

Huifeng Bio-Pharmaceutical Technology, Inc.

OTCBB: HFGB



February 5, 2010 - Close

DJIA: 10,012.23
S&P 500: 1,066.19
NASDAQ Comp: 2,141.12
Russell 2000: 592.98

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Recommendation: Speculative BUY

12 Mo. Price Target: \$2.37

COMPANY AND MARKET DATA

Stock Price:	\$0.80	Market Cap.:	\$21.98 M	3-mo. Avg. Vol. (est.)	22,000
52 Week Price Range:	\$0.15 – 1.29	Shares Outstanding:	20.80 M	Current Ratio	2.12
Industry/Sector:	Biopharma	Float (est):	2.10 M	P/S TTM	2.07
FY 2009E EPS	\$0.15	FY 2010E EPS	\$0.18	FY 2009E EBITDA %	29.5%

BASIS FOR RECOMMENDATION

- We are initiating a **Speculative BUY** rating for Huifeng Bio-Pharmaceutical Technology, Inc. (OTCBB:HFGB). Huifeng develops, produces and sells botanical extracts, active pharmaceutical ingredients (APIs) and pharmaceutical raw materials in mainland China and internationally, to the pharmaceutical, nutraceutical and food and beverage markets.
- Strong competitive advantages:** As consumers around the world attempt to deal with rising healthcare prices and the desire for healthier lifestyles, the Company has proven its ability to deliver quality products that are in high demand and for which it owns patents on efficient production methods.
- Large collective market opportunity:** The Chinese pharmaceutical market is expected to reach \$68-78 billion by 2013 and rank 3rd in the world. According to Nutrition Business Journal, the total retail natural products market totaled approximately \$101.8 billion in retail sales in calendar 2008.
- Solid YOY Revenue Growth:** The Company has shown strong growth in the last five years, growing revenue from just over \$3M in 2006 to \$11M in FY2008 a 3-Yr. CAGR of over 51%.
- Sound Management Team:** Huifeng's founders, management team and directors draw on decades of experience in a variety of industries, as well as entrepreneurial business and financial management. The team is led by CEO, Mr. Jingan Wang, who has over fifteen years of experience in accounting and financial management area. Mr. Wang has served as CFO for various companies during his professional career and in 2004 was awarded "Entrepreneur of the Year" by the Xian Hi Tech Development.



BUSINESS / PRODUCT OVERVIEW

Huifeng Bio-Pharmaceutical Technology Inc. (“Huifeng”), a Nevada corporation, develops, produces and sells botanical extracts, active pharmaceutical ingredients (APIs) and pharmaceutical raw materials in mainland China and internationally. Founded in 2000, the Company holds the patent for a highly efficient process to extract rutin, one of a class of plant-derived chemicals called flavonoids, with anti-inflammatory, antioxidant and anticoagulant properties. Other flavonoid or flavonoid-derived Huifeng products include troxerutin, quercetin, ginkgo biloba, diosmin and L-rhamnose. Manufacturers buy these products for use as the building blocks of drugs, dietary supplements and as additives in functional foods and beverages.

Huifeng’s production efficiency has allowed it to become the dominant Chinese producer and exporter of rutin and to develop related products. In 2005, internal R&D efforts produced efficient methods of extracting diosmin and L-rhamnose, and it has recently expanded production facilities to manufacture these new products. Huifeng has a diverse customer base, including distributors and manufacturers in China, Japan, Hong Kong, Russia, India, Germany, and the U.S.

Product Lines

Huifeng’s products are primarily in the chemical category called flavonoids, with medicinal benefits and multiple endmarkets, including pharma- and nutraceuticals, and functional foods and beverages.

The Company’s product lines can be divided into three major categories (see table at right):

➤ **Pharmaceutical Raw Materials**

➤ **Active Pharmaceutical Ingredients**

➤ **Botanical Extracts**

<i>Pharmaceutical Raw Materials</i>			
Rutin	Troxerutin	Quercetin	L-Rhamnone
<i>Active Pharmaceutical Ingredients</i>			
Silymarin	Hesperidin	Diosmin	Matrine
Oxymatrine	Phytosterol	Stigmasterol	Pueraria
Resveratrol	Naringin	Baicalin	Berberine Hydrochlorrde
10-Deacetyl Baccatin III	Paclitaxol		
<i>Plant Extracts</i>			
Epimedium Extract	Ginkgo Biloba Leaf P.E.	Grape Seed.P.E.	Pueraria Lobata Extract
Magnolia P.E.	Hawthorn Berry P.E.	Bitter Melon P.E.	Red Clover P.E.
Chlorogenic Acid	Gynostema Extract	Fructucs Aurantii P.E.	Rhodiola Rosea P.E.
Green Tea P.E.			

