to upgrade and diversify food, beverage and drug production capabilities.

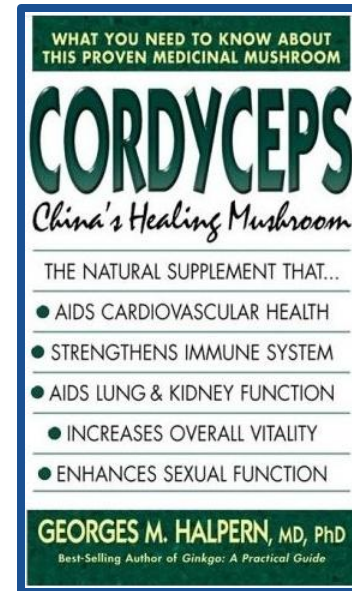


Wild Cordyceps Militaris (Chinese Golden Grass) can cost as much as **\$10,000 USD per kilogram** according to Georges M. Halpern's *Healing Mushrooms*. Due to a large and growing demand for Chinese Golden Grass, wild strains have been severely depleted and harvesting is no longer permitted without government approval.

Global Markets for Chinese Golden Grass are mainly in the United States, Canada, Japan, Korea, Hong Kong and Southeast Asia. The European and Australian markets are also emerging.

According to *Market Survey of Cordyceps Militaris 2008*, published by The China Market Monitoring Center, the current international market demand for Cordyceps Militaris is about 1,000 tons a year while Chinese domestic market demand is about 500 tons/year with an annual growth rate of over 13%. With about 50 Cordyceps Militaris manufacturers in China having an aggregate production capacity of only 250 tons/year, demand is running 2X greater than supply in China.

