

September 20, 2011

Brian R. Connell, CFA

Senior Research Analyst
bconnell@harbingerresearch.com

Nutrastar International Inc. (NUIN – OTCQB)

Company continues to exceed estimates and has recently announced a US\$5 million share buyback program. Given current valuation of US\$2.01 vs. net cash of US\$2.60/share we reiterate Strong Buy rating.

**Strong
Buy**

Recent Price: US\$2.01

Market Data (closing prices, September 20, 2011)

| | |
|--|---------|
| Market Capitalization (mln) | 29.93 |
| Enterprise Value (mln) | (16.76) |
| Issued and Outstanding Shares, Diluted (mln) | 16,274 |
| Basic Shares (mln) | 14,513 |
| Avg. Volume (90 day, approx.) | 6,582 |
| Float (approx. estimate) | 4,600 |
| Insider Ownership | 54% |
| Exchange | OTCQB |

Balance Sheet Data (as of June 30, 2011)

| | |
|---------------------------------|--------|
| Shareholders' Equity (mln) | 60,196 |
| Price/Book Value | 0.50 |
| Cash (000s) | 45,817 |
| Net Working Capital (000s) | 45,854 |
| Long-Term Debt (000s)* | 0 |
| Total LT Debt to Equity Capital | N/A |

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. According to the China Market Monitoring Center, the Company's sales now account for 19% of all Cordyceps sales in the PRC. The Company also recently introduced a beverage line based on this fungus, 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

Summary and Investment Opportunity

- Net Sales for the Second Quarter Well Above Expectations, at \$7.7M vs. \$6.7M est.**
During the second quarter of 2011, the Company reported total revenues of US\$7.7 million versus our estimate of US\$6.7 million, significantly outperforming our expectations, especially in the beverage segment. This segment generated US\$1.13 million in sales, growing approximately 390% over Q1'11 sales of US\$0.23 million. While this performance is not completely surprising, we believe this is a strong indication of the success and likely future results of this segment of the Company's business. Additionally, the Company announced the addition of one major new distributor and the ongoing negotiation of several more, further buttressing our investment case for the Company and its shares' investment merit. We believe that future beverage sales growth will become the primary driver of valuation over the coming quarters; however, even core Cordyceps sales warrant a significantly higher P/E and/or P/S multiple. At \$2.01 per share, the Company is currently trading at just 2.2x our 2011 EPS estimate of US\$0.92; this is in addition to the Company's net cash position of US\$2.60 per share. The market is effectively completely discounting the Company's sales and earnings results and valuing the shares at US\$0.59 below cash value, which we view as completely unreasonable.

- Share Buyback Program at Long Last Puts Extra Cash to Work for Shareholders**
On August 25th of this year, the Company announced a long-awaited share buyback program, providing for up to US\$5 million in funds to repurchase shares on the open market. While the Company's agreement does not stipulate the timing or terms of the planned buyback, management assures us that the Company's intent is to deploy the entire US\$5 million in capital towards share repurchases over the next twelve months. Since the Company's shares are currently trading for slightly less than net cash value, this program should amount to a significant increase in shareholder value over the next 12 months.

- Overall, Company Has Exceed Our Expectations; Low Valuation Unwarranted.**
As in our previous Coverage Initiation Report, we can surmise that the Company's low valuation can only be attributed to the general malaise that is currently affecting the entire Chinese sector, which as previously stated is (we believe) due only to the presence of several atypical but high-profile cases of fraud in U.S.-traded Chinese equities. Over time, the Company's actual results and potential should and will overcome this psychological barrier.

- Share Repurchase, Strong Results, and Valuation Equal to Net Cash Only**
The Company continues to grow at a CAGR of 40%, and is trading for net cash only. We therefore reiterate our rating of Strong Buy and our price target of US\$8.00 per share. We believe that significant upside to this target exists over the next few calendar quarters.

