

China Healthcare M&A Quarterly

4th Quarter 2008

Quarter in Review

- Despite the economic downturn, M&A and investment activity remained robust in the fourth quarter as Healthcare is seen as a defensive play in a poor economy and, in China in particular, as a secular growth story
- As in past quarters, M&A activity was dominated by Chinese companies, listed and private, making strategic acquisitions rather than multinationals expanding in China
- Of note was the competing acquisitions of Ciming and iKang, two of the leading VC-backed health check-up services providers. Both companies had raised significant capital in late 2007 / early 2008 and are now seeking to rapidly gain critical mass through inorganic growth
- The Diagnostic Devices sub-sector continues to be an attractive area, with VC investments in both patient monitoring / ultrasound and in-vitro diagnostic (IVD) equipment companies. In addition, the quarter saw China Medical Technologies increase its focus in the diagnostic devices area with the purchase of an IVD company and the divestiture of a therapeutics devices business

Deal Highlights

- China Medical Technologies narrows its focus on IVD through the acquisition of an HPV-DNA chip company for US\$345mm and the divestiture of its HIFU business for US\$53.5mm
- American Oriental Bioengineering completed acquisitions of Guangxi Huike and Nuo Hua for US\$53.1mm to strengthen its drug registration and distribution capabilities
- Medical diagnostics equipment manufacturer Edan Instruments closed a US\$10mm Series A round of funding from SB China Ventures, WI Harper and Matrix Partners
- IVD device and reagents manufacturer Beijing ChemClin secured a Series B round of financing of US\$16.5mm from new investor Martin Currie China and existing investors WI Harper, Siemens and Softbank China
- EQT Asia acquires 48% co-control stake of nationwide retail drug store chain Hunan Laobaixing for US\$80mm
- Golden Meditech spun off its cord blood bank business to a US-listed SPAC at a US\$350mm valuation in preparation for the unit's NYSE listing
- Health checkup clinic group Ciming increased its network size by 50% through acquisitions of Baizhong and Wojia clinic chains in Beijing and Southern China

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Introduction

Cowen Latitude Asia, the wholly-owned Asia subsidiary of Cowen Group, Inc. (NASDAQ: COWN), is one of Asia's leading growth sector focused investment banks providing directly, or through its affiliates, a full range of capital markets, M&A advisory and private placement services. The Firm specializes in the growth sectors of Alternative Energy, Consumer, Health Care, Industrial, Media, Technology, Telecom and Aerospace & Defense.

We are pleased to present our fourth quarter review of Health Care M&A activity in China, focusing on both financial and strategic buyers/investors acquiring China assets and Chinese corporations acquiring overseas targets.

The purpose of this report is to provide a summary of cross-border health care M&A and private placement activities in the fourth quarter of 2008, highlighting notable selected transactions that are relevant to venture capital, private equity, and strategic buyers/investors. Our review is broken down into three broad categories, (i) Pharmaceuticals; (ii) Medical Supplies & Devices and (iii) Services, with specific focus on the following eleven major healthcare sectors:

PHARMACEUTICALS	MEDICAL SUPPLIES & DEVICES	SERVICES
▪ Biologics	▪ Tools & Supplies	▪ Marketing & Distribution
▪ Chemical Drugs	▪ Diagnostic / Therapeutic Devices	▪ Health Care Providers
▪ Nutraceuticals	▪ Implants	▪ CROs and Other Services
▪ Traditional Chinese Medicine (TCM) / Modern Chinese Medicine (MCM)		
▪ Chemicals / Other		

There were no notable transaction in the Chemical Drugs, Nutraceuticals or Implants sectors during the fourth quarter of 2008.

Pharmaceuticals

Biologics

China Biopharmaceutical (OTCBB:CHBP), a manufacturer of a wide range of over 100 pharmaceutical products for the China market, entered into a series of transactions that transformed its business model. First, the company entered into a reverse takeover of Neostem, a US based stem-cell collection and storage company listed on the American Stock Exchange. As a result of the all stock transaction, the shareholders of China Biopharmaceutical will own the majority of the combined entity, which will retain the Neostem name as well as its AMEX listing. Simultaneous to the merger, Neostem will issue additional stock to acquire Beijing HuaMeiTai Biotechnology, a Chinese regenerative medical therapies company.

These transactions combine the operating and financial base of China Biopharmaceutical's 51% stake in Erye Pharmaceutical, which had revenues of US\$50mm and net income of US\$7mm in 2008, with the growth potential of the regenerative/stem cell treatment area in China. The company plans to leverage Neostem's expertise in very-small-embryonic-like (VSEL) stem cell technology together with its cell collection and cryopreservation know-how to develop innovative cell regenerative therapies for the Chinese market.

