GOLDEN MEDITECH COMPANY LIMITED

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Stock Code: 8180.HK

Stock Data	in HKD	in USD
Ticker	8180.HK	8180.HK
Shares Outstanding	1,522	1,522
Price (as of 9/14/2007)	3.37	0.43
Target Price	3.84-5.06	0.49-0.65
Market Cap	5,130	655
TEV	4,442	567
2007E EBITDA	304.79	304.79
TEV/EBITDA	14.57	14.57
Current P/E	23.73	23.73
Forward P/E (using 2007 estimates)	18.37	18.37
ROIC	11.54%	11.54%
ROA	8.28%	8.28%
ROE	9.56%	9.56%

*Shares Outstanding, Market Cap and TEV Values in millions

Investment Thesis:

We place a **BUY** recommendation on Golden Meditech (GM) for the following reasons:

- We expect operating margins in the Medical Device segment to increase to 75 percent by 2009 due to monopolistic position of ABRS machines.
- The Cord Blood Bank segment will expand due to increasing footprint from 2 to 8 centers by 2010.
- The Chinese Herbal Medicine segment will continue to enjoy high barriers to entry since TangHerb® is the only herbal medicine of its kind, and because of high research and development costs.

Company Overview:

Golden Meditech is a holding company which is a leading provider of hi-tech integrated medical products and services in China. GM operates a diversified portfolio consisting of primarily three major businesses: development, manufacture, sales and distribution of professional medical apparatus and personal health monitoring devices (Medical Devices segment - MD); examination, separation, processing, and storage services for blood stem cells extracted from the umbilical cord blood of newborn babies (Cord Blood Banking segment - CBB); and research, development and manufacture of Chinese natural herbal medicines known to effectively boost the immune system and alleviate some of the common symptoms of AIDS (Chinese Herbal Medicine segment **-** CHM).

GM trades on the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong. Issues trading on this volatile market possess greater inherent risk as a result of their emerging nature and because no record of profitability or favorable future forecast is necessary to be listed on this exchange.[1]

GM's management has a solid track record in its ability to spot promising opportunities in the field of medical technologies and acquire them at very attractive costs, which has given the company the first-mover advantage in many endeavors. For instance, GM invested HKD 5 million in CMED in 2003, which went public in August 2005 on the NASDAQ. The HKD 5 million investment is now valued at HKD 220 million, which is a 113 percent CAGR over 4 years. We foresee larger strategic acquisitions in the future, which should further enhance shareholders' value.

Segment Analysis:

Medical Devices Segment (MD, "Jingjing")

GM owns 100 percent[2] of the MD segment. Historically, this segment has generated the leading revenue stream for GM by the manufacture and sale of disposable blood processing chambers and its flagship product - Autologous Blood Recovery System (ABRS). In fiscal year 2006-2007, this segment contributed about 78 percent of total revenue, as illustrated below.

Table 1: Segment Revenue as a Percentage of Total Revenue

	2004-2005	2005-2006	2006-2007	2007-2008E	2008-2009E	2009-2010E
MD	94%	88%	78%	63%	50%	39%
CBB	6%	12%	19%	33%	45%	54%
CHM	0%	0%	3%	4%	5%	6%

Currently, GM enjoys market share of 80 percent in the Chinese ABRS device market. However, momentum in new equipment procurement by hospitals slowed in fiscal year 2006-2007 due to increased regulatory changes introduced by the Chinese government. These changes are believed to be temporary and segment sales are projected to regain momentum in the near future. Also, sales in disposable chambers used in ABRS machines continued to rise in the low teens, indicating increasing market share.

We believe that two Category Three medical devices that are ready to be launched to market in the near future and GM's diversification of its customer base from hospitals to consumer space through personal health monitoring devices will contribute to an year-over-year revenue growth of 15 percent by 2010 for MR (Table 2). GM acquired Beijing PYRO in 2005 in order to build a retail and sales network. This is improving their ability to market personal health care units and is helping to increase its market share in this sector in China. We believe this strategic move will help increase MD's operating margins from 72 to 75 percent by fiscal 2009-2010 (see Table 3).

Table 2: Year Over Year Revenue Growth by Segment

	2004-2005	2005-2006	2006-2007	2007-2008E	2008-2009E	2009-2010E
MD	31%	10%	8%	11%	14%	15%
CBB	290%	133%	88%	140%	100%	75%
CHM	-	196%	3476%	100%	80%	70%

Cord Blood Bank Segment (CBB, "Jianchenhong")

[1] 1st Quarterly Report 2007/2008, page 2.

[2] 2006-2007 10K, page 87.