Company Strategy Brief

Strategic Acquisitions. The Company is evaluating several acquisitions in the areas of R&D, distribution and complementary product offerings. These acquisitions will not only add revenue, but also have the potential to increase sales of Huifeng’s core products (organic growth).

New Product Development / R&D. Utilize R&D and technological innovation for further product development and access state support for commercialization. Current state and province-funded projects include: Rutin commercialization and further diosmin research.

Strengthen cooperation/research relationships with China’s leading medical and chemical engineering institutes. Current relationships include: Shaanxi GAP Engineering Research Center; Military Medical University; Northwest A&F University; Dalian Institute for Light Industrial Design.

Enter patent drug market within 2 years. Again, with R&D advantages and key partnerships, entrance into this market puts a new spin on the Company as this could transform Huifeng from an input supplier to a bona-fide drug developer.

MARKET SNAPSHOT

China represents one of the world's largest pharmaceutical and nutraceutical markets. According to IMS Health Inc., which provides market data on the pharmaceutical and healthcare industries, China is poised to become the world's third biggest pharmaceutical market by 2013, up from its current No. 5 spot. The \$24.5 billion market is expected to grow to \$68 billion to \$78 billion by 2013, following only the United States and Japan. With its population of over one billion people, rising middle-class, aging population and fast-growing economy (still over 10% last year), China presents significant potential for the pharmaceutical and nutraceutical industries. It is estimated that domestic drug companies hold a 70% market share.

In many ways, the Chinese pharmaceutical industry has mirrored that of the United States, yet decades behind. In the early years, the industry was unfortunately like some others in China, mired with false claims of indications and effectiveness, and poor quality. Today, quality is paramount and the government has realized that drugs are not like other industries and must be regulated much more heavily. Indeed, there were as many as 5,000 drug companies in 2004, but only 3,500 in 2007, with that number continuing to drop according to industry experts.

With the SFDA (China's equivalent of the U.S. FDA), coupled with mandatory good manufacturing practices (GMP) and ISO certification to be able to export, the Chinese pharmaceutical industry is rapidly coming up the curve while pushing out the riff-raff. There are regional government standards as well that vary in stringency. Furthermore, Chinese companies know that if they want to compete globally, they must not only have a good reputation, but adhere to international and regional standards as well, such as the EU's COS certification.

The rise in disposable income of many Chinese residents has resulted in greater demand and affordability of prescription and over-the-counter medicines. Furthermore, the increasing population of elderly people in China has resulted in a stronger demand for such medicines and other healthcare-related products, because elderly people tend to spend more money on medicine than younger people, on average. The Chinese population aged 60+ is expected to reach 15% of the total population by 2015. In addition, China has undertaken an ambitious \$124 billion effort to provide basic health coverage for the vast majority of its citizens by 2011, further pointing to increased demand for drugs.

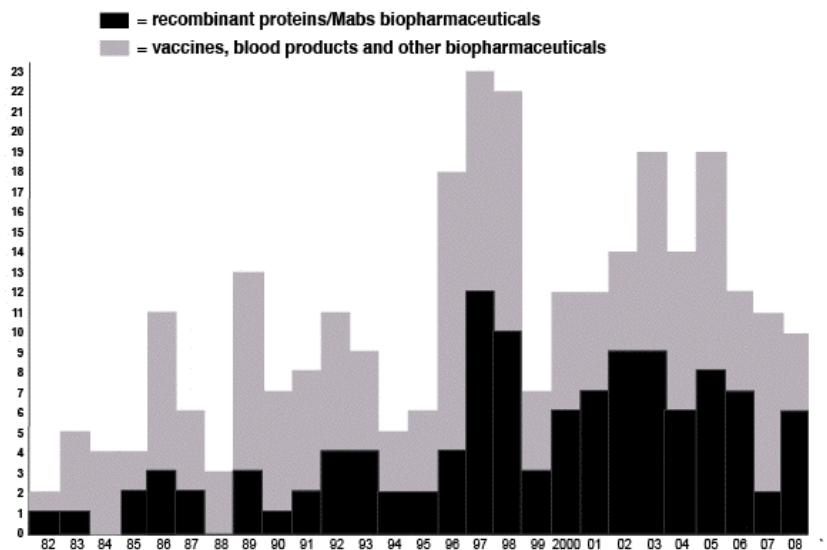
The dietary supplements sub-sector doubled from \$3 billion in 1998 to a total sales volume of \$6 billion in 2001. Experts estimate that the industry will reach \$10 billion in annual sales by 2010, and will continue as consumers seek products with curative weight loss and other health enhancing effects.

