

CHINA HEALTHCARE M&A UPDATE

1H 2005

INTRODUCTION

We are pleased to present our inaugural semi-annual review of cross-border healthcare M&A activity in China, focusing on both strategic buyers/investors and financial investors acquiring or investing in healthcare companies in China or Chinese healthcare corporates acquiring or investing in overseas targets. The purpose of this report is to provide a summary of China cross-border healthcare M&A and private placement activities during the period, highlighting notable selected transactions and emerging M&A trends 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 ten major healthcare segments:

BIOTECHNOLOGY & PHARMACEUTICALS

- Biotechnology
- Prescription Drugs
- OTC Drugs
- Vitamins
- Medical Chemicals & Botanical Products

HEALTHCARE EQUIPMENT & SERVICES

- Healthcare Distributors & Services
- Healthcare Facilities
- Healthcare Equipment
- Healthcare Supplies
- Managed Healthcare

The period's biggest news was Bausch & Lomb's announcement of its 55% acquisition of Shandong Chia Tai Freda Pharmaceutical Group, a major eye drop producer, for US\$200 million in cash. During the period, there were no notable transactions in the Healthcare Facilities, Healthcare Equipment, Healthcare Supplies and Managed Healthcare market segments.

BIOTECHNOLOGY & PHARMACEUTICALS

Biotechnology

In biotechnology, there were two major cross-border transactions announced during the period. Qiagen NV acquired Tianwei Times, a private Beijing-based leading developer, manufacturer and supplier of nucleic acid sample preparation consumables. Tianwei possesses a strong network of relationships in the scientific community in China as well as a well developed and rapidly growing presence in the market. The other major transaction was AVT Plasma's acquisition of a large state-of-the-art biological products laboratory based in Shenzhen.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 13, 2005	Qiagen NV (NASDAQ and Frankfurt listed)	Tianwei Times Technology Co. Ltd. (Beijing)	\$4.0 ¹	100%	\$4.0	Private leading developer, manufacturer and supplier of nucleic acid sample preparation consumables, focusing on providing solutions for the purification of DNA and RNA.
April 21, 2005	AVT Plasma (Australian Stock Exchange listed Hong Kong company)	Wei Wu Guangming Biological Products Laboratory (Shenzhen)	NA	NA	NA	State-of-the-art blood fractionation plant in China with established operations.

¹ Including US\$2 million potential earn-out payment.

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Prescription Drugs

Pharmaceutical M&A activity during the period was mainly focused on Chinese companies with established products and operations. Of the transactions listed below, Fresenius Kabi AG's US\$30.2 million buy-out of its minority local JV partner, Beijing Double-Crane Pharmaceutical, was the most notable. This transaction reflects the general trend of foreign players' increased commitment to the China market and their growing desire to have full ownership control of their operations. We are seeing more and more China JVs being converted to wholly foreign owned enterprises ("WFOEs") with the international partners buying out their local Chinese partners.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
April 8, 2005	Sumitomo Corporation (Tokyo listed)	Henan Topfond Pharmaceutical Co. Ltd. ² (Shanghai listed)	\$19.3	20%	\$96.5	Chinese pharmaceutical company focused on R&D, production and trading of APIs, intermediates, and finished dosages forms. The company produces bio-fermentation pharmaceuticals, chemical pharmaceuticals, TCMs, and finished dosage forms.
March 2, 2005	Fresenius AG (Frankfurt listed)	Beijing Fresenius Kabi Pharmaceutical Co. Ltd. (Beijing)	\$30.2	35%	\$86.3	JV between Fresenius and Beijing Double Crane Pharmaceutical Co. Ltd., manufacturing infusion and clinical nutrition products.
January 11, 2005	LAM Pharmaceutical Corp. (Frankfurt listed US & Canada company)	New World Kellerton (Xinyang) Yunan Pharmaceutical Co. Ltd. (Henan)	\$13.6	100%	\$13.6	Chinese manufacturer and marketer of two major products, Hipreomycin (an anti-tuberculosis drug) and Shao-Bei (an injectable hemorrhoid treatment). The company also has production rights for an additional 35 products.