| P&L (000s) | FY'09A | FY'10A | Q1 '11A | Q2 '11A | Q3 '11E | Q4 '11E | FY'11E | FY'12E |
|--------------------|---------------|---------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Revenues | 15,332 | 24,242 | 5,796 | 7,683 | 8,800 | 10,750 | 33,030 | 46,241 |
| <i>Rev. Growth</i> | | 58.1% | 21.6% | 40.8% | 35.0% | 35.0% | 36.3% | 40.0% |
| <i>Gr. Margin</i> | 70.2% | 80.9% | 76.4% | 77.4% | 78.0% | 79.0% | 77.9% | 80.5% |
| Op. Income | 8,904 | 15,788 | 3,495 | 4,669 | 4,928 | 6,171 | 19,264 | 26,831 |
| <i>Op. Margin</i> | 58.1% | 65.1% | 60.3% | 60.8% | 56.0% | 57.4% | 58.3% | 58.0% |
| Net Income | 7,742 | 13,444 | 3,008 | 3,902 | 3,746 | 4,697 | 15,256 | 20,297 |
| Net Margin | 50.5% | 55.5% | 51.9% | 50.8% | 42.6% | 43.7% | 46.2% | 43.9% |
| Dil. EPS | 0.58 | 0.93 | 0.18 | 0.24 | 0.23 | 0.28 | 0.92 | 1.18 |
| Dil. Shares | 13,342 | 14,476 | 16,274 | 16,395 | 16,600 | 16,800 | 16,600 | 17,200 |

Please see analyst certification and required disclosures on page 2 of this report.

Industry Analysis

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

| | |
|-------------------------------|---|
| STRONG BUY | 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. |
| BUY | 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. |
| STRONG SPECULATIVE BUY | 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. |
| SPECULATIVE BUY | 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. |
| NEUTRAL | 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. |
| SELL | 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. |

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.