China Biologic Products continued its M&A strategy in the plasma-based pharmaceutical area and acquired 35% of Xi'an Huitian, for RMB44mm (US\$6.4mm). This acquisition follows the US\$28.5mm transaction made by China Biologic for a 50% stake in another plasma-based Pharma, Qianfeng Biological Products, in September 2008. China Biologic expects the two acquisitions in combination will double its 2009 projected revenues to between US\$90-100mm and an additional US\$9-10mm in net income, as well as boosting its market share to an industry-leading 17% among non-state-owned enterprises.

Selected Biologics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 2	Neostem, Inc. (AMEX:NBS)	Beijing HuaMeiTai Biotechnology Limited ⁽¹⁾	5.7 ⁽²⁾	100.0	5.7	Administers a multitude of treatments of regenerative medical

Selected Biologics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 2	Neostem, Inc. (AMEX:NBS)	China Biopharmaceuticals Holdings, Inc. (OTCBB:CHBP) ⁽³⁾	NA ⁽⁴⁾	100.0	NA	therapies in China Manufactures 100+ pharmaceutical products, including small and large molecule drugs
Oct 16	China Biologic Products (OTCBB:CBPO)	Xi'an Huitian Blood Products	6.4	35.0	18.3	Manufactures plasma-based products

⁽¹⁾ Through contract obligations with Shandong New Medicine Research Institute

⁽²⁾ All-stock transaction. Represents 5 million shares of common stock @ US\$1.13 as of the day of announcement

⁽³⁾ Owns 51% of Suzhou Erye Pharmaceutical, the major operating subsidiary

⁽⁴⁾ All-stock transaction. Includes 13 million shares of common stock, up to 4.4 million common stock warrants and 7 million shares of convertible preferred stock

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

TCM / MCM

Hong Kong-based Wing Shan International acquired a TCM manufacturer Guangdong Medi-World for US\$38.5mm - US\$10.3mm in cash, with the rest in newly-issued shares. Wing Shan also announced that it would seek to raise acquisition financing of US\$8.8mm in a private placement for 14.33% of the Company. Guangdong Medi-World has, together its principal subsidiary Luya, over 700 employees and more than 80 approved products. For the first six months in 2008, Guangdong Medi-World had US\$14.1mm in revenues and US\$3.2mm in net profits.

Selected TCM / MCM Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 9	Guangdong Jiaying Pharmaceutical Co Ltd (SZSE:002198)	Hunan Jinsa Pharmaceutical Co., Ltd.	4.1	35.5	11.5	Manufactures traditional Chinese medicines focusing on orthopedics and diabetes
Nov 29	Wing Shan International (SEHK:570)	Guangdong Medi-World Group ⁽¹⁾	38.5	100.0	38.5	Manufactures traditional Chinese medicines and contemporary drugs made of botanical extracts

⁽¹⁾ Through acquisition of the parent holding company, Smartpoint International Ltd.

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

Chemicals / Other

Generic drug manufacturer China Grand Pharmaceuticals acquired a majority stake in Wuda Hongyuan to enter into the amino acid market. Amino acids and their related derivatives can be applied as raw materials to pharmaceuticals, food additives and other health care products. For the year 2007, Wuda Hongyuan posted US\$15.5mm in revenues and less than a million in profits.

Selected Chemicals / Other Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 12	China Grand Pharmaceuticals (SEHK:512)	Wuda Hongyuan	4.6	52.0	8.8	Manufactures amino acids

Medical Supplies & Devices

Tools & Supplies

Smiths Medical, the medical devices division of the London-based Smiths Group (LSE:SMIN), acquired a Hangzhou-based infusion devices manufacturer, Zhejiang Zheda, to bolster its Greater China end market presence. Zheda reportedly has the largest market share in the domestic syringe pump market, with proprietary product intellectual property and patents. In 2007, Zhejiang Zheda posted approximately US\$10mm in sales in FY2007 and currently has 110 headcount.

Selected Tools & Supplies Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 18	Smiths Medical	Zhejiang Zheda Medical Instrument	NA	100.0	NA	Manufactures syringe pumps and enteral feeding devices

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

Diagnostic / Therapeutic Devices

Biological diagnostic devices developer China Medical Technologies was active on both sides of the transaction table in Q4. In the first transaction, as a buyer, China Medical Technologies spent US\$345mm in acquiring an HPV-DNA biosensor chip system based on Surface Plasmon Resonance (SFR) technology, which is used to detect one of the most common sexually transmitted infections, human papillomavirus (HPV). Certain types of HPV can cause cervical cancer and therefore HPV tests are useful as a screening test for cervical cancer. There are currently an estimated 50 million cervical cancer tests done in China annually. The HPV-DNA system acquired has yet to be approved by the China SFDA, although approval is expected within a year after the acquisition.

