

Healthcare Sector

1st Quarter 2008

China Healthcare M&A Update

Highlights

- **Tongjitang Chinese Medicines received a management buyout offer of US\$340 million**

The offer represents a 55% premium over the Singapore-listed TCM company's market capitalization.

- **WuXi PharmaTech purchased AppTec Laboratory Services for US\$151 million**

The acquisition of the US based biopharmaceutical and medical device industry service provider gives WuXi PharmaTech a significant US footprint and expands its US customer base.

- **Hovione Farmaciencia acquired 75% of Zhejiang Hisyn Pharmaceutical for US\$20 million**

Hovione expands its API manufacturing presence in China beyond Macao with aspirations to tap into the fast-growing China end market.

- **Sequoia and HBM BioCapital invested US\$17 million in Nuokang Medicine**

The Series A investment for a 20% stake will enable the biotech drugmaker to expand its product lines and expand internationally.

- **Fidelity and Atlas Ventures invested US\$13.8 million in NovaMed Pharmaceuticals**

The Series B round will be used to expand NovaMed's operations and to in-license new drugs for development or sale in China.

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INTRODUCTION

We are pleased to present our third quarter review of Healthcare 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 healthcare M&A and private placement activities in the first 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 two broad categories, (i) Biotechnology & Pharmaceuticals and (ii) Healthcare Equipment & Services, with specific focus on the following nine major healthcare sectors:

BIOTECHNOLOGY & PHARMACEUTICALS

- Biotechnology
- Prescription Drugs
- OTC Drugs / Nutraceuticals
- TCM Drugs
- Medical Chemicals

HEALTHCARE EQUIPMENT & SERVICES

- Distribution & Services
- Equipment / Devices
- Supplies
- Managed Healthcare

Healthcare related transactions in the first quarter of 2008 remained robust especially in biotech and services/distribution. However, there was no notable transaction in the Supplies sectors during this period.

BIOTECHNOLOGY & PHARMACEUTICALS

Biotechnology

Sequoia and HBM BioCapital invested US\$17 million in Nuokang Medicine (or Nuokang Bio-Pharmaceutical), which specializes in the R&D, manufacturing and marketing of biologically active enzymes in cardiology, haematology and cerebrovasology. The company has a 30,000 sq ft manufacturing facility in Liaoning province, and is expected to launch two new cardiovascular drugs this year. Nuokang has currently over 20 projects in the pipeline and owns 5 State-class invention patents.

SAIF made its first investment in China's biopharmaceutical industry by jointly investing US\$15 million with Shenzhen Capital Group in Shenzhen Hybio Engineering, which conducts R&D and manufactures peptides. Shenzhen Hybio was founded in 1998 and is currently one of the largest R&D centers for peptides in China. The diverse peptide industry is seen as a fast-growing space that is estimated to grow at over 15% annually in the next 5 years.

Selected Biotechnology Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 11	SAIF, Shenzhen Capital Group	Shenzhen Hybio Engineering Co., Ltd.	15.0	NA	NA	Engages in the research and development, and manufacturing of diverse peptides
Feb 25	BM Intelligence International Ltd. (SEHK:8158)	Shaanxi Aierfu Tissue Engineering Company Limited	NA	51.0	NA	Engages in research and development of medical, biological and tissue engineering
Jan 31	Sequoia Capital, HBM BioCapital	Nuokang Medicine Co., Ltd.	17.0	20.0	85.0	Manufacturer of biomedicines
Jan 28	International Consolidated Companies, Inc (OTCBB:INCC)	Hebei Jiasheng Pharmaceutical & Chemical Limited Co., Ltd.	NA	100.0	NA	R&D, sales and manufacturing of biopharmaceutical compounds

Prescription Drugs

AsiaPharm, the Shandong-based drug developer listed in Singapore, received a US\$252 million buyout offer from private equity firm MBK Partners. The offer encountered opposition from Franklin Templeton Investments, who has a 4% stake in AsiaPharm and who claimed the offer severely undervalues AsiaPharm. Templeton reportedly has found an alliance with activist hedge funds which together represent more than the 10% stake required to block to privatization according to Singapore listing rules.