GM has a 56.5 percent[3] ownership stake in the CBB segment. Even though MD has historically contributed with the majority of the company's revenue, we project the CBB and CHM segments to account for an expanding proportion of total revenue going forward. With only one operational facility in Beijing, CBB revenue grew from 6 percent of total revenues in 2004-2005 to 19 percent in 2006-2007 (see Table 1). In line with management plans of providing cord blood storage services in eight Chinese cities by 2010, revenue growth of 140 percent, 100 percent and 75 percent over the next three years appear very probable (see Table 2). We foresee this expansion, coupled with the fact that GM holds two out of four licenses to provide cord blood banking services in China, to result in CBB revenues comprising of 54 percent of total GM revenues in 2009-2010 compared to 19 percent in 2006-2007 (see Table 1). In May 2007, the second bank was opened in China's richest province, Guangdong, where approximately 1 million babies are born each year, about 10 times that of Beijing. Given the increasing awareness and acceptance of blood stem cell storage, Chinese one-child policy per family and GM's improving knowledge and operation of the CBB business, we project MD's operating margins to settle around 42 percent in the next three years (see Table 3).

Table 3: Operating Margins by Segment

	2004-2005	2005-2006	2006-2007	2007-2008E	2008-2009E	2009-2010E
MD	65%	76%	71%	72%	74%	75%
CBB	35%	0%	39%	42%	42%	42%
CHM	-3196%	-9372%	-331%	-275%	-150%	-50%

Moreover, Deutsch Bank & Goldman Sachs plan to IPO the CBB segment which we anticipate will further fuel this growth.

Chinese Herbal Medicine (CHM, "Qijieyuan")

GM owns about 69 percent[4] of this segment. CHM's operating margins are becoming less and less negative, as can be seen from Table 3. CHM's negative cash flows are primarily due to large one-time R&D costs for TangHerb®, which has passed clinical trials and attained SFDA approval. GM is targeting OTC approval in the near future.

In January 2006, approximately 650,000 people were living with HIV in China. UNAIDS and other organizations estimate that by 2010 there could be between 10 to 20 million HIV positive Chinese – an 87 percent CAGR.[5] The sky-rocketing AIDS statistics and increasing government commitment in fighting AIDS will benefit GM since TangHerb® is a unique drug with high demand, currently distributed by the Chinese Government. We project conservatively that CHM revenues will increase by 100 percent, 80 percent, and 70 percent over the next three years as outlined in Table 2. Furthermore, we believe operating margins will increase from negative 331 percent in 2006-2007 to negative 50 percent in 2009-2010, as GM will benefit from lucrative sales, assuming GM gets OTC approval for TangHerb®.

[3] 2006-2007 10K, page 87.
[4] 2006-2007 10K, page 87.
[5] http://www.avert.org/aidschina.htm, 09/15/2007.

China Medical Technologies (CMED)

China Medical Technologies, Inc. (China Medical) is a medical device company that develops, manufactures and markets products using high-intensity focused ultrasound (HIFU) for the treatment of solid cancers and benign tumors in China.[6]

GM owns about 10 percent of this segment. CMED stock trades on NASDAQ; it was last traded at USD 38.59 (09/16/2007) and has a market cap of USD 1.06 billion. CMED's operating margin has ranged from 52 percent to 59 percent over the past three years.

Growth Outlook:

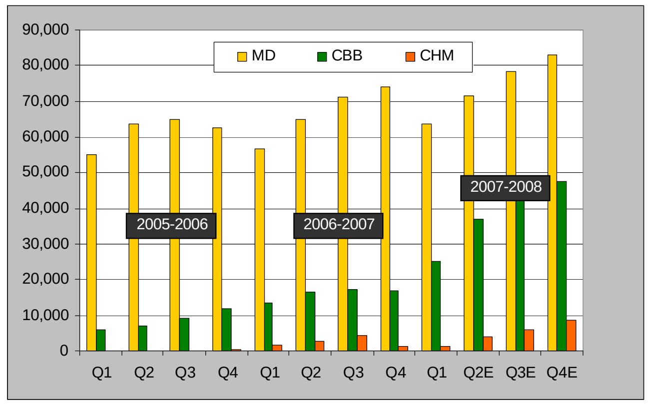

Chart 1: Per Quarter Revenue trend in MD, CBB, & CHM; Revenues in 1000's of HKD.

Chart 1 summarizes the quarterly revenue earned per segment from the first quarter in FY2005-2006 to estimated fourth quarter segment revenue in FY2007-2008. Quarterly revenues for MD, CBB and CHM are projected to grow at a CAGR of 3.8 percent, 21.04 percent and 100.8 percent respectively over this timeframe.

Risk Analysis:

Because of the riskier nature of GM's business and its investments, the company is more susceptible to market volatility than other securities traded on the Main Board of the Hong Kong Stock Exchange. Nonetheless, GM has successfully minimized its risks by choosing investments with high return potential that fit well with its current businesses and core competencies.

Furthermore, a handful of directors and beneficial owners hold the majority of the shares. Currently, insiders and large beneficial owners hold 56.7 percent of the company (see Table 4 below), which leaves only 43.3 percent of the shares to trade on the open market. This combined with the lack of liquidity of the GEM further increases the potential risk posed to investors in Golden Meditech. Moving to NASDAQ should help mitigate this risk.