As a result of this tremendous demand, management has reiterated their confidence to China Growth Partners in meeting the \$9M USD and \$11M USD in net income targets for 2010 and 2011 respectively.





Nutrastar is the market leader in China with a 19% market share, and operates the world's largest single source for cultivated Cordyceps Militaris according to the company's filings.

Multiple Barriers for Competitive Entrants:

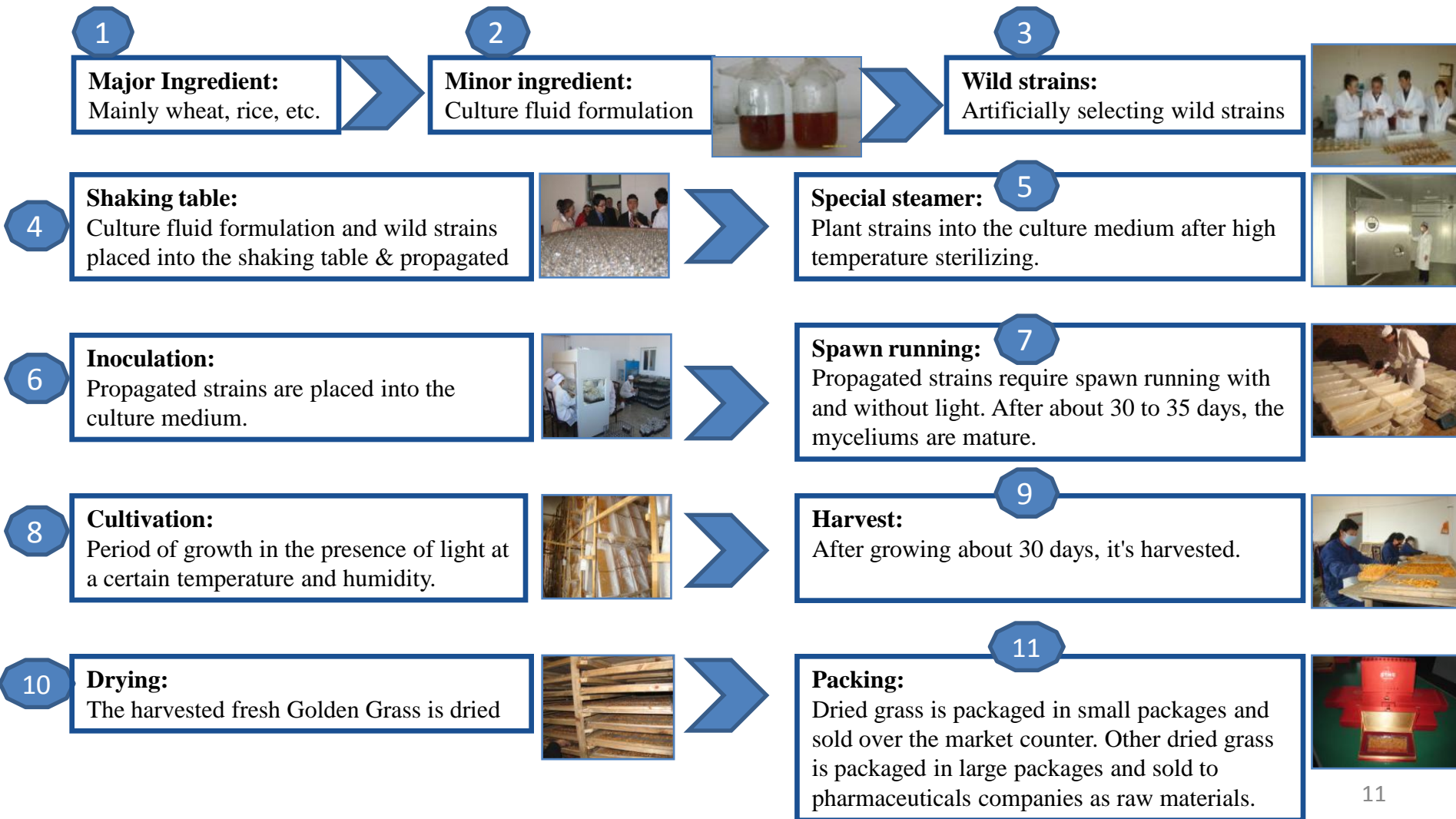
- Extremely sensitive growing conditions- very difficult to grow in a man-made environment
- Nutrastar developed the patented technology to commercially grow and produce Cordyceps Militaris
- Existing competitors are small-sized local producers with much lower production capacity and less advanced growing and production technology

