

YTD 2005

INTRODUCTION

We are pleased to present our inaugural report on China Logistics & Distribution M&A activities. In this issue, we will review significant international transactions and cross-border deals involving China, focusing on strategic buyers/investors acquiring China companies. M&A market trends, transaction rationale and valuation multiples will also be discussed.

WORLDWIDE M&A ACTIVITIES (1Q–3Q 2005)

In the first three quarters of 2005, a number of large scale M&A transactions took place in the Freight Forwarding, 3PL, Container Shipping, Courier and Supply Chain Management sectors. The biggest deal announced was Deutsche Post's acquisition of UK based Exel PLC for US\$6.7 billion, priced at approximately a 13x LTM EBITDA multiple. The acquisition will create the biggest logistics company in the world and gives Deutsche Post, already Europe's largest postal service, significant control of Europe's US\$51 billion contract logistics market as well as operations in the US and Asia.

Global giants – Yellow Roadway, UPS and Maersk – continue to aggressively acquire other leading global logistics companies. Yellow Roadway's purchase of USF will boost its annual sales by more than one-third, creating annual revenue of US\$9 billion. UPS's acquisition of Overnite will place UPS in a strong position to compete with rival FedEx in less-than-truckload (LTL) and truckload (TL) services. In addition, UPS's purchase of UK's largest courier provider, LYNX Express, will strengthen UPS's position in Europe.

Large cap M&A transactions announced this year are generally valued at 0.6x LTM revenue and 7-10x LTM EBITDA multiples based on our estimates, with a few transactions paying higher EBITDA multiples from 13x to 18x.

Selected Worldwide Logistics M&A Transactions

Announcement Date	Buyer / Lead Investor(s)	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Sep 1, 2005	Deutsche Post (Germany)	Exel plc (UK)	\$6,700.0	100%	\$6,700.0	Contract logistics business includes warehousing and distribution, assembly, and just-in-time services
July 15, 2005	PWC Logistics (Kuwait)	GeoLogistics (Thailand)	\$454.0	100%	\$454.0	Global freight forwarder and logistics services provider
Jun 25, 2005	UPS (US)	LYNX Express (UK)	\$96.5	100%	\$96.5	UK's largest independent parcel carrier
May 26, 2005	UPS (US)	Overnite Corp (US)	\$1,262.9	100%	\$1,262.9	Leading provider of less-than-truckload (LTL) transportation
May 11, 2005	AP Moller-Maersk (Denmark)	Royal P&O Nedlloyd NV (UK)	\$4,237.0	100%	\$4,237.0	World-leading provider of point-to-point container shipping services
Feb 27, 2005	Yellow Roadway (US)	USF Corp (US)	\$1,580.0	100%	\$1,580.0	Comprehensive supply chain management solutions provider

CHINA M&A MARKET TRENDS

Logistics spending in China is projected to increase from about US\$300 billion in 2003 to US\$360 billion in 2005¹, with an annual growth rate of 10%. The 3PL market, the fastest growing sector with an annual growth rate of 25%, currently accounts for approximately US\$12 billion of the market.

Factors Driving Increased M&A Activity in China

- **Industry Consolidation**

Capital, technology and operating efficiencies will further drive consolidation, especially in the private sector, which remains highly fragmented and suffers from poor infrastructure and low technical expertise. Currently, the private sector comprises approximately 2,000 freight forwarders, 7,000 barge companies and over 2.5 million trucking firms².

- **WTO Impact**

Under WTO, key transportation sectors including freight forwarding, courier express, road transportation, shipping agency and warehousing will be opened to 100% foreign ownership by December 2005. Many international logistics firms have made heavy investments through partnerships in China and are likely to seek full control of these businesses.

- **Increased Valuation Multiples for Logistics Deals**

In recent years, valuation multiples for middle market deals worldwide have increased to 5-8x EBITDA, with the higher end of the valuation range for companies with revenue over US\$25 million but below US\$100 million³.

- **Middle-Market Businesses Exit through M&A Market**

Due to fierce competition from foreign logistics players and state-owned enterprises, many mid-market players will realize that exiting the market through a trade sale is a more realistic way to realize value than attempting to operate independently.

- **Aggressive Strategic Buyers**

Most global logistics companies value China as the fastest growing logistics market globally and given government incentives and favorable policies, they are ambitiously planning further growth through acquisitions to gain local talent and market coverage.

China Logistics Business Lines Overview and WTO Impact

Business	No. of Firms	Competitive Landscape ⁴	Current Foreign Stake Limit	Foreign Stake Limit 12/05
Storage & Warehousing	500,000 ⁵	Basic transport & warehousing – highly fragmented Price competitive with thin margins	Majority	100%

¹ "Case Stories: The third-party niche", *Global Business Insights (GBI)*, January 31, 2005

² "Set up the Supply Chain in China-Challenges and Changes", *UPS Supply Chain Solution reports*, November 25, 2004

