

Healthcare Sector

2006 Annual Report

China Healthcare M&A Update

Highlights

- **CK Life acquires 80% of custom nutritional products firm VitaQuest, for US\$166 million.**

The acquisition of US based VitaQuest will enhance CK Life's nutritional product manufacturing capability and widen its global sales and distribution network. The transaction follows similar acquisitions by CK Life in Canada and Australia in 2005.

- **SSL acquires the remaining 50% of Qingdao London Durex for US\$37.5 million.**

The acquisition will provide SSL with greater market exposure and profitability in China's fast growing prophylactic market.

- **American Oriental Bioengineering acquires botanical pharmaceutical firm Guangxi Lingfeng for US\$25 million.**

The acquisition of Guangxi Lingfeng will extend American Oriental Bioengineering's product line into gynecology products and strengthen its sales and distribution network in southern China.

- **Luxottica acquires Shanghai-based Modern Sight Optics for US\$17.5 million.**

With this third acquisition in 18 months, Luxottica now has approximately 290 premium optical stores in China's major cities.

- **Bayer HealthCare acquires the Western OTC cough and cold portfolio of Topsun Science and Technology for up to US\$158 million.**

The acquisition will substantially increase Bayer's presence in China, one of the fastest growing OTC markets in the world.

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INTRODUCTION

We are pleased to present our annual review of Healthcare M&A activity in China, focusing on both financial and strategic buyers/investors acquiring China assets and Chinese corporations acquiring overseas targets.

The purpose of this report is to provide a summary of cross-border healthcare M&A and private placement activities in 2006, highlighting notable selected transactions 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 sectors:

BIOTECHNOLOGY & PHARMACEUTICALS

- Biotechnology
- Prescription Drugs
- OTC Drugs
- Nutraceutical Products
- Medical Chemicals

HEALTHCARE EQUIPMENT & SERVICES

- Distribution & Services
- Facilities
- Equipment / Devices
- Supplies
- Managed Healthcare

However, during 2006, there were no notable transactions in the Medical Chemicals, Facilities, and Managed Healthcare sectors.

BIOTECHNOLOGY & PHARMACEUTICALS

Biotechnology

In the Biotechnology sector, Teva Pharmaceutical, an Israel-based world leading generic pharmaceuticals manufacturer, increased its stake in Tianjin Hualida from 45% to 60%, for US\$8.8 million. Teva acquired its original 45% equity ownership in Hualida through its acquisition of Sicor in 2004.

Another biotechnology deal was BioVeda's US\$5.5 million Series B preferred stock financing for Shanghai Biolaxy Medical Science and Technology Co., Ltd., an emerging global leader in the oral delivery of protein/peptide drugs. BioVeda China was the lead investor in a syndicate that included CRCI and other international funds. BioVeda China is the first international venture capital firm dedicated to the Life Sciences industry in China focused on biotechnology, pharmaceuticals, biomaterials, biofuels, medical technology, hospital/healthcare service, environmental products and agriculture.

In September 2006, Simcere acquired 80% of Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd for US\$25 million and launched its new patented anti-cancer drug, Endu, the first recombinant human endostatin successfully commercialized in the world. This purchase was one of the biggest acquisitions in China's pharmaceutical industry targeting a single pharmaceutical product's intellectual property. The deal follows the purchase by Hony Capital, an investment consulting company wholly owned by Legend Holdings, of a 31% stake in Simcere for US\$26.9 million in October 2005. Simcere Pharmaceutical Group debuted on the New York Stock Exchange on April 20, 2007 making it the 22nd mainland company listed on the bourse. Endu is believed to be the main reason Simcere was able to achieve an overseas listing as fast as it did.

Selected Biotechnology Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 30, 2006	BioVeda China, China Renaissance Capital Investment ⁽¹⁾	Shanghai Biolaxy Medical Science and Technology Co. Ltd.	5.5	NA	NA	Nano Technology oral drug delivery company
December 21, 2006	Adaltis Inc. [TSX:ADS]	Huatai Biotech (Shanghai) Ltd.	NA	NA	NA	Local manufacturer of infectious disease diagnostic products
October 1, 2006	Walden International ⁽¹⁾	Shenyang Sunshine Pharmaceutical Co. Ltd.	NA	10.3	NA	Fully-integrated biotechnology company focused on R&D, manufacturing and marketing biopharmaceutical products
September 1, 2006	Simcere Pharmaceutical Group [NYSE:SCR]	Shandong Simcere Medgenn Bio-Pharmaceutical Co., Ltd	25.6	80.0	32.0	Developer of biological technology and biology products

