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## Linkwell Corporation

OTC BB: LWLL

CURRENT PRICE: \$0.18

52-WEEK RANGE: \$0.14 - \$0.43

AVERAGE DAILY VOLUME (50-DAY): 25,700

FLOAT: 10.0 million

OUTSTANDING SHARES: 65.2 million

MARKET CAPITALIZATION: \$11.7 million

PRICE TARGET: \$0.55

**INITIATING COVERAGE: SPECULATIVE STRONG BUY**

### COMPANY PROFILE

Linkwell Corporation, [www.linkwell.us](http://www.linkwell.us), a Florida incorporated company with principal operations in Shanghai, is a leading developer, manufacturer and distributor of healthcare related disinfectants in the People's Republic of China (PRC). Through its 90% owned subsidiary Shanghai Likang Disinfectant High Tech Co., Ltd, a science and technology enterprise with approximately 165 employees founded by the China Army Second Military Medical University in 1988, the Company produces a wide variety of disinfectants in liquid, tablet, powder and aerosol form, as well as air sterilization devices, hot press bags, swabs and testing indicators. As one of a few nationally recognized domestic brands with rich R&D traditions, the Company's products are marketed, sold and distributed to hospitals and medical facilities throughout all 22 provinces, 5 autonomous regions, and 4 special municipalities of China. In light of recent SARS and avian flu outbreaks, particularly in Asia, which catalyzed initiatives to improve public health standards by the Chinese central government and resulted in heightened public awareness, the Company is focused on expanding its product portfolio to target the retail consumer market for disinfectants, as well as industrial, livestock, agricultural and other specialized segments of the disinfectant industry. For the first six months of 2006, the Company reported revenues of \$3.3 million, a 57% increase from \$2.1 million generated in a comparable period last year, and net income of \$390,692 or nearly 12% net profit margin. Trading on the OTC Bulletin Board under the symbol LWLL, the Company has capitalized on its technical expertise and distribution structure to become a prominent and influential leader of the emerging disinfectant industry in China. The Company is the only publicly traded Chinese disinfectant company in the US.

### STRATEGY

The Company operates through its wholly-owned subsidiary, Linkwell Tech Group, Inc., which in turn owns 90% of Shanghai Likang Disinfectant High Tech Co., Ltd, a science and technology enterprise founded in 1988 by the China Army Second Military Medical University (SMMU) to develop, manufacture and sell disinfectant healthcare products to the medical industry in China. The remaining 10% of Shanghai Likang Disinfectant High Tech Co., Ltd is owned by Shanghai

Shanghai Group. Capitalizing on the connection with a well recognized, prestigious medical institution, which pioneered technology application in the Chinese disinfectant industry, the Company has become one of the domestic R&D leaders in the healthcare segment and retains numerous other competitive advantages. Most of the Company's research and development activities are conducted using SMMU facilities on an as needed basis with favorable terms. In addition, the university's students, alumni and faculty form an extensive and influential network with ties to hospitals, medical suppliers and distribution companies throughout China, resulting in a rich talent pool for employment needs and widespread medical industry contacts for the marketing and sales functions.

The Company operates two factory facilities licensed by the Shanghai City Government to manufacture and distribute disinfectants with a total production capacity of 300 metric tons of tablets, 180 metric tons of powder and 9 million liters of liquid disinfectant annually. The main 21,500 square foot plant, located in the Jiading district of Shanghai, meets internationally recognized good manufacturing practice (GMP) standards established by the central government for the production of medical and chemical products. The supply chain, including inventory management and order fulfillment, is coordinated at the Jiading location. The other factory located in the Jingshan district, which is smaller, older and less efficient, is scheduled to be phased out and closed in the near future. The Company sources raw materials through contracts with six primary suppliers, with which it maintained stable business relationships for over a decade.

As one of the national market leaders in healthcare disinfectants, the Company sells and distributes its products on a wholesale and retail basis to the medical industry throughout all 22 provinces, 5 autonomous regions and 4 special municipalities of China. Offering one of the most complete product lines in the country, the Company has approximately 5,000 active and recurring customers, including hospitals, various healthcare facilities, medical suppliers and distributors. Marketing and sales are performed by 19 full-time employees based in Shanghai and supported by contractual relationships with 23 independent wholesale dealers and agents, including Shanghai Likang Pharmaceuticals Technology Co., Ltd, an affiliate owned by two of the Company's executive officers, which uses

72 independent sales representatives in other provinces in China.