As a result of the difficulty in cultivating Chinese Golden Grass, the extreme rarity of wild strains with government regulations against harvesting them, and Nutrastar's market leading position with patents and patents pending in it's cultivation, barriers to entry for new competitors are strong and margins should remain high*.

*Gross margins averaged 70.2% for 2009 and increased to 77.9% in Q1 of 2010



Nutrastar's highly successful cultivation process is patent-protected.





1) Chinese Golden Grass: Cultivate, process, market and distribute to:

Raw Material: Pharmaceutical companies

Retail stores: drug stores, supermarkets, and franchise stores



2) Organic and Specialty Food (wholesale distribution):

Sales agent or distributor for third-party producers.

Largest wholesale distributor of organic and specialty food in Heilongjiang Province (population 37 million)



3) Specialty Beverage Products (derived from Chinese Golden Grass):

Commercial launch slated for first half of 2010

(See New Product Launches slide for more information on what could be a blockbuster product launch for Nutrastar this year)





Major distributors located in Shangdong, Zhejiang, Guangdong, Sichuan, Shang Xi province and Beijing, with access points throughout China.

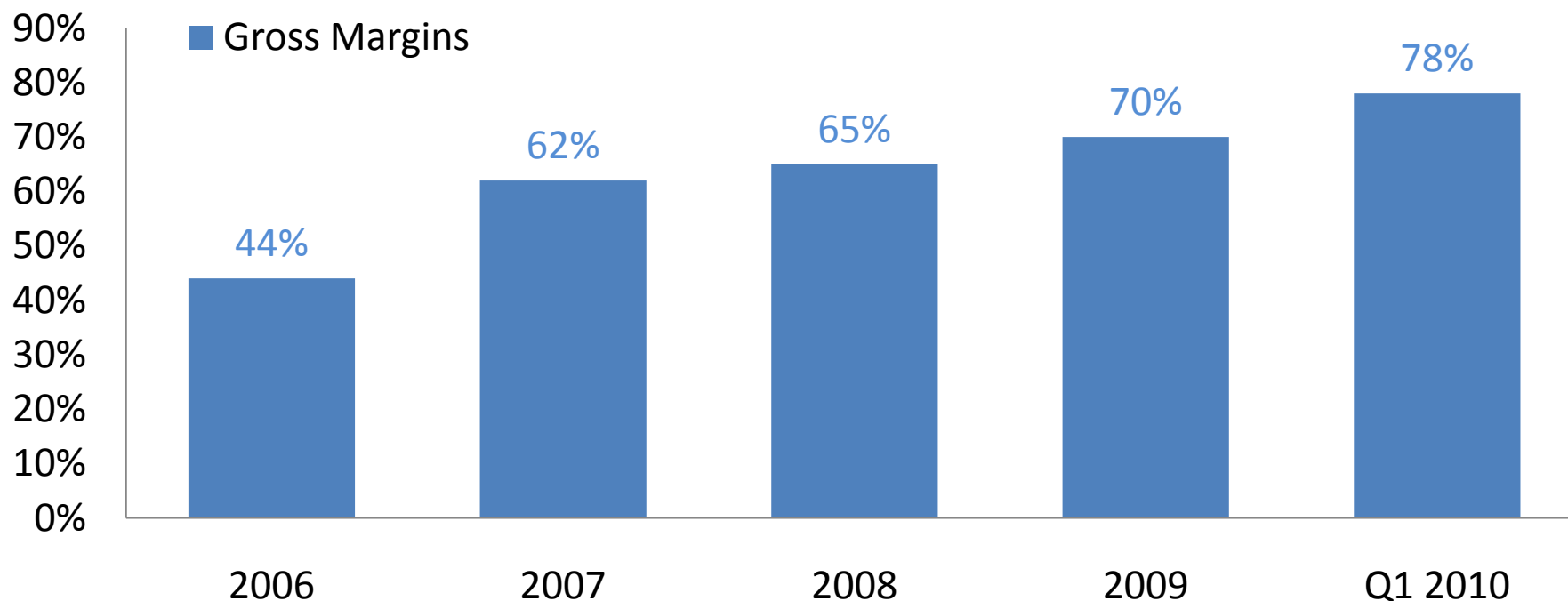


Currently has 115 dedicated sales personnel and 9 major distributors covering 10 provinces in China delivering:

- 1) Large-pack products to pharmaceutical companies
- 2) Small-pack products to drug stores, supermarkets and franchise stores

Major distributors located in Shangdong, Zhejiang, Guangdong, Sichuan, Shang Xi province and Beijing, with access points throughout China.

Direct sales staff and distributors participate in large trade shows and offer seminars and lectures to local communities

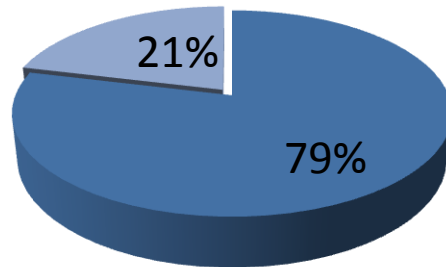


China Growth Partners expects margins to remain high as launch of Specialty Beverage Products and other higher margin small-pack products are distributed to drug stores, supermarkets, and franchise stores.