Selected Biotechnology Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 31, 2006	AiDA Pharmaceuticals [OTCBB: AIDA]	Shanghai Qiaer Bio-Technology Co., Ltd.	0.5	45.0	1.1	Developer and manufacturer of gene therapy cancer drug in Phase I trials
March 30, 2006	Teva Pharmaceutical Industries Ltd. [NASDAQ: TEVA]	Tianjin Hualida Biotechnology Co., Ltd.	8.8	15.0	58.3	Developer and manufacturer of genetic recombinant medicines, highly purified proteins, anti-virus and anti-tumor chemicals and natural products

(1) Private Equity Investor(s)

Prescription Drugs

In the Prescription Drugs sector, China Biopharmaceuticals Holdings, a US-listed Chinese producer and marketer of molecule pharmaceutical products, acquired 51% and 100% of Chengdu Tianyin Pharmaceutical and RACP Pharmaceutical Holdings respectively. The two acquisitions are expected to strengthen China Biopharmaceutical Holdings' overall operating and financial performance (CY2005 net margin of 22% for Chengdu Tianyin and 46% for RACP's main operating company Shenyang Enshi). China Biopharmaceuticals Holdings closed two equity financing rounds in the first half of 2006 for a total of US\$7 million to finance these two acquisitions.

Since its founding in August 2004, China Biopharmaceuticals has been actively executing its strategy of growth via acquisition. Prior to these two transactions in 2005, it acquired a 90% stake in Nanjing Keyuan, China's leading pharmaceutical R&D company; a 76% stake in Suzhou Hengyi, a pharmaceutical raw materials producer and distributor in China; and a 51% stake in Suzhou Erye, a developer and manufacturer of mainly antibiotics products.

In addition, BioVeda invested US\$10 million into Ealong Biotech, one of the top integrated vaccine companies in China. Ealong Biotech's products include Rabies and Influenza vaccines.

Selected Prescription Drugs Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 30, 2006	BioVeda China	Ealong Biotechnological Sciences Co. Ltd.	10.0	NA	NA	Integrated vaccine company
May 31, 2006	China BioPharma Ltd. ⁽¹⁾	Zhejiang Tianyuan Biotech	3.5	65.0	6.0	Developer, producer and distributor of viral vaccines, particularly specialized in epidemic hemorrhagic fever and influenza diseases
May 19, 2006	KIWA Bio-Tech Products Group Corporation [OTCBB: KWBT.OB]	Beijing Huasheng Medicine Co.	1.5	60.0	2.5	Manufacturer of veterinary medicinal products
May 17, 2006	China Biopharmaceuticals Holdings, Inc. [OTCBB: CHBP]	RACP Pharmaceutical Holdings Ltd. ⁽²⁾	16.0	100.0	16.0	Manufacturer and distributor of pharmaceuticals in China
May 12, 2006	China Health Holding Inc. [OTCBB: CHHH]	Shanxi Meichen Pharmaceuticals Co. Ltd	NA	51.0	NA	Manufacturer of around 69 different categories of prescription drugs
January 6, 2006	China Biopharmaceuticals Holdings, Inc. [OTCBB: CHBP]	Chengdu Tianyin Pharmaceutical Ltd.	6.5 ⁽³⁾	51.0	12.7	Manufacturer and distributor of pharmaceutical products as well as Chinese traditional medicine products

(1) A wholly owned subsidiary of Techedge Inc [OTCBB: TEDG]

(2) Parent company of Shenyang Enshi Pharmaceutical

(3) Based on 3 million newly-issued shares of China Biopharmaceuticals, a US\$2 million post-acquisition investment and an earn-out payment of additional 300,000 shares

OTC Drugs

Bayer HealthCare has signed an agreement in China to acquire the Western over-the-counter (OTC) cough and cold portfolio of Topsun Science and Technology Qidong Gaitianli Pharmaceutical Co., Ltd. for US\$134 million plus contingent payments of US\$24 million subject to fulfillment of certain performance criteria. This acquisition will substantially increase Bayer Consumer Care's presence in China, one of the fastest growing OTC markets in the world. Topsun is involved in the research and development, manufacturing and distribution of pharmaceutical products in China, with a focus on cold and cough medicines, traditional and modern Chinese medicines, narcotics and psychotropic drugs.