Recently, the Company has devoted significant efforts to diversify its product mix and expand its distribution reach in China and internationally. By repackaging some of its commercial products used in medical settings, the Company positioned them for sales to a new customer base within the retail/consumer market, including hotels, schools, supermarkets, and drugstores. In January 2005, the Company signed a two year agreement with Shanghai Likang Meirui Pharmaceutical High-Tech Co., Ltd, a 68% owned subsidiary of Shanghai Shanhai Group, with a sales network covering certain sectors of the consumer and other retail markets in China. In addition, the Company has also recently begun penetrating the civil, industrial, livestock and agricultural disinfection markets in China. Finally, the Company has just established an import/export subsidiary to distribute its products internationally.

## **INDUSTRY**

Estimated at approximately 6.25 billion yuan in 2004, according to a survey conducted by China Federation of Industrial Economics, the disinfectant industry in China represents an emerging market driven by public concern and government regulatory activities. Having witnessed a variety of infectious disease crises in recent years, with the widely publicized November 2002 SARS and October 2005 bird flu outbreaks among them, the Chinese government has been taking a wide range of initiatives to improve public health and living standards, boosting the growth of the Chinese healthcare industry in general and driving the demand for disinfectant products. According to Frost & Sullivan, China's healthcare expenditures grew from 5.0% of GDP in 1999 to 6.7% of GDP in 2005, representing a growth rate of approximately 5%. During the same period, US healthcare expenditures grew from 13.2% to 15.9%, representing a growth rate of approximately 3%. In July 2002, the 27th Order of Ministry of Health of the People's Republic of China established national standards for the disinfection industry, mandating new operating guidelines for manufacturers, including a requirement that an official hygiene permit be obtained from the Chinese Ministry of Health (MOH) as well as the appropriate provincial health bureau prior to releasing disinfectant products to the market. While each successive crisis stimulated the Chinese consumers to stockpile disinfectant products swelling the demand, the MOH regulations effectively forced out of the market smaller unlicensed companies competing in the disinfectant marketplace composed of approximately 18,700 hospitals and 41,700 healthcare clinics, according to 2005 MOH statistics.

At the same time, continuing its gradual transition towards a free market economy, the Chinese government has recently been promoting policies favoring domestic spending, which together with ongoing urbanization, improving living standards and continuing

population growth are expected to contribute to increasing demand for disinfectant products. In 2005, consumer spending reflected in inflation-adjusted retail sales soared 12.9% to 6.7 trillion yuan, or about \$850 billion, while inflation was subdued at 1.8%. Although various current forecasts indicate a slowing GDP growth to a range of 8.5-9.5% in 2006, the Chinese Ministry of Commerce predicted retail sales to continue growing at 12.5% in the first half of the year. In addition, an ACNielsen's latest global consumer confidence study revealed that China ranked as the most optimistic among all markets surveyed, with 78% of consumers looking forward to further economic improvement in 2006.

Finally, supported by China's admission to the World Trade Organization (WTO) in 2001, massive capital investments in the country and availability of low cost labor, China's enterprises are gradually strengthening their position in the global marketplace, also within the healthcare industry. China Federation of Industrial Economics recently reported that already 14 out of the world's largest 500 companies are Chinese. According to information presented by CHINA MED International Medical Instruments and Equipment Exhibition, total import and export value of medical consumables and dressing products in China reached \$1.4 billion in 2004, of which the export value reached \$648 million, growing 25.1% over the previous year. As such, major Mainland companies, including leaders in the healthcare disinfectant market, appear poised for international expansion, especially given World Health Organization reports, according to which 2.4 billion, or nearly 40%, of the world's population has no access to hygienic means of personal sanitation. In the US, the \$2 billion disinfectant and antimicrobial chemical market is expected by Freedonia Group to grow 5% annually through 2009.