Global Demand

Huifeng is an input producer and distributor for pharmaceutical, nutraceutical, and food and beverage developers and manufacturers. Thus as their demand for inputs increases, so can the Company's output. There are two particular drivers that we see as important.

First, using the U.S. as a proxy for the global market (though the approval process is more stringent in the U.S.), the number of FDA approvals for biopharmaceutical products has been steadily decreasing for the past few years. While approvals certainly are a sales driver, with fewer approvals, it forces biopharmaceutical developers to increase R&D efforts to come up with new medicines. It should be noted that the FDA does not regulate health supplements unless there is strong evidence of harm.

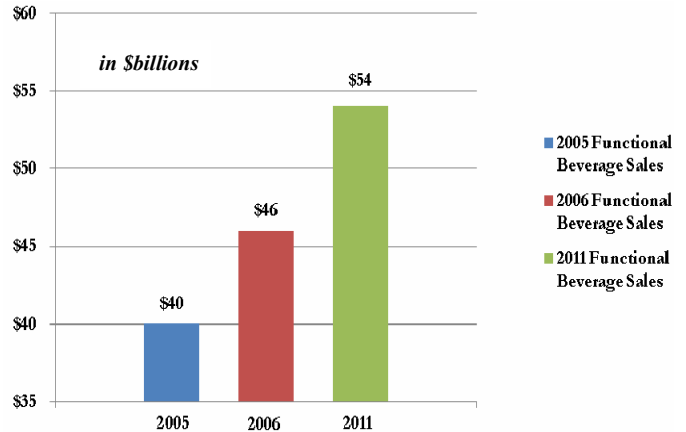
Figure 1: FDA Approvals of New Biopharmaceutical Products, 1982-2008



Second, is the rapid rise in global demand for natural retail products, including functional foods and beverages, and supplements. According to Nutrition Business Journal, the total retail natural products market is highly fragmented and totaled approximately \$101.8 billion in retail sales in calendar 2008. The market is comprised of the following submarkets (with estimated calendar 2008 sales indicated): (i) personal care, \$10.1 billion, (ii) natural and organic foods, \$29.7 billion, (iii) functional foods, \$36.8 billion, and (iv) vitamins, minerals and supplements, \$25.2 billion.

It is no surprise that demand for functional foods and beverages is so strong (the largest subcategory noted above), largely because of the same demand drivers in China: aging population, desire for healthier living and lifestyles, and perhaps most importantly, a rise in the use of preventative medicine as a reaction to rising health care costs.

Using the U.S. as a proxy, the U.S. functional beverage market enjoys strong tailwinds which are expected to last for the next several years. According to Euromonitor International, consumers in the U.S. alone will purchase \$54 billion of functional beverages, up from \$40 billion in 2005.



PRODUCTS

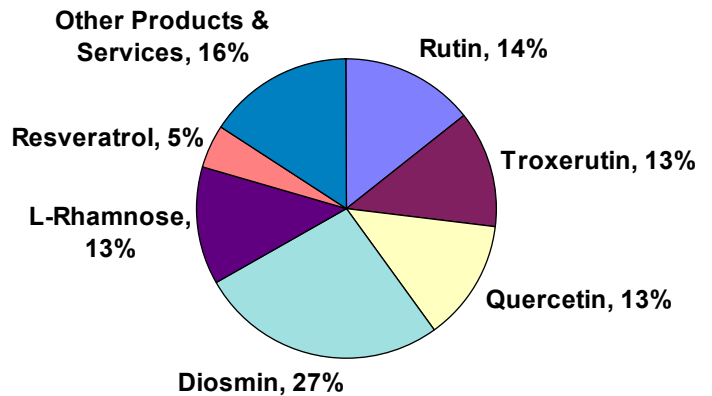
Since Huifeng has many products, we will focus on the key products for which the Company has a significant competitive advantage. Huifeng has two major production facilities: a) Changwu, Xianyang; and b) Changan, Xian - totaling approximately 300,000 square feet.

