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March 18, 2008  
**Initiation of Coverage**  
**China Healthcare**  
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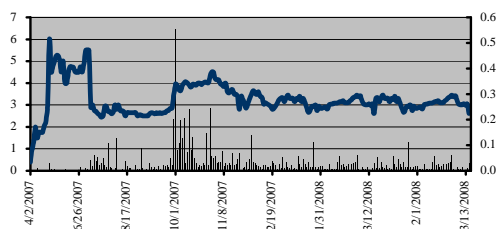
**Rating: Buy**  
**Price Target: \$5.90**

**Price Target Metrics: PE of 11.1x Based on 2008 Estimates**

<b>Current Price:</b>	<b>\$2.61</b>
Diluted Shares:	20.3MM
Float:	7.4MM
Short Interest:	0.0MM
Average Daily Volume:	20k
52-week Range:	\$0.4 - \$6

<b>Market Cap:</b>	<b>\$53MM</b>
Cash & Investments:	\$1MM
Debt:	\$25MM
Enterprise Value:	\$77MM
Net Cash/Sh:	\$0.05
Tangible Book Value/Sh:	\$1.92

**PRICE CHART**



**ESTIMATES - US \$ (MMs except multiples & EPS)**

		FY2007	FY2008	FY2009
<b>Revenues</b>				
Q1	Sep	\$10.6 A	\$19.4 A	\$27.1 E
Q2	Dec	\$12.3 A	\$25.0 A	\$33.7 E
Q3	Mar	\$12.6 A	\$18.2 E	\$24.6 E
Q4	Jun	\$16.2 A	\$24.3 E	\$32.9 E
FY		\$51.7 A	\$86.9 E	\$118.3 E
EV/Sales		1.5x	0.9x	0.6x

		FY2007	FY2008	FY2009
<b>EPS</b>				
Q1	Sep	\$0.15 A	\$0.11 A	\$0.14 E
Q2	Dec	\$0.16 A	\$0.15 A	\$0.18 E
Q3	Mar	\$0.18 A	\$0.08 E	\$0.13 E
Q4	Jun	\$0.15 A	\$0.12 E	\$0.18 E
FY		\$0.62 A	\$0.47 E	\$0.62 E
P/E		4.2x	5.5x	4.2x

		FY2007	FY2008	FY2009
<b>Pro Forma EPS*</b>				
Q1	Sep	\$0.14 A	\$0.11 A	\$0.14 E
Q2	Dec	\$0.15 A	\$0.15 A	\$0.18 E
Q3	Mar	\$0.17 A	\$0.09 E	\$0.13 E
Q4	Jun	\$0.05 A	\$0.12 E	\$0.18 E
FY		\$0.48 A	\$0.47 E	\$0.62 E
P/E		5.5x	5.5x	4.2x

		FY2007	FY2008	FY2009
<b>EBITDA (Adjusted; see model)</b>				
Q1	Sep	\$1.8 A	\$3.6 A	\$5.8 E
Q2	Dec	\$2.6 A	\$4.6 A	\$6.9 E
Q3	Mar	\$2.7 A	\$3.6 E	\$5.9 E
Q4	Jun	\$2.7 A	\$5.1 E	\$7.2 E
FY		\$9.8 A	\$16.9 E	\$25.8 E
EV/EBITDA		7.8x	4.5x	3.0x

\*Pro forma excludes: amortization of acquisition-related intangibles, restructuring charges & stock options expense

**Shengtai Pharmaceutical, Inc.**  
 (OTCBB: SGTI)

**Event: Initiating coverage with a Buy rating. Leading pharmaceutical glucose company in China strives to dominate the Asian market.**

**Summary:** We are initiating coverage of Shengtai Pharmaceutical, Inc. ("Shengtai") with a Buy rating and 12-month price target of \$5.90. With the growth in both consumer spending and the pharmaceutical industry in China, the demand for pharmaceutical ingredients such as high-grade glucose well exceeds supply. With its strong brand, high quality products and aggressive capacity increase, we believe Shengtai will be able to ramp revenue and improve profit margins. Potential M&A opportunities in the market will further complement its organic growth. We believe Shengtai offers a compelling long-term investment.

**Investment Considerations**

**Demand exceeds supply.** Pharmaceutical grade glucose is the raw material for pharmaceutical manufacturers to add specific medical formulations to produce medicated transfusion that is a common and well-accepted treatment routine all over China for many ailments. There are altogether 310,000 medical service providers such as hospitals, clinics, and health-care institutions serving the 1.3 billion people in China. Historically, the supply could not satisfy demand. Shengtai is the largest domestic producer of pharmaceutical grade glucose in China with 40% market share.

**Aggressive capacity increase and margin improvement.** In order to meet the demand, Shengtai has initiated a two-part expansion strategy to increase capacity. The first part of the expansion process brought cornstarch production 'in house' to ensure ample supply of quality raw material. The second part is to update its current glucose manufacturing facility and build a brand new glucose facility. The new cornstarch plant allows 70% of the cornstarch produced be utilized to produce higher margin glucose. The new glucose facility is expected to be completed in 1H08. If assuming only 25% utilization, we expect Shengtai to double its glucose capacity to 120k -130k tons/year in 2009.

**R&D and M&A opportunities.** Shengtai is actively developing new higher-margin, higher value-added products. It has expanded supply of new products like Avermectins and sodium gluconate, and actively looking for cooperation opportunity with renowned universities/ research institutes. It has a plan to build an R&D center during mid 2008. We also believe that the company is looking for a potential M&A opportunity in 2008-2009. If it successfully acquires one of its largest competitors in China, Shengtai could very well become the largest pharmaceutical glucose manufacturer in Asia.

**Rapid revenue growth.** From 2004 to 2008, Shengtai's revenue is estimated to grow at a five-year CAGR of 34% and its net income to grow at a 80% CAGR. Gross margin has increased from 17.6% to 23.6%. We estimate FY08 sales of \$86.8MM (+68% YOY), net income of \$9.5MM (+33%), and EPS of \$0.47 (+33% on the same share counts base).

