

**Huifeng Bio-Pharmaceutical
Technology, Inc.**

**Pharmaceutical Ingredients
HFGB: OTC/BB**

December 20, 2010

PROFILE

In Huifeng Bio-Pharmaceutical Technology, Inc. investors have the opportunity to capitalize on China's exportation of its renowned expertise in traditional medicines that relies extensively on herbal remedies among other therapeutic disciplines. The Company has a decade long track record for providing high quality products that are in demand around the world as ingredients for pharmaceutical, nutraceutical and food products. Its principal products, *Rutin* and *Diosmin*, are used as ingredients in therapies that target venous diseases, inflammation, and dermatitis among other chronic health issues.

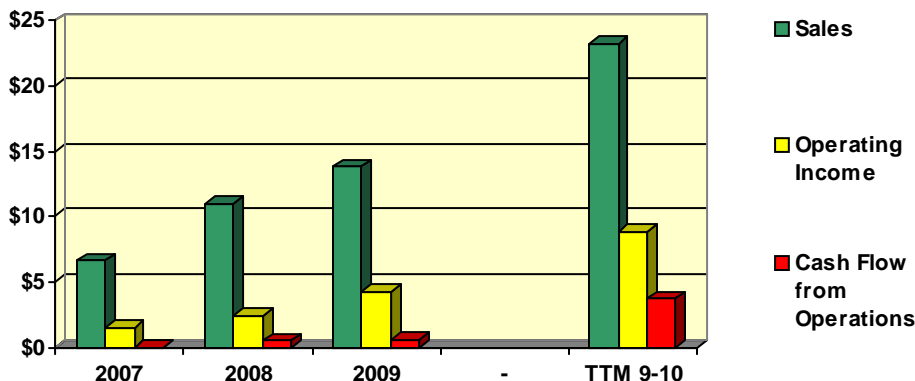
Huifeng is growing at a fast pace, driven by a combination of strong demand, new product introductions, added customer relationships and capacity expansion. Sales doubled in the nine months ending September 2010 compared to the same period in the previous year.

Strong growth is expected to continue in the long-term. The Company recently acquired a *Rutin* producer that will begin contributing to results in the December 2010 quarter. An expansion project is underway that will increase *Diosmin* production capacity six times by the end of 2011. More importantly the Company has applied for a key quality certification for its *Diosmin* product that will open the door to new customers in Europe.

An experienced management team supported by a well-qualified board of directors portends astute planning for long-term growth and profitability. The Company expects to continue strategic acquisitions in China and to target new markets, including drugs patented in the U.S. and Europe.

Growth is supported by strong internal cash flows and the issuance of new equity. Huifeng operations are increasingly profitable, with sales-to-cash conversion reaching 15.9% in the first nine months of 2010. In 2005, Huifeng merged with a public shell company domiciled in Nevada. Its shares trade on the U.S. Over-the-Counter Bulletin Board, providing an alternative currency for strategic acquisitions and project financing.

FINANCIAL PERFORMANCE



Dollars in millions; fiscal year ends December.

Source: Company Reports

MARKET DATA

Price: \$0.69 (12/17/10)
 52 Wk Hi-Lo: \$1.40 - \$0.45
 Ave. Volume: 54 K
 Short Interest: <1%
 Beta: 1.80

VALUATION

Price/Sales: 1.0 X
 Price/CFO: 6.0 X
 Price/EPS: 3.8 X
 Price/Book Value: 1.0 X

Based on TTM ending 9/30/10

Consensus EPS 2010: NA
 Forward PE: NA
 Consensus EPS 2011: NA
 Forward PE: NA

EQUITY SECURITIES

Common Shares Out: 32.4 M
 Insiders: 23.8%
 Float: 24.7 M
 Institutional: <1%
 5% Holders: 27.2%

Common Dividend: Nil
 Preferred Shares : -0-

Shares underlying
 Convertible Notes: 1.5 M
 Warrants and
 Options Outstanding: 1.5 M
 Shares underlying
 Financing Agreement 1.5 M

As of 9/30/10 except shares outstanding include 861,606 shares issued in a debt conversion and 5.0 million shares issued in a financing agreement made in November 2010