## **PRODUCTS**

Offering a full range of products for topical and environmental applications, including powder, tablet, granule, liquid, gel and aerosol formulas, as well as instruments, devices and materials, such as air sterilization machines, hot press bags, sanitation swabs and tampons, the Company provides complete effective solutions to prevent the outbreak of infections and diseases in healthcare and non-medical settings. Approximately 95% of the Company's revenues for the fiscal year ended December 31, 2005 were generated from the sale of products developed and manufactured by the Company, with the remaining 5% coming from complementary products sourced from third parties.

The Company has been granted 26 licenses by the Chinese Ministry of Health since 2002 and currently manufactures 38 different products packaged to meet various market needs. The Company has filed three additional license applications and is preparing application documentation for several more products. Although the intellectual property rights enforcement in

China is relatively inefficient, the Company has been actively developing its legal protection resulting in competitive R&D and marketing advantages. The Company has received six patents, with four additional patent applications pending at the National Property Right Administration of the PRC, and has registered four trademarks with the China State Administration for Industry and Commerce Trademark Office for its An'erdian, Jifro, Dian'erkang, and Lvshaxing product series.

The Company's offering can be divided based on application into (i) skin & mucous membrane disinfectants, designed for external skin cleaning prior to operations, incisions or injections, as well as internal application to the mouth, eye, perineum and other sites; (ii) hand disinfectants, used on the skin surface prior to medial procedures; (iii) environment & surface disinfectants, targeting a variety of surfaces, such as floors, walls, tables and other areas, as well as cloth materials including furniture and bedding; (iv) medical devices & equipment disinfectants, applied in sterilization of thermo sensitive instruments and endoscope equipment; and (v) disinfection machines & instruments, ranging from air sterilization machines and surgery hand washing tables to hot press bags, disinfection swabs and testing indicators.

Continuing product line extension efforts focused on technology improvements and consumer applications have recently yielded new products, which are expected to drive further revenue growth. From a category representing over half of the Company's sales, the An'erdian Type 3 skin & mucous membrane disinfectant was recently honored as a 2005 National Key New Product by the Chinese Ministry of Science & Technology. This patent pending product has numerous critical uses in gynecology, skin disease treatment as well as daily hygiene. On the other spectrum, previously relatively insignificant air disinfection devices, which contributed just a few percent of the Company's sales, are quickly gaining popularity in hospitals and beyond medical settings. The Lvshaxing air disinfection series, approved by China's Ministry of Health as well as the Shanghai Bureau of Food and Drug Administration for nationwide sale last year, is designed to combat the spread of airborne viruses through ventilation systems of a wide variety of commercial properties, residential buildings, restaurants and healthcare facilities. Among the Company's products redeveloped specifically for the retail consumer market, Likang 84 all-surface household disinfectant, a liquid chemical containing sodium hypochlorite recently approved by the MOH and introduced to the market in 2005, is expected to rapidly penetrate the market due to its significantly longer shelf life of two years versus similar competing products with shelf life of 90 days.

Finally, the Company has several product candidates in various stages of development for the longer term, including a new series of disinfectants targeting the H5N1 and H9N2 strains of avian flu by employing

Hypericin, a primary compound found in St. Johns Wort, a Chinese herb. In recent laboratory tests, Hypericin has proven effective as a treatment for poultry infected with strands of the avian flu. Following the guidelines of the Shanghai Municipal Center for Disease Control & Prevention, the Company anticipates to introduce this new series to market in 2007.

## COMPETITION

As an emerging industry, the healthcare disinfectant market in China is highly fragmented and competitive. There are over a thousand small regional and local manufacturers and distributors of disinfectant products in China, however many of them have very limited product offerings and only a few have nationwide presence. The recent implementation of government standards, licenses and other regulation progressively hinders the competitiveness of small to mid size players, increasing barriers to entry. Currently, the Company's closest competitors include domestic companies such as Ace Disinfectant Factory Co., Ltd, Chengdu Kangaking Instrument Co., Ltd, Hangzhou Yangchi Medicine Article Co., Ltd and Shandong Xinhua Medical Instrument Co., Ltd, as well as foreign multinational companies such as 3M Company (NYSE: MMM) and to a lesser extent Johnson & Johnson (NYSE: JNJ). Other smaller domestic companies with limited offering in healthcare disinfectants include China Beijing Tidybio Sciences & Technology Co., Ltd, Oster Biochemistry Technology Co., Ltd and Zhejiang Xinde Packaging Co., Ltd.

