



GOLDEN MEDITECH COMPANY LIMITED
金衛醫療科技有限公司

Group 5: Charles Collier, Jonathan Cooley,
Alex Fitzke

RECOMMENDATION: BUY

FUNDAMENTALS			
Price (11/13/05) ¹	HK\$1.42	Exchange Rate ⁴	7.7553
Target Price	HK\$1.92	% of Portfolio ³	4.56%

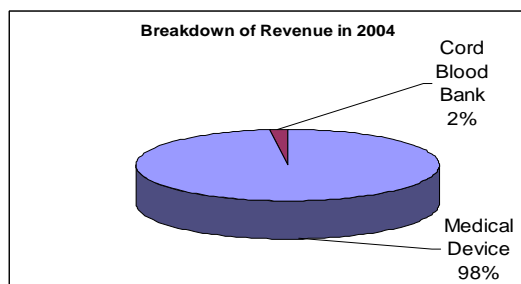
Assumptions

We forecasted that the Medical Device segment would grow at a quick pace during the next three years before leveling off due to increased competition in the field. The Cord Blood Bank is a new investment so it is expected to experience rapid growth in the next year. The Herbal Medicine segment is expected to continue growing a steady pace of 10 percent per year.

We expect Golden Meditech's gross margin to maintain the current percent that is has recently experienced of approximately 72 percent for the next five years. Total operating expenses are expected to continue being approximately 23 percent of total revenue in the coming years.

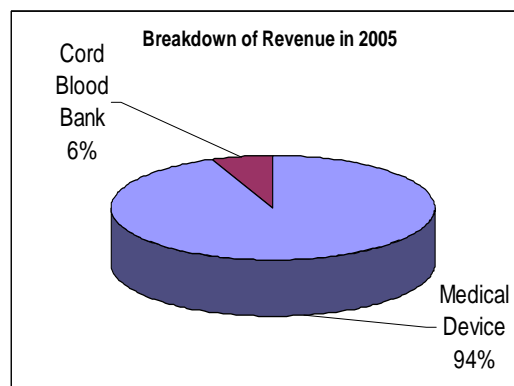
We calculated weighted average cost of capital to be 11 percent for Golden Meditech and derived a target price of HK\$ 1.92. Golden Meditech is currently selling at a price of HK\$1.42, making this a promising investment. Using our assumptions, the stock is currently undervalued by approximately 35 percent.

Revenue Breakdown



Values are from Golden Meditech 2005 Annual Report⁵

The charts show the breakdown of Golden Meditech's revenue for fiscal years 2004 and 2005. As displayed, the Cord Blood Bank is recently starting to increase the amount of revenue that it generates for the company. In fact, it has grown from a mere two percent of revenue to six percent of revenue in a one year time period. This shows the rapid growth that this segment is having. For more details on the growth by segment, see the attached discounted cash flow analysis.



Values are from Golden Meditech 2005 Annual Report⁵

References:

1. Yahoo Finance, Accessed 11/13/05 at 5:00 p.m., <http://finance.yahoo.com/q/rr?s=8180.HK>
2. Golden Meditech 1st Quarter Report, Filed 8/16/05, <http://www.hkgem.com/listedco/listconews/gem/20050815/GLN20050815106.pdf>
3. KU Applied Portfolio Management Website, Accessed 11/13/05 at 5:30 p.m., <http://www2.business.ku.edu/apm/portfolio/portfoliotyped.shtml>
4. "Exchange Rate for Hong Kong Dollar", Accessed 11/13/05 at 5:45 p.m., <http://www.x-rates.com/d/HKD/table.html>
5. Golden Meditech 2005 Annual Report, Filed, June 30, 2005, <http://www.hkgem.com/listedco/listconews/gem/20050630/GLN20050630038.pdf>

Golden Meditech Company Limited - Discounted Cash Flow Model (HK\$ in thousands)

Income Statement Projections		Years Ended March 31,								
	2004	2005	2006Q1	n=2006Q2	2006E	2007E	2008E	2009E	2010E	2011E
Medical Device	-	224,319	55,076	63,699	308,815	432,341	518,809	570,690	627,759	627,759
Cord Blood Bank	-	14,578	5,815	7,077	36,098	39,707	43,678	48,046	52,850	52,850
Herbal Medicine	-	94	4	0	4	4	5	5	5	5
Total Revenues	174,595	238,991	60,895	70,776	344,917	472,052	562,492	618,741	680,615	680,615
COGS	55,234	68,701	17,291	19,559	96,577	132,175	157,498	173,247	190,572	190,572
Gross Profits	119,361	170,290	43,604	51,217	248,340	339,878	404,994	445,494	490,043	490,043
Other Revenue	12,844	18,117	3,997	4,631	20,707	20,707	20,707	20,707	20,707	20,707
Sales and Marketing	35,470	56,695	12,347	17,045	79,331	108,572	129,373	142,310	156,541	156,541
Total Operating Expenses	35,470	56,695	12,347	17,045	79,331	108,572	129,373	142,310	156,541	156,541
Operating Income	96,735	131,712	35,254	38,803	189,716	252,013	296,328	323,890	354,208	354,208
Dep.& Amortization	12,545	16,740	3,718	4,209	15,854	16,000	16,000	16,000	16,000	16,000
Taxes	3,341	13,449	3,795	4,555	16,700	16,000	16,000	16,000	16,000	16,000
Capital Expenditures	135,783	7,622	2,000	2,000	8,000	8,000	8,000	8,000	8,000	8,000
Free Cash Flow	-29,844	127,381	33,177	36,457	180,870	244,013	288,328	315,890	346,208	346,208
PV of Free Cash Flow					162,946	198,046	210,823	208,087	205,458	185,097
PV of Terminal Value										1,121,552

PV of FCFs	\$1,297,838
PV of Terminal Value	\$1,121,552
Total Value	\$2,419,391
Less:	
Total Debt	\$302,758
Plus:	
Cash	\$307,832
Total Fair Market Value	\$2,424,465
Diluted Shares Outstanding	1,264,909
Fair Market Value/Share	\$1.92

WACC	11.0%
Long Term Growth Rate	2.0%

Current Price	\$1.42
% Undervalued	35.0%

DCF Derived Fair Market Value Matrix

	WACC v. LT Growth Rate		
	1%	2%	3%
9.5%	\$2.17	\$2.33	\$2.54
10.0%	\$2.04	\$2.17	\$2.34
10.5%	\$1.92	\$2.04	\$2.18
11.0%	\$1.82	\$1.92	\$2.04
11.5%	\$1.73	\$1.81	\$1.91
12.0%	\$1.65	\$1.72	\$1.81
12.5%	\$1.57	\$1.63	\$1.71

Operating Assumptions	2004	2005	2006Q1	2006Q2	2006E	2007E	2008E	2009E	2010E	2011E
Medical Device Rev. Growth	-	-	-	15.7%	60.0%	40.0%	20.0%	10.0%	10.0%	0.0%
Cord Blood Bank Rev. Growth	-	-	-	21.7%	80.0%	10.0%	10.0%	10.0%	10.0%	0.0%
Herbal Medicine Rev. Growth	-	-	-	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%	0.0%
Other Rev. Growth	-	41.1%	-	15.9%	40.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Revenue Growth	-	36.9%	-	16.2%	44.3%	36.9%	19.2%	10.0%	10.0%	0.0%
Gross Margins	68.4%	71.3%	71.6%	72.4%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Operating Expenses as % of Rev.	20.3%	23.7%	20.3%	24.1%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%