

## Industrial Sector

2nd Quarter 2007

### China Industrial M&A Quarterly

#### Highlights

- TCC International acquires Chia Hsin China for US\$331 million

Subsidiary of Taiwan's largest cement producer buys out one of the top ten cement suppliers in China.

- China Resources Power and Shenhua scoop up stakes in state-owned power assets in auction

Consolidation within the Chinese power sector continues as major utilities companies seek growth through acquisitions.

- Actis leads US\$82 million pre-IPO round for solar components company Shunda Holdings

Actis invests an additional US\$40 million to fund expansion into poly-crystalline silicon production.

- Citadel subscribes to US\$50 million of convertible bonds in China Security & Surveillance

The investment was the second in three months by Citadel into China's leading integrated security and surveillance company.

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## Introduction

We are pleased to present our quarterly review of the China Industrial sector M&A and private placement activities, 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 notable China Industrial M&A and private placement activities in the second quarter of 2007, highlighting notable selected transactions that are relevant to venture capital, private equity, and strategic buyers/investors. Our review is broken down into the following ten Industrial sectors:

- Automotive Parts/Automotive
- Components
- Fire, Safety & Security
- HVAC
- Industrial Controls
- Machinery & Equipment
- Materials, Chemicals & Plastics
- Steel
- Power Generation/Distribution
- Water Treatment

However, during the second quarter of 2007, there were no notable transactions in the HVAC, Industrial Controls and Water Treatment sectors.

## Automotive Parts/Automotive

Tiger Global bought 6% of Chinese auto parts supplier Minth Group for approximately US\$41.6 million from existing shareholders. Minth Group is regarded as one of the leading players in China's auto sector supplying to major tier I OEM manufacturers such as Honda, Toyota and GM, with an overall market share of 10% in the auto plastic and component parts markets in China.

### Selected Automotive Parts/Automotive Transactions

| Announcement Date | Lead Investor(s) / Buyer                   | Target                                    | Transaction Value (US\$ mm) | %    | Implied Valuation (US\$ mm) | Description of Target(s)  |
|-------------------|--|---|-----------------------------|------|-----------------------------|---|
| Apr 2, 2007       | Tiger Global Fund                          | Minth Group Ltd. [SEHK: 425]              | 41.6                        | 6.0  | 690.7                       | OEM supplier of automobile body structural parts, trim and decorative parts   |
| Apr 2, 2007       | Wonder Auto Technology Inc. <sup>(1)</sup> | Jinzhou Wanyou Mechanical Parts Co., Ltd. | 16.4                        | 79.6 | 20.6                        | Manufacturer and distributor of piston rods, vibration dampers, shock-absorber rods and rotary axles for motor vehicles |

(1) Acquired through subsidiaries Wonder Auto Ltd. and Jinzhou Halla Electrical Equipment Co., Ltd.

## Components

Private equity firm Actis led a US\$82 million round of financing for Shunda Holdings, a supplier of solar cells and modules. Actis made a US\$10 million original investment in Sep 2006 and has committed to another US\$40 million in this round. Shunda supplies to China's largest solar cell manufacturer Suntech, another of Actis's portfolio companies. The investment will be used primarily to expand into the production of poly-crystalline silicon, an essential raw material that is experiencing industry-wide shortages.

### Selected Components Transactions

| Announcement Date | Lead Investor(s) / Buyer                               | Target  | Transaction Value (US\$ mm) | %     | Implied Valuation (US\$ mm) | Description of Target(s)  |
|-------------------|--|---|-----------------------------|-------|-----------------------------|---|
| Jun 1, 2007       | Huan Hsin Holdings Ltd. [SGX: H16] <sup>(1)</sup>      | Li Sheng Electronic (Kunshan) Co., Ltd.           | 3.0                         | 30.0  | 10.0                        | Produces steel molds for notebook computers   |
| May 30, 2007      | Jiangsu Rugao High Voltage Electric Apparatus Co., Ltd | Henan Pinggao Electrical Co., Ltd. [SHSE: 600312] | 48.8                        | 17.8  | 274.2                       | Manufactures and sells high-voltage switches  |
| May 14, 2007      | Actis and two other local investors                    | Shunda Holdings Co., Ltd.                         | 82.0                        | NA    | NA                          | A leading maker of mono-crystalline silicon ingots and wafers used in solar power equipment |
| May 1, 2007       | LED International Holdings Limited [AIM: LED]          | Kepu Electronic Technology (Shenzhen) Co., Ltd.   | 3.9                         | 100.0 | 3.9                         | R&D, manufacturing and sale of opto-electronic products such as LED modules                 |

(1) Acquired through subsidiary Huan Hsin (BVI) Ltd.

