

Consumer Sector

1st Quarter 2008

China Consumer M&A Quarterly

Highlights

- **Beijing Yanjing Brewery received US\$257 million in funding through a private placement**

Beijing Yanjing Beer Group together with other institutional investors participated in this financing.
- **Midea Electric Appliances acquired 24% of Wuxi Little Swan**

The US\$230 million transaction made Midea the single largest shareholder in Little Swan.
- **China Vanguard entered into the karaoke content management business**

Vanguard acquired 49% of China Culture Development Digital Technology for US\$200 million.
- **Lotte bought the remaining 51% of CTA Makro**

Lotte invested altogether US\$180 million to turn CTA Makro into its wholly-owned business.
- **Morgan Stanley invests US\$100 million in Motel168 Chain Hotel**

Continued strong investor interest in the budget hotel sector.
- **Walt Disney leads investment in NBA China**

Disney and four strategic investors jointly invested US\$253 million to obtain 11% of NBA China's operation.

Beijing
Room 705, East Tower, Twin Tower
B12 Jianguomenwai Avenue
Chaoyang District, Beijing 100022
China
+86 (10) 8447 7398

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

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 first quarter of 2008, highlighting selected notable transactions that are relevant to venture capital firms, private equity firms, 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 & Apparels
- Leisure Equipments & Products

CONSUMER SERVICES

- Retailing
- Travel & Leisure
- Marketing
- Education

CONSUMER MANUFACTURING

Food & Beverage

On February 26, Hua Lien International Holding Co., Ltd. (SEHK: 969) acquired International Sugar Industry Co., Ltd. from China National Complete Plant Import & Export Co Ltd. (SZSE: 000151) for US\$164.1 million. It is principally engaged in sugar cane plantation and production of sugar and ethanol in Africa, and sale of such products in the African and European markets.

CITIC Capital Holdings invested US\$70.8 million to acquire around 45% stake in Guan Sheng Yuan (Group) Co., Ltd. on January 31. Founded in 1918, Guan Sheng Yuan is a Shanghai-based confectionery company. Its main products range from White Rabbit™, Tian Shan™ and All Flowers™ brand candy series, Finger Citron™ brand gourmet powder, Sheng™ brand bee's products, Hwato™ brand tonic wine, Swan™ brand beer, to amino acid and citric acid. CITIC Capital Rongzhi Investment Company and CITIC Capital Puhao Investment Company became the final assignees, each getting 22.5% of the shares.

On the private placement side, Beijing Yanjing Brewery Co., Ltd. (SZSE: 000729) announced on January 22 a private placement transaction to raise gross proceeds of up to US\$257.1 million. Yanjing Brewery's existing shareholder Beijing Yanjing Beer Group Company will participate in this round of funding with up to 10 other institutional investors. Proceeds from the fund raising will be used on 11 construction projects including new raw material production plants, existing production capacity expansion and equipment upgrade to meet Beijing Yanjing Brewery's 2015 annual sales target of eight million tons.

The Government of Singapore Investment Corp. announced on February 22 that it invested US\$30 million in Tonsun Foods Co., Ltd, a leading peanut processor in China. Morningside also announced on January 3 that it has invested in Lihua Fastfood Limited. Lihua is a food delivery service provider with a network in 11 cities in China.

Selected Food & Beverage Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 17	Yantai North Andre Juice Co. Ltd. (SEHK:8259)	Binzhou Andre	27.2	49.0	55.5	Fruit juice producer and wholesaler engaged in the production and sales of fruit juice, vegetable juice and apple essence and storage
Mar 12	Westpark Capital, Ancora Greater China Fund, etc.	First Growth Investors, Inc. (OTCBB:FGIV)	18.0	NA	NA	Supplies day-old chickens raised for meat production in China
Mar 12	Black River Asset Management	Yuhe International, Inc. (OTCBB:YUII)	18.0	NA	NA	Engages in the supply of day-old chickens raised for meat production in China