**Establishing a \$5.90/share price target.** Our price target of \$5.90 is based on a peer group average P/E ratio of 11.1x using our calendar year 2008 EPS estimate of \$0.53. We believe Shengtai offers a compelling near-term investment and the stock is at an attractive valuation point given the company's rapid revenue growth and recent market pullback.

**Company Description:** Shengtai Pharmaceutical, Inc. is a leading manufacturer and supplier of glucose products, which include pharmaceutical grade glucose used for medical purposes, and glucose and cornstarch products for the food and beverage industry and for industrial production in China. [www.shengtaipharmaceutical.com](http://www.shengtaipharmaceutical.com)

## Investment Highlights

### Large market demand exceeds supply.

- **Large demand.** Shengtai Pharmaceutical is the largest domestic producer of pharmaceutical grade glucose in China. Pharmaceutical grade glucose is the raw material for pharmaceutical manufacturers to add specific medical formulations to produce medicated transfusion. Medical transfusion is a common and well-accepted treatment routine all over China for many ailments, ranging from the common cold, influenza, and intestinal disorders to clinical restorative or recuperative prescriptions after surgical operations. In that sense, pharmaceutical grade glucose is the 'bread and butter' for the pharmaceutical industry.

There are altogether 310,000 medical service providers such as hospitals, clinics, and health-care institutions serving the 1.3 billion people in China. According to Starch and Sugar, the annual demand for glucose in China has increased from 250k tons to 800k tons per year from 2002 to 2004, and is expected to increase to 1.7 million tons per year by 2009.

- **Leading market position.** The pharmaceutical grade glucose market in China is currently at 240k tons per year and expected to increase to 280k tons by the end of 2008. It is an oligopoly market with a handful of large manufacturers controlling the supply. Shengtai is the largest, leading with 40% market share. **Hebei Shengxue** comes in second with 20% share and **Shandong Dongping** ranks the third with less than 10% share. Shengtai's orders have been processed on a made to order basis.

The growth in demand for pharmaceutical glucose is correlated to the growth of the pharmaceutical production and consumption trends. According to China SFDA, China's pharmaceutical market is estimated to grow at 15%-17%. We believe that the pharmaceutical glucose market will grow at a similar rate. Robust and continuing economic growth, rising purchasing power in China, as well as the public awareness of quality health care products, will also contribute to higher consumption of pharmaceutical glucose.

- **High product quality.** Barriers to entry for manufacturing pharmaceutical glucose are higher because the product is a pure, sterile, high grade glucose that a doctor might inject into a human's arm or drip into the bloodstream through an IV, therefore, quality control of the raw material is critical and the production process is more exacting. Shengtai's production facilities have been fully certified according to GMP, ISO9002 and HACCP international quality standards. It has a three-tier quality control system and a well-equipped quality inspection center to ensure timely detection and reprocessing of non-conforming products. The rate of quality output (output conforming to pharmaceutical-grade glucose product specifications) is maintained at 100%.

### Aggressive capacity increase and margin improvement.

Historically, Shengtai has not had enough production capacity to satisfy demand. In an effort to alleviate bottlenecks and improve efficiency, the company has initiated a two-part expansion to increase capacity. The first part of the expansion process brought corn starch production in house to ensure ample supply of quality raw material. The second part is to update its current glucose manufacturing facility and build a brand new glucose facility.

- **New cornstarch manufacturing facility.** Shengtai's prior third party supplier was capable of 120k tons/year of corn starch production. In October 2007, Shengtai completed the construction of a new cornstarch production complex with annual production capacity of 240K tons and started production. Due to working capital constraints, the capacity is running at 180K tons per year. However, it can easily be expanded to a maximum of 300k tons, if necessary.

We expect the new cornstarch plant to provide a steady supply of quality raw material that is required to reliably expand glucose production and serve to increase margins because higher-quality and lower cost raw materials are produced 'in-house' with no incremental transportation costs. In addition, it will shield the company, to some extent, from external cornstarch price fluctuations, thus protecting or improving its profit margins.

- **Upgrade of existing glucose manufacturing facility.** Shengtai is expanding its existing facility to ramp to 70k tons/year and is expected to reach 85k tons/year by the middle of 2008. After this upgrade, the company estimates that at least 70% of the cornstarch produced by the new cornstarch production plant will be utilized to produce glucose, up from 30%-40% currently. This upgrade will not only allow for increased production of higher grade glucose, but also facilitate the extension of its higher margin

products.

Shengtai plans to replace its old machinery to produce more complex glucose products such as anhydrous glucose transfusion, monohydrate glucose transfusion and oral glucose. It also plans to add an additional production line such as the production line for sodium gluconate. All of these products have higher gross margins.

- **Construction of new glucose manufacturing facility.** At the same time of upgrading its existing facility, Shengtai is building a brand new glucose facility (see Exhibit 2) that is planned to have an annual production capacity of 120k to 150k tons. The new plant is designed be the best glucose facility in Asia with state-of-the-art machinery and technology as well as the strictest quality control standards. Construction of this facility is expected to be complete in 1H08. If the new plant is up and running, we expect Shengtai's 2009 glucose capacity to be 120k-130k tons/year considering 25% utilization - essentially doubling capacity.

#### **R&D and M&A opportunities.**

- **R&D initiatives.** Shengtai is actively developing new higher-margin, innovative products. Products other than glucose and cornstarch accounted for 27% of FY1H08 revenue. The company expanded supply of new products- Avermectins (a veterinary medicine derived from glucose) with high 40s% margin and sodium gluconate (currently used as construction chelating agent) with over 30% margin. Shengtai is also looking to improve its purification method to eventually apply sodium gluconate for medical use, which will be the first in the domestic market. The company is also actively looking for cooperation opportunity with renowned university/research institutes or international companies and plans to build an R&D center during mid 2008.
- **M&A opportunities.** The company acknowledged that it has ongoing conversations with two major domestic competitors and does not exclude the fact that they might merge with them or buy them. We believe that we are looking for a potential M&A opportunity in 2008-2009. If this succeeds, such an acquisition could potentially make Shengtai the largest pharmaceutical glucose manufacturer in Asia, contrasting with **Cargill** on the western globe. We believe that such an acquisition could solidify Shengtai's market position, increase its bargaining power for both supply and end product prices, thereby greatly supplementing its organic growth.