## Fire, Safety & Security

Citadel subscribed to a further US\$50 million worth of convertible bonds in China Security & Surveillance Technology Inc. in April, in addition to a US\$60 million subscription in February this year. The proceeds received shall fund China Security's aggressive acquisition campaign, which has seen the company already acquired a number of smaller industry players in various parts along the value chain this year. Citadel invested in another convertible bond issuance by metallic product maker Fushi International in January this year.

### Selected Fire, Safety & Security Transactions

| Announcement Date | Lead Investor(s) / Buyer | Target  | Transaction Value (US\$ mm) | %  | Implied Valuation (US\$ mm) | Description of Target(s)  |
|-------------------|--------------------------|---|-----------------------------|----|-----------------------------|---|
| Apr 24, 2007      | Citadel                  | China Security & Surveillance Technology, Inc.<br>[OTCBB: CSCT] | 50.0 <sup>(1)</sup>         | NA | NA                          | Provider of security and surveillance systems and services in China |

(1) US\$50 million of 1% Guaranteed Senior Unsecured Convertible Notes due 2012. The convertible notes have a conversion rate of US\$23.6 per share.

## Machinery & Equipment

CCMP Asia acquired a reported 80% stake in Kaidi Power Environmental Protection, the clean power division of environmental technology company Wuhan Kaidi, for under US\$100 million. Kaidi provides emission controls solutions such as desulphurization and nitrogen-removal equipment to coal-fired power generators.

France-based Alstom, one of the world's largest transport and energy infrastructure companies, acquired 100% of Qingdao Sizhou, a boiler auxiliary manufacturer for coal-fired power generators. Alstom also recently received regulatory approval to buy 51% of Chinese boiler manufacturing company Wuhan Boiler for US\$43.3 million, a transaction that was originally announced in April 2006.

### Selected Machinery & Equipment Transactions

| Announcement Date | Lead Investor(s) / Buyer                      | Target  | Transaction Value (US\$ mm) | %                   | Implied Valuation (US\$ mm) | Description of Target(s)   |
|-------------------|---|---|-----------------------------|---------------------|-----------------------------|--|
| Jun 21, 2007      | CCMP Capital Asia                             | Kaidi Power Environmental Protection Co.          | <100.0 <sup>(1)</sup>       | 80.0 <sup>(1)</sup> | NA                          | Provider of air pollution control engineering, procurement and construction services                                 |
| Jun 12, 2007      | JANA Partners LLC                             | Shenyang Machine Tool Co., Ltd.<br>[SZSE: 000410] | NA                          | 30.0                | NA                          | Engages in the manufacture and supply of machine tools products in China   |
| May 28, 2007      | Northern Heavy Industries Group Co., Ltd.     | NFM Technologies                                  | NA                          | 70.0                | NA                          | Engages in the design, development, and manufacture of industrial equipment  |
| May 28, 2007      | Customers Ltd.<br>[ASX: CUS]                  | Customers Asia Ltd.                               | NA                          | 50.0                | NA                          | A JV with FCP Brencorp; developer of automated teller machines   |
| May 14, 2007      | United Pacific Industries Ltd.<br>[HKSE: 176] | Spear & Jackson Inc.<br>[OTCPK: SJCK]             | 3.2                         | 38.2                | 8.4                         | Manufacturer and distributor of a line of hand tools, lawn and garden tools, industrial magnets, and metrology tools |
| May 2, 2007       | Alstom SA<br>[ENXTPA: ALO]                    | Qingdao Sizhou                                    | NA                          | 100.0               | NA                          | Market leader in China of boiler auxiliaries   |

(1) Source: Asia Venture Capital Journal

## Materials, Chemicals & Plastics

The deal flow was significant in the materials, chemicals and plastics sectors both in terms of inbound and outbound transactions in the past quarter. For investments into China, two transactions, the pre-IPO investment into Hainan-based eco-friendly pesticide producer Hainan Zhengye Zhongnong High-tech Co. and a minority-stake purchase in eco-friendly refrigerant maker Dongyue Group by IFC and Baring, highlighting the strong appetite for Chinese companies engaged in providing conservation-related products.

The cement sector saw continued interest as TCC International, the subsidiary of Taiwan's largest cement manufacturer Taiwan Cement, acquired 100% of the China business of its Taiwanese counterpart Chia Hsin Cement. In addition, private equity firm Olympus Capital Holdings announced its plan to invest an aggregate US\$25 million in a 49/51 JV with Sichuan Golden Summit that would produce 5,000 tons of cement daily.