INVESTMENT HIGHLIGHTS

Positives

- Growing market opportunity for plant-based pharmaceutical ingredients and nutraceuticals on favorable demographic and consumer trends
- Potential for sales volume expansion through augmentation of *Diosmin* production capacity to 600 tons per year from 100 tons; acquisition of Shangqiu Kexin added 100 tons in new *Rutin* production capacity
- A reputation for high quality products and proprietary processing technology provide competitive advantage in highly fragmented market pharmaceutical ingredient market
- Pending application for Certificate of Suitability (COS) from European Directorate for Quality Medicine and Healthcare (EDQM) for Huifeng's *Diosmin* product could boost sales volumes in Europe
- Profit margin expansion on direct and operating leverage; raw materials sourcing efficiencies from recently acquired Shangqiu Kexin operation
- Highly fragmented pharmaceutical ingredient sector in China provides opportunities for strategic expansion of product line and customer base
- HFGB is trading well below comparables at 3.8 times trailing EPS

Negatives

- Significant competition from other China-based suppliers of pharmaceutical ingredients and plant extracts, particularly if another supplier is able to achieve quality certifications from Europe or the U.S.
- Dilutive impact on earnings per share following November 2010 share issuance in financing agreement for *Diosmin* capacity expansion and before incremental *Diosmin* sales expected in late 2011
- Potential dilutive effects from the exercise of outstanding options, warrants, convertible notes and a financing agreement totaling approximately 4.5 million shares and representing 13.9% potential dilution
- Changes in exchange rates between China's renminbi (functional currency) and the U.S. dollar (reporting currency) may negatively impact reported earnings and balance sheet values
- All of the Company's operations are located outside the U.S. and business is conducted primarily in the Chinese language, addition additional complexity to investors' due diligence
- Limited trading history for HFGB shares and shallow trading volumes that imply wide bid and ask spreads

OUTLOOK

In our view, consideration of HFGB shares is timely given Huifeng's recent strategic moves. The Company is actively expanding production capacity for its key products. The recently acquired Kexin *Rutin* processing operation added 100 tons to *Rutin* capacity and will begin contributing to sales and earnings in the December 2010 quarter. The Company is also executing on a plan to add 500 tons in annual *Diosmin* production capacity that is expected to come on line in late 2011.

Even more important is the pending application for a Certificate of Suitability (COS) for *Diosmin* from Europe's medicine and healthcare authority. Huifeng believes it will be the only China-based *Diosmin* supplier with the European endorsement. We expect the *Diosmin* COS to drive sales volumes with new customers that are required to source from an approved supplier.

Although HFGB is trading at deep value, we view the stock as highly speculative and appropriate for investors with long-term investment horizons and a tolerance for risk.

OPERATING RESULTS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>9 Mo 09</u>	<u>9 Mo 10</u>	<u>2010 Est</u>
Sales	\$6.6	\$11.0	\$13.8	\$8.9	\$18.3	\$25.0
Gross Profit Margin	\$2.0 30.3%	\$ 3.8 34.6%	\$ 5.1 37.0%	\$2.9 32.6%	\$ 8.0 43.7%	
Oper. Inc.	\$1.5	\$ 2.4	\$ 4.2	\$2.2	\$ 6.8	
Net Inc.	\$1.3	\$ 1.6	\$ 3.0	\$1.4	\$ 4.5	
CFO	(\$0.0)	\$ 0.5	\$ 0.6	(\$0.2)	\$ 2.9	\$ 3.8
EPS	\$0.07	\$0.08	\$0.15	\$0.07	\$0.10	
ROE	16.3%	15.0%	19.0%			
ROA	11.6%	11.4%	16.0%			

Dollars in millions except EPS; Fiscal year ends December.

COMPARABLES/PEERS

- **American Oriental Bioengineering** (AOB: NYSE)
- **Biostar Pharmaceuticals, Inc.** (BSPM: Nasdaq)
- **China Botonic Pharmaceutical, Inc.** (CBP: NYSE)
- **China Nuokang Biopharmaceuticals** (NKBP: Nasdaq)
- **Herbalife, Inc.** (HLF: NYSE)
- **Neutraceutical International** (NUTR: Nasdaq)
- **Skystar Biopharmaceutical Co.** (SKBI: Nasdaq)
- **Tianyin Pharmaceuticals Co.** (TRI: NYSE AMEX)

PRODUCTS

◆ Pharmaceutical Raw Materials

Rutin (14% of sales)
 Diosmin (27% of sales)
 Troxerutin (13% of sales)
 Silymarin