³ "2004 Second Quarter Logistics Report", *USBX report*, May 2004

⁴ *UBS November 2004. China Logistics Research*

⁵ *Global Business Insight 2005*

YTD 2005

China Logistics Business Lines Overview and WTO Impact

Business	No. of Firms	Competitive Landscape ⁴	Current Foreign Stake Limit	Foreign Stake Limit 12/05
Freight Forwarding	3,000 licensed ⁴ for international business	Major sea FF: COSCO & China Shipping Major air FF: EAS Sinotrans has 10% share of both	75%	100%
Domestic Express	Fragmented	Low barriers Key firms: China Post EMS, China Air Express, China Railway Express and Datian	0%	100%
Int'l Express	Concentrated	RMB 8B in 2003 5 firms have 95% of market: - DHL Sinotrans (38%) - EMS (30%) - FedEx Datian (16%) - UPS-Sinotrans (10%) - TNT-Marchplus (6%)	Minority	100%

CROSS BORDER LOGISTICS M&A ACTIVITIES IN CHINA (1Q-3Q 2005)

Cross border China M&A transactions have occurred under two primary strategies:

- Mid-sized transactions involving JVs with leading China logistics partners
- Buying out business partners or acquiring industry expertise to gain market share

In terms of multiples paid, these deals have been completed at an average of 0.3x revenue multiple and 7-9x P/E, which are about 50% to 60% of the multiples paid for similar deals completed in the US and European markets.

Port & Container Shipping

In the port & container shipping sector, transactions are focused on large asset based port or container operations. One of the largest deals this year was Singapore state-owned PSA's purchase of 57% of Hong Kong Asia Container Terminals for US\$385 million, which will give PSA/Singapore a significant berth in the world's busiest container port.

Selected Transactions

Announcement Date	Buyer / Lead Investor(s)	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Aug 22, 2005	Paul Y-ITC Construction Group (Hong Kong)	Nantong Port Group (Nantong)	\$53.6	45%	\$119.1	Management and operation of one of the 10 biggest ports in China
Nov 29, 2004	PSA International (Singapore)	Asia Container Terminal (Hong Kong)	\$385.0	57%	\$675.4	Container terminal operator

Freight Forwarding

The Freight Forwarding sector is seeing robust M&A activity. Forming JVs and acquiring quality local players are still the primary means by which foreign logistics giants are gaining market share in China.

YTD 2005

Yellow Roadway's partnership with JHJ, the second largest Chinese air freight forwarder, and acquisition of GPS, the leading Shanghai based 3PL provider, will significantly expand Yellow Roadway's scale and capabilities in China and advance its objective of providing a one-stop shop for seamless global logistics solutions.

TNT plans to acquire business partner Hoau Logistics, the largest 3PL freight company in China. Local media disclosed that negotiations have started on a confidential basis with an estimated deal size close to US\$100 million, although no public announcement has been made. Given the rapidly approaching market liberalization prescribed by the WTO, TNT is positioning itself to operate independently in China and dominate the roadway freight market, which explains why it chose to terminate a 15-year JV partnership with Sinotrans.

Other notable deals include DiChain Holdings' acquisition of Shanghai Centrans, one of the leading ocean freight companies in China for about US\$43 million. Through this transaction, China Merchant, DiChain Holdings' parent, advances its stated objective of becoming the No.1 total logistics solution provider in China.

We expect to see giants like UPS, FedEx and others gradually take over their JVs and acquire more assets in China to gain more control of the market in the near future.

Selected Transactions						
Announcement Date	Buyer / Lead Investor(s)	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jun 29, 2005	DiChain Holdings (Hong Kong)	Shanghai Centrans (Shanghai)	\$43.1	100%	\$43.1	Sixth largest international ocean transportation agency and tenth biggest integrated logistics company in China
Jun 17, 2005	Yellow Roadway (US)	Shanghai JHJ International Transportation (Shanghai)	\$45.0	50%	\$90.0	Second largest air freight forwarder in China
Jun 1, 2005	DFDS Transport Group A/S (Denmark)	DFDS Transport (China) Co. (Shanghai)	NA	34%	NA	JV between DFDS Transport Group and JHJ International, offering services in air, ocean shipping and other logistics
NA ⁶	TNT (Netherlands)	Hoau Logistics (Shanghai)	NA	100%	NA	One of the largest freight forwarding companies in China

Express and Others

Selected Transactions						
Announcement Date	Buyer / Lead Investor(s)	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Apr 21, 2005	Shenyang Commercial City Group (Shenyang)	Shenyang Shida Logistics (Shenyang)	\$10.5	99%	\$10.6	Express logistics operator in Northeastern China

⁶ Local media disclosed, no formal public announcement

Selected Transactions

Announcement Date	Buyer / Lead Investor(s)	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 21, 2005	Meridian IQ (US)	GPS Logistics-Asia (Shanghai)	NA	100%	NA	Global provider of distribution management, vendor consolidation, cargo insurance and customized logistics

SUMMARY

We expect to see continued consolidation in both the China and international logistics markets and inevitably, an increasing level of cross-geography, cross-function M&A transactions as the market matures and providers look to leverage scale, global presence, and a full range of services to provide end-to-end solutions.

Latitude Capital Group is an Asian merchant banking firm, specializing in China cross-border M&A and private placements. We mainly focus on serving middle market and emerging growth companies in the technology, manufacturing, healthcare, logistics & distribution and real estate sectors. Latitude Capital Group is headquartered in Hong Kong with offices in Beijing and San Francisco.

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