In November, ML Global Private Equity Fund, L.P. and Merrill Lynch Ventures L.P. 2001 subscribed for an aggregate of 9,929,008 ordinary shares from Tongjitang Chinese Medicines Company for approximately US\$15.5 million in a pre-IPO round. The investors made substantial profit from Tongjitang's subsequent NYSE listing in March 2007.

Selected OTC Drugs Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 13, 2006	China Sky One Medical, Inc. [OTCBB:CSKI]	Heilongjiang Tianlong Pharmaceutical Co., Ltd.	0.38	100.0	0.38	Developer and marketer of external Chinese medicines
October 25, 2006	Bayer HealthCare [NYSE:BAY]	Topsun Science and Technology ⁽²⁾	134.0	NA	NA	Research, manufacture and sale of pharmaceutical products
November 8, 2006	ML Global Private Equity Fund L.P., Merrill Lynch Ventures L.P.	Tongjitang Chinese Medicines Company	15.5	9.9	156.6	Manufacturer and sale of western medicine and plantation of Chinese traditional medicine materials
June 29, 2006	Orchid Asia Group Management Co., Ltd. ⁽¹⁾	Wuyi International Pharmaceutical Company Limited	18.0	NA	NA	Vertically-integrated specialty pharmaceutical company
April 20, 2006	China Health Holding [OTCBB:CHHH]	Henan Tiankang Pharmaceutical Co., Ltd.	NA	51.0	NA	Manufacturer and distributor of eye drops, injections, syrup, etc.

(1) Private Equity Investor(s)

(2) A wholly owned subsidiary of Xi'an Topsun Group Co., Ltd. [SHSE: 600771]

Nutraceutical Products

In the Nutraceutical Drugs sector, CK Life announced its intention to acquire an 80% stake in US-based Vitaquest International for US\$166 million. The Vitaquest acquisition is expected to enhance CK Life's product offerings and formulations and to widen its global sales network in the rapidly growing nutraceutical market, which was worth US\$19 billion in the US alone in 2004. Similar to China Biopharmaceuticals, CK Life is pursuing a growth through acquisition strategy. In 2005, CK Life acquired Sante Naturelle in Canada and Envirogreen and Nuturf in Australia.

In other notable transaction, American Oriental Bioengineering, a US-listed Chinese producer of pharmaceutical and nutraceutical products, fully acquired Guangxi Lingfeng Pharmaceutical, a company with a portfolio of mainly gynecology products, for US\$25 million. Guangxi Lingfeng will extend American Oriental Bioengineering's product line into the gynecology area and strengthen its distribution in southern China. Prior to this transaction, American Oriental Bioengineering acquired Heilongjiang Songhuajiang, a pharmaceutical manufacturing company, in September 2004, and Heilongjiang Qitai, a pharmaceutical distribution company, in June 2005.

Selected Nutraceutical Products Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 30, 2006	London Asia Chinese Private Equity Fund Ltd.	China Biofoods	3.9	NA	NA	Producer of highly purified herb extract products of China
June 7, 2006	Sunwin International Nutraceuticals, Inc	Qufu Pharmaceuticals Factory	NA	98.5	NA	A wholly owned subsidiary of Shangdong Yulong Group Co., Ltd., manufactures and

Selected Nutraceutical Products Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
	[OTCBB: SUWN]					distributes Class I Chinese herb-based medicines in China
April 18, 2006	American Oriental Bioengineering [AMEX:AOB]	Guangxi Lingfeng Pharmaceutical Co., Ltd.	25.0	100.0	25.0	Botanical pharmaceuticals producer and distributor
February 22, 2006	Agronix Inc [OTCBB: AGNI.OB]	Harbin Yingxia Business Co.	NA	100.0	NA	Developer, manufacturer and distributor of nutritional health products in China and Asia
February 6, 2006	CK Life Sciences Int'l. (Holdings) Inc. [SEHK: 8222]	Vitaquest International Holdings LLC	166.0	80.0	207.5	Leading custom manufacturer and marketer of branded nutritional products in the US
January 18, 2006	London Asia Capital ⁽¹⁾ [AIM: LDC]	China Biotech Healthcare ⁽²⁾	1.1	51.0	2.2	Developer, producer and distributor of herbal derived bio-chromium supplement for long-term diabetes treatment

(1) Private Equity Investor(s)

(2) Parent company of Century Huanding (Tianjin) Biomedicine Technology Co. Ltd.

