

Healthcare Sector

1st Half 2006

China Healthcare M&A Update

Highlights

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

VitaQuest, a leading national products company in the US, 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 to acquire 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 to acquire 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

Beijing

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

Hong Kong

Suite 3518, Jardine House
One Connaught Place
Central, Hong Kong

San Francisco

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

Shanghai

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

info@latitudecapital.com

www.latitudecapital.com

INTRODUCTION

We are pleased to present our semi-annual review of cross-border 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 the first half 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) 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

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

However, during the first half of 2006, there were no notable transactions in the Medical Chemicals, Healthcare Facilities, Healthcare Equipment, 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 originally acquired its 45% equity ownership in Hualida through the Sicor acquisition in 2004.

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. [NADAQ: TEVA]	Tianjin Hualida Biotechnology Co., Ltd.	8.8 ⁽¹⁾	15.0	58.3	Developer and manufacturer of genetic recombinant medicines, highly purified proteins, anti-virus and anti-tumor chemicals and natural products

(1) Based on media report

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.

Selected Prescription Drugs Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 31, 2006	China BioPharma Ltd. ⁽¹⁾	Zhejiang Tianyuan Biotech	NA	65.0	NA	Develops, produces and distributes 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	Manufactures veterinary medicinal products
May 17, 2006	China Biopharmaceuticals Holdings, Inc. [OTCBB: CHBP]	RACP Pharmaceutical Holdings Ltd. ⁽²⁾	16.0	100.0	16.0	Manufactures and distributes pharmaceuticals in China
May 12, 2006	China Health Holding Inc. [OTCBB: CHHH]	Shanxi Meichen Pharmaceuticals Co. Ltd	NA	51.0	NA	Manufactures around 69 different categories of prescription drugs
January 6, 2006	China Biopharmaceuticals Holdings, Inc. [OTCBB: CHBP]	Chengdu Tianyin Pharmaceutical Ltd.	NA ⁽³⁾	51.0	NA	Manufactures and distributes 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) 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

In the OTC Drugs sector, China Health Holding acquired 51% of Henan Tiankang Pharmaceutical.

Selected OTC Drugs Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
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.

Nutraceutical Products

In the Nutraceutical Drugs sector, CK Life announced its intention to acquire an 80% stake in 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 another company pursuing a growth through acquisition strategy. In 2005, CK Life acquired Sante Naturelle in Canada and Envirogreen and Nuturf in Australia.

The other notable transaction is that 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 is expected to 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 7, 2006	Sunwin International Nutraceuticals, Inc [OTCBB: SUWN]	Qufu Pharmaceuticals Factory	NA	98.5	NA	A wholly owned subsidiary of Shangdong Yulong Group Co., Ltd., manufactures and distributes Class I Chinese herb-based medicines in China
April 18, 2006	American Oriental Bioengineering [AMEX:AQB]	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⁾ (Ofex listed)	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

Healthcare Distributors & Services

In the Healthcare Distributors & 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.

Selected Healthcare Distributors & Services Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
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 Biopharmaceutical 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
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

Healthcare Supplies

In the Healthcare 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. (Qingdao)	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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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

Hong Kong

Suite 3518 Jardine House
One Connaught Place
Central, Hong Kong

San Francisco

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

Shanghai

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

info@latitudecapital.com

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