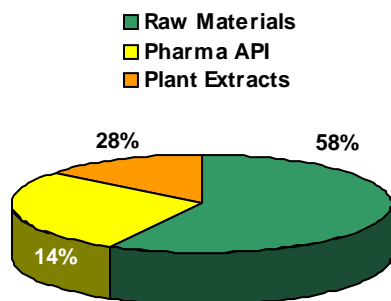
◆ Pharmaceutical Ingredients

Quercetin (13% of sales)
 Rhamnose (12% of sales)
 Gluconolactone
 Synephrine
 Resveratrol (5% of sales)
 Soybean-Isoflavones
 Lutein
 Lycopene
 5-HTP

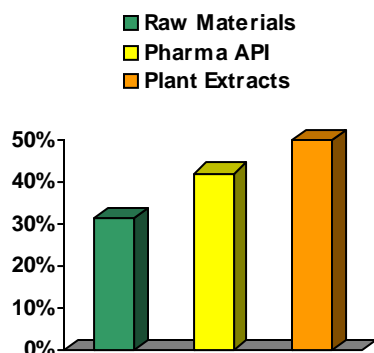
◆ Plant Extracts

Ginkgo Biloba
 Epimedium
 Bilberry
 Grape Seed
 Bitter Melon

2009 SALES MIX



PROFIT MARGINS



BUSINESS DESCRIPTION

Huifeng Bio-Pharmaceutical Technology is a manufacturer of biochemical products, pharmaceutical ingredients and plant extracts. Its principal products are *Rutin*, *Diosmin*, *Troxerutin* and *Quercetin*, four increasingly popular flavanoids valued for their health-modulating effects. They are used widely in prescription and over-the-counter remedies for venous ailments, inflammation, and dermatitis among other chronic diseases.

Strategically located in Shaanxi Province in north-central China, Huifeng is able to source the plant materials for its products from wholesalers and farmers in the area's rich agriculture sector. For example, the sweet orange that is the primary raw material for Huifeng's *Diosmin* product has been cultivated in China since 2500 BC. The Japanese Pagoda Tree that provides the source for Huifeng's *Rutin* is actually native to China and is also known as the Chinese Scholar Tree. Huifeng holds a China patent for its proprietary *Rutin* processing technology.

GROWTH STRATEGY

Huifeng management has outlined a multiple point growth strategy that builds on its proprietary process technology, management experience and reputation for quality: 1) expand production capacity, 2) apply for regulatory and quality approval in U.S. and European markets, 3) capture market share for *Diosmin* in domestic and international markets, 4) leverage research and development for new product development, and 5) improve operating efficiencies. In our view, growth is most likely to be impacted by production capacity expansion and a new quality certification for *Diosmin* in the European market.

Huifeng expanded *Rutin* production capacity to a total 500 tons per year through the acquisition of Shangqiu Kexin Rutin Processing located in eastern China. The Company also expects to complete construction of a new production facility that will expand *Diosmin* capacity to 600 tons per year. At 100% utilization management estimates the expansion could add approximately \$20 million in incremental sales of *Diosmin*.

The Company has applied for a Certificate of Suitability (COS) from the European Directorate for Medicine and Healthcare (EDQM) for its existing *Diosmin* plant. The EDQM COS is recognized by European Union members and is accepted as a scientific benchmark worldwide. A final decision on the application is expected in early 2011, at which time the Company's *Diosmin* product would be qualified for purchase by a wider customer base in Europe. The Company has already received indications of interest from customers contingent upon the COS award.

RELATIONSHIPS

- ◆ **European Directorate for Quality Medicine and Healthcare** - Quality Standards, Certificate of Suitability
- ◆ **China State Goods and Drugs Administration** - Good Manufacturing Practice Certification (GMP)
- ◆ **Crone Rozyngo LLP** - Legal Counsel
- ◆ **Baker Tilly Hong Kong Ltd.** - Auditor
- ◆ **Nuwa Group** - investor relations representative

INDUSTRY CALENDAR

- ◆ Mar. 3-4, 2011 - **Generics & Biosimilars Asia 2011**, Singapore
- ◆ Mar. 28-31, 2011 - **4th Annual BioPharm Asia 2011**, Singapore
- ◆ April 21-23, 2011 - **API China**, Chengdu, China
- ◆ June 27-28, 2011 - **2011 BIO International Convention**, Washington DC
- ◆ Oct. 1-30, 2011 - **China-Pharm 2011**, Shanghai

