

# Consumer Sector

4th Quarter 2006

## China Consumer M&A Quarterly

### Highlights

- **Tesco PLC increases stake in China Joint Venture – Ting Cao**

Tesco PLC announced to pay US\$358.9 million to increase its stake in Ting Cao, a joint venture with Ting Hsin. The deal increases Tesco's stake from 50% to 90%. Ting Cao wholly owns the Hymall chain, which operates 44 hypermarkets across China.

- **Goldman Sachs invests in Guangdong Midea Electric Appliance**

Goldman Sachs agreed to pay US\$89.6 million for 10.7% share and become a strategic investor of Guangdong Midea Electric Appliance.

- **Starbucks Corporation acquires controlling ownership of Beijing Mei Da Coffee Co. Ltd.**

Starbucks acquired 90% controlling stake of Beijing Mei Da Coffee from H&Q Asia Pacific, an Asia focused private equity firm. Beijing Mei Da operates more than 60 Starbucks shops across Beijing and Tianjin.

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## 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 fourth 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 fourth quarter of 2006, there were no notable transactions in the Leisure Equipment & Products, Textiles & Apparel and Entertainment sectors.

## CONSUMER MANUFACTURING

### Food & Beverage

Goldman Sachs, Morgan Stanley and Actis Capital LLP purchased preferred shares of Hunan Taizinai Group, which is a leading maker of milk-based health drinks in China. Established in 1996, Hunan Taizinai produces milk-based health drinks with Lactobacillus-Casei, a type of bacteria commonly found in human intestinal tract that aids digestion. The company plans to use the funding to build plants in Kunshan and Chengdu in order to further increase its China market share.

Noble Group acquired a soybean crushing facility and a soybean and palm oil refining facility from two individual Singaporean companies. The combined acquisition is valued at approximately US\$18 million dollars and these facilities will further strengthen Noble Group's supply chain.

Starbucks acquired a 90% controlling stake of Beijing Mei Da Coffee from H&Q Asia Pacific, an Asia focused private equity firm. This latest acquisition allows Starbucks to achieve greater operational efficiencies and accelerate their expansion into China.

### Selected Food & Beverage Transactions

| Announcement Date | Lead Investor(s) / Buyer                         | Target                         | Transaction Value (US\$ mm) | %     | Implied Valuation (US\$ mm) | Description of Target  |
|-------------------|--|--------------------------------|-----------------------------|-------|-----------------------------|--|
| Oct 16, 2006      | Noble Group (SGX: NOBL)                          | Great Wall Investments Pte Ltd | N/A <sup>(1)</sup>          | 100.0 | N/A                         | Soybean processing facility in Fuling, Chongqing municipality          |
| Oct 16, 2006      | Noble Group (SGX: NOBL)                          | Sino Agri-Trade Pte Ltd        | N/A <sup>(1)</sup>          | 100.0 | N/A                         | Soybean processing facility in Longkou, Shangdong province             |
| Oct 24, 2006      | Starbucks Corporation                            | Bei Mei Da Coffee Co. Ltd      | N/A                         | 90.0  | N/A                         | Licensed operator of 60 Starbucks retail stores in Beijing and Tianjin |
| Dec 05, 2006      | Actis Capital LLP, Goldman Sachs, Morgan Stanley | Hunan Taizinai Group           | 73.0                        | 30.0  | 243.3                       | China's leading Lactobacillus milky beverage producer and marketer     |

(1) The combined value of the two transactions is US\$18 million.

## Consumer Appliances & Household Products

During the fourth quarter, Darby Overseas Investment, the private equity arm of Franklin Templeton Investments, invested US\$20 million in Shayne International Holdings Ltd. Shayne International is a manufacturer and exporter of high-end upholstered furniture and leather apparel. Most of its products are sold in the US with clients ranging from well-known boutiques to department stores. The raised capital will be used to fund new production facilities and new sales and marketing initiatives.

Goldman Sachs agreed to pay US\$89.6 million for 10.7% share and become a strategic investor of Guangdong Midea Electric Appliance. Midea Group is the largest shareholder with 46.4% and Goldman Sachs will become the second largest shareholder.

Home Depot Inc, one of America's biggest home hardware retail chains acquired Home Way, China's first home improvement related retail store. Founded in 1996, Home Way was originally modeled after Home Depot's business plan. Now it operates 12 retail stores in 6 cities across China. With this acquisition, Home Depot is expecting to gain access to local knowledge and experience of Home Way executives and to expand into China.