HEALTHCARE EQUIPMENT & SERVICES
Distribution & Services

In the Distribution & Services sector, Luxottica further consolidated its leading position in the Chinese luxury eyewear retailing market by acquiring Modern Sight Optics, a premium optical chain operator with a total of 28 stores in Shanghai. Last year, Luxottica acquired both Ming Long Optical and Xueliang Optical. As a result of the Modern Sight transaction, Luxottica now owns and operates up to 290 premium optical stores in China's major cities.

Beijing Med-Pharm Corporation completed a private placement of 3,333,306 shares of its common stock to a group of institutional and individual accredited investors, for gross proceeds of US\$15 million. The investors also received five-year warrants to purchase an aggregate of 666,611 shares of common stock, which have an exercise price equal to \$5.625 per share. Beijing Med-Pharm offers pre-market entry analysis, clinical trial management, product registration, market research, pharmaceutical distribution to hospitals, and pharmaceutical marketing.

Selected Healthcare Distributors & Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 20, 2006	Abacus Investments Ltd, Ashford Capital Management, Inc., Strata Capital Management	Beijing Med-Pharm Corp. [NASDAQ:BJGP]	15.0	NA	NA	China's leading pharmaceutical marketing and distribution company
December 18, 2006	BioVeda China	CITIC Pharmaceutical Group	NA	69.0	NA	Pharmaceutical product logistic and distribution company
June 26, 2006	Luxottica Group S.p.A. [NYSE: LUX]	Modern Sight Optics	17.5	100.0	17.5	Leading premium optical chain operator with a total of 28 stores in Shanghai, China
June 20, 2006	Zhejiang Tianyuan Biotech ⁽¹⁾	Hainan CITIC Bio-Pharmaceutical Development Co.	NA	90.0	NA	China's largest vaccine distributor with an extensive customer network in most major cities
May 30, 2006	AsiaPharm Group Ltd. [SGX: A61]	Yantai Luye Drugs Trading Co., Ltd. ⁽²⁾	0.2	20.0	1.0	Local distributor of OTC drugs

Selected Healthcare Distributors & Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 16, 2006	AXM Pharma Inc. [AMEX:AXJ]	Liaoning Ming Cheng Medical & Pharmaceutical Co., Ltd.	NA	51.0	NA	China's leading pharmaceutical distributor
May 1, 2006	China HealthCare Holdings [HKSE: 673]	Shanghai Harvest Network Technology Co., Ltd.	4.7	70.0	6.7	Local B-to-C healthcare e-commerce services provider
March 9, 2006	PharmEng International Inc. [CDNX: PII]	Beijing BRD Lixin PharmaTech	NA	NA	NA	Provider of GMP consultation to pharmaceutical and veterinary medicine manufacturers

(1) Non-directly owned subsidiary of Techedge Inc [OTCBB: TEDG]

(2) Non-wholly owned subsidiary of AsiaPharm Group

Equipment / Devices

MIV Therapeutics, a leading developer of next-generation biocompatible coatings and advanced drug delivery systems for cardiovascular stents and other implantable medical devices, has entered into a formal agreement to acquire Vascore Medical (Suzhou) Co., Ltd., a China-based manufacturer of advanced cardiovascular stents and other medical devices. The proposed Vascore acquisition represents a key strategic achievement for MIVT that is designed to significantly accelerate the company's commercialization of better, safer products for the multibillion-dollar vascular stent market.

Selected Healthcare Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 29, 2006	CMIA Capital Partners	Chongqing Haifu Technology Co., Ltd.	NA	20.0	NA	Developer and marketer of medical devices mainly therapeutic ultrasound systems
September 13, 2006	MIV Therapeutics [OTCBB: MIVT]	Vascore Medical (Suzhou) Co., Ltd.	3.2	100.0	3.2	Manufacturer of advanced cardiovascular stents and other medical devices

Supplies

In the Supplies sector, SSL announced its intention to acquire the remaining 50% of Qingdao London Durex, its JV with Qingdao Double Butterfly, for a total consideration of US\$37.5 million. The acquisition allows SSL greater exposure to the fast developing Chinese market, where the company foresees growing demand for quality branded prophylactic products such as Durex condoms due to lifestyle changes and the rising levels of disposable income.

Selected Healthcare Supplies Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 19, 2006	SSL International [LSE: SSL]	Qingdao London Durex Co., Ltd.	37.5	50.0	75.0	JV with Qingdao Double Butterfly Group Co., Ltd., manufactures Durex condoms for the Chinese market
March 6, 2006	China Health Holding [OTCBB: CHHH]	Shanxi Wanan Pharmaceutical (Shanxi)	NA	51.0	NA	Developer, provider and distributor of gynecological anti-inflammation pads

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