Selected Food & Beverage Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 10	Heineken-APB (China) Pte Ltd.	Shanghai Asia Pacific Brewery Co.,Ltd.	2.4	3.0	78.7	Engages in the production and marketing of brewery with brands Reeb™ and Tiger™
Feb 28	AGRANA Juice GmbH	Yongji Andre Juice Co., Ltd.	18.5	60.0	37.1	Engages in the manufacture and sale of juice
Feb 28	Hua Lien International Holding Co. Ltd. (SEHK: 969)	COMPLANT International Sugar Industry Co., Ltd.	164.1	100.0	164.1	Engages in sugar cane plantation and production of sugar and ethanol
Feb 22	Government of Singapore Investment Corp.	Tonsun Group	30.0	NA	NA	Leading peanut processor in China
Jan 31	Bakkavor Group Hf. (ICSE:BAKK)	Yantai Longshun Foods Co. Ltd.	NA	100.0	NA	Engages in distribution of fruits and vegetables
Jan 31	CITIC Capital Holdings Limited	Guan Sheng Yuan (Group) Co., Ltd.	70.8	45.0	157.4	Manufactures and markets confectionary products
Jan 31	China Foods Limited (SEHK:506)	Coca-Cola Bottlers Manufacturing (Dongguan) Co. Ltd.	19.0	21.0	90.5	Engages in the production of noncarbonated beverages
Jan 22	Beijing Yanjing Beer Group Company and other institutional investors	Beijing Yanjing Brewery Co., Ltd. (SZSE:000729)	257.1	NA	NA	Manufactures beer and beverages in China
Jan 9	Wang An, Zheng Yue Wen, and Yung Ka Hee Titus	Yantai North Andre Juice Co. Ltd. (SEHK:8259)	74.5	41.3	180.4	Engages in the production and sale of fruit juice, apple juice concentrate, and related products in China
Jan 3	Tsingtao Brewery Co. Ltd. (SEHK:168)	Tsingtao Brewery Xi'an Hans (Group) Company Limited	23.5	23.9	98.3	Engages in the brewery and sales of beer and other related products
Jan 3	Morningside	Lihua Fastfood Limited	NA	NA	NA	Fastfood delivery service provider

Consumer Appliances & Household Products

Guangdong Midea Electric Appliances Co. Ltd. (SZSE: 000527) acquired an additional 24.01% stake in Wuxi Little Swan Co. Ltd. (SZSE: 200418) from Wuxi Guolian Development Group Co. Ltd. for US\$229.5 million on February 26. Midea Electric became the single largest shareholder of Little Swan, with a total of 28.94% stake. On March 25, 2008, the transaction was approved by the State-owned Assets Supervision and Administration Commission.

Selected Consumer Appliances & Household Products Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Feb 26	Guangdong Midea Electric Appliances Co. Ltd. (SZSE:000527)	Wuxi Little Swan Co. Ltd. (SZSE:200418)	229.5	24.0	955.9	Engages in the manufacture and sale of household electric appliance and accessories, and fittings in China
Mar 20	Shanghai Jahwa United Co., Ltd. (SHSE:600315)	Sichuan Cortry Industrial Co., Ltd.	9.1	51.0	17.8	Engages in the development, production, and sale of daily personal care products and cosmetics
Feb 20	CIVC (China Israel Value Capital), Ainsbury, PNV, SCGC	Keen High Technologies Ltd.	10.0	NA	NA	Engages in R&D, manufacturing and distribution of portable multimedia players

Selected Consumer Appliances & Household Products Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jan 26	Acer Inc. (TSEC:2353), China Israel Venture Capital, Shenzhen Capital Group Co., Ltd., Toshiba Tec Corp. (TSE:6588)	Keen High Mediatech Limited	10.0	NA	NA	Manufactures consumer electronic goods
Jan 21	Sichuan Changhong Electric Co. Ltd. (SHSE:600839)	Sichuan Changhong Battery Co., Ltd.	45.9	100.0	45.9	Manufactures battery for consumer products

Textiles & Apparels

Guangzhou Benbo Clothing Co., Ltd. announced in February that it has received US\$30.0 million investment from IDGVC. IDGVC will become the second largest shareholder in the company. Founded in 2004, Guangzhou Benbo is primarily engaged in the marketing and production of the Benbo™ brand clothing, as well as marketing promotion of the brand. As of end of 2007, Benbo™ has around 300 franchise stores in close to 30 provinces in China.