#### **Summary**

With the growth in both consumer spending and the pharmaceutical industry in China, the demand for pharmaceutical ingredients such as high-grade glucose well exceeds supply. As a market leader in the area, Shengtai is ready to take advantage of the trend by aggressively expanding its production capacity. In our opinion, with its strong brand, high quality products and the right execution, Shengtai will be able to boost revenue and improve profit margins. Potential M&A opportunities in the market will further complement its organic growth.

Most recently, China's main stock index fell due to worries over a possible interest rate hike, tensions in Tibet and turmoil in the U.S. economy. We believe Shengtai offers investors a defensive play and a compelling long-term investment opportunity at an attractive valuation point given the company's rapid revenue growth and expansion plan.

## Valuation

It is difficult to find comps for Shengtai Pharmaceutical because of the specific sector it is in and the product lines it has. Some large domestic and international players are private companies. We use two Hong Kong listed companies and three U.S. public companies that manufacture similar products, such as food ingredients and industrial products derived from processing of corn and other starch-based materials, as our closest comps. Shares of Shengtai are currently trading at 5.6x forward P/E, a near 50% discount to the average peer group P/E. We derive our price target of \$5.90 by multiplying our calendar year 2008 EPS estimate of \$0.53 by the peer group average P/E multiple of 11.1x.

### Exhibit 1

#### Shengtai Pharmaceutical Comps

(SMM, except percentage and multiples)				LTM Operating Margin				LTM Multiples				2008 Multiples			
Company	Ticker	Day Close Price(\$)	Mkt Cap	EV	Gross %	EBIT %	EBITDA %	Net %	EV/ Sales	EV/ EBITDA	P/ TBV	P/E	EV/Sales	EV/EBITDA	P/E
Xiwang Sugar Holdings Co. Ltd	2088	\$2.68	2,225	2,806	22.8	19.9	23.1	18.0	1.7	7.5	1.8	7.6	1.0	5.3	5.1
Global Bio-chem Technology Group Co. Ltd.	809	\$2.91	6,748	9,749	24.9	14.8	20.9	10.0	1.8	8.6	1.2	12.5	1.2	7.0	8.6
Corn Products International Inc.	CPO	\$38.30	2,845	3,340	17.3	10.1	13.7	5.8	1.0	7.2	1.7	14.9	0.8	6.5	13.5
Archer-Daniels-Midland Co.	ADM	\$42.27	28,221	36,944	6.4	4.0	5.4	4.2	0.7	11.4	2.3	12.7	0.6	9.9	14.1
Bunge Ltd.	BG	\$94.18	11,418	17,289	6.8	3.3	4.3	2.1	0.5	10.5	1.8	15.8	0.3	NA	14.1
Low			2,225	2,806	6.4	3.3	4.3	2.1	0.5	7.2	1.2	7.6	0.3	5.3	5.1
Mean			10,291	14,026	15.6	10.4	13.5	8.0	1.1	9.0	1.8	12.7	0.8	7.2	11.1
Median			6,748	9,749	17.3	10.1	13.7	5.8	1.0	8.6	1.8	12.7	0.8	6.7	13.5
High			28,221	36,944	24.9	19.9	23.1	18.0	1.8	11.4	2.3	15.8	1.2	9.9	14.1
Shengtai Pharmaceutical Inc.	SGTI	\$2.61	58	79	23.4	14.9	18.5	12.9	1.1	5.7	1.5	5.3	0.9	4.7	5.6

Source: Company reports, Capital IQ, Thomson and Global Hunter Securities, LLC.

## Risks & Considerations

**Risks related to businesses in China.** Economic, political, legal and social conditions could adversely affect operations and international expansion. Chinese government policy on the pharmaceutical ingredient industry could change unpredictably. Any price control could impact overall market revenues and profitability. The discontinuation of any of the preferential tax treatments or the financial incentives currently available to Shengtai could adversely affect its business, financial condition and results of operations.

**Operation risk.** Shengtai's ability to meet increased customer demand and stay profitable will still depend on factors such as its production capacity and working capital. Inability to complete the new glucose complex as scheduled will adversely affect its revenue growth.

**Inflation and community price risk.** Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for glucose products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. The company does not have any long-term supply contracts with its raw materials suppliers. Any significant fluctuation in price of raw materials could have a material adverse effect on the manufacturing cost of its products. Increasing interest rate and/or sudden appreciation of the Chinese currency could adversely affect the company's operation.

**Acquisition risk.** Potential acquisitions could be dilutive to shareholders and create integration and execution risk. There will also be regulatory risk that prevents or complicate acquisitions.

**Liquidity risk.** Shengtai's common stock has been quoted on the over-the-counter Bulletin Board since January 2007. Because it was formerly a shell company, its bid and ask quotations have not regularly appeared on the OTC Bulletin Board for any consistent period of time. There may be a limited trading market for its common stock.

**Dilution risk.** Shengtai has registered for public resale 9,125,000 shares in May 2008 as well as 4,693,750 shares issuable on exercise of the attached warrants belonging to its investors in September 2007. The availability for public resale of those shares may depress the stock price.

## Business Overview

Shengtai Pharmaceutical was founded in 1999 and is located at Hi-Tech Industrial Park of Changle County, Shandong Province, China. With China being a major corn-producing region of Asia, and Shandong being the major corn-producing province of China, Shengtai is conveniently located near its supply of raw materials and ports for export. It currently has 766 full-time employees.

Shengtai is the market leader of pharmaceutical grade glucose and one of the top producers of Dextrose Monohydrate (one type of glucose) transfusion solutions in China. Approximately 90% of Shengtai's sales for FY2007 were attributable to sales made in China. Due to the strong domestic demand and prior production constraints, Shengtai only served a fraction of the export market, including countries like South Korea, Russia, Australia and Singapore. The company believes that its new 300k ton capacity cornstarch processing plant will supply enough raw materials to increase production volumes and sales to an expanding domestic client base and fulfill more overseas orders which offer higher profit margins.