BALANCES

	<u>12/31/09</u>	<u>9/30/10</u>
Cash	\$ 0.6	\$ 2.1
Current assets	\$12.4	\$17.8
PP&E, net	\$ 6.3	\$ 7.1
Total assets	\$18.8	\$26.5
Accts. Payable	\$ 0.4	\$ 0.1
Conv Notes, net	\$ 0.8	\$ 0.8
Other Payables	\$ 1.2	\$ 2.2
Current Liabilities	\$ 2.4	\$ 3.1
Notes Payable	\$ 0.7	\$ 0.2
Equity	\$15.8	\$23.2
Shares Outstanding	23.0	26.5
Warrants and Options	0.5	0.5
Shares underlying Convertible Debt	1.8	1.2

Dollars, shares and derivatives in millions

Source: Company Reports and Crystal Equity Research Estimates

CASH FLOW AND BALANCES

Cash flow from operations increased to \$2.9 million in the first nine months of 2010, largely on rising net income. The cash conversion ratio (CFO as a percentage of revenue) rose to 15.9% compared to 4.5% in the fiscal years 2008 and 2009.

Cash on at the end of September 2010 was \$2.1 million. Working capital rose to \$14.7 million. Current assets included a deposit of \$1.0 million on the proposed acquisition of Shangqiu Kexin. Since closing the transaction in November 2010 the deposit has been reclassified as an interest bearing loan to Kexin.

To support expansion of *Diosmin* production in Xi'an the Company is relying on a \$3.9 million equity financing. In November 2010 Huifeng issued 5.0 million shares of common stock at \$0.60 per share to a China-based investment company. Another 1.5 million shares will be paid upon completion of the facility. The project will require an additional \$3.0 million in capital for new equipment that meets high-quality production standards.

Following a series of conversions by note holders by the end of September 2010, Huifeng had \$1.1 million in its 2007 convertible notes outstanding. This was net of the unamortized discount of \$395,066. Additionally, the Company had a note payable of \$223,944. In early November 2010 Huifeng settled a short-term note payable valued at \$513,969 at the end of September 2010 through the issuance of 861,606 shares common stock.

EARNINGS COMPARISONS**As Reported**

	<u>3Q09</u>	<u>2Q10</u>	<u>3Q10</u>
Sales	\$4.5	\$6.7	\$7.4
Gross Profit	\$1.5	\$2.5	\$3.9
Margin	33.3%	37.3%	52.7%
Oper. Inc.	\$1.3	\$2.1	\$3.3
Margin	28.9%	31.3%	44.6%
Net Inc.	\$1.0	\$1.6	\$2.5
CFO	(\$0.1)	\$1.4	\$1.3
EPS	\$0.05	\$0.05	\$0.08

As Adjusted for Non-cash Charges*

	<u>3Q09</u>	<u>2Q10</u>	<u>3Q10</u>
Sales	\$4.5	\$6.7	\$7.4
Gross Profit	\$1.7	\$2.7	\$4.1
Margin	37.8%	40.3%	55.4%
EBITDA	\$2.0	\$2.6	\$3.4
Margin	44.4%	38.8%	46.0%
Net Inc.	\$2.1	\$2.1	\$2.6
EPS	\$0.09	\$0.08	\$0.10

Dollars in millions except EPS; Fiscal year ends December

*Crystal Equity Research Estimates.

OPERATING PERFORMANCE

Attention to quality has been paying off for Huifeng, driving sales steadily higher over the past several years. Sales growth momentum picked up in 2010 as reported revenue increased 105.6% in the first nine months of the year compared to the same period in 2009. Accelerated penetration of U.S. and European markets through new customer relationships has helped drive sales volumes and selling prices have remained firm.

Profit margin expansion is contributing to even faster operating income growth rates. Gross profit margin in the first nine months of 2010 rose to 43.7% versus 32.6% in the same period a year ago. Better coverage of fixed production costs on higher sales volumes has been a key driver of margin expansion. At the operating level profit margins increased to 37.2% in the first nine months of 2010 compared to 24.1% in the year-ago period as fixed SG&A expenses declined as a percentage of revenue.

Going forward we expect current growth and profit trends to continue. First, direct and operating leverage is likely to continue driving earnings growth as sales volumes increase. Second, in the December 2010 quarter, the Company's recent strategic acquisition, Shangqiu Kexin Rutin Processing, is expected to begin contributing to revenue and earnings. The deal agreement includes an "earn-out" provision based on a projected \$650,000 average annual contribution to net income in the next two years. The Shangqiu Kexin deal adds 100 tons to annual *Rutin* production and is expected to drive efficiencies in raw material supplies. Third, we expect expansion of *Diosmin* production capacity by an incremental 500 tons and the award of a Certificate of Suitability in Europe to drive sales of *Disomin* in the final months of 2011.