## MANAGEMENT

The Company's management team has a wealth of senior management experience in the areas of disinfectant technology, trade and finance.

XueLian Bian, the Company's Chief Executive Officer, President and Director, is an industry veteran with extensive disinfectant technology experience. Mr. Bian has served as General Manager of Shanghai Likang Disinfectant Co., Ltd since 1993. From 1990 to 1993, he was a project assistant in charge of science and technology achievement application at the Second Military Medical University, Shanghai, China. From 1986 to 1990, Mr. Bian was a member of the technical staff in the Epidemiological Institute in the Second Military Medical University. Mr. Bian contributed to the compilation of two books, "Disinfection-Antiseptic-Anticorrosion-Preservation" and "Modern Disinfection Study," of which the first laid the foundation of the Chinese disinfectant study. Mr. Bian graduated from the China Army Second Military Medical University in 1990 with a bachelor degree in public health.

Wei Guan, the Company's Vice President and Director, has served as Vice General Manager of Shanghai Likang Disinfectant Co., Ltd since 2002. From 1987 to 1990, Mr. Guan worked at Hunan Machinery Importing & Exporting Corporation as a member of the management team. From 1990 to 2002, Mr. Guan worked for Division of Import and Export at Worldbest Group as a General

Manager. Mr. Guan graduated from Hunan University in Changsha, Hunan Province with a bachelor degree in Industry Foreign Trading in 1987.

Gendi Li is the Company's Controller. From 1996 to 2003, Ms. Li was employed as an Executive Accountant and Financial Manager for QiaoFu Construction Holding Company (Shanghai). From 1993 to 1996, Ms. Li was employed as an Executive Accountant and Head of the Finance Department at Shanghai Yuxin Machinery Co., Ltd. From 1968 to 1993, Ms. Li was employed in various financial positions, including Cashier, Accountant, Executive Accountant, and Head of the Finance Department at First Plastic Machinery Factory. Ms. Li graduated from the Shanghai Finance and Economics Institute.

The Company also has an active advisory board of members with extensive investment banking, financial and management experience.

James Wang, Ph.D. is currently the CEO of China Direct, Inc. (OTC BB: CHND), which is the Company's significant shareholder with approximately 5% stake. Previously in his career, Dr. Wang held a variety of other top executive positions in public and private technology companies in the last decade. Dr. Wang received a Bachelor of Science degree from the University of Science and Technology of China in Hefei, China in 1985, a Master of Science Degree from the Shanghai Second Medical University, Shanghai, China in 1988, and a Ph.D. degree from the University of Arizona in 1994, Tucson, Arizona.

Marc Siegel is Managing Director of China Direct, Inc. and Chairman of CIIC Investment Banking and Services (Shanghai) Company Limited and serves as general partner of Edge Capital Partners, Ltd., a private investment fund. Previously in his career, Mr. Siegel held top executive and sales positions at various NASD member organizations. Mr. Siegel received a Bachelor of Arts degree from Tulane University in 1981.

## FINANCIALS AND OUTLOOK

Following consistent rapid revenue growth in excess of 20% annually in the last two fiscal years, for the first six months ended June 30, 2006 the Company reported revenues of \$3,331,777 as compared to \$2,120,027 for the same period in 2005, an increase of \$1,211,750, or approximately 57%, attributable primarily to the growth of sales to an affiliate, Shanghai Likang Pharmaceuticals Technology Co., Ltd, resulting from heightened demand and introduction of new products. In the first half of 2006, sales to non-related third parties increased 6.5% from the comparable period in 2005, while sales to related distributors surged by \$1,126,827, or 140%, representing 58% of total revenues. The Company reported a six months net income of \$390,692, or \$0.01 per share, in 2006 versus a \$127,546, or nil per share, for the first six months of 2005, a 206% increase. In the most recent quarter ended June 30, 2006 the Company reported revenues of \$1,463,251 and net income of \$188,752.