In another move aimed at shifting its business focus more towards the manufacturing of high margin IVD consumables, China Medical Technologies divested its High Intensity Focused Ultrasound (HIFU) business to its Chairman and CEO for US\$53.5mm. HIFU is considered a maturing business facing market saturation with lower gross margin compared to the other business lines of China Medical. The divestiture will also provide China Medical Technologies with extra working capital after the HPV-DNA chip acquisition.

Shenzhen-based diagnostics equipment developer Edan Instruments received a Series A round of funding of US\$10mm from Softbank China, WI Harper and Matrix Partners. Edan's proprietary-branded product line includes ultrasounds, patient monitors, ECGs, dopplers and fetal monitors.

Beijing Chemclin, the IVD system and reagent manufacturer specializing in infectious disease and tumor diagnostics, raised a Series B round of funding of US\$16.5mm led by new investor China Healthcare Partners, a fund managed by Martin Currie China, followed by existing investors WI Harper, Siemens and Softbank China. Chemclin raised US\$5mm in its Series A back in May 2007.

Selected Diagnostic / Therapeutic Devices Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 18	Management ⁽¹⁾	China Medical Technologies Inc., HIFU Business	53.5	100.0	53.5	HIFU tumor therapy systems
Dec 5	SB China Venture Capital, WI Harper Matrix Partners	Edan Instruments	10.0	NA	NA	Develops various diagnostic equipment such as fetal monitors, dopplers and ultrasound systems
Oct 20	MC China, WI Harper, Siemens, Softbank China Venture Capital	Beijing Chemclin Biotech Co., Ltd.	16.5	NA	NA	Develops in-vitro diagnostics (IVD) devices and reagents
Oct 7	China Medical Technologies Inc. (NasdaqGS:CMED)	Molecular Diagnostics Technologies	345.0	100.0	345.0	HPV-DNA biosensor chip SPR analysis system used for HPV detection

⁽¹⁾ Mr. WU, Xiaodong, Chairman and CEO of China Medical Technologies

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire

Services

Marketing & Distribution

American Oriental Bioengineering announced 2 acquisitions totaling US\$53.1mm in the marketing & distribution sector after closing its US\$115mm convertible bond offering in July 2008. Guangxi Huike is a pharmaceutical registration specialist company that will assist American Oriental to push its growing proprietary drug pipeline through the SFDA approval process. Nuo Hua is a distribution company with both wholesale and retail distribution channels to hospitals in Northern China as well as pharmacies and lower level distributors nationwide. Nuo Hua projects revenues and profits of US\$80mm and US\$2.3mm in 2009 respectively.

EQT Asia, the Asian arm of the Swedish private equity fund that has raised over €12bn since inception, invested US\$80mm in the retail pharmaceutical chain Hunan Laobaixing for a 48% co-control stake. Laobaixing has more than 184 retail "super-stores" with in-store consultation services in 10 provinces and 3 municipalities nationwide. This is the 3rd notable foreign private equity investment in the China drug retail store chains in recent years, following Goldman Sach's investment in China Nepstar (NYSE:NPD) and Citigroup's Japanese brokerage Nikko Cordial's investment in Kaixinren.

Geneva-based Inventages Venture invested US\$3.8mm in the Series A funding of GC-Rise Pharma, a newly-established pharmaceutical distribution company with exclusive China distribution licenses of an SFDA approved prescription drug used in treating post-menopausal symptoms, and an OTC anti-infection product. GC-Rise currently has 60 staff operating in 13 cities in China.

Selected Marketing & Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Oct 30	EQT Asia	Hunan Laobaixing Medicine Retailer Chain Co. Ltd.	80.0	48.0	166.7	Owns and operates medical retail stores
Oct 21	American Oriental Bioengineering Inc. (NYSE:AOB)	GuangXi HuiKe Research and Development Company Ltd.	13.6	100.0	13.6	Pharmaceutical research and product development leading to SFDA approval and expedient product launches in China
Oct 21	American Oriental Bioengineering Inc. (NYSE:AOB)	Nuo Hua Investment Company Ltd.	39.5	100.0	39.5	Engages in the distribution of pharmaceutical products in China
Nov 27	Inventages Venture	GC-Rise Pharmaceutical Co., Ltd.	3.8	NA	NA	Distributes medication for treating post-menopausal symptoms