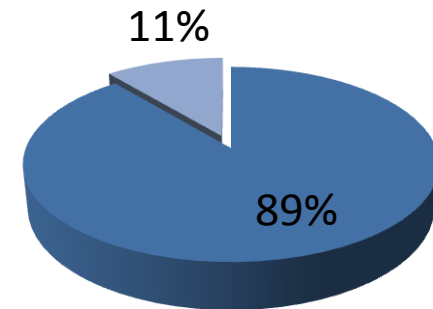
2009 Revenue

- Chinese Golden Grass
- Organic & Specialty Foods



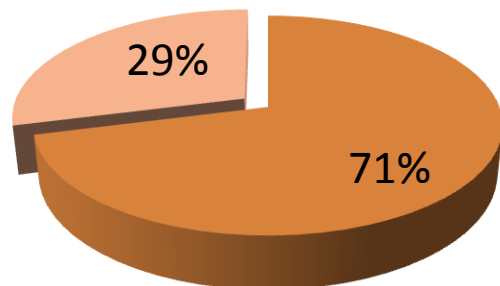
1st Quarter 2010

- Chinese Golden Grass
- Organic & Specialty Foods



2009 Golden Grass Sales

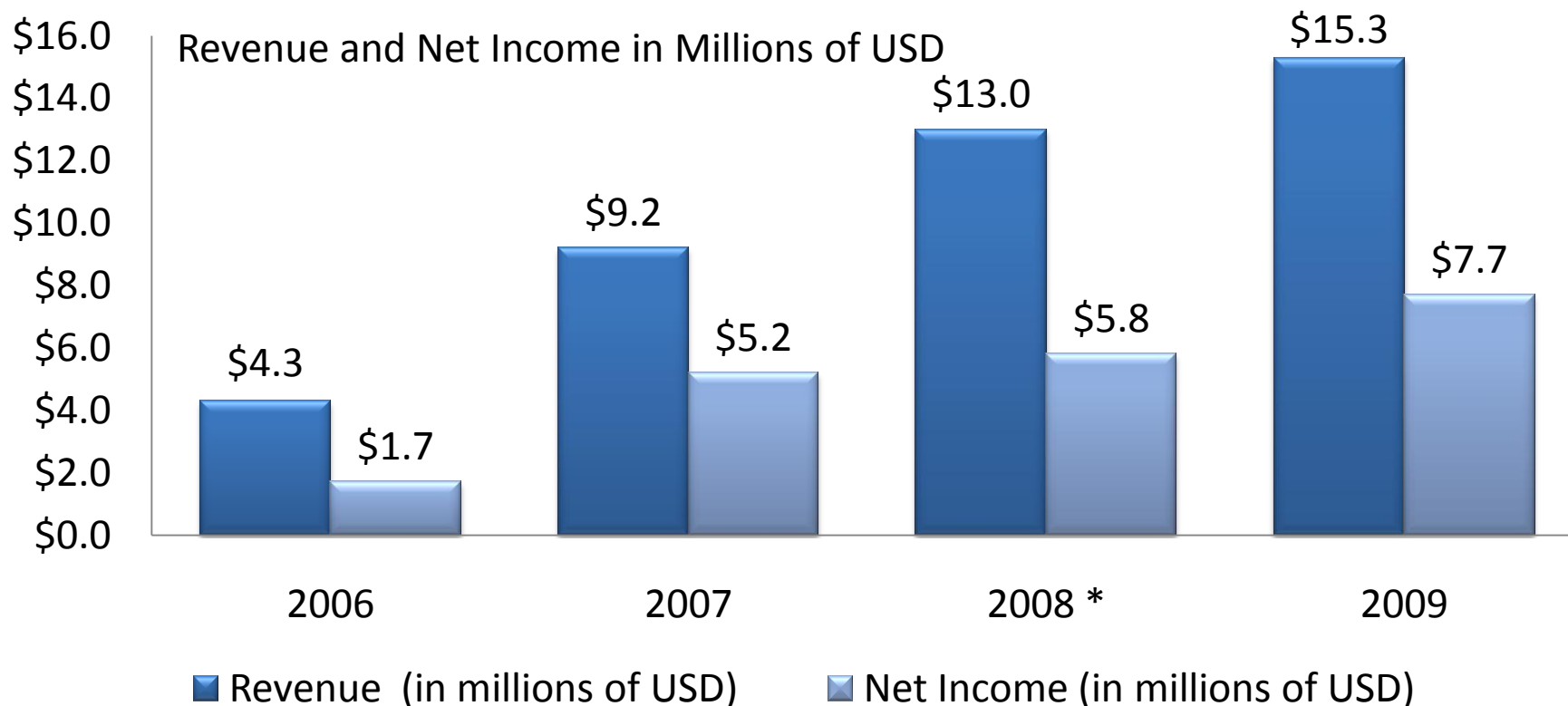
- Raw Material
- Retail Stores



Management: "We anticipate incremental revenue and earnings growth of our higher margin Chinese Golden Grass products."



Nutratar experienced impressive growth **during the weakest global economy in decades.**
Demand for Chinese Golden Grass only increased during this period.