Selected Prescription Drugs Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Feb 4	MBK Partners	AsiaPharm Group Ltd. (SGX:A61)	253.8	100.0	253.8	Engages in R&D and production of pharmaceutical drugs and new formulations in neurology, gastroenterology, orthopedics, and hepatology
Jan 23	NA	Sinovac Biotech Ltd. (AMEX:SVA)	9.8	NA	NA	Engages in the R&D, manufacturing, and commercialization of vaccines for human infectious diseases in China

OTC Drugs / Nutraceuticals

Sansar Capital Management, a New York-based hedge fund dedicated to Asian equities, invested US\$5 million in Lotus Pharmaceuticals Inc., a Beijing-based OTC drug developer and retailer. One of Lotus' best selling products is VALSARTAN, which is a hypertension medication capsule. Aside from operating 10 retail pharmacies in the Beijing area, Lotus also sells direct to agencies and hospitals, which has been the company's major avenue of growth for the past year. Proceeds from the placement will be used to expand R&D efforts and pursue strategic acquisitions.

Selected OTC Drugs / Nutraceuticals Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Feb 25	Sansar Capital Management	Lotus Pharmaceuticals Inc. (OTCBB:LTUS)	5.0	NA	NA	Engages in production, trade and retailing of generic medication and OTC drugs
Jan 31	NA	China Sky One Medical, Inc. (OTCBB:CSKI)	25.0	NA	NA	Engages in the development, manufacture, marketing, and sale of OTC nutritional and medicinal products in China
Jan 31	Wah Yuen Holdings Ltd. (SEHK:2349)	Conseco Seabuckthorn Co., Ltd.	20.5	40.0	51.3	Engages in the production of seabuckthorn

TCM Drugs

Tongjitang Chinese Medicines, a modernized traditional Chinese medicine manufacturer, received a buyout offer from its Chairman and CEO, Xiaochun Wang, which was at a 55% premium over the previous closing price, just before its year-end earnings release. Tongjitang's main source of revenue is from the osteoporosis drug Xianling Gubao that has approximately a 70% market share in China for TCM osteoporosis treatments but has recently witnessed declining growth.

Selected TCM Drugs Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 20	Tongjitang Chinese Medicines Co. (NYSE:TCM)	Qinghai Pulante Pharmaceutical Co. Ltd.	3.5	100.0	3.5	Develops, manufactures, markets, and distributes SFDA-approved Tibetan recipe-originated medicines in China
Mar 9	Note (1)	Tongjitang Chinese Medicines Co. (NYSE: TCM)	340.9	100.0	340.9	Engages in the development, manufacturing, marketing and selling of modernized traditional Chinese medicine

⁽¹⁾ Management buyout offer from the Chairman/CEO and a director of Tongjitang

Medical Chemicals

Hovione Farmaciencia, the Portuguese pharmaceutical company, acquired 75% of medical substance R&D and manufacturer Zhejiang Hisyn Pharmaceutical for US\$20 million. Zhejiang Hisyn has development labs and an active pharmaceutical ingredient (API) plant in Zhejiang with 180 staff. Hovione has been in China for over 20 years working with contract manufacturers and the acquisition represents the latest initiative for Hovione to expand in new markets and gain cost advantages from manufacturing in China.