Diosmin. Huifeng is the only GMP-approved Chinese vendor of diosmin. Huifeng developed diosmin and l-rhamnose production methods in 2005 and has new production facilities that came on line in late 2006. Diosmin is a semisynthetic phlebotropic (allowing better blood-flow) drug, a member of the flavonoid (a class of water-soluble plant pigments) family. Some flavonoids have been shown to support health by strengthening capillaries and other connective tissue, and some function as anti-inflammatory, antihistaminic, and antiviral agents. They have also been shown to be powerful antioxidants and research is even underway for cancer-fighting treatments.

It is used with Hesperidin to control internal symptoms of hemorrhoids. It is also an oral phlebotropic drug used in the treatment of venous disease - i.e., chronic venous insufficiency (CVI) and hemorrhoidal disease (HD) - in acute or chronic hemorrhoids, in place of rubber-band ligation, in combination with fiber supplement, or as an adjuvant therapy to hemorrhoidectomy, in order to reduce secondary bleeding. Diosmin prolongs the vasoconstrictor effect of noradrenaline on the vein wall, increasing venous tone, and therefore reducing venous capacitance, distensibility, and stasis. This increases the venous return and reduces venous hyperpressure present in patients suffering from CVI.

Diosmin is distributed in the U.S. as a dietary supplement, but Diosmin 95 is currently a prescription medication in Europe that has been used to treat varicose and spider veins.

Product Revenue Mix (FY09E)



Rutin. Currently only Brazil and China produce rutin and only Huifeng holds the Chinese patent for one of the most efficient production methods. Rutin is another flavanoid, obtained by extraction from the vegetable raw material, *Scphora japonica* L. It is vital in its ability to increase the strength of the capillaries and to regulate their permeability. It also assists Vitamin C in keeping collagen in healthy condition. Rutin is essential for the proper absorption and use of Vitamin C and prevents Vitamin C from being destroyed in the body by oxidation. Rutin has also shown to be beneficial in hypertension and for healthy eye function. Rutin helps hemorrhages and ruptures in the capillaries and connective tissues and builds a protective barrier against infections.

TroxeRutin. TroxeRutin is a derivative of the natural bioflavonoid Rutin extracted from *Sophora japonica*. TroxeRutin is best suited for the treatment of the pre-varicose and varicose syndrome, varicose ulcers, tromboflebitis, post-phlebotic conditions, chronic venous deficiency, and hemorrhoids. TroxeRutin can also be successfully applied for muscle pain and edemas due to traumatic vein blood-flow disorders and hematomas.

Sales and Distribution Strategy

Huifeng's target customers are largely industrial clients but it also sells its products directly to pharmaceutical and food manufacturers. Most customers place purchase orders directly with its sales and marketing team. However, in order to diversify and expand its product sales networks, the Company began using outside distribution channels for some of its export sales in 2007. Huifeng also accepted purchase orders from professional foreign trade corporations in order to expand its international distribution channels and increase revenues from exports to Europe, West, Eastern and South Asia, and North America. The sales department is divided into two teams: domestic and export.

The strategy is not rocket-science; rather it simply entails branding Huifeng as a premium supplier of APIs and botanical extracts to the domestic and international communities. This involves strengthening existing, and building new relationships with end users and distributors, both in China and abroad. It is also important to maintain good standing with provincial and local governments, as well as deepen partnerships with research institutions.