### Selected Consumer Appliances & Household Products Transactions

| Announcement Date | Lead Investor(s) / Buyer       | Target  | Transaction Value (US\$ mm) | %     | Implied Valuation (US\$ mm) | Description of Target   |
|-------------------|--------------------------------|---|-----------------------------|-------|-----------------------------|---|
| Nov 21, 2006      | Franklin Templeton Investments | Shayne International Holdings Ltd.                          | 20.0                        | NA    | NA                          | Manufacturer and exporter of high-end upholstered furniture and leather apparel |
| Nov 25, 2006      | Goldman Sachs                  | Guangdong Midea Electric Appliance Co., Ltd. (SZSE: 000527) | 89.6                        | 10.7  | 837.3                       | One of China's leading consumer electric appliance developer and marketer       |
| Dec 13, 2006      | Home Depot Inc. (NYSE: HD)     | Home Way  | NA                          | 100.0 | NA                          | China's first home improvement retail store operator                            |

## CONSUMER SERVICES

### Retailing

Consolidation continued in the fourth quarter for the Retailing Sector. Tesco PLC, UK's largest supermarket operator by market share, increased its stake in Ting Cao from 50% to 90%. Ting Cao is a joint venture between Ting Hsin and Tesco, and it wholly owns the Hymall chain. Hymall is a chain of 44 hypermarkets located across China.

Blue Ridge Capital, a private equity fund that focuses on investments in Chinese enterprises, announced that it could invest US\$50 million in ITAT. Blue Ridge is expecting to list ITAT in the foreseeable future.

Convenience Retail Asia, the operator of Circle K convenience store, announced plans to purchase all of the outstanding shares of Saint Honore Holdings. The deal is valued at approximately US\$80.6 million. Saint Honore is an existing dough and baked products supplier to Circle K. Both companies are expecting to improve on operational efficiencies through this merger.

### Selected Retailing Transactions

| Announcement Date | Lead Investor(s) / Buyer | Target                                       | Transaction Value (US\$ mm) | %     | Implied Valuation (US\$ mm) | Description of Target  |
|-------------------|--------------------------|--|-----------------------------|-------|-----------------------------|--|
| Nov 14, 2006      | China 3C Group           | Shanghai Joy & Harmony Electronics Co., Ltd. | N/A                         | 100.0 | N/A                         | Consumer electronics retail chain operator that focuses on the Eastern China marketplace |
| Nov 20, 2006      | Convenience Retail Asia  | Saint Honore Holdings                        | 80.6                        | 100.0 | 80.6                        | Bakery company with 85 outlets in Hong Kong, Macau and the mainland China                |
| Nov 20, 2006      | Blue Ridge Capital       | ITAT   | 50.0                        | NA    | NA                          | A global branded apparel retailer with more than 100 clothing brands                     |

**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>   |
|--------------------------|---------------------------------|---------------|------------------------------------|----------|------------------------------------|--|
| Dec 12, 2006             | Tesco PLC                       | Ting Cao      | 353.9                              | 40.0     | 884.7                              | China's local supermarket operator which is located mainly in the coastal zone |

**Travel and Leisure**

There was only one notable transaction for the Travel & Leisure Sector. JAFCO Ventures and Investor Growth Capital jointly invested in GolferPASS, a golf club operator based in Beijing. GolfPASS works in co-operation with a variety of golf courses in China to offer a one stop approach for golf club membership. GolfPASS offers its members, access to a network of golf clubs located across China without any golf club memberships. The details of the deal were not disclosed.

**Selected Travel and Leisure 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>         |
|--------------------------|---|---------------|------------------------------------|----------|------------------------------------|--------------------------------------|
| Dec 06, 2006             | JAFCO Ventures, Investor Growth Capital | GolferPASS    | NA                                 | NA       | NA                                 | Local golf club operator in Beijing. |

**Education**

Doll Capital Management and DT Capital invested US\$10 million in Oriental Standard, the largest information technology services training company in China with approximately US\$3.9 million revenue and a gross margin of 10% for 2005. It has 19 subsidiaries in China and a branch office in Japan.

**Selected Education 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>  |
|--------------------------|---------------------------------|-------------------|------------------------------------|----------|------------------------------------|---|
| Nov 28, 2006             | DCM, DT Capital                 | Oriental Standard | 10.0                               | N/A      | N/A                                | An IT services training company that provides staffing and project outsourcing services in both China and Japan |

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