Approximately 62% of Shengtai's revenues in FY2007 were attributable to sales of pharmaceutical grade glucose. The company has a diversified customer base- its biggest customer, **Shouguang Tianli Biological Technology Co Ltd.**, accounted for 7.78% of its revenue. Its top ten customers accounted for only 29.3% for total sales.

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Exhibit 2

### New Glucose Production Complex

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Source: Company reports, Global Hunter Securities, LLC.

### Recent transactions

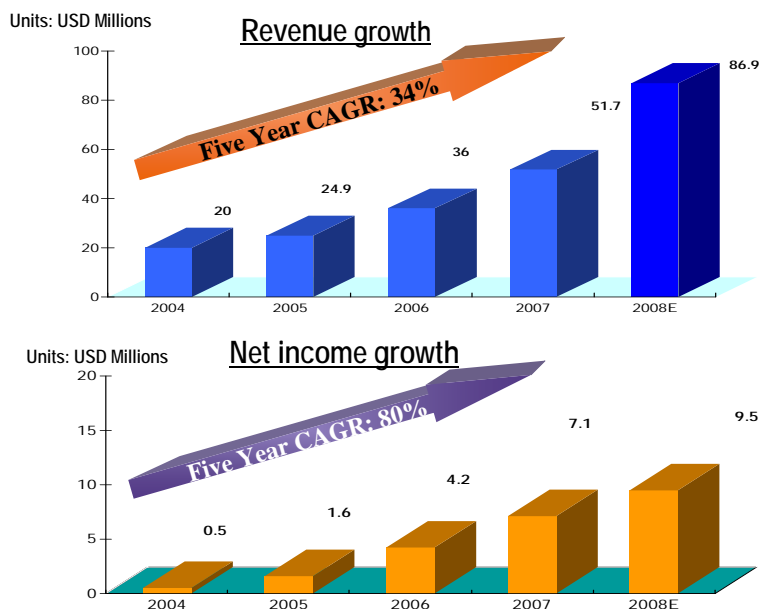
On May 15, 2007, Shengtai acquired **West Coast Car Company** (OTCBB: WCSC) in a reverse merger transaction. West Coast Car issued 9.13 million new shares valued at \$1.01 per share.

On May 15, 2007, the company completed a private placement of 8,750,000 shares at \$2.00 per share for gross proceeds of \$17,500,000 to 19 accredited investors, including China Private Equity Partners and Pope Investments. The company also issued 4,375,000 warrants for an exercise price of \$2.60 per share for a period of five years. The company received net proceeds of \$15,256,428 from that offering.

### Rapid revenue growth

From 2004 to 2008, Shengtai's revenue is estimated to grow at a five-year CAGR of 34% and its net income to grow at a CAGR of 80% (See Exhibit 3). Gross margin has increased from 17.6% to 23.6% from 2004-2007. In FY2007, its revenue was \$51.7MM, representing 44% growth YOY. In 1HFY08, revenue reached \$44.3MM, representing 93% growth compared to \$22.9MM in 1HFY07. The growth is coming from higher sales of glucose products and higher product prices. Although product costs increased as a result of price increases of corn and other raw materials, the selling price was higher than the price increase of corn, thus making gross profit higher.

## Exhibit 3

**Revenue and Net Income Growth**

Source: Company reports, Global Hunter Securities, LLC.

## Products

Shengtai primarily manufactures pharmaceutical grade glucose. To the extent that they have excess corn starch production that cannot be utilized by their glucose production lines, they also provide raw materials to the food & beverage industry.

Pharmaceutical and medicinal grade products accounted for 68% of sales for the fiscal year 2007.

### Pharmaceutical and medicinal grade products:

- Dextrose Monohydrate (DMH) series (for domestic and export)
- Dextrose Anhydrous ( for domestic and export)
- Cornstarch, Dextrin
- Multivitamin glucose
- Glucose base solution
- Pharmaceutical grade starch
- Avermectins

### Raw materials for the food beverage and processing industries:

- Industrial glucose (for domestic and export)
- Syrup for export
- Starch for export
- Dextrin (for domestic and export)
- Sodium Gluconate
- Maltose
- Maltitol

Dextrose (a form of glucose) is one of the most important carbohydrates and the chief source of energy in the human body. As such, dextrose monohydrate is used in a wide array of pharmaceutical products such as transfusions and intravenous drips for restorative and nutritional purposes. For example, a solution of pure glucose (Dextrose or D-glucose) has been recommended for use by subcutaneous injection as a restorative measure after major operations or as a nutritive measure in debilitating diseases. Dextrose Monohydrate is widely used in hospitals and clinical institutions in China and is covered by government-subsidized Medical Insurance Scheme.

### New products

Shengtai is actively developing new higher-margin, innovative products. Products other than glucose and cornstarch accounted for 27% of FY1H08 revenue. In FY2007, the company expanded its manufacturing

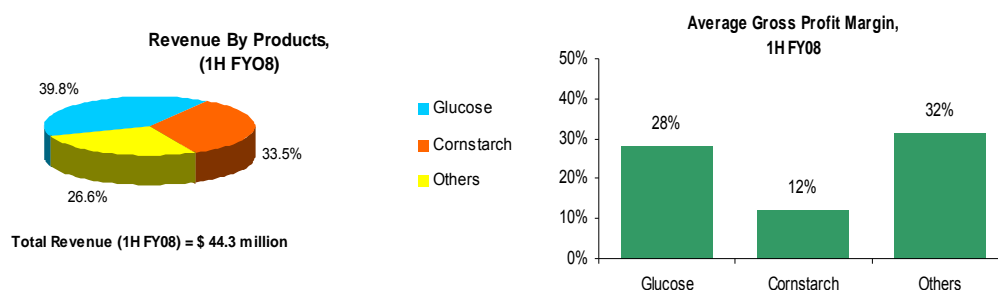
and supply of high-value added product, Avermectins, which is a veterinary medicine derived from glucose. It is an effective pesticide imported by the U.S. and Japan. It has over 40% gross margin and accounts for 3% of FY2Q08 revenue.

