

BEACON EQUITY RESEARCH



May 8, 2006
Analyst: Kris Goldcross, CFA



Financial Summary

SYMBOL	TBV
EXCHANGE	AMEX
CURRENT PRICE	\$6.61
SHARES OUTSTANDING	71.33 MILLION
COVERAGE INITIATED	May 8, 2006
RATING	Outperform
PRICE TARGET	\$12.30
MARKET CAP	\$471.51 MILLION
52-WEEK RANGE	\$2.82 - \$7.19



Company Background

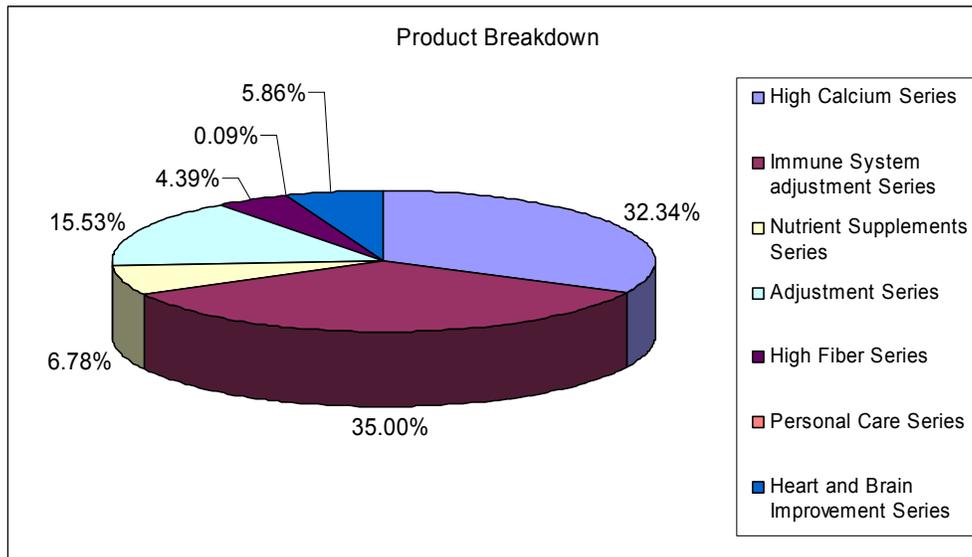
China-based Tiens Biotech Group (USA), Inc. (AMEX: TBV) is a leading nutritional products company engaged in the research, development, manufacturing, and marketing of high quality nutritional supplements and wellness products both in China and in the international market. The Company's nutritional line of products includes the High Calcium Series, the Immune Enhancement Series, the Nutrient Supplement Series, the Adjustment Series, the High-Fiber Series, and the Heart and Brain Improvement Series. In total, Tiens Biotech has developed and is currently producing 39 nutrition supplements (including wellness products and dietary nutrition supplements) and 25 personal care products (including skin care products and personal washing products).

Tiens Biotech is a component of the Halter China Index.





The percentage of sales generated by each of these series has been presented graphically below:



The Company's herbal products, vitamins, mineral supplements, and personal care products are sold in over 31 provinces in China and in more than 90 countries across six continents. Internationally, these products are sold in a number of countries, including South Korea, Japan, India, Thailand, Malaysia, Indonesia, Canada, Peru, Brazil, Russia, Kazakhstan, Belarus, Mongolia, Finland, Lithuania, Britain, Germany, France, Romania, Ukraine, Portugal, Turkey, Italy, Nigeria, Ghana, South Africa and Australia. While sales in China accounted for 56% of the Company's 2005 revenue, the global markets generated the balance of 44%.

Tiens Biotech Group operates through two of its primary subsidiaries – Tianjin Tianshi Biological Development Co., Ltd. (Biological) and Tiens Yihai Co., Ltd. (Tiens Yihai). The Company owns an 80% interest in its subsidiary, Biological, which is engaged in the research, development, manufacturing, and marketing of nutritional supplement products. The subsidiary offers an extensive range of supplemental products including wellness and dietary supplement products and personal care products. In April 2004, Tiens Yihai was formed as a result of a joint venture between the Company and Tianjin Tianshi Pharmaceutical Co., Ltd. Tiens Yihai is also engaged in the research, development, production, and marketing of nutritional supplement products, home care products, and personal care products. Tiens Yihai is located in Shanghai, China.



In China, the Company sells its products through an affiliate company – Tjanin Tianshi Biological Engineering Co., Ltd. (Tianshi Engineering). Tianshi Engineering markets and sells the Company's products in China through various chain stores, domestic affiliated companies and its 106 branches. Outside China, the products are sold through an extensive direct sales force including a multi-level marketing sales force of overseas affiliates located in more than 54 countries and independent distributors who either use the products themselves or resell them to other distributors or consumers.

