

Untapped Wealth

August 2010 Edition

Finding Profits In A Weak Economy

Pulling profits in an economy that is constantly being beaten down by bad report after bad report and by constant sentiment issues, is tough, but there are profits to be had, one just has to simply look in different places than normal.

This type of environment takes investors out of their comfort levels and makes them dive into stocks or investment ideas they never imagined. Who change when the economy is good? Why move from a money maker to a speculative play? You don't until something forces your hand.

This month, we're visiting China via ADR (American Deposit Receipt). We're jumping into the medical field, a sector that has been consistently performing well.

Let's get right to it.

Tim Fields

Editor In Chief

Untapped Wealth

Your August recommendation is China Medical Technologies (CMED: \$13.44*).

CMED is a leading China-based medical device company that develops, manufactures and markets advanced immunoassay and molecular diagnostic IVD products utilizing enhanced chemiluminescence immunoassay technology and fluorescence in situ hybridization technology.

The company's IVD products are used to detect and monitor various diseases and disorders through laboratory evaluation and analysis of blood, urine or other body fluids. Additionally, CMED develops, manufactures and markets a therapeutic system which uses high intensity focused ultrasound, or HIFU, for the non-invasive treatment of solid cancers and benign tumors.

CMED's ECLIA system, which consists of reagent kits and an ECLIA analyzer, is an IVD system based on enhanced chemiluminescence immunoassay technology they acquired in August 2004. The

ECLIA system is a type of IVD system commonly used in the United States and Western Europe, but is relatively new in China. The ECLIA system is a "closed" system in that only CMED's ECLIA reagent kits can be used with their ECLIA analyzer and the ECLIA analyzer can only be used with their ECLIA reagent kits.

CMED currently offer 74 types of reagent kits for use with their ECLIA analyzers. These reagent kits are used to detect various thyroid disorders, diabetes, hepatitis, Down Syndrome, liver fibrosis, disorders related to reproduction and growth and various types of tumors, as well as to assess the effect of digoxin, a widely used drug for the treatment of heart failure.

FISH probes are molecular diagnostic IVD reagents used with FISH imaging analysis systems for the prenatal and postnatal diagnosis of various genetic diseases and for the early detection and prognosis of various cancers. FISH technology enables medical practitioners to visualize and locate DNA sequences in human cells for identifying chromosomal abnormalities. Although widely used in hospitals in the United States and

Western Europe, FISH technology is relatively new to the China market. CMED acquired their FISH technology in March 2007 and began marketing and selling FISH products in June 2007.

DMED currently offers 35 FISH probes that are used to detect various genetic syndromes and cancers including breast cancer, bladder cancer, cervical cancer, leukemia and multiple myeloma. Their FISH probes can be used with the FISH imaging analysis system, which can be purchased either directly from system manufacturers or from China Medical.

The company's HIFU therapy system is an ultrasound-guided, ultrasound energy ablation system used for the non-invasive treatment of solid tumors. Their proprietary designs enable their system to treat a wide range of tumors, many of which cannot be treated with other HIFU therapy devices currently available in the market.

The company's HIFU therapy system is SFDA-approved to treat liver, breast and kidney tumors, solid tumors in the pelvic cavity or on bone and tumors in the four limbs or superficial tissues. Treatments using CMED's system are performed without anesthesia and do not cause significant discomfort, skin-burn or hemorrhage. CMED acquired the HIFU technology in November 1999.

China Medical has significant experience and demonstrated ability in identifying, acquiring and commercializing medical technologies with significant market potential. The company has acquired HIFU, ECLIA and FISH technology platforms, successfully integrated these technologies into existing operations and developed and marketed products utilizing these technologies.

China Med sells their ECLIA reagent kits and analyzers solely through distributors, who mainly target small to medium-sized hospitals. As their ECLIA system is a "closed" system, the company believes that a large installed base of their ECLIA analyzers will enable them to derive a steady source of recurring revenue from sales of reagent kits.