At the end of June 2007, Shengtai set up a new product line to manufacture sodium gluconate. This non-corrosive, non-toxic and highly pure gluconate is gaining popularity as a chelating agent in China and is widely used in pharmaceutical, construction and chemistry industries. The gross profit margin of sodium gluconate is over 30%. Currently, the company is targeting construction companies as end customers due to the current real estate boom in China. However, it is looking to improve its purification method in order to apply sodium gluconate for medical use, which will be the first in the domestic market.

Beyond the pharmaceutical-grade products, some of the industrial-grade products can be further refined and transformed into higher-margin products, such as modified starch and glucose-transformed nutraceutical raw materials. Shengtai has in its pipeline biotechnology product formulas that could be deployed to serve emerging market segments in the next few years. The company is also actively looking for cooperation opportunity with renowned universities/research institutes or international companies and plans to build an R&D center during mid 2008.

## Exhibit 4

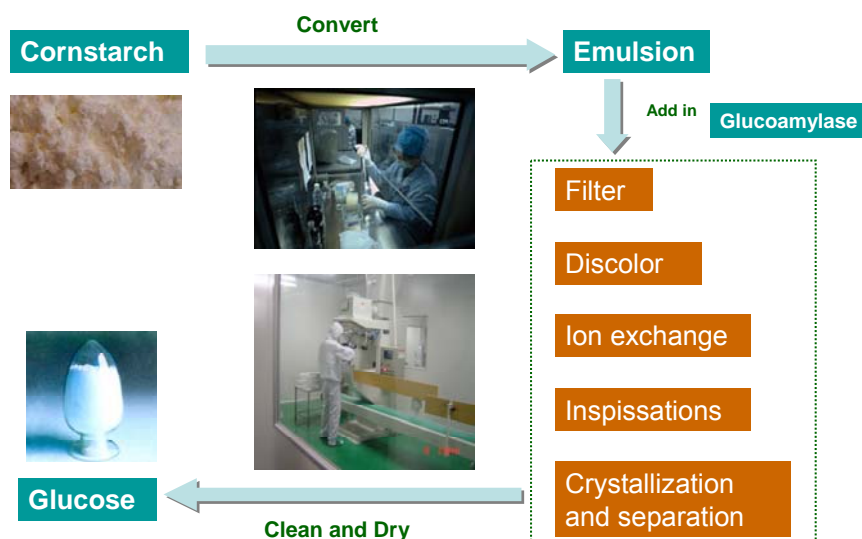
## Revenue By Products



Source: Company reports, Global Hunter Securities, LLC.

## Exhibit 5

## Glucose Production Process



Source: Company reports, Global Hunter Securities, LLC.

## Market and Competition

### The pharmaceutical raw material manufacturing industry in China

China and India are emerging as the major exporters in pharmaceutical raw materials in the world, exporting 30%-40% of their total output, according to Shanghai Information Services Platform. In addition, a number of large international pharmaceutical companies, such as **Cargill**, **CPI** and **Roquette**, have moved their productions to China in the past ten years. Both factors have contributed to the growth of this specific segment in China.

This industry segment can be categorized into three groups: 1) the state-owned or government-subsidized pharmaceutical companies with 30% of market share; 2) the foreign-owned or joint ventures with 60% of market share; 3) the bulk of smaller firms competing for the remaining 10%. Shengtai falls into the second category.

There are more than 200 types of transfusion solutions developed and used in overseas countries, and the annual per capita consumption is more than three bottles. According to **Chinapharm.com**, China has only approximately 50 types of transfusion products, and the per capital consumption is around 2.15 bottles. Most of the consumption is for Dextrose Monohydrate.

Shengtai is one of the top producers of Dextrose Monohydrate transfusion solutions as well as Dextrose Anhydrous solutions. The growth in demand for Dextrose Monohydrate transfusion solutions is correlated to the growth of the pharmaceutical production and consumption trends. China's pharmaceutical industry is growing at 15%-16%. Robust and continuing economic growth, the rising purchasing power of domestic market, as well as the public awareness of quality health care products, also contribute to higher consumption of pharmaceutical dextrose. The strong growth in China's pharmaceutical industry will also help increase the selling prices of Shengtai's major products, and increase gross profit margin.

### Competition

In the domestic market, Shengtai's primary competitors are **Hebei Shengxue Company Ltd.**, **Shandong Dongping (Ruixing) Petrochemical Company Ltd.**, **North China Pharmaceutical Production Company Ltd.**, **Ci Feng Pharmaceutical Production Company Ltd.**, and **Yi Kan Pharmaceutical Production Company Ltd.**

Most competitors are manufacturing companies with a diversified range of industrial glucose and cornstarch products, which put more emphasis on volume production of medium to low value-added products. Shengtai focuses more on quality production of high value-added products. Compared to foreign competitors, Shengtai has the cost advantage with average selling prices at approximately 1/3-1/2 of that of competitors.

According to the China Starch Industry Association, Shengtai is one of the leading producers of Dextrose Monohydrate transfusion solution in China, with an estimated 40% market share. The other suppliers of Dextrose Monohydrate transfusion solution have pharmaceutical production lines with a diversified range of medicinal products. Shengtai is the only manufacturer that has a primary focus on producing high-quality Dextrose Monohydrate transfusion solutions in China.

## Management and directors

**Current Ownership:** Mr. Qingtai Liu owns 7,766,325 shares, or 40.7% of common shares outstanding; Pope Investments owns 2,650,000 shares (13.9%). China Private Equity Partners Co., Ltd. owns 1,537,500 shares (8.1%).