*Excludes one-time non-cash merger costs of \$2.1 million USD in Fourth Quarter 2008



Nutrastar International has experienced **high growth from 2007-2009**. Average period revenue growth was 30%, average gross profit growth was 38.5%, average net income growth was 22%, and average growth in income from operations was 31.5%. Net cash from operating activities has grown by a very impressive 43.5% in the period.

Revenue, Gross Profit, Net Income, Income from Operations, and Net Cash Provided by Operating Activities below all in millions of USD.

	2007	2008	Growth	2008	2009	Growth
Revenue	\$9.2M	\$13M	41%	\$12.9M	\$15.3	18%
Gross Profit	\$5.7M	\$8.4M	47%	\$8.4M	\$10.8M	28%
Net Income	\$5.2M	\$5.8M*	11.5%	\$5.8M*	\$7.7M	33%
Income From Operations	\$5.2M	\$6.7M	30%	\$6.7M	\$8.9M	33%
Net Cash Provided by Operating Activities	\$4.5M	\$6.5M	44%	\$6.5M	\$9.3M	43%
EPS (fully diluted)	----	----	----	.49*	.58	20%

*Excludes one-time non-cash merger costs of \$2.1 million in Fourth Quarter 2008

Projected 2010 Growth:

Q1 2010 Net income was approximately \$2.72 M USD, a 25.3% increase over the same period last year and puts the company well on track to meet their \$9M USD in net income target for 2010. EPS in Q1 was .19/share.



Most Chinese pharmaceutical and nutraceutical companies have large Accounts Receivable balances that sometimes carry over quarter to quarter, with long DSO (Days Sales Outstanding) periods.

Nutrastar has an Accounts Receivable balance that is the lowest China Growth Partners has seen in China's nutraceutical sector. For 2009 the company reported \$15.3M USD in sales, and the AR balance on 12/31/2009 was a mere \$215,000.

This extremely low AR balance is because *many customers pay up front with cash* for Nutrastar's products. China Growth Partners believes this fact confirms the market's large supply-demand imbalance for Nutrastar's products.

The market supply leadership position (and power) that Nutrastar has can be seen in their continually low AR balances, the willingness of customers to pay cash in advance for their products, and gross margins > 70%.

Strong Balance Sheet



Nutrastar International Inc.

<http://www.syxny.net>

Ticker: NUIN

Balance sheet very strong with \$23.3M cash, total liabilities \$10.4M, current ratio 2.3, \$19.6M in retained earnings, and very low AR balance.

	March 31 2010 (Unaudited)	December 31 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,289,425	\$ 20,115,677
Accounts receivable, net	367,966	215,486
Inventories	538,700	616,073
Prepayments and other receivables	10,971	251,235
Total current assets	24,207,062	21,198,471
OTHER ASSETS		
Intangible assets, net	2,638,241	2,747,402
Property, plant and equipment, net	10,261,227	10,396,507
Total assets	\$ 37,106,530	\$ 34,342,380
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 55,599	\$ 863
Other payables and accruals	430,056	453,504
Payable for intangible asset	878,953	878,709
Income tax payable	277,183	319,873
Due to related parties	49,807	49,794
Acquisition payable	8,736,833	8,736,833
Total current liabilities	10,428,431	10,439,576
Total liabilities	10,428,431	10,439,576
Common stock, \$0.001 par value, 190,000,000 shares authorized, 14,312,731 and 14,297,731 shares issued and outstanding	14,313	14,298
Additional paid-in capital	4,761,251	4,715,891
Statutory reserves	1,344,401	1,341,687
Retained earnings	19,576,360	16,858,012
Accumulated other comprehensive income	981,774	972,916
Total shareholders' equity	26,678,099	23,902,804
Total liabilities and shareholders' equity	\$ 37,106,530	\$ 34,342,380



Management has made **positive statements for 2010 growth:**

“During 2010, Nutrastar plans to further increase total revenue generated through sales of Chinese Golden Grass, both through increased sales of product processed and packaged for the consumer marketplace, as well as sales of raw material to the pharmaceutical industry. The Company expects that further product awareness, widespread availability and increased health awareness among Chinese consumers will drive consumer adoption and sales for the Company's Golden Grass.”

and...