In April 2008, in order to further expand the installed base of ECLIA analyzers and to derive additional recurring revenue from sales of our reagent kits, CMED introduced an ECLIA reagent rental program, under which the company provides their ECLIA analyzers free of charge to hospitals with certain diagnostic volumes to promote the sales of reagent kits.

The company's FISH products are marketed and sold through their own sales force, who mainly target large hospitals. The company sells HIFU therapy systems primarily through distributors with a small percentage of sales made directly to hospitals.

Competitive Strengths

- a leader in the Chinese immunoassay and molecular diagnostic IVD market, offering IVD products including our ECLIA system and FISH probes;
- a leader in HIFU technology for tumor treatment;
- strong research and development capabilities and commitment to our research and development efforts;
- low manufacturing and operating costs; and
- demonstrated ability to identify, acquire and commercialize medical technologies with significant market potential.

Products and Solutions

ECLIA System (from the company's Prospectus)

“Our ECLIA system, which consists of reagent kits and an ECLIA analyzer, is a closed IVD system based on enhanced chemiluminescence immunoassay technology we acquired in August 2004.

To perform a test using our ECLIA system, an ECLIA reagent is mixed with a sample of body fluid from the patient in a microplate provided in our reagent kit. The mixture reacts and emits light, which is measured and analyzed by the ECLIA analyzer. The

result is compared with the reference ranges for the particular reagent in order to reach a diagnosis. Our ECLIA analyzer is a sensitive, accurate, low cost and simple-to-use IVD device capable of detecting minute levels of light triggered by combining reagents with body fluid samples to produce diagnostic results.

We have developed several technologies that make our photon counter, a key component of our ECLIA analyzer, more sensitive and accurate. Our ECLIA analyzer uses our proprietary technology to analyze and organize the information produced and contains encryption codes that prevent users from conducting tests with reagents produced by other manufacturers.

We increasingly derive more revenue from recurring sales of ECLIA reagent kits. In April 2008, in order to further expand the installed base of our ECLIA analyzers and increase recurring revenue from sales of reagent kits, we introduced a new ECLIA reagent rental program, under which we provide our ECLIA analyzers free of charge to hospitals with certain diagnostic volumes to promote the sales of our ECLIA reagent kits.

We currently offer 74 types of reagent kits for detecting and monitoring various types of diseases and disorders, including thyroid disorders, diabetes, hepatitis, and disorders related to reproduction and growth, severe acute respiratory syndrome, or SARS, Down Syndrome, liver fibrosis and various types of tumors. We are also developing reagents for other applications such as infertility disorders, HIV, hepatitis C and cardiac diseases. The following table sets out the major clinical applications of our reagent kits.”

FISH Probes and FISH Imaging Analysis System

“Our FISH probes are molecular diagnostic IVD reagents used with FISH imaging analysis systems for the prenatal and postnatal diagnosis of various genetic diseases and for the early detection and prognosis of various cancers.

To perform a FISH test, a specific FISH probe is mixed with a sample of patient body fluid or tissue so that the probe can hybridize with its complementary target DNA in the patient's cells. Once hybridized, the fluorescent fragments on the FISH probe will show precisely where the target DNA lies along the patient's chromosomes.

Under the fluorescent microscope, which is a key component of the FISH imaging analysis system, the medical practitioners examine the labeled sample, check the quality of the fluorescent signals, analyze the findings and record the areas for analysis. These fluorescent images are captured and saved on the computer for further analysis by the imaging analysis system if needed.”

In The End

In the end, China Medical Technologies is well positioned to take advantage of 2 key points.

- 1: The Chinese economy and the demand for medical services in the country.
- 2: It will specifically run on currency differences between the US and China purely because of the fact that its an ADR.

Consider this a long term hold and we'll pass along information as needed.

Have a great month.

Tim Fields

*Indicates Initial Recommended Price

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Thank you for reading, best of luck.

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