

## Consumer Sector

3rd Quarter 2006

### China Consumer M&A Quarterly

#### Highlights

- Danone, Netherlands Development Finance, Warburg Pincus and Value Partners acquired a 35% stake in Hui Yuan Beverage & Food Group through a US\$200 million private placement.
  - Hui Yuan Group has over 20 production sites and a number of fruit planting bases around the country. Its sales reached US\$563 million last year and it controls approximately half of the domestic fruit juice market.
- Gome acquired 100% of China Paradise for US\$677 million.
  - Gome is consolidating its leading position in China's electronics retailing industry by acquiring China Paradise, the nation's third-largest retailer.
- Wumart Stores makes acquisitions totaling US\$185 million.
  - Wumart purchased 75% of Mei Lian Mei Supermarket, which has 23 stores in Beijing, for US\$34.9 million.
  - Wumart also entered into a definitive agreement to acquire a 50% stake in Jiangsu-based Times Supermarket Limited for approximately \$150 million.

#### Beijing

Suite 11J, Oriental Kenzo Plaza  
48 Dongzhimen Wai Avenue  
Beijing 100027, China  
+86 (10) 8447 7398

#### Hong Kong

Suite 3518, Jardine House  
One Connaught Place  
Central, Hong Kong  
+852 2973 5311

#### San Francisco

Suite 3330, 50 California Street  
San Francisco, CA 94111, USA  
+1 (415) 692 0088

#### Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China  
+86 (21) 6288 6555

info@latitudecapital.com  
www.latitudecapital.com

## INTRODUCTION

We are pleased to present our quarterly review of cross-border China M&A activity in Consumer-related industries, 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 China cross-border Consumer-related M&A and private placement activities in the third 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 sectors:

### CONSUMER MANUFACTURING

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

### CONSUMER SERVICES

- Retailing
- Travel & Leisure
- Entertainment
- Education

During the third quarter of 2006, there were no notable transactions in the Leisure Equipment & Products, Travel & Leisure and Entertainment sectors.

## CONSUMER MANUFACTURING

### Food & Beverage

M&A activity in the Food & Beverage Sector followed a strong second quarter with a significant number of announced deals. Of note were two transactions completed by China Resources Snow Breweries (CRSB). In July, the company won a bid for 100% of Zhejiang Yinyan Brewery. Situated in the Haiyan County in Zhejiang Province on the east coast of China, the Yinyan Brewery is well positioned to further extend CRSB's footprint in Zhejiang, an area that is close to a number of major cities including Shanghai, Hangzhou, Suzhou and Ningbo. On the same day, CRSB acquired Anhui Huaibei Xiangwang Brewery.

During the quarter, a consortium comprising Danone, Netherlands Development Finance, Warburg Pincus and Value Partners acquired a 35% stake in Hui Yuan Beverage & Food Group through a private placement of US\$200 million. Established in 1992, Beijing Hui Yuan Beverage & Food Group has over 20 production sites and a number of fruit planting bases around the country. Its sales reached US\$563 million last year and it controls approximately half of the domestic fruit juice market. Hui Yuan is reportedly preparing for a public listing, which underscores its interest in securing strategic investment at this point in time.

Little Sheep Food & Beverage Chain Co. Ltd. raised US\$25 million in funding from 3i and Prax Capital in July. The Inner Mongolia-headquartered restaurant chain operates 700 outlets across China offering high quality Mongolian hotpot cuisine.

In August, Coca-Cola announced it would acquire Kerry Beverages Ltd, a Hong Kong joint venture between Coca-Cola and Kerry Group. Kerry Group has said that it wants to focus on its core businesses of hotel management, property development and logistics, while Coca-Cola is keen to grow its sales inside China.