OUTLOOK / VALUATION

Historical and Projected Statement of Operations

\$000s Actual - A Estimates - E	Fiscal 2007-A 31-Dec-07	Fiscal 2008-A 31-Dec-08	Q1 2009-A 31-Mar-09	Q2 2009-A 30-Jun-09	Q3 2009-A 30-Sep-09	Q4 2009-E 31-Dec-09	Fiscal 2009-E 31-Dec-09	Fiscal 2010-E 31-Dec-10	Fiscal 2011-E 31-Dec-11	Fiscal 2012-E 31-Dec-12
Total Revenue	\$ 6,571 100%	\$ 10,957 100%	\$ 1,326	\$ 3,092	\$ 4,466	\$ 4,962	\$ 13,846 100.0%	\$ 25,084 100.0%	\$ 35,768 100.0%	\$ 54,840 100.0%
Cost of Sales	4,594 70%	7,136 65%	1,052	1,914	2,995	2,922	8,883 64.2%	15,454 61.6%	21,210 59.3%	32,446 59.2%
Gross Profit	1,977 30%	3,821 35%	274	1,178	1,471	2,040	4,963 35.8%	9,630 38.4%	14,558 40.7%	22,394 62.6%
Operating Expenses										
Selling	105	209	52	35	87	101	275 2.0%	1,254 5.0%	1,073 3.0%	3,290 6.0%
General & Administrative	350 5%	1,157 11%	409	33	68	91	601 4.3%	1,505 6.0%	2,504 7.0%	4,113 11.5%
Total Operating Expenses	455 7%	1,366 12%	461	68	155	192	876 6.3%	2,759 11.0%	3,577 10.0%	7,403 20.7%
Operating Income (Loss) / EBITDA	1,522 23%	2,455 22%	(187)	1,110	1,316	1,848	4,087 29.5%	6,871 27.4%	10,981 30.7%	14,991 41.9%
Other Expense/(Income)										
Depreciation/Amortization	48 1%	49 0%	15	6	6	33	60 0.4%	400 1.6%	480 1.3%	240 0.7%
Interest, net	7 0%	574 5%	142	147	146	110	544 3.9%	600 2.4%	1,200 3.4%	420 1.2%
Other, net	(61) -1%	(264) 0%	-	(51)	(89)	54	(35) -0.3%	480 3.5%	600 4.3%	360 2.6%
Total Other Expense (Income)	(7) 0%	359 3%	157	102	63	197	518 3.7%	1,480 5.9%	2,280 6.4%	1,020 2.9%
Income (Loss) Before Taxes	1,529 23%	2,096 19%	(344)	1,008	1,253	1,651	3,569 25.8%	5,391 21.5%	8,701 24.3%	13,971 25.5%
Income Tax Expense	266 4%	529 5%	45	140	174	229	588 6.6%	748 4.8%	1,208 5.7%	1,940 6.0%
Effective Tax Rate	17%	25%	-	14%	14%	14%	16%	14%	14%	14%
Income (Loss) from Discontinued Op	-	-	-	(43)	-	-	(43) -	-	-	-
Minority Interest	21	(15)	(4)	(23)	(21)	(21)	(69) 2.3%	(127) 2.7%	(204) 2.7%	(381) 3.2%
Net Income (Loss)	\$ 1,284 20%	\$ 1,552 24%	\$ (393)	\$ 802	\$ 1,058	\$ 1,401	\$ 2,955 21.3%	\$ 4,516 32.6%	\$ 7,289 52.6%	\$ 11,650 84.1%
Foreign Currency Translation Gain (L)	462	602	15	2	13	13	43	-	-	-
Comprehensive Income	\$ 1,746 27%	\$ 2,154 33%	\$ (378)	\$ 804	\$ 1,071	\$ 1,414	\$ 2,998 21.7%	\$ 4,516 18.0%	\$ 7,289 20.4%	\$ 11,650 21.2%
Basic EPS	\$ 0.07	\$ 0.08	\$ (0.02)	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.15	\$ 0.18	\$ 0.24	\$ 0.38
Fully Diluted EPS	\$ 0.07	\$ 0.08	\$ (0.02)	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.13	\$ 0.17	\$ 0.23	\$ 0.36
Weighted Average Shares:										
Basic Shares Out.	18,466,169	18,466,169	18,466,169	18,466,169	20,354,212	20,354,212	20,354,212	25,341,169	30,341,169	30,341,169
Fully Diluted Shares Out.	18,466,169	18,466,169	20,466,169	20,466,169	22,354,212	22,341,169	22,341,169	27,341,169	32,341,169	32,341,169
5-Year Revenue CAGR	38.00%									

Our estimates for FYs 09-10 are based on recently announced management guidance, while FYs 11-12 are based upon our analysis of operations, industry growth and acquisition assumptions. With a solid operating history and reasonable visibility in the coming year at least, we feel that traditional valuation methods such as discounted cash flow (DCF), are a reasonable metric. Multiple comparisons, such as discounted forward price-to-earnings ratio (P/E), and discounted forward price-to-sales ratio (P/S), also have value in our opinion in that they show the current market values of similar companies - based on at least one of the following: product(s), target markets, sales and corporate strategies. We are using the underlying assumption that the value of HFGB should mirror that of its closest peers. In addition, with this method, we only need to forecast next year's revenue and earnings rather than future years where visibility is diminished.

