

## Consumer Sector

2nd Quarter 2006

## China Consumer M&A Quarterly

### Highlights

- Monitor Group, Opportune Investment, Citigroup and HSBC took a stake in Beijing Hualian Department Store for US\$1.4 billion

Beijing Hualian Department Store is the largest department store chain in China. After the placement, Hualian is heading for an IPO in Hong Kong to raise capital for opening 100 more new shops in the next five years.

- Goldman Sachs and CDH won the bid for Shuanghui Group for US\$250 million and Luohe Haiyu Investment Co., Ltd. for US\$70 million

Shuanghui Group has a 35.7% stake in China's largest meat-processing company, Shuanghui Development, which is a public company listed on Shenzhen Stock Exchange. Luohe Haiyu has a 25% in Shuanghui Development. As a result of winning the bid, the investors indirectly will own 60% of Shuanghui Development for US\$320 million.

- Groupe Danone, Warburg Pincus, the Netherlands Development Finance Company (FMO) and Value Partners bought a combined 35% stake in China Huiyuan Juice Holdings Co Ltd, for US\$200 million

Shuanghui China Huiyuan Juice Holdings Co Ltd, a subsidiary of Huiyuan Group, is the largest juice manufacturer in China.

- Best Buy, the largest consumer electronics seller in the United States, acquired a majority stake in Jiangsu Five Star Appliance Co. for US\$180 million

Five Star is the fourth largest appliance and consumer electronics retailer in China.

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## INTRODUCTION

We are pleased to present our quarterly review of cross-border Consumer 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 consumer M&A and private placement activities in the second quarter of 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) Consumer Manufacturing and (ii) Consumer Services, with specific focus on the following eight major consumer sectors:

### CONSUMER MANUFACTURING

- Food & Beverage
- Consumer Appliances & Household Products
- Textiles & Apparel
- Leisure Equipment & Products

### CONSUMER SERVICES

- Retailing
- Travel & Leisure
- Entertainment
- Education

However, during the second quarter of 2006, there were no notable transactions in the Leisure Equipment & Products, Entertainment and Education sectors

## CONSUMER MANUFACTURING

### Food & Beverage

Compared to the first quarter, M&A activity in the Food & Beverage Sector has picked up. Of note were two transactions completed by Rotary Vortex, a Joint Venture between Goldman Sachs and CDH. In mid May, it won the bid for a 100% stake in the Henan Shuanghui Group, the largest meat-processing company in China. At the same time, Rotary Vortex acquired Luohe Haiyu Investment Co., the second largest shareholder of Shuanghui Development for US\$70 million. Through the two deals, Rotary Vortex indirectly acquired a majority stake of 60% in Shuanghui Development. In 2005, Shuanghui Development recorded a revenue of US\$1,680 million and a net profit of US\$46 million. Goldman and CDH already hold a 13% stake in China Yurun Food Group, the country's second largest meat and poultry processor.

Danone further consolidated its businesses after selling its Amoy sauce business to Japanese Ajinomoto in January. With Warburg Pincus, FMO and Value Partners, Danone jointly acquired a 35% stake in China Huiyuan Juice Holdings, a subsidiary of the largest juice manufacturer in China, Huiyuan Group. Danone will own a 22% stake in China Huiyuan after the deal. With revenue of US\$563 million in 2005, Huiyuan Group has about 17% share of the domestic juice market.

Earlier in April, Danone Asia further acquired an 8.5% stake in Shanghai Bright Dairy & Food Co for US\$44 million, to increase its share in the company to 20%.

In this quarter, Suntory acquired Foster's Shanghai brewery and its local brands and became the biggest brewer in Shanghai, with 60% market share. In addition to the acquisition of Shanghai Donghai Brewery in 2005, this Foster transaction increased Suntory's total capacity in China to 800,000 kilolitres per annum compared to 770,000 kiloliters per annum of Asahi.