### Selected Food & Beverage Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jul 03, 2006	Danone, Netherlands Development Finance, Warburg Pincus, Value Partners	Beijing Hui Yuan Beverage & Food Group	200.0	35	571.4	China's biggest producer of fruit juices and fruit nectars
Jul 05, 2006	3i, Prax Capital <sup>(1)</sup>	Little Sheep	25.0	NA	NA	China's largest restaurant chain with more than 700 outlets across the country
Jul 11, 2006	Del Monte Pacific Ltd	Abpak Co. Ltd.	1.3	11.0	11.8	Owns 100% of China's Great Lakes Fresh Foods and Juice Co
Jul 24, 2006	China Resources Snow Breweries	Zhejiang Yinyan Brewery	42.3	100.0	42.3	Local brewery in Zhejiang
Jul 24, 2006	China Resources Snow Breweries	Anhui Huaibei Xiangwang Brewery	10.1	NA	NA	Local brewery in Anhui

### Selected Food & Beverage Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Aug 29, 2006	Coca-Cola [NYSE:KO]	Kerry Beverages Ltd. <sup>(2)</sup>	NA	NA	NA	Beverage bottler based in China
Sep 11, 2006	InBev SA [ENXTBR:INB]	Yanjing Brewery [SZSE:000729]	NA	20.0	NA	China's second largest beer brewery
Sep 12, 2006	Swire Pacific	Xiamen Luquan	52.4	100.0	52.4	A substantial shareholder of SCCX, a leading bottler in Fujian Province, China

(1) Private Equity Investors

(2) A Hong Kong JV between Coca-Cola and Kerry Group

### Consumer Appliances & Household Products

During the quarter, Candy Group announced the acquisition of 75% of Jinling Electrical Co. Ltd. Candy Group initially invested €31 million (approx. US\$39.4 million) and will continue to invest €10 million (approx. US\$12.7 million) a year for the next several years. After the transaction, the group will manufacture washing machines in Jinling's factory and produce both Jingling and Candy Group branded washing machines in China.

Gome acquired a 51% stake in Idall Technology. Gome noted that the acquisition will help Idall create an international home appliance brand while helping Gome establish its first major production base in southern China's Shantou area.

SEB SA, a wholly-owned unit of SEB International SAS, took a 45.1% stake in Zhejiang Supor Cookware Co., for \$147.2 million.

### Selected Consumer Appliances & Household Products Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jul 05, 2006	Candy Group	Jinling Electrical Co. Ltd.	NA	75.0	NA	Washing machine manufacturer in China
Jul 09, 2006	GOME [HKSE:493]	Idall Technology	NA	51.0	NA	Manufacturer of audio and video equipment
Jul 10, 2006	Li & Fung Ltd. [HKSE: 494]	Rosetti Handbag Division and Franco Sarto Division of Rosetti Handbags and Accessories Ltd.	162.0	NA	NA	Two divisions within Franco Sarto Division of Rosetti Handbags and Accessories Ltd.
Aug 16, 2006	SEB SA [ENXTPA:SK]	Zhejiang Supor Cookware Co., Ltd.	147.2	45.1	326.2	China's leading manufacturer and marketer of cookware
Aug 23, 2006	Pack Craft Co. Ltd	Qingdao Dae Joo Leports <sup>(1)</sup>	2.5	100.0	2.5	Manufacturer specializing in the provision of backpacks

(1) A JV of Daejoo Leports Co.

### Textiles & Apparel

There were two notable, albeit relatively small, 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
Jul 21, 2006	Texhong Textile Group Ltd. (SEHK:2678)	Yizheng Chemical Fiber Changzhou Daming Company	12.4	100.0	12.4	Manufacturer of yarn, garment, and bedroom products; subsidiary of Texhong Textile Group, Ltd.
Aug 09, 2006	China Resources Jinhua Co. (SZSE:000810)	YanTai China Resources Spinning Company Co., Ltd.	1.6	15.0	10.7	Textile manufacturing subsidiary of China Resources Jinhua Co.