Peer Data

	China Sky One Medical, Inc. (CSKI)	China Yongxin Pharmaceuticals, Inc. (CYXN.OB)	Skystar Bio Pharmaceutical Company (SKBI)	BMP Sunstone Corporation (BJGP)	Nutraceutical International Corp. (NUTR)	Perrigo Co. (PRGO)	Natural Alternatives International Inc. (NAII)	Nature's Sunshine Products Inc. (NATR)	Tiens Biotech Group USA Inc. (TBV)
TTM Sales (000)	\$ 126,200	\$ 43,300	\$ 31,210	\$ 142,010	\$ 167,560	\$ 2,080,000	\$ 71,350	\$ 341,310	\$ 66,810
TTM EBITDA (000)	\$ 47,340	\$ 3,420	\$ 10,530	\$ 13,020	\$ 30,000	\$ 365,560	\$ 5,740	\$ 9,750	\$ 30,720
EBITDA Margin	38%	8%	34%	9%	18%	18%	8%	3%	46%
Net Earnings (000)	36,100	2,860	7,940	(2,470)	(13,200)	163,820	1,380	1,620	25,880
Shares Outstanding (000)	16,660	35,450	6,960	41,560	10,370	91,330	7,070	15,510	71,330
Earnings Per Share	\$ 2.17	\$ 0.08	\$ 1.14	\$ (0.06)	\$ (1.27)	\$ 1.79	\$ 0.20	\$ 0.10	\$ 0.36
Price as of 02/05/10 close	\$ 17.06	\$ 0.44	\$ 8.38	\$ 5.06	\$ 12.77	\$ 45.29	\$ 7.69	\$ 9.18	\$ 2.21
Market Capitalization (000)	\$ 284,220	\$ 15,598	\$ 58,325	\$ 210,294	\$ 132,425	\$ 4,136,336	\$ 54,368	\$ 142,382	\$ 157,639
Enterprise Value (000)	\$ 227,940	N/A	\$ 43,870	\$ 230,900	\$ 157,800	\$ 4,720,000	\$ 50,140	\$ 102,750	\$ 127,350
Price/Sales	2.25	0.36	1.87	1.48	0.79	1.99	0.76	0.42	2.36
Price/Earnings	7.87	5.45	7.35	N/A	N/A	25.25	39.40	87.89	6.09
EV/Sales	1.81	N/A	1.41	1.63	0.94	2.27	0.70	0.30	1.91
EV/EBITDA	4.81	N/A	4.17	17.73	5.26	12.91	8.74	10.54	4.15

Note: All figures as of 02/05/10 as reported. EV approximate.

Source: CapitalIQ.

Peer Valuation Matrix

HFGB Projected

Averages:

Simple:

EV/EBITDA (TTM)	8.54
P/E	25.61
EV/Sales (TTM)	1.37
P/S	1.36

HFGB Estimate

Discounted FY10 Sales (000)	\$ 18,843
Discounted FY10 EBITDA (000)	5,162
EBITDA Margin	27%
Discounted Net Earnings (000)	\$ 3,392
Shares Outstanding (000)	20,804

Proj Market Cap based on Avg. P/E (\$000)	\$ 86,894
Proj Market Cap based on Avg. P/S (\$000)	\$ 25,710

AVERAGE	\$ 56,302
FMV PER SHARE	\$ 2.71

Next, we employed a standard Discounted Cash Flow model which involves discounting future net earnings (at the weighted average cost of capital, or WACC) or free cash flow. We have utilized the Ibbotson Buildup Method to arrive at a cost of capital estimate. Ibbotson defines its Buildup Method as “an additive model in which the return on an asset is estimated as the sum of a risk-free rate and one or more risk premia. Each premium represents the reward an investor receives for taking on a specific risk. The building blocks are summed arithmetically to form an estimate of the cost of capital.”

