

### INTRODUCTION

We are pleased to present our quarterly review of cross-border Manufacturing M&A activity in China, focusing on both financial and strategic buyers/investors acquiring China assets and Chinese corporations acquiring overseas targets. As can be seen from the transactions, a clear trend last quarter was the growing number of worldwide manufacturing companies buying into China. These companies' China strategies centre upon either (i) improving global competitive positioning through shifting production to China or (ii) accessing new growth opportunities via selling to China's vast domestic market.

The purpose of this report is to provide a summary of cross-border manufacturing M&A and private placement activities in the previous quarter, highlighting notable selected transactions that are relevant to venture capital, private equity, and strategic buyers/investors. Our review is broken down into (i) Industrial Manufacturing and (ii) Consumer Manufacturing with specific focus on the following fourteen broad manufacturing sub-sectors:

#### INDUSTRIAL MANUFACTURING

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

#### CONSUMER MANUFACTURING

- Consumer Appliances
- Consumer Products
- Food & Beverage
- Furniture
- Printing & Packaging

However, during the 3<sup>rd</sup> quarter, there were no notable transactions in the HVAC, Tools & Hardware, Consumer Appliances and Furniture sectors.

### INDUSTRIAL MANUFACTURING

In the Industrial Manufacturing sector, the 3<sup>rd</sup> quarter's biggest news involved Hong Kong-listed Johnson Electric Holdings launching a US\$548.5 million bid for Swiss-based Saia-Burgess, Europe's leading stepper motors manufacturer. This bid generated significant interest within the manufacturing community.

#### Automotive Parts/Automotive

M&A activity in the Automotive Parts/Automotive sector remained strong this quarter, with worldwide diversified manufacturing group Carlisle Companies' US\$36.0 million acquisition of Zhejiang Kete Auto Parts' heavy-duty braking business being the most notable transaction. Significantly, one month after the acquisition, Carlisle sold a significant portion of its U.S. Automotive Parts business to U.S. manufacturing focused PE firm, The Reserve Group, possibly as part of a strategy of shifting its production to low-cost China and using a scaled-down U.S. operation purely for distribution and product design. Another major transaction was Baring Private Equity Asia's US\$27.0 million investment in Minth Group, a Zhejiang-based automotive parts manufacturer that mainly serves MNC clients within China. Note that the manufacturing facilities of both target companies are located in the Yangtze River Delta region, the automotive manufacturing hub of China.

### Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 15, 2005	Carlisle Companies (NYSE listed)	Zhejiang Kete Auto Parts Co., Ltd. (Hangzhou)	\$36.0 (Asset acquisition)	100.0%	\$36.0	Manufacturer of heavy-duty truck components in China
July 11, 2005	Baring Private Equity Asia Fund <sup>(1)</sup>	Mint Group (Zhejiang)	\$27.0	NA	NA	Automotive parts manufacturer, serving international automakers in China

(1) Private Equity Investor(s)

### Fire, Safety & Security

Multivision Holdings (“Multivision”), a Singapore-listed, Hong Kong-based video surveillance solutions provider, was involved in two transactions in the quarter. First, Multivision acquired Huge Hill Limited, a leading PRC digital video surveillance company which has recently secured numerous technical support services contracts with local Chinese companies, to expand into the more value-added and higher margin services business. Then, less than a month later, it disposed of a portion of its manufacturing operations to Verint System, a major U.S. player within the surveillance system industry. The two transactions illustrate Multivision’s strategy of moving up the value chain – strengthening its own proprietary video surveillance technology, selling surveillance products with extra functionality, and expanding into more services oriented business segments – to become a truly value-added solutions provider in the surveillance industry, rather than simply an OEM manufacturer of surveillance products.

### Selected Fire Safety & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 13, 2005	Coller Capital <sup>(1)</sup>	AEA Technology (Hong Kong) <sup>(2)</sup>	\$57.6 <sup>(2)</sup> (Entire portfolio of companies)	100.0	\$57.6	Manufacturer and distributor of ionization smoke detectors
September 7, 2005	Verint System (NASDAQ listed)	Multivision Holdings Ltd. (Hong Kong)	\$48.2 (Asset acquisition)	100.0	\$48.2	Networked video security company, focused on developing and manufacturing surveillance system
August 5, 2005	Multivision Intelligent Surveillance (A subsidiary of Multivision Holdings)	Huge Hill Limited (Beijing)	\$4.4 <sup>(3)</sup>	100.0	\$4.4	Provider of digital video surveillance products and solutions in the PRC

(1) Private Equity Investor(s)

(2) One of the non-core portfolio of companies being disposed of and the only China asset within the portfolio; acquisition price net of transaction costs, taxation charges, and liabilities assumed

(3) Consideration net of HK\$15 million bank loan made to Huge Hill

### Industrial Controls

The most significant deal announced in the Industrial Controls sector last quarter was the US\$548.5 million cash tender offer by the world’s leading micro motors manufacturer, Johnson Electric Holdings, for Saia-Burgess, a leading global supplier of stepper motors. The pairing of Asia’s leading DC motors company and Europe’s leading stepper motors manufacturer sent ripples throughout the market, as the acquisition would create the dominant player in the controls

segment, with Johnson Electric's expertise in motor control technology being complemented by the industrial controls expertise of Saia-Burgess.