Investment Highlights

Tiens Biotech Group is poised to benefit from the increasing consumer demand for nutritional and wellness products around the world – especially in the world's most populous nation. The Company appears to be well-positioned to further expand its market share through enhancing its various product lines as well as by expanding its distribution channels.

Recent lift on direct sales restrictions in China

Recently in December 2005, the Chinese government lifted a seven-year ban which had been imposed on direct sales in the country. Direct selling had been banned in 1998 due to the widespread fraud being committed by companies, in which hundreds of thousands of consumers in China were cheated. However, the new rules on direct selling in the country have been made stricter, requiring foreign companies wishing to set up a direct sales force in China to have three years of prior experience in operating overseas, a minimum registered capital of CNY 80 million and a deposit of CNY 20 million to set up their business in the country. Companies like Avon, Oriflame, NuSkin, BodyShop and Amway are waiting to tap into the country. However, since the government is giving preference to domestic companies, we expect Tiens Biotech Group (USA), Inc. (which already has a strong foothold in the country) to benefit from this multi-level marketing opportunity in the lucrative Chinese market.

Proprietary Product Line

Tiens Biotech Group, Inc. currently produces a unique line of health and beauty aids that incorporate elements of natural, human and social sciences. These products incorporate traditional Chinese remedies combined with state-of-the-art biotechnology. In turn, this has resulted in formulations that complement modern medicine. The products are designed to primarily strengthen and balance the body through use of nutritional supplements and other personal care products. Demand has been so strong that there have been instances when Tiens Biotech has been unable to meet the demand for its products and has had to curb international sales to satisfy the needs of the Chinese market. Special emphasis needs to be put on the Company's breakthrough product – *High Calcium Powder* (developed in 2000 using a highly unique enzyme technology developed in-house), which has been met with widespread demand and popularity around the world.



High Product Quality

Tiens Biotech Group currently has seven primary product lines, six of which consist of nutritional supplements and the seventh one of personal care products. The primary reason behind the popularity of the Company's products both in China and on the international market can be largely attributed to their high quality. While each product has an issued Product Standard Code by the Bureau of Technical Supervisors, the wellness products have an additional certificate by the Domestic Wellness Products issued by the State Food and Drug Administration.



Additionally, Tiens Biotech Group has been awarded several awards recently, which further emphasize the high quality of its products. In 2002, the Company was awarded a Quality System Certificate for compliance with the standard ISO 9001:2000 in the area of Design and Development, Production and Service of Food, and Health Care Food in China.

Increasing Distribution Channel



Tiens Biotech Group (USA), Inc. sells its products to Tianshi Engineering (an affiliated Chinese company), which in turn sells the products to end users through various stores and other Chinese affiliated companies. The Company is currently focused on expanding its market by opening additional branches, chain stores, and Chinese affiliated companies of Tianshi Engineering. During 2005, 40 new branches were set up by Tianshi Engineering, which took the total count to 106 branches. The 30.7% increase in the Company's domestic 2005 annual sales was primarily due to the increase in the networking sales forces and the establishment of 40 new branches in China. Similarly, international sales also increased 2.7% during the same timeframe due to the establishment of two newly affiliated companies in the international markets of Rwanda and Venezuela.

Since increasing the distribution channel has a direct impact on the Company's top line, management plans to increase its distribution channels to tap the increasing demand in wellness and nutritional products around the world.



Extensive Product Research and Development Efforts

Tiens Biotech Group (USA), Inc. has incurred significant capital expenditures in research and development since its inception. As a result, it has developed and currently manufactures seven major product series, of which six consist of 31 types of nutritional supplement products and the seventh consists of personal care products. Management plans to expand operations further by remaining focused on in-house development, as well as through acquisitions and exclusive licensing agreements. The Company remains committed to new research projects with dedicated technologies, state-of-the-art production procedures, and in-depth investigations on all scientific fronts to ensure that all the products that it manufactures meet the highest standard for safety, effectiveness and compatibility in line with the evolving needs of modern lifestyles globally.

Research and development efforts are core to the Company's future growth prospects and will play a major role in determining its success. As a result, management remains committed to incurring significant expenses in these efforts to create new and unique products.

Profitability

In its short operating history, Tiens Biotech Group (USA), Inc. has been able to post impressive growth in its revenue and net income figures. After having incurred losses since inception, the Company successfully emerged from the red in 2002 and has been posting impressive growth figures since then. The double-digit growth in both the top line and bottom line achieved in the recent past is encouraging, and increases the likelihood that the Company will continue to post impressive financial results going forward. Additionally, the products manufactured by Tiens Biotech Group (USA), Inc. command high margins, which in turn leads to impressive returns on assets and investments of the Company.