Selected Medical Chemicals Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 6	Hovione Farmaciencia, S.A.	Zhejiang Hisyn Pharmaceutical Co., Ltd.	20.0	75.0	26.7	Drug substance manufacturing
Jan 3	Dymatic Chemicals, Inc. (SZSE:002054)	Hunan New Century Biochemical Co., Ltd.	5.4	30.0	18.0	Engages in the production of new bio-enzyme related products

HEALTHCARE EQUIPMENT & SERVICES

Distribution & Services

Novamed Pharmaceuticals Inc., a provider of outsourced development and commercialization services for global and local pharmaceutical and biotech companies, received a Series B funding round of US\$13.8 million from Fidelity and its existing investor Atlas Venture. Novamed specializes in outsourced drug development and product commercialization and distribution in China, including facilitating the outsourcing of clinical research, registering unique and new chemical entities. Novamed was founded in 2005 and based in Shanghai.

Contract Research Organization (“CRO”) Sundia MediTech received a Series B round of financing from its existing investor IDG. The company offers pharmaceutical and biotech R&D outsourcing in a broad category of services such as customer organic synthesis, medicinal chemistry and process chemistry. Sundia MediTech merged with competitor Shanghai United PharmaTech in 2007, and has seen its revenues grow by 250% from the previous year. CROs have garnered increased attention since the highly visible IPO of Wuxi Pharma on the NYSE, a leading CRO in China and the first Chinese CRO to go public.

Selected Healthcare Distribution & Services Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Feb 26	China Nepstar Chain Drugstore Ltd. (NYSE:NPD)	Ningbo New Century Medical Ltd.	4.1	100.0	4.1	Owns and operates a chain of 68 drugstores in Ningbo, Beilun, Ninghai and Yinzhou
Feb 9	Nikko Cordial Corporation	Kaixinren (Group) Holding Co., Ltd.	13.9	NA	NA	Drugstore chain engaging in both wholesale and retail business
Jan 22	Fidelity Asia Ventures, Fidelity Biosciences, Atlas Venture	NovaMed Pharmaceuticals Inc.	13.8	NA	NA	China-based provider of outsourced development and commercialization services for leading global and local pharmaceutical and biotechnology companies
Jan 16	IDG Technology Venture Investment	Sundia MediTech Co., Ltd.	NA	NA	NA	Shanghai-based pharmaceutical and biotech R&D outsourcing company
Jan 9	Biosensors International Group, Limited (SGX:B20)	JW Medical Systems Ltd.	75.9	30.0 ⁽¹⁾	252.8	Operates as a drug eluting stent manufacturer and wholesaler

Selected Healthcare Distribution & Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jan 3	WuXi PharmaTech (Cayman) Inc. (NYSE:WX)	AppTec Laboratory Services, Inc.	151.0	100.0	151.0	Offers testing, contract R&D, and custom cGMP manufacturing services for biopharmaceuticals, medical devices, cellular therapeutics, and tissue-based products

⁽¹⁾ Increases stake from 50% to 80%, with an option by the seller to sell the remaining 20% by July 30, 2009

Equipment & Devices

Media sources in China reported that Carlyle led a US\$35 million pre-IPO round with CICC as a follow-on investor in Shenzhen Aohua Medical Services, a provider of non-invasive medical services and equipment such as gamma knife treatment, radiotherapy and thermotherapy to over 40 clinics and therapeutic centers across China. The company buys and leases high-tech large medical woundless medical and diagnostic equipments to medical centers and hospitals, and provides relevant on-site training and operational management expertise.

Selected Equipment & Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 15	Carlyle Group, CICC	Shenzhen Aohua Medical Services Co., Ltd.	35.0	NA	NA	Operates a nationwide non-invasive treatment medical service network in China

Managed Healthcare

HK-listed Hua Xia Healthcare continued its string of acquisitions with the latest addition of a hospital in the Jiangxi province in China. Since its reorganization in 2006, Hua Xia has acquired a majority stake in a hospital in Chongqing and is close to finalizing another acquisition in Hangzhou. In addition, Hua Xia acquired a majority stake in Day View Group, a hospital management, training and consulting firm in China.

Selected Managed Healthcare Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Feb 26	Hua Xia Healthcare Holdings (SEHK:8143)	Shangrao Xiehe Hospital	8.4	70%	12.0	Hospital establishment in Jiangxi

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