“A major initiative of Nutrastar's future growth strategy is the introduction of new, value-added products targeting multiple downstream markets, including mass consumer, nutraceutical and pharmaceutical markets. After successfully introducing the small package consumer cordyceps products, the Company's growth plan during 2010 will include introducing a new branded specialty beverage product known as "Golden Grass Energy Drink". Commercialization of Golden Grass Energy Drink is scheduled for the second quarter of 2010, targeting affluent, professional, athletic and elderly consumers. In support of its growth strategies, Nutrastar plans to increase annual production capacity from its current capacity of 55 tons to 65 tons by the end of 2010.”

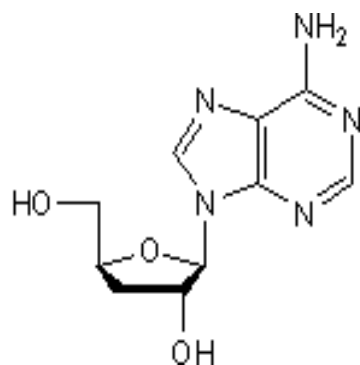


2010 will be an exciting year for Nutrastar International with the launch of their new **Specialty Beverage Product as well as a new Cordycepin Compound.**



“Golden Grass Energy Drink”

This specialty beverage targets affluent, professional, athletic and elderly consumers. Marketable health benefits include enhancing immunity, reducing fatigue, and increasing circulation.



Cordycepin Compound

Eastern and Western studies agree that Cordycepin is an agent that has shown promise in cancer research (specifically in tumor size reduction) and in boosting the immune system.

Investors may wish to search the Internet for “[Antitumor effects of Cordycepin](#)”, “[Cordycepin and Cancer](#)”, and “[Cordycepin and Immune System](#)” to appreciate the potential of this new compound for Nutrastar.

Cordycepin

Chemical Name: 3'-Deoxyadenosine



China Growth Partners believes the launch of the “Golden Grass Energy Drink” has the potential to add substantial revenues and income to the company in 2010-2011.

The target market is more affluent, professional/upwardly mobile consumers and the rapidly-growing middle class that are turning China into more of a consumer-based economy.



China’s consumer market is on track to become #1 in the world.

Credit Suisse expects China’s share of global consumption to increase from 5.2% at \$1.72 trillion USD to 23.1% at \$15.94 trillion USD by 2020, overtaking the US as the largest consumer market in the world. [\(click to article\)](#)

As China’s rural population moves into urbanized areas, “stress and fatigue” have been reported by 88.9% of respondents in an April 2010 Beijing-based survey. [\(click to article\)](#)

Nutrastar’s “Golden Grass Energy Drink” will be marketed as a fatigue-fighter to one of China’s most fastest growing demographics: The increasingly stressed and fatigued new middle class.





Currently expanding to a nationwide reach for rapid growth in sales.



The company's *previous sales* depended heavily on the sales of large-pack products to pharmaceutical companies.

To support rapid growth in sales and revenue, **Nutrastar plans to expand their distribution network by selling small-pack, higher margin products through drug stores, supermarkets and franchise stores.**

Nutrastar maintains constant communications with distributors to stay informed regarding consumer preferences and market trends in order to develop new products, and organize monthly product promotion meetings with distributors to increase sales of small package products.



Experienced, strong management team.

Management ownership in NUIN is approximately 66%.

Ms. Lianyun Han---*Chief Executive Officer, President and Chairperson*, with over 10 years experience in green and organic food business; Shuaiyi Group Founder, Chief Executive Officer, President and Chairperson; Heilongjiang Daily Reporter, Director, Senior economist; Harbin University Bachelor Degree.

Ms. Xue Wang---**CFO**, was a financial executive at Harbin Zhongchang Clean Energy Development Co., Ltd., a company engaged in the recycling energy business. Ms. Wang joined our subsidiary Heilongjiang Shuaiyi New Energy Development Co., Ltd. in 2007 as Financial Manager and became Financial Controller in 2009. She holds a Bachelor's degree in Accounting from Harbin University of Commerce.

Mr. Lichen Wang,---**CTO**, Shuaiyi Group Chief Technology Officer, Institute of Edible Fungus of Three provinces in Northeast China Technician, Deputy Director: Heilongjiang August 1st Land Reclamation University Bachelor Degree majored in Edible Fungus.