### Selected Food & Beverage 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 <sup>(1)</sup>	China Biofoods	3.9	NA	NA	Producer of highly purified herb extract products in China
June 30, 2006	Groupe Danone, Warburg Pincus, the Netherlands Development Finance Company (FMO) and Value Partners	China Huiyuan Juice Holdings Co., Ltd.	200.0	35.0	571.0	Largest juice manufacturer in China
June 15, 2006	Suntory Ltd.	Foster's Group's Shanghai brewing business and local China beer brands	NA	100.0	NA	Beer brewery in China

**Selected Food & Beverage Transactions**

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 12, 2006	Agrana Beteiligungs AG [WBAG: AGR]	Xianyang Andre Juice Co., Ltd.	NA	50.0	NA	Manufacturer of apple juice concentrates
May 10, 2006	Rotary Vortex <sup>(2)</sup>	Henan Shuanghui Group [OTCPK: HSUI.F]	250.0	100.0	250.0	35% shares in China's largest meat processing company Shuanghui Development
May 8, 2006	Rotary Vortex <sup>(2)</sup>	Luohe Haiyu Investment Co., Ltd.	70.0	100.0	70.0	25% shares in China's largest meat processing company Shuanghui Development
April 13, 2006	Groupe Danone [ENXTPA: BN]	Shanghai Bright Dairy And Food [SHSE: 600597]	44.8	8.5	529.1	China's leading dairy producer and distributor
April 5, 2006	Archer-Daniels-Midland [NYSE: ADM]	Chuan Liang Yi Hai	NA	100.0	NA	Vegetable oil processor and distributor

(1) Private Equity Investor(s)

(2) A Hong Kong JV between Goldman Sachs and CDH Investment

**Consumer Appliances & Household Products**

There were two notable transactions in the Consumer Appliances and Household Products Sector in this quarter. TCL Corp. bought the computer and online education non-core business from its Hong Kong listed subsidiary TCL Multimedia Technology. TCL Multimedia Technology will continue to operate its non-TV set and non-Audio business after this transaction. Roca, a Spanish ceramics and pottery manufacturer, acquired the sanitary-ware division of Eagle. Assets acquired included the rights to the Eagle sanitary-ware brand, Ying, and its production facilities in southern China. Eagle was listed in Singapore and has been looking for buyers since 2001.

In addition, Daiwa SMBC acquired a 3.7% stake through a private placement of US\$25 million in the JV between SVA and NEC. SVA NEC is a Chinese LCD manufacturer that recently increased production capacity from 52,000 to 85,000 LCDs per month.

**Selected Consumer Appliances & Household Transactions**

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 26, 2006	TCL Corp. [SZSE: 000100]	TCL Multimedia Technology Holdings Ltd. <sup>(1)</sup> [HKSE: 1070]	49.0	NA	NA	China's leading multimedia consumer electronics manufacturer with a global sales network
June 12, 2006	Roca Corporation Empresarial, S.A.	Eagle Brand Holdings Ltd. <sup>(2)</sup> [SGX: E04]	38.7	NA	NA	Manufacturer and distributor of ceramic tiles and ceramic sanitary-wares primarily in PRC
June 6, 2006	Daiwa Securities SMBC	SVA NEC	25.0	3.6	694.0	Manufacturer of LCD and other consumer electronics
April 21, 2006	China Feiyue Sewing Machinery Group Corp	Mifra	NA	50.0	NA	Manufacturer of electronic flat knitting machine in Italy
April 17, 2006	Golder Electronics <sup>(3)</sup>	Star Plus Ltd. (Hong Kong)	5.0	100.0	5.0	Manufacturer of consumer electronics and household appliances

(1) TCL Corp. will fully acquire TCL Multimedia's wholly-owned subsidiaries Computer Technology and Education Web, and a 65% share in Industrial Institute, a JV between the two sides

(2) Sanitary-ware division

(3) Russia-based member company of Vitek

## Textiles & Apparel

There were two notable transactions in the Textile & Apparel industry.