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

Health Care Providers

Ciming Health, the leading health checkup clinic chain in Beijing, backed by Ping An Insurance and private equity fund CDH, acquired two health checkup chains, Baizhong and Wojia, within a week's time to boost its nationwide network of health checkup clinics from 30 to 45. Baizong has 3 clinics in Beijing with annual revenues of close to RMB50mm (US\$7.4mm) and has been the major competitor of Ciming in the Beijing area. Wojia has 12 clinics predominantly in Guangdong province with revenues reaching RMB100mm (US\$14.8mm). The acquisition of Wojia nearly doubles Ciming's footprint in the southern China region. Apart from Beijing and Southern China, Ciming also has clinics in cities such as Shanghai, Wuhan and Tianjin.

iKang, a health checkup service provider serving mainly corporate and group clients, acquired another clinic chain, Zhengqingyuan, which has 2 checkup clinics in Beijing, through an all-stock transaction. With the acquisition, iKang increases its number of checkup centers to a total of 16. Industry observers believe the iKang and Ciming acquisitions illustrate that China's private health checkup industry has entered into a consolidation phase and that it will begin competing head-to-head with public hospitals.

HK-listed Mingyuan Medicare, the developer of protein biochips for tumor detection, acquired 75% of Shanghai Kangpei, a medical diagnostic clinic network of 12 medical centers in Shanghai, Tianjin, Chengdu and Taiyuan. The

consideration of US\$45.6mm reflects a 14.8x 9M08 earnings of Kangpei. The acquisition was a result of Mingyuan's strategic co-operation with GE Healthcare announced in July 2008 to set up a chain of diagnostic centers in China for the provision of early health screening services, leveraging the combination of Mingyuan's cancer detection kits and GE Healthcare's imaging technologies such as MRI and CT scan systems.

Selected Health Care Providers Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Dec 17	iKang	Beijing Zhengqingyuan Health Checkup	NA	100.0	NA	Beijing-based health checkup clinic chain
Dec 10	Ciming Health Checkup Group	Wojia Health Checkup Limited	NA	100.0	NA	Shenzhen-based health checkup clinic chain
Dec 10	Ciming Health Checkup Group	Beijing Baizhong Health Checkup (Chain) Organization	NA	100.0	NA	Beijing-based health checkup clinic chain
Oct 30	Mingyuan Medicare Development (SEHK: 233) ⁽¹⁾	Shanghai Kang Pei Bio-Medical Company Limited	45.6	75.0	60.8	Provides medical diagnostic, health checkup, and medical appraisal services

⁽¹⁾ Through its wholly-owned subsidiary Huzhou HealthDigit Company Limited

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

CROs and Other Services

Chiral Quest, a New Jersey-based biopharma services firm with lab facilities in Zhejiang, received US\$13mm in a Series B funding round led by KPCB China. Chiral Quest specializes in the production of various intermediate APIs that help both developmental and generic pharmaceutical companies in the production and screening of chiral drugs – drugs that are derivations of marketed drugs but with different molecular arrangements. With over US\$20bn of chiral drugs coming off-patent in the coming few years, Chiral Quest can assist the pharmaceutical companies to improve both the operational and cost efficiencies in the production of these drugs. The consideration would be used to set up Chiral Quest's new R&D facility in Suzhou.

Golden Meditech (SEHK:8180), a medical device and services company specializing in hematology, announced an agreement to inject its cord blood bank business unit, China Cord Blood Services (CCBS), into Pantheon China Acquisition Corporation ("Pantheon"), a US-listed SPAC in a reverse takeover. The injection would value CCBS at US\$350mm and would give Golden Meditech at least 94% of the shares of Pantheon. Post transaction, Pantheon would be renamed China Cord Blood Services Holdings and would seek a NYSE listing. The proposed transaction is subject to shareholder approvals and Pantheon has, according to its amended Certificate of Incorporation, until September 2009 to consummate a transaction.

Selected CROs and Other Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Nov 17	KPCB, China Spring Fund, JAIC, Infinity I-China	Chiral Quest	13.0	NA	13.0	Assists pharmaceutical companies in chiral drug manufacturing process development and drug screening
Nov 3	Pantheon China Acquisition Corp. (OTCBB:PCQC)	China Cord Blood Services Corporation	329.0	94.0	350.0	Provides umbilical cord blood storage services

Source: Company announcements, Capital IQ, Zero2IPO.com.cn, Quamnet.com, ChinaVenture.com.cn, Yahoo! Finance News and PRNewswire.

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