Table 4:[7]

[6] MSN Moneycentral 09/16/2007.
[7] 1st Quarterly Report 2007/2008, page 18-23

Beneficial Owner:	Shares (in thousands):	Percentage owned:
Mr. Kam Yuen	433,916	28.51%
Anonymous	63,206	4.15%
Mr. Lu Tian Long	400	0.03%
Ms. Zheng Ting	2,000	0.13%
Mr. Kent McCarthy*	287,309	18.87%
Wellington Mgmt. Co.	76,289	5.01%

*The interest of Mr. McCarthy includes 203,849,735 shares held by Jayhawk China Fund, Ltd.

The company is exposed to minimal exchange rate risk as the majority of its sales and purchases are conducted in RMB. Moreover, most of the company's assets and liabilities are also denominated in RMB. The favorable appreciation of the RMB has enabled the company to refrain from hedging arrangements and management believes the RMB position will continue to benefit GM in the future. The company enjoys a strong cash position. GM reduces its exposure to credit risk by performing ongoing credit evaluations of its customers and closely monitors the liquidity structure of the company in order to control liquidity risk exposure.

Valuation:

DCF Analysis

The intrinsic value of the company was HKD 3.84 per share as per DCF analysis. We project FCFF to grow at the rates listed in Table 5. We discounted all future cash flows to present value at a required rate of return of 12.5 percent.

Table 5: FCFF Growth Rate Projections

2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	TV rate
-37%	42%	47%	10%	9%	8%	7%	6%	2%

This DCF analysis indicates that GM stock is undervalued by approximately 14 percent at the current price of HKD 3.37. Table 6 lists the key results of the DCF analysis. Since GM does not have any interest bearing long-term debt on its books, we did not include any debt in TEV calculations.

Table 6: DCF Analysis

Required return	12.5
NPV of Future FCF	2.86
Terminal Value	7.63
Cash	0.69
Total Equity NPV	6.19
Units Outstanding	1.61
Price	3.84

*All values in billion HKD, except units outstanding (in billion), required return (in %), and price (in HKD)

We also performed a sensitivity analysis (see Table 7) which shows that over a range of 11 to 14 percent required rates of return, and TV growth rates of 2 to 4 percent, the stock is mostly undervalued. The range of intrinsic values for GM is HKD 3.36 to HKD 5.16 – almost fully-valued to under-valued by 53 percent. This adds a level of confidence that the stock is trading well below its intrinsic value.

Table 7: Sensitivity Analysis - WACC

TV growth	11%	12%	13%	14%
2%	4.49	4.03	3.67	3.36
3%	4.78	4.26	3.84	3.49
4%	5.16	4.53	4.04	3.65

Current Price: HK$ 3.37

Relative Valuation

Due to GM's diverse and unique operating segments, finding comparable companies for valuation and operating metrics can be challenging. We selected three major competitors: Mindray Medical International (NYSE: MR), Datascope Corporation (NASDAQ: DSCP) and Haemonetics Corporation (NYSE: HAE).

Mindray is a Chinese medical device company with three major operating segments: Patient Monitoring Devices, Diagnostic Laboratory Instruments, and Ultrasound Imaging Systems.

Datascope Corporation is a medical device company engaged in the development, manufacture, and sales of clinical health care products in interventional cardiology, radiology, cardiovascular and vascular surgery, anesthesiology, emergency medicine, and critical care.

Haemonetics designs, manufactures, and sells automated systems for blood donors and surgical patients worldwide as well as data management systems for blood and plasma collection agencies.[8]

Table 8 illustrates several key operating and valuation metrics for GM and its competitors.

Table 8: Relative Valuation

	GM	MR	HAE	DSCP
Market Cap	655	4,100	1,270	494
Net Income	29	362	49	17
Current TEV	567	3,722	1,067	454
Estimated EBITDA	39	467	104	50
TEV/EBITDA (FY2006)	16.57	54.10	10.65	8.17
Current P/E	23.7	56	25.88	28.22
Forward P/E	18.4	41	22.91	16.58
ROE (%)	9.56	16.6	10.24	6.04
ROA (%)	8.28	21.3	8.78	5.69
ROIC (%)	11.54	13.53	10.40	10.42

* All numbers in million USD, except ratios and percentages
* Source from companies' 10-Ks, MSN money and Yahoo! Finance.

The average TEV/EBITDA multiple using these comparables was 24.31. We performed a sensitivity analysis using a range from 22.5 to 26.5, as can be inferred from table 9 below. The intrinsic value of GM's stock is consistently undervalued by 40 to 60 percent.

Table 9: TEV/EBITDA Sensitivity Analysis

Multiple	22.5	23.5	24.5	25.5	26.5
Target Price	4.68	4.87	5.06	5.25	5.44

The average Forward P/E multiple using these comparables was 26.8. We performed a sensitivity analysis using a range from 24.5 to 28.5, as can be inferred from table 10 below. The intrinsic value of GM's stock is consistently undervalued by 33 to 55 percent.

Table 10: P/E Sensitivity Analysis

Multiple	24.5	25.5	26.5	27.5	28.5
Target Price	4.48	4.67	4.85	5.03	5.22

Based on our DCF and relative valuation, we place a BUY recommendation on GM.

[8] http://finance.yahoo.com/