Huifeng Discounted Cash Flow

1. Huifeng Free Cash Flow Forecasts:

	2009E	2010E	2011E	2012E	2013E
Gross Profit	\$ 4,962,805	\$ 9,630,000	\$ 14,558,000	\$ 22,394,000	\$ 32,638,673
less Operating Expenses	\$ 875,589	\$ 2,759,240	\$ 3,576,800	\$ 7,403,400	\$ 12,624,322
Operating Income	\$ 4,087,216	\$ 6,870,760	\$ 10,981,200	\$ 14,990,600	\$ 20,014,351
less Taxes	\$ (588,209)	\$ (748,434)	\$ (1,207,962)	\$ (1,939,597)	\$ (2,589,608)
plus Depreciation/Amortization	\$ 60,610	\$ 400,000	\$ 480,000	\$ 480,000	\$ 480,000
plus Bad Debt Expense	283,842	480,000	600,000	600,000	600,000
less Capital Expenditures	\$ (2,500,000)	\$ (2,500,000)	\$ (2,500,000)	\$ (2,500,000)	\$ (2,500,000)
Free Cash Flow	\$ 1,343,459	\$ 4,502,326	\$ 8,353,238	\$ 11,631,003	\$ 16,004,743

2. Cost of Capital (WACC) Determination:

Build Up Method - Ibbotson Data:

Risk-free rate (10 yr Treasury) (a)	3.54%
Plus: Equity risk premium (b)	7.92%
Plus: Firm size premium unadjusted (c)	6.10%
Plus/minus: Industry premium (d)	-0.94%
Plus/minus: Company specific risk premium (e)	16.50%
Net Cost of Common Equity	33.12%

(a) 10-year Treasury bond yield as of 2/05/10.

(b) SBBI 2009 Valuation Yearbook, p. 56

(c) SBBI 2009 Valuation Yearbook, p. 30

(d) SBBI 2009 Valuation Yearbook for SIC Code 2833 - Medicinal Chemicals and Botanical Products, p. 35

(e) Based on a multi-variable matrix

3. Terminal Growth Rate Determination:

Long-term Growth Rate (f) **12.36%**

(f) 5-yr. average earnings growth rate for Drug Related Products (source: Thomson/Reuters)

4. Valuation

PV of FCF	\$ 18,122,923
plus:	
PV of Terminal Value	\$ 20,721,278
Total Firm Value	\$ 38,844,201
PV of Common Shares	\$ 38,844,201
	20,804,212
PV per Share	\$ 1.87

For our final valuation, we have considered the above methods in making our valuation conclusion, and it should be noted that there are other determinants of the Company's overall value. We have taken a weighted average (60% Peer Value – in which we are more confident - / 40% DCF) of the two methods to obtain our current fair value of **\$2.37 per share**. We have discounted FY10 earnings to account for the fact that we used TTM multiples, while most analysis projects forward multiples. P/S and P/E were weighted equally to get the peer value.

Capital Resources

The Company has been profitable and has had positive cash flow the past two quarters, with Q3 being a breakout quarter in terms of net profit and operating cash flow. In addition, Huifeng has been profitable in every fiscal year from 2006-08. The Company recently disclosed that it had restructured its simple interest (10%) \$2MM convertible notes that were due December 31, 2009. The notes are secured by collateral that includes 5,272,862 shares of the Company's common stock held by certain shareholders and 500,000 shares of the common stock of Northwest Bio-Technic, Inc. held by certain shareholders. Pursuant to the amendment of the original agreement, the maturity date of the notes has been extended from December 31, 2009 to June 30, 2011. In addition to the continued 10% per annum interest payments (based on the outstanding principal), the remaining \$1.8MM in principal will be paid down beginning in April and warrants to purchase 450,000 shares have been extended and the exercise price reduced from \$1.50 to \$1.00. In consideration for entering into the amendment the Company agreed to issue to the amendment purchasers an aggregate of 450,000 shares of the Company's common stock.

However, management will most likely have to undertake steps to raise additional capital if it chooses to pursue strategic acquisitions. Cash requirements for 2010 and beyond will depend primarily upon the level of product sales, inventory levels, product development, sales and marketing expenses, and capital expenditures.

Risk Factors

Competitive Threat. The pharmaceutical industry both within China and globally is increasingly competitive and is characterized by rapid and significant technological progress. The Company's competitors, both domestic and international, include large pharmaceutical companies, universities, and public and private research institutions that currently engage in or may engage in efforts related to the discovery and development of new pharmaceuticals or nutraceuticals.