OTC Drugs

OTC M&A activity during the period was mainly focused on Chinese healthcare companies with established products, operations, and distribution platforms in China. Of the transactions listed below, the global eye-care company Bausch & Lomb's US\$200 million acquisition of Chia Tai Freda Pharmaceutical Group was the most notable. The acquisition was widely viewed as a major expansion move by Bausch & Lomb into China's rapidly developing vision care products market, complementing its well-established China contact lens and lens care products businesses.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 5, 2005	Bausch & Lomb (NYSE listed)	Chia Tai Freda Pharmaceutical Group (Shandong)	\$200.0	55.0%	\$363.6	Leading manufacturer of eye medication products in China; product lines include Moisten and Mioclear eye-drops.
May 11, 2005	STADA Arzneimittel (Frankfurt listed)	Beijing Center-Lab Pharmaceutical (Beijing)	\$4.5	58.0%	\$7.8	Chinese pharmaceutical company, manufacturing and distributing 10 branded products in the OTC market.

² According to market rumors, Sumitomo was interested in Topfond's anti-AIDS drugs and the opportunity of introducing new pharmaceutical products into Topfond.

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Vitamins

DSM's acquisition of Roche continues an ongoing trend of international players buying out their local JV Partners.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 27, 2005	DSM NV (Amsterdam listed)	Roche (Shanghai) Vitamins Limited (Shanghai)	\$13.8	36%	\$38.3	JV between DSM and Shanghai Pharmaceutical Co. Ltd., manufacturing vitamin A, E, B6, and vitamin blends for the animal and human nutrition markets worldwide.

Medical Chemicals and Botanical Products

India's Matrix Laboratories formed a strategic alliance with MCHM to take advantage of low production cost of APIs and pharmaceutical intermediates in China. We believe that this comparative cost production advantage of China will sustain into the foreseeable future and there will be an increased trend of foreign strategic investment into this segment of the market.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
February 6, 2005	Matrix Laboratories Ltd. (Mumbai listed)	MCHM Pharma (Group) Ltd. (Fujian)	NA	NA	NA	A Chinese pharmaceutical company manufacturing pharmaceutical products ranging from basic chemicals, intermediates, APIs and finished dosage forms.

HEALTHCARE EQUIPMENT & SERVICES

Healthcare Distributors & Services

Two notable transactions in this market segment were Luxottica Group's acquisition of a 100% equity interest in Xueliang Optical Technology Co. Ltd., the leading premium optical chain in Beijing, and HAL Investments NV's acquisition of a 70% stake in Shanghai RedStar Optical Co in Shanghai. Eyewear is a lucrative industry in China. As eyewear retailing is getting increasingly liberalized thanks to China's access to WTO and the CEPA, the market has been getting more and more competitive. However, the recent collapse of Moulin under US\$0.7 billion³ of debt last quarter provides a cautionary tale for Chinese companies engaged in aggressive global M&A expansion.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 7, 2005	Luxottica Group (NYSE and Milan listed)	Xueliang Optical Technology Co. Ltd (Beijing)	\$20.4	100%	\$20.4	Leading premium optical chain in Beijing with 79 retail stores.

³ Moulin has received demand letters from a total of 16 bank creditors requiring repayment of an aggregate sum of approximately US\$121.6 million, but it is reported to have unaudited aggregate bank borrowings of around US\$0.7 billion as of June 20, 2005.

Selected Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 28, 2005	HAL Investments NV (Subsidiary of Amsterdam listed group)	Shanghai RedStar Optical Co. (Shanghai)	NA	70%	NA	Leading premium optical chain with 130 retail stores in or around Shanghai, of which 80 are under franchise agreements.

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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