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Analyst Highlight

Brian R. Connell, CFA

Senior Research Analyst

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

| (In thousands, United States Dollars) | 2008A | FY 2009A | Mar '10A | Jun '10A | Sep '10A | Dec '10A | FY 2010A | Mar '11A | Jun '11A | Sep '11E | Dec '11E | FY 2011E | FY 2012E |
|---|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | 12,990 | 15,332 | 4,768 | 5,458 | 6,462 | 7,554 | 24,242 | 5,796 | 7,683 | 8,800 | 10,750 | 33,030 | 46,241 |
| <i>Year-over-year growth rate</i> | | 18.0% | 2.7% | 63.4% | 81.2% | 99.6% | 58.1% | 21.6% | 40.8% | 35.0% | 35.0% | 36.3% | 40.0% |
| Total cost of sales | 4,605 | 4,564 | 1,057 | 888 | 1,178 | 1,515 | 4,638 | 1,370 | 1,736 | 1,936 | 2,258 | 7,299 | 9,017 |
| Gross profit | 8,385 | 10,768 | 3,712 | 4,570 | 5,284 | 6,038 | 19,604 | 4,426 | 5,947 | 6,864 | 8,493 | 25,730 | 37,224 |
| Gross margin | 64.5% | 70.2% | 77.8% | 83.7% | 81.8% | 79.9% | 80.9% | 76.4% | 77.4% | 78.0% | 79.0% | 77.9% | 80.5% |
| Operating expenses | | | | | | | | | | | | | |
| Selling expenses | 196 | 508 | 172 | 233 | 305 | 382 | 1,093 | 410 | 464 | 1,100 | 1,300 | 3,274 | 6,000 |
| General and administrative expenses | 1,416 | 1,356 | 430 | 547 | 546 | 1,200 | 2,723 | 521 | 814 | 836 | 1,021 | 3,193 | 4,393 |
| Total operating expenses | 1,612 | 1,864 | 602 | 781 | 851 | 1,583 | 3,816 | 931 | 1,278 | 1,936 | 2,321 | 6,466 | 10,393 |
| <i>% of Sales</i> | 12.4% | 12.2% | 12.6% | 14.3% | 13.2% | 21.0% | 15.7% | 16.1% | 16.6% | 22.0% | 21.6% | 19.6% | 22.5% |
| Operating income | 6,772 | 8,904 | 3,110 | 3,789 | 4,433 | 4,456 | 15,788 | 3,495 | 4,669 | 4,928 | 6,171 | 19,264 | 26,831 |
| <i>Operating margin</i> | 52.1% | 58.1% | 65.2% | 69.4% | 68.6% | 59.0% | 65.1% | 60.3% | 60.8% | 56.0% | 57.4% | 58.3% | 58.0% |
| Other income (expense), net | | | | | | | | | | | | | |
| Interest income (expense), net | 30 | 82 | 33 | 34 | 25 | 32 | 124 | 40 | 67 | 65 | 85 | 165 | 225 |
| Gain (loss) due to foreign exchange | (20) | (15) | 0 | (16) | | (116) | (131) | 23 | 29 | | | 52 | |
| Loss on disposal of fixed assets | 31 | | | | | (103) | (103) | | | | | | |
| Other income (expense), net | 12 | 6 | | | (88) | 88 | 0 | | | | | 0 | |
| Change in fair value of warrants | | | | 131 | 302 | (449) | (15) | 392 | 437 | | | 829 | |
| Merger-related costs | (2,068) | | | | | | 0 | | | | | 0 | |
| Total other income (expense) | (2,016) | 73 | 34 | 149 | 239 | (547) | (125) | 455 | 533 | 65 | 90 | 1,046 | 225 |
| Income before income taxes | 4,756 | 8,977 | 3,144 | 3,938 | 4,672 | 3,909 | 15,663 | 3,950 | 5,202 | 4,993 | 6,261 | 20,310 | 27,056 |
| Provision for income taxes | 975 | 1,235 | 423 | 523 | 606 | 668 | 2,219 | 942 | 1,300 | 1,247 | 1,564 | 5,054 | 6,760 |
| <i>Implied Tax Rate</i> | 20% | 14% | 13% | 13% | 13% | 13% | 14% | 24% | 25% | 25% | 25% | 25% | 25% |
| Net income | 3,781 | 7,742 | 2,721 | 3,416 | 4,066 | 3,241 | 13,444 | 3,008 | 3,902 | 3,746 | 4,697 | 15,256 | 20,297 |
| Net margin | 29.1% | 50.5% | 57.1% | 62.6% | 62.9% | 42.9% | 55.5% | 51.9% | 50.8% | 42.6% | 43.7% | 46.2% | 43.9% |
| Foreign currency translation adjustment | 24 | 24 | 9 | 169 | 542 | 567 | 1,287 | 512 | 715 | | | | |
| Comprehensive income | 3,805 | 7,766 | 2,730 | 3,585 | 4,608 | 3,808 | 14,731 | 3,520 | 4,617 | 3,746 | 4,697 | 15,256 | 20,297 |
| Net income per common share, basic | 0.31 | 0.59 | 0.19 | 0.24 | 0.28 | 0.23 | 0.94 | 0.21 | 0.26 | 0.25 | 0.31 | 1.00 | 1.30 |
| Net income per common share, diluted | 0.31 | 0.58 | 0.19 | 0.24 | 0.25 | 0.20 | 0.93 | 0.18 | 0.24 | 0.23 | 0.28 | 0.92 | 1.18 |
| Wtd. Av. shares outstanding, basic | 12,199 | 13,132 | 14,313 | 14,333 | 14,333 | 14,333 | 14,328 | 14,513 | 14,794 | 15,000 | 15,200 | 15,200 | 15,600 |
| Wtd. Av. shares outstanding, diluted | 12,199 | 13,342 | 14,402 | 14,342 | 16,435 | 16,435 | 14,476 | 16,274 | 16,395 | 16,600 | 16,800 | 16,600 | 17,200 |

Nutrastar International (NUIN - OTCQB) Balance Sheet

(Audited on 12-31-10)

| | <u>6/30/2011</u> |
|--|------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | 45,817 |
| Restricted cash | 100 |
| Accounts receivable | 242 |
| Inventories | 2,050 |
| Prepayments and other receivables | 1,110 |
| Total current assets | 49,319 |
| Intangible assets, net | 2,203 |
| Property, plant, and equipment, net | 12,139 |
| Total assets | 63,662 |
| Liabilities and shareholders' equity | |
| Current liabilities | |
| Accounts payable | 15 |
| Other payables and accruals | 807 |
| Income tax payable | 1,899 |
| Due to related parties | 53 |
| Preferred stock dividend payable | 323 |
| Warrant-related liabilities | 369 |
| Total liabilities | 3,465 |
| Shareholders equity | |
| Preferred stock, 197,706 issued, see notes | 3,445 |
| Common stock, 14,332,731 issued and outst. | 15 |
| Additional paid-in capital | 16,867 |
| Statutory reserves | 1,352 |
| Retained earnings | 35,032 |
| Accumulated other comprehensive income | 3,486 |
| Total shareholders' equity | 60,196 |
| Total liabilities and equity | 63,662 |