**Qingtai Liu, Chairman and CEO.** Mr. Liu has been the Chairman and CEO of Shengtai Pharmaceutical since January of 1999. Prior to this, Mr. Liu was the director of **Weifang Fifth Pharmaceutical Plant**. During his time there, the company successfully developed unique production techniques for the production of glucose and medicinal coating products, and has won Technology Innovation awards issued by the Changle County, Weifang City and the Shandong provincial government offices. The medicinal coating material technology that Mr Liu jointly developed with the **Shandong University** has been certified by the Technology Development Bureau of the Shandong Province to be of international standard. Mr. Liu held science and production positions at **Changle Power Factory** and **Changle Wireless Device Factory** prior to Weifang Fifth Pharmaceutical Plant. Mr. Liu graduated from the Electrical Engineering Faculty of the **Shandong Technical University** with a Bachelor of Science degree in February 1982.

**Yizhao Zhang, CFO.** Mr. Zhang joined the company in May 2007. He has over 11 years of experience in portfolio investment, corporate finance, financial advisory and accounting. He is a certified public accountant of Delaware, and a member of the American Certified Accountants (AICPA). Before joining Shengtai, Mr. Zhang held senior positions in **Chinawe Asset Management Corporation** (OTC BB: CHWE) and **China Natural Resources Incorporation** (NASDAQ CM: CHNR). Previously, Mr. Zhang had experiences in portfolio management and asset trading in **Guangdong South Financial Services Corporation** from 1993 to 1999. Mr. Zhang received a Bachelor degree in Economics from **Fudan University**, Shanghai in 1992 and obtained an MBA degree with Financial Analysis and Accounting concentrations from **the State University of New York** at Buffalo in 2003.

**Yongqiang Wang, Director.** Mr. Wang joined Shengtai Pharmaceutical in April 2006 as the assistant to the general manager of the accounts department and was in charge of the finance department. He assumed the position of deputy general manager of the accounts department in February 2007. Prior to joining Shengtai, Mr. Wang worked as a financial manager for various enterprises. Mr. Wang holds an Associates degree from the **Shandong Economic and Management Institute**.

**Chris W. Wang, Director.** Mr. Wang serves as the chairman of both the audit committee and compensation committee. He has served as the chief financial officer of both **Fushi International, Inc.** and **Dalian Fushi**. Prior to this Mr. Wang served as an executive vice president of **Redwood Capital, Inc.** with specific focus on providing strategic and financial advisory services to PRC-based clients seeking access to the U.S. capital markets. Mr. Wang previously served as Assistant VP of Portfolio Management at **China Century Investment Corporation** from October 2002 to September 2004. Prior to that, Mr. Wang worked for **Credit Suisse First Boston (HK) Ltd.** Mr. Wang holds an MBA in Finance and Corporate Accounting from the Simon Business School of the **University of Rochester**.

**Changxin Li, Director.** Mr. Li has been the Chief of the Department of Medicine, member of the Credentials Committee and Medical Director of both the Echocardiography Laboratory and Cardiopulmonary Department of the **Otsego Memorial Hospital** since 2005. He has also been an internist with the Otsego Memorial Hospital since 1995. Mr. Li graduated with an MB from the **Weifang (formerly Changwei) Medical College**, Weifang, Shandong, China in 1982 and a PhD from the Department of Physiology, **University of Alberta**, Canada in 1990. He is a Fellow of the American College of Physicians (USA).

**Winfred Lee, Director.** Mr. Lee has been a Contract Administrator with **Tenet Healthsystems** for **South Bay Medical Center, North Hollywood Medical Center, Midway Hospital, Century City Hospital, and Brotman Medical Center** from 1997. Mr. Lee graduated with a Bachelor of Science in Business Management from **Brigham Young University**, Provo, Utah in 1984. He then graduated with a Doctor of Medicine from the **Medical College of Wisconsin**, Milwaukee, Wisconsin, in 1988 and a Doctor of Jurisprudence from the J. Reuben Clark Law School at **Brigham Young University**, Provo, Utah, in 1992. Mr. Lee is a member of the California Bar and the Phi Delta Phi Legal Society.

## Financial Analysis

**Cash use:** Net cash used in investing activities for fiscal 2007 was \$21.2MM, compared to \$7.5MM in fiscal 2006. Most of the cash has been spent on the construction of the new cornstarch manufacturing facility and the new glucose manufacturing complex, as well as some advances on the purchase of plant equipment. The significant increase of bank loans during the reporting period, for both short term and long term loans, is mostly due to the massive capital needs in construction and increased working capital needed for increased production.

Shengtai has spent \$21 million in the upgrade of its existing glucose manufacturing facility, the construction of a new glucose production complex and a new employee dormitory, of which a portion of it will be financed through bank loans and a portion would be funded from the proceeds of its May 2007 private placement. It also estimates the need for \$6 million to \$8 million to run these facilities.

**Shipping and handling costs** are included in selling, general and administrative costs. In FY2007, shipping and handling costs amounted to \$1.9MM, accounting for 41% of SG&A.

**Tax rate.** With the approval of the local government, Shengtai is subject to income tax at a reduced rate of 12% from September 2006 to the end of 2009. According to the new Enterprise Income Tax ("EIT") law, companies established before March 16, 2007 will continue to enjoy tax holiday treatment approved by local government for a grace period of the next five years or until the tax holiday term is completed, whichever is sooner. Therefore, Shengtai is qualified to continue enjoying the reduced tax rate as described above.

### **FY2Q08 results**

Shengtai reported net revenue of \$25MM in 3Q07, over 100% growth YOY. Net income was \$3MM and EPS was \$0.15, representing 39% and 35% growth YOY, respectively.

### **FY2008 Guidance**

Shengtai has 'make-good' clauses in place related to the private placement that calls for net income of \$9MM and EPS of \$0.43 in FY2008. However, for 1H08, Shengtai has already achieved \$5.4MM and EPS of \$0.27.

### **Our estimates**

We project sales of \$18.2MM in FY3Q08, representing 45% growth compared to FY3Q07. We applied a lower growth rate considering the holiday season and harsh weather conditions in China this spring as well as the full capacity of the facilities. Net income is estimated at \$1.7MM and EPS of \$0.08. We expected SG&A to be higher as new R&D initiative and increased share-based compensation.