## CONSUMER SERVICES

### Retailing

During the quarter, consolidation continued in the Retailing Sector. In addition to acquiring Idall Technology, Gome acquired 100% of China Paradise for US\$677 million. Gome will pay 0.3247 new Gome shares and HK\$0.1736 in cash for each China Paradise share. Gome leads the Chinese electronics retailing sector with a 9% market share (pre-acquisition), followed by Suning with 7.1% and China Paradise with 2.7%, according to the China Chain Store and Franchise Association. The deal will allow Gome to consolidate its market leadership position and expand its presence in the affluent Shanghai area.

The other two notable transactions were made by Wumart Stores. Wumart entered into a definitive agreement to acquire a 50% stake in Times Supermarket Limited from Fang Brothers Investments Limited for approximately US\$150 million. Half of the consideration will be paid on the closing date, while the remainder will be paid over time. Upon the completion of the deal, Wumart and Fang Brothers will each own 50% in Times Supermarket and Times Supermarket's name will be changed to Wumart Times Supermarket Limited. Wumart also purchased 75% of the outstanding shares of Mei Lian Mei Supermarket. Founded in 1994, Mei Lian Mei has 23 stores in China's capital city. Its net profit soared 144 percent to 33.5 million yuan (US\$4.2 million) in 2005.

#### Selected Retailing Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 06, 2006	Castlereagh Ltd.	Tommy Hilfiger Asia-Pacific Ltd	51.0	100.0	51.0	Lifestyle apparel and accessories in Hong Kong, Taiwan, China, Singapore, and Malaysia.
July 25, 2006	Gome [HKSE: 493]	China Paradise [HKSE: 503]	677.0	100.0	677.0	China's leading electric appliance retailing company
Aug 03, 2006	China 3C Group [OTCBB:CHCG]	Hangzhou Sanhe Electric Technology Ltd.	8.8	100.0	8.8	Leading 3C retail chain operator in eastern China in central China
Aug 21, 2006	Wumart Stores [SEHK:8277]	Mei Lian Mei Supermarket	34.9	75.0	46.6	Supermarket operator in China
Sep 08, 2006	Wumart Stores [HKSE: 8277]	Jiangsu Times	150.0	50.0	300.0	Leading supermarket chain operator in Jiangsu Province
Sep 28, 2006	Office Depot [NYSE:ODP]	AsiaEC	NA	NA	NA	China's leading dealer of office products and services

### Education

There was only one notable transaction in the Education sector. SAIF invested in Beijing Global IELTS School, which is focused on the English training and vocational education markets in China. The group has developed into a chain educational institution with subsidiaries across the country. The group engages in training, "going-abroad" counseling, online global English learning, and a publishing business in 43 cities in China.

#### Selected Education Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Sep 06, 2006	SAIF	Global IELTS School	NA	NA	NA	English training school

\*\*\*\*\*

The information and statistical data herein has been obtained from sources we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to any change of our views. This is not a solicitation or any offer to buy or sell. Latitude Capital Group ("Latitude") has produced this report for private circulation only. All information and advice is given in good faith but without any warranty. Latitude, our affiliates or companies or individuals connected with Latitude, may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell, or may be materially interested in any of the securities mentioned or related securities.

## Beijing

Suite 11J Oriental Kenzo Plaza  
48 Dongzhimen Wai Avenue  
Beijing 100027, China

Tel +86 (10) 8447 7398  
Fax +86 (10) 8447 7396

## Hong Kong

Suite 3518 Jardine House  
One Connaught Place  
Central, Hong Kong

Tel +852 2973 5311  
Fax +852 2295 3979

## San Francisco

Suite 3330, 50 California Street  
San Francisco, CA 94111  
USA

Tel +1 (415) 692 0088  
Fax +1 (415) 366 1408

## Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China

Tel +86 (21) 6288 6555  
Fax +86 (21) 6288 6585

[info@latitudecapital.com](mailto:info@latitudecapital.com)

[www.latitudecapital.com](http://www.latitudecapital.com)

 **LATITUDE**  
CAPITAL GROUP