Market and Competition

The demand for dietary supplements in the United States is increasing at a rapid rate and has become a multibillion-dollar industry today. The current estimate for the North American vitamins, minerals, and supplement markets stands at an enormous \$17.7 billion. The U.S. Congress has defined a dietary supplement as a “product taken by mouth that contains a dietary ingredient intended to supplement the diet.” This dietary ingredient may include vitamins, minerals, herbs, amino acids, enzymes, organ tissues, glandulars and metabolites. Today, half of Americans are known to include these supplements in their daily diets. The World Health Organization has estimated that in developing countries, nearly 80% of the population relies on natural products for primary health care needs. In fact, in France and Germany, 30-40% of all medical doctors are known to rely on herbal preparations as their primary medicine.



Regarding China, its recent widespread economic development has led to an increase in consumer awareness about the risks of dietary imbalances and the importance of maintaining appropriate levels of vitamins and minerals in the human body. Tiens Biotech Group (USA), Inc. believes that its products, which contain high levels of vitamins and minerals, have extensive potential in markets in both China and other developing nations. Additionally, the entry of China into the World Trade Organization has led to an increase in the international markets

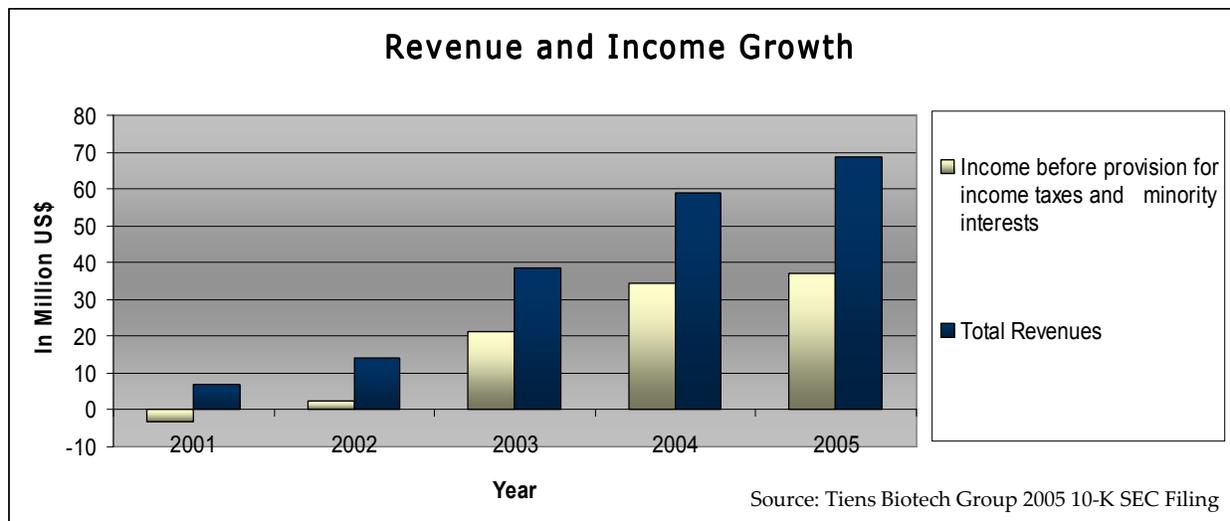
for Chinese products. International markets are recognizing some of the major ingredients of Tiens Biotech Group (USA), Inc.’s products — lecithin, ginkgo extract, and melatonin — as beneficial food supplements for the human body. Additionally, according to Global Information Inc.’s vertical market research report, market demands for vitamins, herbals/botanical products, sports nutrition, meal supplements, minerals, and specialty products are expected to increase significantly over the next 5-8 years.

The Company’s main competitors outside China include Amway, Avon (NYSE: AVP), Mary Kay, Nu Skin Enterprises Inc. (NYSE: NUS), Herbalife Ltd. (NYSE: HLF), SunRider Corporation, Unicity Network and Morinda.



Financial Analysis

Tiens Biotech Group (USA), Inc. is an early stage company, having begun operations in July 1998. The Company commenced trading publicly on the American Stock Exchange (Amex) on April 25, 2005. The Company continued to post losses until 2002 and turned profitable only in 2003 and 2004, due to an increase in its top line specifically in the international arena. The table below shows the growth in the Company's revenue and net income for the period 2002-2004:



The significant growth in both the Company's top line and bottom line over the period under consideration can be largely attributed to the growing worldwide demand for the Company's unique health-oriented product line combined with the successful deployment of the Company's distribution channels in China and its continuing international expansion of its sales force.

Tiens Biotech Group (USA), Inc. recently reported earnings for the fourth quarter and fiscal year ending in December 2005. Revenue for the fourth quarter of \$17.96 million marked a year-over-year increase of 40%. This increase was on account of an 84.6% increase in demand for the Company's products in the domestic market of China following the additional domestic sales force and establishment of 40 new branches. Similarly, the net income of \$5.47 million also marked an increase of over 82% compared to the fourth quarter of 2004.