GROWTH DRIVERS

- ♦ New interest in medicinal benefits of plant-based pharmaceutical ingredients
- ♦ Development of new pharmaceutical, nutraceutical and food applications
- ♦ Demographic shifts leading to increased incidence of vascular and inflammatory diseases
- ♦ Acceptance of Traditional Chi-

TARGET MARKETS

- ♦ Pharmaceutical manufacturers
- ♦ Nutraceutical manufacturers
- ♦ Food manufacturers

SUPPLIERS

♦ Agriculture Wholesalers

Cunqui Zhang
Xiaohe Wang
Yingwei Xu.

♦ Independent Farmers

Shaanxi Province
Gansu Province
Shanxi Province

COMPETITION

♦ Rutin

Sichuan Xieli Pharmaceutical Company Ltd.*

Chengdu Huakang Biology*

Shaanxi Rongsheng Biotechnology Co.

Xi'an Bosheng Bio-tech Co.

♦ Diosmin

Chengdu Huakang Biology*

Wuxi Gorunjie*

Shanghai Brightol International Co., Ltd.

Xi'an Rongsheng Biotechnology

♦ Rhamnose

Xi'an Tianyi Biotechnology Co.

Chengdu Huakang Biology*

*Recognized as direct competition by the Company

MARKET OPPORTUNITY

Industry analyst DataMonitor estimates the annual growth rate for Traditional Chinese Medicine and pharmaceuticals is 16%, making it one of China's fastest growing industries. Demand for Chinese plant-based materials and extracts is driven by a growing awareness of the health benefits of functional nutrition, the acceptance of TCM beyond China's borders, and wider application of various plant-based biochemicals in over-the-counter and prescription drugs. Demand for Huifeng's products is often presented in volume terms. For example, the Company estimates world demand for *Diosmin* is 5,500 tons and *Rutin* 5,000 tons per year.

Huifeng benefits from multiple end-markets. In 2009, sales for pharmaceuticals represented approximately 40% of the Company's sales, nutritional supplements 35% and functional foods 25%. Huifeng sells its products through both distributors (70% of total sales) and direct sales to end-users (30% of total sales). Key distributors include DNP International, Novel Ingredient Services, Tokyo Shinwa Shoji and AIDP, Inc. Based in the U.S., DNP boasts relationships with over 3,000 manufacturers. Also in the U.S., Novel serves the nutraceutical, food, beverage and sports nutrition markets. AIDP has over a decade of experience in supplying ingredient solutions for pharmaceuticals.

Approximately 40% of the Company's sales are to domestic buyers and 60% to customers in the U.S., France, Germany, and other Asia Pacific countries such as Russia, India and Japan. In 2009, Huifeng's top five customers accounted for 17% of total sales. An intensive direct sales effort added two new *Diosmin* customers in Europe and one in China. France-based Safic-Alcan entered into new supply agreement valued at \$56 million. The Company expects to ship as much as 500 tons of *Diosmin* over the five-year term. The Company also received a major *Diosmin* order valued at \$3.8 million from Spain's Galenicum Health SL, which provides sourcing and product development services to the pharmaceutical industry. The Company began shipments in August 2010 and expects to fulfill the entire order by July 2011.

COMPETITIVE POSITION

The world market for plant-based pharmaceutical products and plant-extracts is highly fragmented and populated by numerous small producers. Product lines are diverse such that most companies compete with a different mix suppliers on a product-by-product basis.

Proprietary technology and a reputation for quality sets Huifeng apart from competitors. The Company was awarded a China patent for "producing *Rutin* by eliminating enzyme and mucus." All of its production facilities have a Good Manufacturing Practice (GMP) designation from the China State Goods and Drugs Administration. The Company's plant extracts meets ISO 9000:2001 quality management standard.

If approved by the European Directorate for Medicine and Healthcare (EDQM), the Company's pending application for a Certificate of Suitability (COS) would make Huifeng one of three in the world and the only China-based supplier of *Diosmin* with that designation. European regulatory authorities accept COS in place of manufacturing details or quality data for a variety of pharmaceutical ingredients. With the EDQM COS for *Diosmin* we believe Huifeng will have a competitive advantage, particularly when vying for orders with European customers.