Winburg Company Ltd., a wholly-owned subsidiary of China Sky Chemical Fibre Co., Ltd., announced that it would acquire 100% of Qingdao Zhongda Chemical Fibre Co., Ltd for USD57.5 million. Founded in 1991, Qingdao Zhongda manufactures and distributes high-end nylon in China with an annual production capacity of approximately 20,000 tons. Currently, Zhongda has a net book value of US\$25.0 million.

Selected Textiles & Apparels Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 24	Orinda Advisors, LLC	China Shoe Holdings, Inc. (OTCBB:CHSH)	2.0	NA	NA	Engages in the design, manufacture, and marketing of women's shoes, as well as men's and children's casual shoes
Feb 20	IDGVC	Guangzhou Benbo Clothing Co., Ltd.	30.0	NA	NA	Engages in the research, development, production and marketing of clothing with Benbo™ brand
Jan 29	Winburg Company Ltd.	Qingdao ZhongDa Chemical Fibre Co., Ltd.	57.5	100.0	57.5	Manufactures and distributes high-end nylon
Jan 21	Golden Oriental Pte. Ltd.	Bright Orient Holding Ltd. (SGX:5DT)	NA	100.0	NA	Engages in the contract manufacturing of apparels, ties, and scarves
Jan 16	Winroy International Limited	Hui Zhou Orient Carpet Manufacturing Co., Ltd	2.5	100.0	2.5	Engages in the design, manufacture, and sale of carpets

Leisure Equipments & Products

China Vanguard Group Limited (SEHK:8156) announced on January 17 that it would acquire Grand Promise, which via Birdview, holds 49% interest in China Culture Development Digital Technology Co., Ltd. ("CCCDT"). CCCDT is a Sino-foreign joint venture established in China which has obtained the exclusive rights from Ministry of Culture Market Development Center to establish and operate the Karaoke Content Management Service System. The Karaoke CMS system is an information system that connects the data center to karaoke venues to supervise and keep track of karaoke music videos played; it could also be utilized to facilitate the provision of product advertisement and promotion services and to carry out copyright transaction settlement services.

Selected Leisure Equipments & Products Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jan 17	China Vanguard Group Limited (SEHK:8156)	China Culture Development Digital Technology Co., Ltd.	200.0	49.0	408.2	Engages in the establishment, operation, maintenance and enhancement of the Karaoke CMS

CONSUMER SERVICES

Retailing

Lotte Shopping Co. Ltd, a hypermarket arm of South Korean conglomerate Lotte Group, announced on January 24 that it has acquired the remaining 51% of discount store operator China Trade Association Makro Commercial Ltd. (“CTA Makro”), a joint venture between Dutch SHV Holdings and China National Cereals, Oils and Foodstuffs Import and Export Corporation (COFCO). CTA Makro made a profit of RMB 20 million Yuan in 2007 but was lost-making in 2005 and 2006. The move marks the first step of Lotte, which aims to open 100 hypermarkets in China in the coming five years, to compete head-to-head with Western retail giants like Carrefour, Wal-Mart and Metro.

On February 26, Jiangsu Hongtu High Technology announced to acquire the remaining 57% stake in Hisap High Technology with US\$67 million. Hisap High Tech operates a retail business offering computers and consumer electronics related products, including desktop computers and accessories, customized computers, laptops, digital products and accessories, communication products and accessories, office supplies, software, computer peripherals, and other consumer electronics. It operates 74 retail chain stores in Shanghai, Jiangsu, Anhui and Zhejiang as of end of 2007.

SAIF Partners announced on January 8 that it would invest US\$40 million into Foxtown Industrial (Shanghai) Co., Ltd. for around 22% to 28% stake. Foxtown operates as a discount chain store with 6 directly-owned shopping malls in Shanghai, Shenzhen and Jinan.