### Selected Industrial Controls Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
August 26, 2005	Johnson Electric Holdings (Hong Kong listed)	Saia-Burgess (Zurich listed)	\$548.5 (Public tender offer)	50.1	\$1,094.8	Worldwide manufacturer of stepper motors, switches, actuators, and electronic controllers

### Machinery & Equipment

The fragmented Machinery & Equipment ("M&E") sector saw a number of transactions last quarter, all relatively small.

### Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 1, 2005	Worldwide Manufacturing USA, Inc. (U.S. OTC listed)	Shanghai Lizun Precision Mechanical Products Manufacturing (Shanghai)	\$0.5	NA	NA	Die-cast components manufacturer, serving the automotive, telecommunications, and home supply industries
August 15, 2005	On Track Innovations (NASDAQ listed)	Pioneer Oriental Engineering (Hong Kong)	\$1.8	100.0	\$1.8	Manufacturer of smart cards, inlays for smart cards & electronic passports, and machinery for the fabrication of such products
July 27, 2005	Dragon Venture <sup>(1)</sup> (U.S. OTC listed)	Dejiqingyuan Environment Technology (Beijing and Shanghai)	NA	51.0	NA	Manufacturer of waste water treatment systems
July 13, 2005	Chen Hsong Holdings (Hong Kong listed)	Intra-Italy Hydraulics (Foshan Shunde)	\$1.1	30.0	3.6	Manufacturer of hydraulic motors

(1) Private Equity Investor(s)

### Materials, Chemicals & Plastics

The third quarter saw a high level of transaction volume in this sector, with investor interest focusing on two areas – metal products and specialty chemicals. Of note was Sweden-based Sandvik Hard Materials acquiring a 10% stake in Golden Egret Special Alloy Co ("Golden Egret"), a Sino-Japanese JV formed by a subsidiary of Sumitomo Electric Industries. China currently accounts for 80% of the world's annual tungsten production and Golden Egret is the largest producer and exporter of tungsten metal powder and tungsten carbide powder in China.

### Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 20, 2005	Akzo Nobel NV (NASDAQ listed)	Guangzhou Toide Manufacturing (Guangzhou)	NA	NA	NA	One of the largest private manufacturers of emulsion paint in China
September 20, 2005	Gibraltar Industries (NASDAQ listed)	Copper Power Manufacturing Plant (Suzhou)	NA (Asset acquisition)	NA	NA	Manufacturing facility in Suzhou producing copper and copper alloy-based powder metal products
September 19, 2005	Sandvik Hard Materials (A subsidiary of Stockholm listed Sandvik)	Golden Egret Special Alloy Co. Ltd. (Xiamen)	NA	10.0	NA	Largest producer and exporter of tungsten metal powder and tungsten carbide powder in China
August 18, 2005	New Horizon Fund <sup>(1)</sup> (SBI/Temasek investment fund)	Sichuan Meifeng Chemical Industry (Sichuan)	\$14.6	10.0	\$145.5	Shenzhen-listed, Sichuan-based specialty chemical manufacturing company
July 8, 2005	McVicar Resources (Canada listed)	Shenzhen Kingdom Chemical Co. Ltd. (Shenzhen and Shanghai)	\$1.1 (Two manufacturing subsidiaries)	25.0	\$4.5	Manufacturer and supplier of specialty chemical products used in China's construction industry

(1) Private Equity Investor(s)

### Power Generation/Distribution

The most notable M&A transaction in the Power Generation/Distribution sector was Hitachi's purchase from Dalian Baoyuan Machinery of the latter's remaining 40% interest in their JV vehicle (jointly set up in 1997) to solidify the Japanese company's competitive position in China and enhance its manufacturing capabilities in serving China's rapidly expanding power and energy industries.

### Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 27, 2005	Hitachi Ltd. (Tokyo and NYSE listed)	Dalian Hitachi Baoyuan Machinery & Equipment (Dalian)	NA (Buyout of JV partner)	40.0	NA	Manufacturer of power generation machinery and equipment

### Steel

There was one notable transaction announced in the Steel sector during the third quarter. CITIC Pacific announced an offer of US\$59.1 million for the remaining 41.9% interest in Hubei-based steel maker, Daye Special Steel, not yet owned by the group. This follows CITIC Pacific's purchase of 38.9% of Daye Special Steel in January. The acquisition expands CITIC Pacific's steel manufacturing business in China, enabling it to benefit from the robust growth in demand for steel from sectors such as automotive, shipbuilding, and machinery manufacturing.

### Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
August 29, 2005	CITIC Pacific (HK listed)	Daye Special Steel (Hubei)	\$59.1	41.9	\$141.1	Manufacturer of specialty steel products, including alloy-structural, carbon-structural, ball, and spring steel

### CONSUMER MANUFACTURING

The Haier Group's US\$1.3 billion bid for the struggling Maytag Corporation, the third largest appliance maker in the U.S., was the sector's hottest news topic last quarter. Although the Chinese home-appliance maker eventually withdrew its bid due to higher competing offers from Whirlpool and Ripplewood Holdings, the potential pairing of U.S. technology and marketing expertise with low-cost Chinese manufacturing to create another "Big Brand" generated significant interest both within and outside the manufacturing community. Nonetheless, despite this high profile bid, the dominant trend for this quarter was still U.S. corporations investing into China.

#### Consumer Products

In the Consumer Products sector last quarter, American & Efird ("A&E"), a leading manufacturer of thread and specialty engineered yarn, acquired a controlling 80% interest in Jimei Spinning ("Jimei"), with A&E's Chinese JV partner Hengshui North Thread Industry ("North Thread") purchasing the remaining 20% of Jimei. The acquisition consolidates A&E and North Thread's manufacturing operations with that of Jimei, which are all located in the same complex in Hubei, allowing A&E to expand its thread yarn capacity to support Asia's growing demand for yarn products. This follows efforts by A&E to transform itself into a more diversified company in terms of customer base, product mix, manufacturing platforms, and geographic locations by, among other steps, acquiring two new product lines in the U.S. to expand product offerings and gain market share and forming a JV in Brazil to acquire another low-cost manufacturing base.

#### Selected Consumer Products Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 27, 2005	Standard Chartered Private Equity <sup>(1)</sup>	Ningbo Beifa Group	\$16.6	NA	NA	Writing instruments manufacturer, with the world's largest modern integrated plant
September 9, 2005	American & Efird, Inc. (A subsidiary of NYSE listed Ruddick Corp.)	Jimei Spinning Company (Hebei)	NA	80.0	NA	Thread manufacturer

(1) Private Equity Investor(s)

#### Food & Beverage

M&A activity in the Food & Beverage sector showed no sign of declining after a robust second quarter and foreign interest in Chinese commodity food and foodstuffs producers remaining strong. The most notable transaction was Taiwan-based Unipresident Enterprise's US\$37.0 million purchase of a 15% stake in China's second largest milk powder producer, Wandashan Dairy Product. Unipresident believes the investment will allow it to leverage Wandashan's expertise in producing high-protein milk products to develop high-protein supplements, capturing new opportunities arising from increased social awareness about health. In a separate deal, after acquiring a controlling stake in Zhejiang-based K.K. Brewery (one of China's leading brewers) in April 2003, InBev S.A. announced that it would pay US\$26.5 million for the remaining 30% interest in the brewer to further consolidate its position within Zhejiang province's beer market, in line with its China strategy of expanding its presence and market share along the more affluent South Eastern coast of China.

### Selected Food & Beverage Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
September 2, 2005	InBev S.A. (Euronext listed)	K.K. Brewery (Zhejiang)	\$26.5	30.0%	\$88.3	A leading brewer in China, with a 50% market share in Zhejiang province
July 14, 2005	Unipresident Enterprise Corp. (Taiwan listed)	Wandashan Dairy Product Co. (Heilongjiang)	\$37.0	15.0%	\$246.6	China's second largest milk powder producer
July 12, 2005	Midsummer Investment and TerraNova Capital Partners <sup>(1)</sup>	New Dragon Asia Corp. (Shandong)	\$6.0	NA	NA	Producer and marketer of flour and related products in China
July 10, 2005	Bunge Ltd. (NYSE listed)	Shandong Sanwei Group (Shandong)	NA (Asset acquisition)	Control	NA	Soybean processing plant in Shangdong

(1) Private Equity Investor(s)

### Printing & Packaging

There was comparatively little M&A activity in the Printing & Packaging sector last quarter, with only one small transaction announced. Dragon International Group, a specialty paper packaging company, raised US\$1.9 million from its investors to acquire two niche players within the specialty packaging industry. The transactions were aimed at acquiring new manufacturing facilities to expand the company's existing product lines and improving its operating efficiency.

### Selected Printing & Packaging Transaction

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 25, 2005	NA	Dragon International Group (Ningbo)	\$1.9	NA	NA	Manufacturer and distributor of specialty paper products and packaging materials in China

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