We note that one of Huifeng's competitors, Sichuan Xieli Pharmaceutical, is reportedly applying for a COS from the EDQM for its rutin product. A successful application by Sichuan Xieli may pressure Huifeng to seek a COS for the Huifeng *Rutin* product as well.

LOCATION

Huifeng Bio-Pharmaceutical Technology is headquartered in Xi'an City in Shaanxi Province of the north-central section of China. The Company maintains an Internet presence at www.xahuifeng.com.

HISTORY

2002 - Launch of operations and introduction of *Rutin* product line

2006 - Introduction of *Diosmin* and *L-Rhamnose* product lines

Dec. 2007 - Issuance of \$2.0 million convertible notes at 10%

2008 - Introduction of *Hesperidin* product line

Jan. 2008 - Application in Europe for *Diosmin* quality certification

June 2009 - Disposal of 70%-owned subsidiary Huifeng Engineering

Dec. 2009 - Partial conversion of convertible notes and exchange for new \$1.8 million note at new conversion price

June 2010 - Settlement agreement with 2007 convertible note holders relating to Make Good Shares

Sept. 2010 - Acquisition of 90% interest in Shangqiu Kexin Rutin Processing for \$140,000 in cash and 2.3 million shares

Nov. 2010 - Loan settlement agreement with Xi'an Rungeng Investment Co., Ltd. with issuance of 861,606 shares at \$0.60/share

Nov. 2010 - Agreement with Xi'an Jucheng Investment & Consulting to provide \$3.9 million for new *Diosmin* plant for total 6.5 million shares of Huifeng stock at \$0.60/share

LEADERSHIP

Huifeng Bio-Pharmaceutical Technology is led by founder **Jing'an Wang**. Wang founded the Company in 2000 and now serves as **Chief Executive Officer, President and Chairman of the Board**. He has a background in accounting and finance. Prior to 2000, Mr. Wang was chief financial officer with Wei Xing Enterprises from 1999 to 2000, and served in various senior accounting positions at several other China companies.

Sanding Tao, Chief Financial Officer, joined Huifeng in 2003. Just prior to joining the company Tao was chief financial officer for Xian Xing Yi Science & Technology, Inc. He has previous experience in senior finance and accounting positions at several technology and bio-tech operations. Mr. Tao graduated from Chinese Southern Financial College.

In early 2010, the Company appointed new **independent directors**. **Dr. Xiaoli Sun** brings to the board room extensive experience in medical research with particular emphasis on cardiovascular and cerebrovascular diseases. Dr. Sun is a professor and director of The Fourth Military Medical University in China and is director of the Shaanxi Province Chemistry Institute.

John Zhang, director, is an expert in banking and finance. He currently serves as the CEO of JC Global Capital Partners, LLC, a boutique financial consulting firm in Shanghai that specializes in cross-boarder capital market transactions.

The most recent board appointment is **Chi Keung Liu**. Mr. Lui has extensive experience in banking and finance. He is the CEO of Porcheers Consultants Ltd., specializing in internal control, public listing and merger and acquisition planning and investment. Mr. Lui has been a senior officer and director of several publicly listed companies.



CAPITALIZATION

Recent Price:	\$0.69
Shares Out:	32.4 M*
Market Capital:	\$22.4 M
+ Preferred Stock	-0-
+ Debt	\$ 1.5 M
- Cash	<u>\$ 2.1 M</u>
Enterprise Val:	\$21.9 M
Book Value:	\$22.4 M
Working Capital:	\$14.7 M

**Balances as of 9/30/10 except shares outstanding includes 861,606 shares issued to settle a \$499,000 note plus interest and 5.0 million shares issued in a financing agreement made in November 2010*

Source: Company Reports and Crystal Equity Research Estimates

OWNERSHIP

	<u>Shares of Common Stock</u>
Insiders:	
Jing'an Wang, CEO	7.3
Sanding Tao, CFO	0.3
Xiaoli Sun, Director	<0.1
John Zhang, Director	<0.1
Chi Jeung Liu, Director	<u><0.1</u>
Total Insiders	7.7 M
As % of Shares Outstanding	23.8%
5% Holders	8.8 M
As % of Shares Outstanding	27.2%

Shares in millions

Source: Company Reports and Crystal Equity Research Estimates



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