Selected Textiles & Apparel Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 9, 2006	PD Enterprise Ltd. <sup>(1)</sup>	Sara Lee Courtaulds	NA	100.0	NA	UK-based subsidiary of Sara Lee Corp. (NYSE: SLE), supplier of branded and private label clothing to retailers in the United Kingdom and internationally
May 3, 2006	Ever-Glory International Group [OTCBB: EGLY]	Nanjing Catch-Luck Garment Co., Ltd.	NA	NA	NA	Designer, manufacturer and distributor of casual / sports / outer wear for middle to high brands and retailers

(1) A Hong Kong company

## CONSUMER SERVICES

### Retailing

During the quarter, consolidation continued in the Retailing Sector, with private equity firms and foreign operators taking significant stakes in Mainland retailers.

Parkson Investment Holding acquired 44% of Beijing Parkson for US\$65 million from Beijing China Arts Group and its affiliates making Beijing Parkson a wholly-owned foreign enterprise, 13 years after entering China. Beijing Parkson saw 40% sales growth in 2005, posting revenues of US\$184 million and US\$16 million in net profit. Parkson Investment plans to invest a further US\$124 million over the next 4 years as part of an expansion program to add 50-60 more stores across China.

Monitor Group, Opportune Investment Group, Citigroup and HSBC together invested US\$1.44 billion in China's leading supermarket operator, Hualian Group. Hualian has 55 subsidiaries throughout the country, including seven publicly listed companies, and generated consolidated sales of US\$5 billion in 2005.

Best Buy Co., the largest U.S. electronics retailer, acquired a majority stake in Jiangsu Five Star Appliance Co. for US\$180 million. With 136 stores, Five Star is the fourth-largest appliance and consumer electronics retailer in China. Its sales in 2005 was US\$700 million, a 50% rise over the preceding year. Best Buy began its international expansion in 2001, starting from Canada, but this investment marks the company's first step outside North America.

In addition, Paradise Shanghai, which is based in Shanghai and operates one of the largest home appliance chain stores in Shanghai, will acquire 78% of Beijing Dazhong, another strong local operator in the same field. Paradise will make an initial payment of US\$19 million to secure the transaction but further terms of the transaction were not disclosed. The two parties will keep their exiting brands and cooperate in procurement, logistics and delivery, as well as in management, financial and HR functions. They also intend to establish a new joint venture to explore the inland home appliance retail market.

Selected Retailing Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 26, 2006	Parkson Investment Holdings Co., Ltd. <sup>(1)</sup>	Beijing Parkson	65.6	44.0	149.2	Sino-Foreign JV super mall operator
May 16, 2006	Citigroup Inc. [NYSE:C], HSBC Holdings plc [LSE: HSBA], Monitor Group, Opportune Investment Group <sup>(2)</sup>	Beijing Hualian Department Store Co., Ltd.	1,436.8	NA	NA	China's leading supermarket operator

**Selected Retailing Transactions**

<b>Announcement Date</b>	<b>Lead Investor(s) / Buyer</b>	<b>Target</b>	<b>Transaction Value (US\$ mm)</b>	<b>%</b>	<b>Implied Valuation (US\$ mm)</b>	<b>Description of Target</b>
May 12, 2006	Best Buy Co. Inc. [NYSE: BBY]	Jiangsu Five Star Appliance Co., Ltd.	180.0	51.0	353.0	China's fourth-largest household appliances retailer with 136 outlets across 8 provinces mainly in central China
April 19, 2006	Paradise Shanghai <sup>(3)</sup>	Beijing Dazhong	NA	78.0	NA	China's leading specialty retailer of household appliances and consumer electronics products

(1) A wholly owned subsidiary of Parkson Retail Group Ltd.  
 (2) Private Equity Investor(s)  
 (3) An indirect non-wholly owned subsidiary of the China Paradise Electronics Retail Ltd.

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