Mr. Hongbing Hua,---**CMO**, JDB Group Planning General Counsel, instrumental in Wang Lao Ji Herbal Tea becoming a nationwide beverage brand; Beijing Huiyuan Beverage and Food Group Co., Ltd. Vice President & Planning Director, instrumental in Huiyuan becoming the No.1 juice brand in China since 2001.

There is no family relationship between Xue Wang and Lichen Wang.

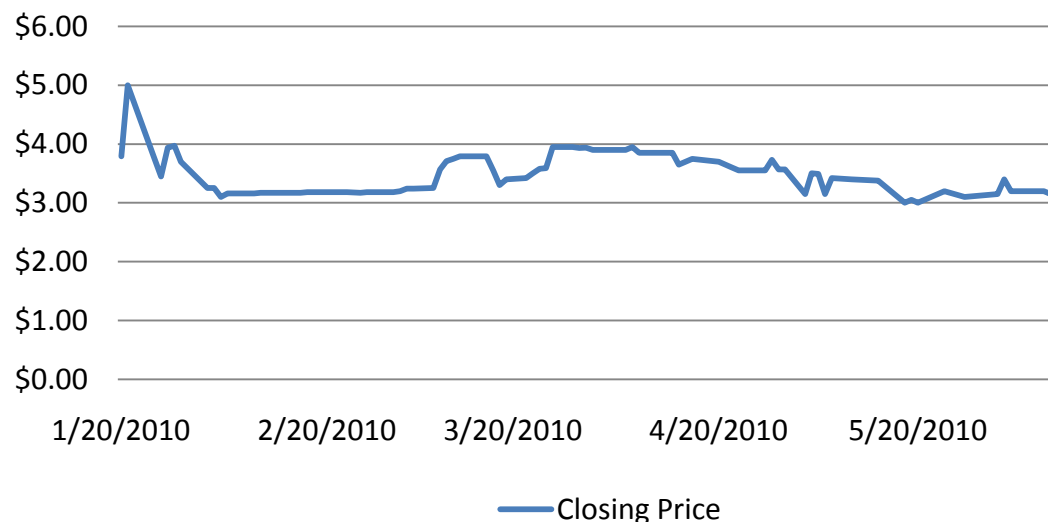


China Growth Partners finds Nutrastar International extremely undervalued at the current trading price and assigns a 12 month price target of \$6.30/share based on the following:

- ✓ Market leader and world's largest producer of Chinese Golden Grass
- ✓ High barriers to entry for potential competition
- ✓ Extremely efficient, patented cultivation process
- ✓ Very high margins likely to continue with launch of higher margin products
- ✓ High management ownership (66%)
- ✓ Strong balance sheet with \$23M cash on hand and consistently cash flow positive
- ✓ 20% capacity expansion by end of 2010
- ✓ Expanding sales and distribution network
- ✓ Low AR balance, cash customers, confirms strong demand for products
- ✓ High margin "Golden Grass Energy Drink" launch imminent
- ✓ Management has repeated to us their confidence in "Make Good" targets of \$9M in net income for 2010 and \$11M in net income for 2011
- ✓ China Growth Partners expects fully diluted earnings per share for 2011 to be .61-.65, (at minimum), and assigns a pe multiple of 10 . As a result we believe the stock should be trading at \$6.30+ a year from now.
- ✓ China Growth Partners is investing 50% of our fee in NUIN shares in the open market for a 12 month minimum hold.



NUIN Closing Price Chart



China Growth Partners believes markets are often inefficient and may persistently misprice securities for long periods of time, but that protection against this can be found in growth. As a company grows the value increases, and eventually the market price will increase to reflect that value.

While based on our research and the information in this presentation China Growth Partners believes Nutrastar International's current share price to be undervalued and assigns a 12 month share price target of \$6.30/share, no assurances can be made that our price target will be met. Potential risks and uncertainties include, but are not limited to, such factors as unanticipated changes in product demand, interruptions in the supply, downturns in the Chinese economy, changes in applicable laws and/or regulations, and other information detailed from time to time in the Company's filings and future filings with the United States Securities and Exchange Commission.



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