For the full fiscal year of 2008, we estimate sales of \$86.8MM (+68% YOY), net income of \$9.5MM (+33%), and EPS of \$0.47 (+33% on the same share counts base). The average shares outstanding of 20.1MM assumes the same dilution effect of FY2Q08 and no new equity issued.

We forecast sales to increase to \$118.3MM in 2009 and \$153.8MM in 2010, representing 36% and 30% YOY growth, respectively. We estimate EPS to grow 32% to \$0.62 in 2009 and 34% to \$0.84 in 2010.



Shengtai Pharmaceutical, Inc. (SGTI) Global Hunter Securities, LLC Research Department: 949-274-8052					
Fiscal period	FY '06(A)	FY '07(A)	FY '08(E)	FY '09 (E)	FY '10 (E)
Period ends	Jun '06	Jun '07	Jun'08	Jun'09	Jun'10
<b>Cash flow statement</b>					
GAAP net income	4,211	7,149	9,520	12,667	16,990
Depreciation & amortization	1,520	2,282	4,193	9,268	12,468
Allowance for bad debts	115	272	(126)	-	-
Loss on disposal of land use right	-	(1,461)	(84)	-	-
Earnings on equity investment	(42)	(131)	(150)	-	-
<b>Changes in working capital</b>					
Accounts receivable	(261)	(2,288)	(3,494)	(3,487)	(3,943)
Other receivables	(125)	(4,467)	4,199	-	-
Inventory	173	(2,394)	(4,223)	(2,970)	(3,343)
Prepaid expenses and other assets	272	1,510	(710)	(314)	(355)
Accounts payable	377	2,164	1,076	2,475	2,786
Accrued liabilities and other payable	102	540	41	941	1,064
Customers' deposits	201	493	448	-	-
Income taxes payable	(15)	1,386	1,671	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>6,528</b>	<b>5,053</b>	<b>12,362</b>	<b>18,581</b>	<b>25,668</b>
Capital expenditures	(7,389)	(19,217)	(24,452)	(8,000)	(8,000)
(Increase) in investments	(124)	(1,934)	668	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>(7,513)</b>	<b>(21,151)</b>	<b>(23,784)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Repayment (Borrowings) of loans	2,298	6,225	(4,865)	-	-
Dividend paid	(1,665)	-	-	-	-
Issue of shares	-	15,953	506	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>633</b>	<b>22,178</b>	<b>(4,359)</b>	<b>-</b>	<b>-</b>
FX effect on cash	25	(161)	96	-	-
<b>Net increase (decrease) in cash</b>	<b>(326)</b>	<b>5,918</b>	<b>(15,685)</b>	<b>10,581</b>	<b>17,668</b>
Cash at beginning of period	828	502	6,420	(9,265)	1,316
<b>Cash at end of period</b>	<b>502</b>	<b>6,420</b>	<b>(9,265)</b>	<b>1,316</b>	<b>18,984</b>
<b>Adjusted EBITDA</b>	<b>6,149</b>	<b>9,786</b>	<b>16,890</b>	<b>25,826</b>	<b>37,069</b>
<b>Balance Sheet</b>					
Cash and investments	502	6,420	(9,265)	1,316	18,984
Restricted cash	3,881	5,629	1,886	1,886	1,886
Accounts receivable	3,532	5,780	9,655	13,142	17,084
Other receivables	729	8,190	3,955	3,955	3,955
Inventory	1,896	4,449	8,857	11,828	15,171
Prepayments and loan to related party	1,609	798	869	1,183	1,538
<b>Total current assets</b>	<b>12,150</b>	<b>31,266</b>	<b>15,957</b>	<b>33,308</b>	<b>58,617</b>
Plant and equipment	14,563	30,178	48,413	47,146	42,678
Other assets	4,559	12,316	18,435	18,435	18,435
<b>Total assets</b>	<b>31,271</b>	<b>73,760</b>	<b>82,805</b>	<b>98,889</b>	<b>119,729</b>
Notes payable and short-term loans	17,255	29,108	21,449	21,449	21,449
Accounts payable	1,931	4,758	7,381	9,856	12,642
Accrued liabilities and other payable	3,553	1,757	2,607	3,548	4,613
Customers' deposits	277	796	1,258	1,258	1,258
Taxes payable	596	2,049	3,856	3,856	3,856
<b>Total current liabilities</b>	<b>23,612</b>	<b>38,468</b>	<b>36,551</b>	<b>39,968</b>	<b>43,818</b>
Other payable-noncurrent	1,002	3,661	3,184	3,184	3,184
<b>Total liabilities</b>	<b>24,614</b>	<b>42,130</b>	<b>39,735</b>	<b>43,152</b>	<b>47,002</b>
Stockholders' equity	6,657	31,631	43,070	55,737	72,727
<b>Total liabilities and stockholders' equity</b>	<b>31,271</b>	<b>73,760</b>	<b>82,805</b>	<b>98,889</b>	<b>119,729</b>
<b>Ratios &amp; Other Financial Information</b>					
Working capital	(11,463)	(7,202)	(20,594)	(6,659)	14,798
Current ratio	0.5	0.8	0.4	0.8	1.3
Quick ratio	0.3	0.7	0.2	0.5	1.0
Sales (LTM)	36,029	51,706	86,894	118,275	153,758
COGS (LTM)	27,568	39,528	66,429	88,706	113,781
DSOs	35.3	40.2	40.0	40.0	40.0
Days of inventory	24.8	40.5	48.0	48.0	48.0
Days payables outstanding	25.2	43.3	40.0	40.0	40.0
Cash conversion cycle	34.8	37.4	48.0	48.0	48.0
Total debt / equity	274.2%	103.6%	57.2%	44.2%	33.9%
Long-term debt / equity	15.0%	11.6%	7.4%	5.7%	4.4%
Total debt / capitalization	73.3%	50.9%	36.4%	30.6%	25.3%
Net income (LTM)	4,211	7,149	9,520	12,667	16,990
Return on equity (LTM)	63.3%	22.6%	22.1%	22.7%	23.4%
Return on assets (LTM)	13.5%	9.7%	11.5%	12.8%	14.2%
Cash per share	0.05	0.56	(0.46)	0.06	0.94
Book value per share	0.66	2.76	2.14	2.75	3.58

**Shengtai Pharmaceutical, Inc. (SGTI) Disclosures****Analyst Certification**

I, Jodie Wehner, certify that the views expressed in this report accurately reflect my personal beliefs about this company and that I have not and will not receive compensation directly or indirectly in connection with my specific recommendations or views contained in this report.