For outbound investments, Chinese miners led by major players such as Zijin and Angang expanded their operations worldwide to satisfy surging demand in China. Zijin Mining followed its previous Monterrico acquisition in Q107 by taking over CBML, a company that owns a 75% interest in Tajikistan's largest gold miner, for US\$55 million. Jinchuan Group, the largest nickel producer in China, invested US\$32 million in Allegiance Mining for an 11% stake after signing a US\$1.3 billion nickel offtake agreement with the Australian nickel miner in April 2006. Also of note, China Special Steel purchased the entire equity interest in Indonesian iron and nickel miner SEA Minerals for over US\$350 million. The acquisition is expected to play a major role in China Special Steel's strategy to supply base materials to stainless steel producers.

### Selected Materials, Chemicals & Plastics Transactions

| Announcement Date | Lead Investor(s) / Buyer                          | Target  | Transaction Value (US\$ mm) | %                   | Implied Valuation (US\$ mm) | Description of Target(s)  |
|-------------------|---|---|-----------------------------|---------------------|-----------------------------|---|
| Jun 28, 2007      | Zijin Mining Group Co. Ltd. [HKSE: 2899]          | Commonwealth & British Minerals Ltd. ("CBML")                           | 55.1                        | 100.0               | 55.1                        | Owens 75% of JV Zeravshan LLC, the largest gold miner in Tajikistan                                 |
| Jun 18, 2007      | London Asia Capital                               | Hainan Zhengye Zhongnong High-tech Co., Ltd.                            | 5.4                         | 25.0                | 21.6                        | Manufacturer of environmentally friendly pesticides and fungicides                                  |
| Jun 14, 2007      | TCC International Holdings Ltd. [HKSE: 1136]      | Chia Hsin Cement Greater China Holding Corp. [HKSE: 699]                | 331.1                       | 100.0               | 331.1                       | Engages in the production and sale of cement and related products in the China                      |
| Jun 13, 2007      | Olympus Capital Holdings                          | A cement company  | 25.0                        | 49.0                | 51.0                        | A JV between Olympus Capital and Sichuan Golden Summit (Group) Joint-Stock Co., Ltd. [SHSE: 600678] |
| Jun 12, 2007      | Harbin Shirble Electric-Heat [SHSE: 600864]       | 4 Russian forestry-related companies                                    | 11.9                        | 100.0               | 11.9                        | Russian forestry-related companies  |
| Jun 4, 2007       | Angang Steel Company Ltd. [SZSE: 000898]          | Gindalbie Metals Ltd. [ASX: GBG]  | 33.4                        | 12.9                | 258.9                       | Engages in iron ore exploration in Australia  |
| Jun 2, 2007       | Baring Private Equity, IFC                        | Dongyue Group Ltd.  | 47.2                        | 27.3                | 172.9                       | Producer of environmentally friendly refrigerants   |
| May 31, 2007      | OBN Holdings [OTCPK:OBNI]                         | Foshan City Nan Hai Luo Village Lian Sing Jui Da Plastic Powder Factory | 21.0                        | 100.0               | 21.0                        | Engages in the recycling of plastics into various products; based in Guangdong Province             |
| May 30, 2007      | CNOOC Ltd. [NYSE:CEO]                             | Dayukou Petrochemical   | 69.3 <sup>(1)</sup>         | 83.0 <sup>(1)</sup> | 83.5                        | Chemical production plant in Wuhan, China   |
| May 24, 2007      | China Mining Resources Group Ltd. [HKSE: 340]     | Harbin Songjiang Group  | 234.8                       | 75.1                | 312.7                       | Special ores miner and refiner in China   |
| May 10, 2007      | Baring Private Equity                             | Yingde Gas Co., Ltd.  | 50.0                        | NA                  | NA                          | Industrial gas supplier to the steel, petrochemical and mining sectors                              |
| May 1, 2007       | Jinchuan Group Ltd.                               | Allegiance Mining NL [ASX: AGM]   | 31.9                        | 11.0                | 289.1                       | Nickel miner in Australia   |
| Apr 17, 2007      | Shandong Landbridge Group                         | Hannans Reward Ltd. [ASX: HNR]  | 4.6                         | 11.6                | 39.7                        | Engages in exploring for gold and base metals in Western Australia                                  |
| Apr 13, 2007      | China Special Steel [HKSE: 2889]                  | S.E.A. Mineral  | 354.6 <sup>(2)</sup>        | 100.0               | 354.6                       | Special ores miner in Indonesia   |
| Apr 10, 2007      | Silver Dragon Resources Inc. [OTCBB:SDRG]         | Sino-Top Resources & Technologies, Ltd.                                 | NA                          | 30.0                | NA                          | Engages in the exploration and mining of 9 mineral sites in China                                   |
| Mar 29, 2007      | Goldman Sachs, Whitesun Equity Partners, Marubeni | Yuema Int'l <sup>(3)</sup>  | 52.0                        | NA                  | NA                          | An industrial paper manufacturer  |