*The financial results presented above for the first six months of 2006 were sourced from amended 10-Q/A forms filed following a non-reliance notice issued by the Company.*

The Company has been financing its recent R&D activities and sales growth with private equity placements completed last year. In June 2005, it raised \$300,000 by issuing units consisting of 375,345 shares of convertible preferred stock, which were subsequently converted to 3,753,450 shares of common stock, and common stock warrants to purchase additional 3,753,450 shares at \$0.10. In December, the Company completed an additional \$1,500,000 offering of units consisting of 1,500,000 shares of convertible preferred stock, all of which were converted to common shares also at a rate of 10 to 1, and associated 30,000,000 warrants exercisable at \$0.20 and \$0.30, half at each price. In July 2006, a group led by the Company's management and directors repurchased 725,000 of then still outstanding preferred shares at \$2.40, or the equivalent of 7,250,000 common shares at \$0.24, and subsequently an additional 500,000 common shares, in separate private transactions. Paying \$0.24 per share to buy back approximately 40% of prior \$1.8 million accredited investor funding originally offered to institutions at \$0.10 per share sends a clear message of insiders' confidence in the Company's growth prospects. *The registration statement covering all of the aforementioned shares and warrants has become effective earlier this month.*

As a result of the funding and a positive operating cashflow for the six months ended June 30, 2006, the Company has a strong balance sheet with \$1,212,562 in cash, working capital of \$2,665,641 yielding a current ratio of 2.2, and a net worth of \$3,347,485, positioning it for planned expansion. Currently manufacturing at about 50% of its full capacity, the Company has the capability to quickly expand production to meet increasing demand and introduce new products. In the longer term, given its plans to phase out the older Jingshan factory operations, the management plans to build an additional manufacturing line and upgrade its main production facilities and technologies in Jiading.

Focused on penetration of new markets for disinfection products through geographical and product segment expansion, the Company's aggressive strategy should result in continued revenue growth acceleration. With the central government's continuing effort on educating the Chinese population about the benefits of proper sanitation procedures, the Company will target the consumer, civil, industrial, veterinary, livestock and agricultural market segments with an emphasis on retail distribution. The management expects to launch 2 to 4 new products per year. The Company is seeking to expand its distribution capability in the PRC through the potential acquisition or partnerships with existing independent sales networks, and develop an export structure for international distribution initially concentrating within the US. Finally, the Company is

continually evaluating strategic acquisitions, looking most particularly at consolidation of smaller companies in healthcare related disinfectants.

With rapid revenue growth and improvement of gross profit margins, the Company is positioned to significantly improve its profitability. Gross margin for the six months ended June 30, 2006 rose to 40.3%, compared to 29.4% reported in the same period of 2005. Net profitability reached 11.7%, almost doubling from 6.0% in the previous year. Assuming the current trends continue in the second half of the year, 2005 fiscal revenues of \$5,465,933 could grow to over \$8.5 million, resulting in net income of over \$1.0 million, yielding a forward PE ratio of less than 12, based on the current amount of shares outstanding. As such, the shares at the current level of \$0.18-0.20 seem undervalued and appear to present an excellent buying opportunity for speculative long-term investors willing to accept the general high risks associated with emerging growth companies, such as potential dilution, the overhang of newly registered shares, reduced liquidity and price volatility of bulletin

board companies in general, as well as certain risks specific to doing business in China, including complex political system, foreign exchange fluctuations and currency restrictions. Indeed, when the Company begins to report improved earnings levels, which are likely to occur due to the increased revenue trends and higher expected profit margins, the shares can possibly return to new highs approaching \$0.55 within the next eighteen months, especially given the Company's recent commitment to a more intensive investor relations campaign. The strong and committed management team also positions the Company well for future shareholder growth. With the quiet period ending from the effectiveness of the registration statement, the Company anticipates a much more active investor relations campaign, which should bode well for shareholder liquidity and value.

**Tytus Biniakiewicz, Senior Analyst**  
**Alan Stone, Managing Director**

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#### OTC BB: LWLL

Following a reverse merger completed in May 2005, the share price was propelled in excess of \$0.70 during the bird flu epidemic and subsequently gradually depreciated, consolidating on very low volume trading in the range of \$0.15-0.30 in the recent months. Current intensification of market activity bodes well for near term price appreciation.

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