While revenue for the fiscal year ended December 2005 with \$68.69 million which was an increase from the previous year of 16.6%, post-tax net income of \$26.88 million marked a year-over-year insignificant decline of approximately 2%, which is due primarily to one-time tax issues..



Valuation

The current value of the stock of the Company has been based on a price to earnings model (P/E). The following table is provided to show the P/E ratio of similar publicly trading companies in conjunction with that of Tiens Biotech Group (USA), Inc.

	Current per share Trading Price	Market Capitalization (\$ in million)	Price/Earnings multiple	Current PEG Ratio (est)
Tiens Biotech Group, Inc.	\$6.61	\$471.51	17.53	.95
Avon Products, Inc. (AVP)	\$32.23	\$14,500	20.41	2.29
Nu Skin Enterprises Inc. (NUS)	\$15.51	\$1,090	25.34	1.25
Herbalife Ltd. (HLF),	\$38.10	\$2,670	29.65	1.31

Source: Yahoo Finance/ Bloomberg

Currently, the Company's stock trades at a P/E multiple of 17.53x, whereas similar publicly traded companies are trading at an average P/E multiple of over 20x. Applying the average P/E ratio of its peers, the Company's stock price would be currently valued at over \$9.00 per share. However, we also need to take into consideration the fact that the Company is aggressively increasing its marketing channels as well as developing new products, which should add to its bottom line at a higher rate than its competitors in the near future. In addition, we feel that since Tiens Biotech is an incumbent firm in China it will reap the added benefit of favorable treatment from the government as foreign firms try to move in. We also expect Tiens Biotech Group to witness at least a 20% increase in its bottom line going forward. Applying a 25x P/E ratio to this forward earnings figure, we arrive at a 12-month target price of approximately \$12.30, which would signify a considerable upside from the stock's current price.



Management

The CEO along with notable directors of Tiens Biotech Group (USA), Inc. are listed below:

Jinyuan Li

Chairman, President and CEO

Since September 2003, Mr. Jinyuan Li has served Tiens Biotech Group (USA), Inc. as a Chairman and a Director. He currently holds the position as President of the Company. Mr. Li, the founder of Tiens Biotech Group (USA), Inc. has over fourteen years of experience in leadership positions in various government and social associations including Commissioner of the Tianjin Political Consultative Conference, Standing Director of China Entrepreneur's National Council, Executive Commissioner of the All-China Federation of Industry and Commerce, Vice President of Chinese Bioengineering Association, and the Vice President of Chinese Healthcare Association. Mr. Li has been elected as one of the Top Ten Most Outstanding Talents in the Greater China area; one of the Top Ten Most Popular Personages among the High-Ranking (by China Economic Forum), Excellent Entrepreneur (by the Organization Committee of the Second Chinese Entrepreneur Forum in 2003), and as the Most Creative Chinese Businessman of Asia in 2004. Mr. Li holds a MBA degree from Nankai University.

Wenjun Jiao

Chief Financial Officer

Mr. Wenjun Jiao has been serving as the Chief Financial Officer since the Company was reorganized in August 2003. Prior to this, he served as the Chief Financial Officer of Tianjin Tianshi Biological Development Co. from May 2001 to August 2003 and as the Chief Accountant at the Xincheng Accounting Firm from November 1997 to April 2001. Mr. Jiao holds a Doctoral Degree in Accounting from Tianjin University of Finance and Economics and a Master's Degree of Business Administration from Oklahoma University. He is also a Certified Public Accountant in China.

Yupeng Yan

Executive Vice President

Mr. Yupeng Yan has served as an Executive Vice President of Tens Biotech Group (USA), Inc. since its reorganization in August 2003. Prior to this, from 1996 to 2002, Mr. Yan served as Vice President of Tianshi Group, Co. Ltd. He currently holds a number of leadership positions including CEO of Tianshi International Marketing Group, Vice-Dean of Tianshi Occupational Technique Institute, and Vice-Chairman of Tianshi Science and Technique Association. Mr. Yan holds an Executive Masters of Business Administration Degree from Nankai University.



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Kris Goldcross, CFA - Senior Analyst

Kris Goldcross completed the Chartered Financial Analyst program from the CFA Institute in August of 2005. and was awarded his CFA Charter in September 2005. Mr. Goldcross holds a bachelors degree in commerce and currently works for an Investment Banking Firm which specializes in a private wealth management. His work profile includes analysis and recommendation of stocks listed on the Indian stock market to clients on the basis of both technical as well as fundamental analysis. Mr. Goldcross primarily concentrates on the metal, banking and FMCG sectors of the Indian capital markets. He also has expertise in analyzing the movement in exchange rates and its likely impact on global commodity prices. In addition he is also responsible for analyzing macro-economic variables including inflation, money supply to forecast movements in interest rates.

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