(1) Source: Xinhua Economic News

(2) Consideration paid in form of cash (3.5%), 3% convertible bonds (11.6%) and new shares (84.9%)

(3) Subsidiary of Long Chen Paper Co., Ltd. (TSEC: 1909)

## Steel

With the domestic steel companies integrating backwards and acquiring overseas ore producers, acquisitions within the sector slowed down with no major transaction taking place in the past quarter. The only notable foreign investment was related to UK-based Renold PLC, a manufacturer of industrial chains and gear boxes, acquiring a 90% interest in a Hangzhou-based low-cost chain manufacturer to expand in China. It is expected, however, that industry consolidation would accelerate going forward on the back of the Chinese government's initiative to improve efficiency in the steel industry.

### Selected Steel Transactions

| Announcement Date | Lead Investor(s) / Buyer                    | Target   | Transaction Value (US\$ mm) | %    | Implied Valuation (US\$ mm) | Description of Target(s)                  |
|-------------------|---|--|-----------------------------|------|-----------------------------|---|
| May 21, 2007      | Renold plc<br>[LSE: RNO]                    | Hangzhou Shanshui Industrial Co., Ltd.         | 4.0                         | 90.0 | 4.4                         | Industrial chain manufacturer             |
| Apr 4, 2007       | Xinyu Iron & Steel Co., Ltd. <sup>(1)</sup> | Xinhua Metal Products Co Ltd<br>[SHSE: 600782] | 180.9                       | NA   | NA                          | Manufacturer of wires and cables in China |

(1) Xinyu is the majority shareholder of Xinhua Metal Products. Xinyu has agreed to subscribe to no less than 70% of the shares allotted for placement, with the remaining allotted to no more than 9 other investors.

## Power Generation/Distribution

It was a busy quarter for leading Chinese power and gas companies as they made a series of acquisitions of local power plants or gas producers. China Resources Power, one of the major Chinese independent power producers, acquired stakes in 2 local power plants for over US\$300 million. China Shenhua, the largest coal supplier in the country, also expanded its power supply business by purchasing 15% stakes in two power plants. The acquisitions were a result of the Chinese government's auction of state-owned power assets totalling 9,200MW of installed capacity to the public as part of the efforts to reform the power sector under the Eleventh Five-Year Plan.

Beijing Enterprises ended speculation that had gone on for many years by finally acquiring Beijing Gas, the natural gas monopoly in Beijing, for approximately US\$1.5 billion. The acquisition comes at a time of increased demand for natural gas, especially as an alternative energy supply to coal amidst the government's effort to alleviate air pollution.

### Selected Power Generation/Distribution Transactions

| Announcement Date | Lead Investor(s) / Buyer                         | Target                            | Transaction Value (US\$ mm) | %     | Implied Valuation (US\$ mm) | Description of Target(s)   |
|-------------------|--|-----------------------------------|-----------------------------|-------|-----------------------------|--|
| Jun 25, 2007      | China Gas Holdings Ltd.<br>[HKSE: 0384]          | 3 gas companies in Inner-Mongolia | 23.6                        | 80.0  | 29.5                        | A pipeline design company, a local gas station and a producer of LNG, natural gas and other gas related products |
| Jun 8, 2007       | China Shenhua Energy Co Ltd.<br>[HKSE: 1088]     | Panshan Power, Suizhong Power     | 112.4 <sup>(1)</sup>        | 15.0  | 749.3                       | Panshan: 1,000MW<br>Suizhong: 1,600MW  |
| Jun 4, 2007       | China Resources Power Holdings<br>[HKSE: 836]    | Hebei Xintai Electricity Power    | 68.8                        | 44.7  | 153.9                       | Six 220MW coal-fired generation units  |
| May 30, 2007      | China Resources Power Holdings<br>[HKSE: 836]    | Yangzhou No.2 Power Plant         | 234.6                       | 45.0  | 521.3                       | Two 600MW coal-fired generation units  |
| Apr 10, 2007      | Beijing Enterprises Holdings Ltd.<br>[HKSE: 392] | Beijing Gas Group (BVI) Co., Ltd. | 1,487.2                     | 100.0 | 1,487.2                     | Provides natural gas production and distribution services in Beijing   |

(1) Of the total consideration of US\$112.4 million, US\$62 million was paid for the acquisition of Panshan Power and US\$50.4 million was paid for the acquisition of Suizhong Power.

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