Selected Retailing Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 27	Parkson Retail Development Co., Ltd.	Xian Shidai Parkson Store Co., Ltd.	21.4	49.0	43.7	Owens and operates department store in Shaanxi
Mar 4	Shanghai Join Buy Co., Ltd. (SHSE:600838)	Shanghai Jiuguang Department Store	NA	5.0	NA	Department store in Shanghai
Feb 26	Jiangsu Hongtu High Technology Co., Ltd. (SHSE:600122)	Hisap High Technology Corporation	67.0	57.0	117.5	Operates as a computers and consumer electronic retailer in China
Feb 18	Rexel SA (ENXTPA:RXL)	Suzhou Xidian	NA	73.5	NA	Supplies electrical equipment in China
Feb 15	Hefei Department Store Group Co., Ltd. (SZSE:000417)	Anhui Lepusheng Department Co., Ltd.	9.6	46.0	20.8	Department store in Anhui province
Feb 14	Shandong Longjiao Construction Co. Ltd. (a GOME company)	Sanlian Commercial Company Limited (SHSE:600898)	74.6	19.7	378.5	Consumer electronic products retail chain
Jan 30	GOME Electrical Appliances Holding Ltd. (SEHK:493)	Shanxi Datong Beijing Electrical Appliances Co., Ltd.	NA	100.0	NA	Electronic retailer in Shanxi Province
Jan 28	Gome Appliance Co., Ltd.	BF Electric Inc.	NA	100.0	NA	Operates as a household appliance retailer in Datong City

Selected Retailing Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Jan 24	Lotte Shopping Co., Ltd. (KOSE:A023530)	China Trade Association Makro Commercial Ltd.	91.4	51.0	179.3	Owens and operates discount stores, cash & carry supermarkets, shopping centers, and warehouse chain stores in Beijing and Tianjin
Jan 23	Wumart Stores Inc. (SEHK:8277)	Hangzhou Tiantian Wumart Commerce Co., Ltd.	31.4	100.0	31.4	Engages in the operation and management of supermarkets and convenience stores in Hangzhou
Jan 17	Shenzhen Fuqi Jewelry Co., Ltd.	Temix	18.5	100.0	18.5	50 outlet branded jewelry store chain with locations primarily in Beijing, Shanghai and Ningbo
Jan 8	SAIF	Foxtown Industrial (Shanghai) Co., Ltd.	40.0	NA	NA	Operates 6 chain store outlets in Shanghai, Shenzhen and Jinan
Jan 7	FAVA International Holdings Limited (SEHK: 8108)	Lang Fang Huari Furniture Joint Stock Co., Ltd., 92 Furniture Retail Shops	41.0	100.0	41.0	Furniture retail shops in China

Travel & Leisure

The budget hotel chain sector was relatively active in the first quarter of 2008. Morgan Stanley planned to acquire the remaining 80% stake in Motel 168 Chain Hotel. Founded in May 2003, Motel 168 operates more than 130 hotels as of December 2007. These hotels are distributed across Shanghai, Beijing, Nanjing, Hangzhou, Guangzhou, Wuhan, Haerbin, Guiyang, Chengdu, and 50 other cities. Motel 168 has a combined 25,000 available rooms with 10,000 restaurant seats.

24K International Hotel Group announced on January 18 that it has received US\$10 million investment from Stone Drum Capital. The investment is made under conditions that Shanghai Jinguan Hotel Service Co., Ltd. agrees to regroup 24K Hotel and sell a 25% stake to Stone Drum. 24K will apply proceeds from the investment to finance its budget hotel business expansion in Asia. At present, the group's hotel business focuses on the Yangtze River Delta region of China. It expects to add 10-20 hotels to its portfolio by the end of 2008 and plans to expand to 50 hotels around China in 2009.

VXL Capital announced to acquire twelve hotels from the China Post Group for US\$ 24.3 million. This was the third hotels purchase by VXL Capital from China Post Group, giving VXL Capital's subsidiary, "U" Inns & Hotels Company Limited, a total of 28 hotels acquired from China Post Group. VXL Capital said that this acquisition is one of the steps in its strategy to build a budget hotel chain brand around mainland China.