**Important Disclosures**

- GHS does and seeks to do business with the company covered in this research report.
- As with all employees of GHS, a portion of this analyst's compensation is based on investment banking revenues.
- The covering analyst does not own a position in this security.

**Risks & Considerations**

**Risks related to businesses in China.** Economic, political, legal and social conditions could adversely affect operations and international expansion. Chinese government policy on the pharmaceutical ingredient industry could change unpredictably. Any price control could impact overall market revenues and profitability. The discontinuation of any of the preferential tax treatments or the financial incentives currently available to Shengtai could adversely affect its business, financial condition and results of operations.

**Operation risk.** Shengtai's ability to meet increased customer demand and stay profitable will still depend on factors such as its production capacity and working capital. Inability to complete the new glucose complex as scheduled will adversely affect its revenue growth.

**Inflation and community price risk.** Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for glucose products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. The company does not have any long-term supply contracts with its raw materials suppliers. Any significant fluctuation in price of raw materials could have a material adverse effect on the manufacturing cost of its products. Increasing interest rate and/or sudden appreciation of the Chinese currency could adversely affect the company's operation.

**Acquisition risk.** Potential acquisitions could be dilutive to shareholders and create integration and execution risk. There will also be regulatory risk that prevents or complicate acquisitions.

**Liquidity risk.** Shengtai's common stock has been quoted on the over-the-counter Bulletin Board since January 2007. Because it was formerly a shell company, its bid and ask quotations have not regularly appeared on the OTC Bulletin Board for any consistent period of time. There may be a limited trading market for its common stock.

**Dilution risk.** Shengtai has registered for public resale 9,125,000 shares in May 2008 as well as 4,693,750 shares issuable on exercise of the attached warrants belonging to its investors in September 2007. The availability for public resale of those shares may depress the stock price.

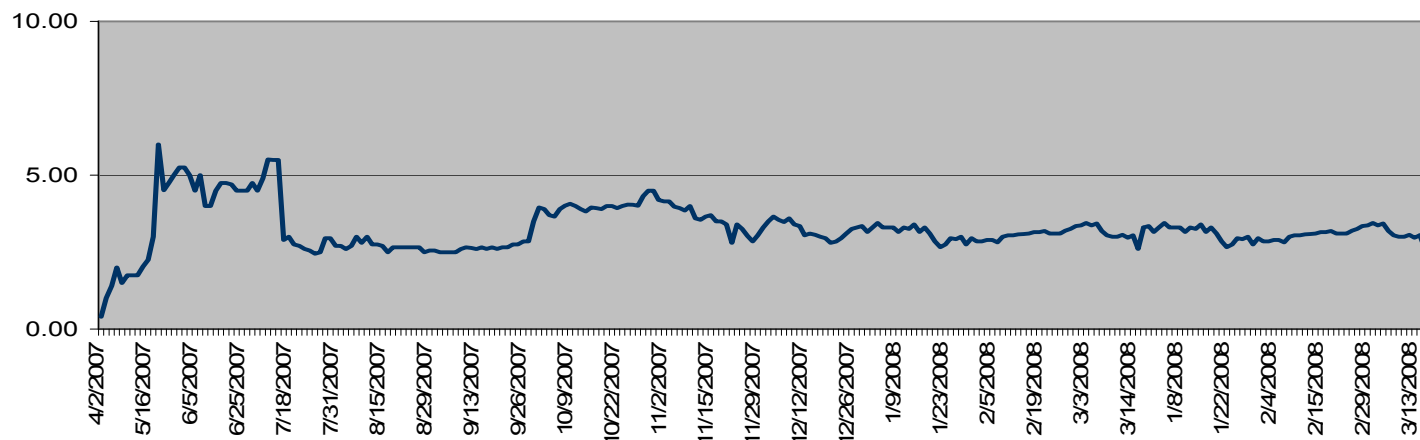
**See the company's recent SEC filings for additional risks.**

**Other Companies Mentioned In This Report**

- Xiwang Sugar (HKSE: 2088; \$2.68)
- Global Bio-chem (HKSE:0809; \$2.91)
- Corn Products In'tl Inc. (NYSE: CPO; \$38.20)
- Archer Daniels Midland Co. (NYSE: ADM; \$42.07)
- Bunge Ltd. (NYSE: BG; \$90.30)
- Chinawe Asset Management Corp. (OTCBB: CHWE; \$0.04)
- China Natural Resources Inc. (NASDAQ: CHNR, \$17.23)
- Fushi International, Inc. (Nasdaq: FSIN; \$14.36)

## Shengtai Pharmaceutical, Inc. (SGTI) Disclosures (Continued)

### Historical Recommendations



Initiated coverage on 3/18/08 with a Buy rating and price target of \$5.90.

Date	Rating	Price Target	Closing Price
1. 3/18/2008	Buy	\$5.90	\$2.61

### Explanation of Ratings

**Buy:** We expect the stock to outperform the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.

**Neutral:** We expect the stock to perform in line with the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.

**Sell:** We expect the stock to underperform the average total return of the stocks in the analyst's industry (or industry team's) coverage universe over the next six to twelve months.

### Ratings Distribution

Rating	Research Coverage		Investment Banking Clients*		
	Count	% of Total	Count	% of Total	% of Rating Category
<b>Buy</b>	29	85.3%	3	100.0%	10.3%
<b>Neutral</b>	5	14.7%	0		
<b>Sell</b>	0	0.0%	0		
<b>Total</b>	34	100.0%	3	100.0%	8.8%

\*Investment banking clients are companies from whom GHS or an affiliate received compensation from investment banking services provided in the last 12 months.

*Note: Ratings Distribution as of March 18, 2008*

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