Political Risks. It is a world fact that China has gone through a near-complete transformation when it comes to business, namely the allowance of private enterprise after decades of a State-run economic system. The Chinese central government, while making great strides in building a free-market system, still has a tendency to be unpredictable. Furthermore, a unique form of political risk occurs in China - the constant battle between the central government and the provincial and local governments over applicable law, and observance or non-observance of it. This makes it difficult for companies operating in China to know exactly what the rules are. In addition, the central bank has recently altered monetary policy to slow growth (inflation), which adds to the uncertainty of future economic policy.

Loss of Proprietary Rights. While patent protection should minimize this threat, the protection of Huifeng's proprietary technology is critical to its business prospects. The loss of any of the proprietary rights that the Company believes are protected under intellectual property safeguards may result in the loss of its competitive advantage over present and potential competitors with respect to production efficiency, capabilities and capacity.

Dilution. All else being equal, the raising of future equity capital, or issuance of additional stock for acquisitions, could depress share price and could significantly affect our price target.

Acquisitions. Our earnings and cash flow projections assume both organic growth and growth through acquisitions. While there appear to be many potential acquisitions that could be a solid fit with the Company's business model, there can be no assurance that any acquisitions will be consummated, and if they are, will be successfully integrated.

Competitive Advantages

Despite the risk of current and potential competition, which will always be present in the ever-changing Chinese economy, we believe that the Company holds several key, competitive advantages over its Chinese peers:

- Technology. With its current technology and plans to advance in this regard, the Company has, to a large degree, an advantage relating to the production of certain APIs and extracts.
- Quality. We have already mentioned that Chinese companies must now largely compete in this market on quality. Reputation is paramount in this industry and mandatory certification requirements push out many smaller and emerging competitors.
- R&D. Not all companies have the relationships with the research institutions that Huifeng has. We feel that if this were not the case, entering the patent medicine market would not be on management's radar.
- Diversification. Unlike some of its competitors in a highly fragmented industry, Huifeng has a relatively diverse product line (see *Product Revenue Mix, p.4*), which broadens the Company's target market.

Recommendation and Conclusion

This report has laid out our investment thesis for Huifeng Bio-Pharmaceutical. Rather than a typical fledgling bio-pharmaceutical company, we see HFGB as a bona-fide bio-pharmaceutical concern, one that is filling a huge global need, has great leadership and, with the exception of FY2009 when many companies got hit, has exhibited admirable revenue growth.

Operating results and stock performance could be subject to greater volatility as the Company grows, but with the stock at these levels, long-term investors might be interested in using this period as an opportunity to build positions with risk capital in anticipation of stronger performance in FY2010 and beyond.

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About EquityNet Research

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About the Analyst

Randy Lewis, CFA, MBA, founder and Senior Equity Analyst of EquityNet, has more than 10 years experience in equity and portfolio analysis. Prior to forming EquityNet, Mr. Lewis served as an equity analyst at SSI Investment Management, Inc., a \$500-million, money management firm, specializing in sophisticated, hedged investment strategies, and serving institutional and high net worth clients. Previous to SSI, Mr. Lewis was a financial analyst for Griffin Financial Services, the securities brokerage arm of Home Savings of America, the then-largest savings and loan in the U.S. Mr. Lewis has had several articles published, most recently in HFR Journal of Hedge Fund Research on the subject of merger arbitrage. Mr. Lewis received his Bachelors Degree with honors in Finance from California State University, Fullerton, his MBA at the Anderson School of Management at UCLA, and has earned the Chartered Financial Analyst (CFA) designation. He is also an assistant professor of business at Pierce College in Los Angeles.

Explanation of Ratings

- **STRONG BUY** – The analyst feels that the stock is significantly undervalued and holds superior long-term price appreciation potential.
- **BUY** — The stock appears attractively valued and the analyst feels the stock's total return will exceed that of the market over the next 12 months.
- **SPECULATIVE BUY** - Under current conditions, the stock appears to be appropriately valued, but short-term event(s) could dramatically alter the future landscape of the company in terms of revenue, earnings and cash flow.
- **HOLD** — The stock appears appropriately valued and the analyst believes the stock's total return will be relatively inline with the market over the next 12 months.
- **SELL** — The stock appears overvalued and the analyst believes the stock's total return will be below the market over the next 12 months.

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