In the leisure sector, the National Basketball Association announced on January 14 the formation of NBA China, a new entity that will conduct all of the league's businesses in Greater China. Five strategic partners would jointly invest US\$253 million to acquire 11% of the company in form of preferred equity. The strategic partners are an elite group of exceptionally prominent and successful entities including ESPN, Bank of China Group Investment, Legend Holdings Limited, Li Ka Shing Foundation and China Merchants Investments.

Selected Travel & Leisure Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 21	Morgan Stanley	Motel 168 Chain Hotel	100.0	80.0	125.0	Budget hotel chain in China

Selected Travel & Leisure Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 14	Aventic Partners AG, China Asset Management, Hongta Securities, Soochow Securities	Hunan Huatian Great Hotel co Ltd (SZSE:000428)	51.5	NA	NA	Five star hotel in Hunan, with 18 chain hotels
Mar 7	VXL Capital Ltd. (SEHK:727)	The China Post Group, 12 Hotels in China	24.3	100.0	24.3	12 hotels in Zhejiang, Sichuan, Gansu, Guangdong, Shandong, Chongqing and Jilin
Jan 30	Alven Capital Gestion	Passeport Chine	4.9	38.0	12.9	Travel agency in China with offices in Shanghai and Beijing
Jan 18	Stone Drum Capital	24K International Hotel Group	10.0	25.0	40.0	Hotel chain in the Yangtze River Delta Region
Jan 14	Walt Disney Co., Bank of China, China Merchant Bank, Legend Holdings Co., Ltd, a Li Ka-Shing Company	National Basketball Association (China)	253.0	11.0	2,300	China subsidiary of NBA

Marketing

Selected Marketing Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 25	Research International Group, Ltd.	Zdology Marketing Research & Consulting (GZ) Ltd.	NA	NA	NA	Operates as a market research & consulting company which specializes in shopper research, trade understanding and Point-of-Sale testing

Education

We saw two notable investments in the private placement area in the education sector. KPCB announced that it would invest US\$10 million into Beijing GAMFE Technology in March. GAMFE Tech focuses on the professional training, degree education and product research and development. Currently, it has over 20 subsidiaries with more than 30 training centers and more than 800 employees. The main programs introduced by the company include the game college program, the film college program, and digital film and video college program. The investment from KPCB will be used to develop new courses, explore new markets, and expand the teachers' team.

In February, Beijing Universal Education Group successfully closed its US\$10 million financing with Legend Capital and Sequoia Capital. The total investment accounts for a 20% stake in the company. Universal Education is a leading educational service provider focusing on providing test preparation and admission consulting services to students at university level and above, including services such as test preparation for Entrance Examination for Graduate Studies (EEGS). Universal Education plans to spend the new capital on expansion and updates including the acquisition of 5 to 6 training institutions by the end of 2008.

In the M&A space, Raffles Education Corp. announced that it would acquire Hefei Wanbo Education Management Co., Ltd. for US\$29.0 million. Wanbo Education owns Wanbo College, a full-time privately-run college established in Hefei City providing a three-year diploma education. The diploma courses offered by Wanbo College include science majors, literature and art. This acquisition enables Raffles to develop the vocational and technical education areas and to enhance its range of educational offerings in China.

Selected Education Transactions

Date Announced	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
Mar 28	Raffles Education Corp. (SGX:E6D)	Hefei Wanbo Education Management Co., Ltd	29.0	100.0	29.0	Education company in Anhui Province
Mar 12	KPCB	Beijing GAMFE Tech Co. Ltd.	10.0	NA	NA	Education chain with game college, film college and animation college
Feb 22	Legend Capital, Sequoia Capital	Universal Education Group	10.0	20.0	50.0	Educational chain aiming to training for Graduate Entry Examination
Feb 5	Smooth Global (China) Holdings, Inc (OTCBB:SMGH)	Beijing Network Education Union Co., Ltd.	10.3	100.0	10.3	An education services company which offers pre-grade school electronic teaching programs

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Beijing

Room 705, East Tower, Twin Tower
B12 Jianguomenwai Avenue
Chaoyang District, Beijing 100022, 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

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

www.latitudecapital.com

 **LATITUDE**
CAPITAL GROUP