

## Industrial Sector

1st Quarter 2006

## China Industrial M&A Quarterly

### Highlights

- Legrand, the market leader in Europe for audio and video door systems, takes a controlling stake in No.1 ranked Shidean

This acquisition expands Legrand's presence in China, where the group is already the market leader in wiring devices through its acquisition of TCL International Electrical last quarter

- Kadant, a leading supplier to the global pulp & paper industry, purchases the assets of Jining Huayi Light Industry Machinery for US\$20.0mm

This is Kadant's first acquisition in China and provides it with a low-cost manufacturing platform to serve its growing Asian markets

- Holcim, a worldwide supplier of building materials, invests US\$125.0mm in Chinese strategic partner Huaxin Cement

This transaction increases Holcim's interest in Huaxin Cement, one of China's top ten cement manufacturers, to a controlling 50.6% stake

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## INTRODUCTION

We are pleased to present our quarterly review of cross-border Industrial Sector M&A and private placement activities 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 Industrial M&A and private placement activities in the first 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 the following ten Industrial sectors:

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

However, during the first quarter of 2006, there were no notable transactions in the HVAC, Power Generation/Distribution, and Tools & Hardware sectors.

### Automotive Parts/Automotive

#### Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 25, 2006	Cooper Tire & Rubber Company (NYSE listed)	Shandong Chengshan Tire Company (Shandong)	NA	51%	NA	China's 3rd largest Chinese-owned tire manufacturer
March 24, 2006	Cornell Capital Partners <sup>(1)</sup>	China Automotive Systems (China, NASDAQ listed)	20.0 <sup>(2)</sup>	NA	NA	China's leading power steering components and systems supplier

(1) Private Equity Investor(s)

(2) Consists of US\$5.0mm common shares and US\$15.0mm via a Standby Equity Distribution Agreement (SEDA)

In the Automotive Parts sector, Cooper Tire & Rubber Company, a global manufacturer of tires and vehicle related rubber products, acquired a majority 51% interest in Shandong Chengshan Tire Company ("Chengshan"). The acquisition allows the company to strengthen its market share in China, as Chengshan, which serves both the domestic and worldwide markets, is the third largest Chinese-owned manufacturer of tires in China. In addition, Cornell Capital Partners, a US-based private equity fund, invested US\$20.0mm in China Automotive Systems, the largest independent supplier of power steering components and systems in China, with the company utilizing the funds to further develop its output capacity, R&D capabilities, and sales distribution channels.

### Components

#### Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 25, 2006	CLSA Private Equity Management <sup>(1)</sup>	Great Speed Enterprises (Fujian)	10.0	NA	NA	A leading mobile phone Li-ion battery and household branded battery manufacturer
January 26, 2006	Ultralife Batteries (NASDAQ listed)	Able New Energy Co. (Shenzhen)	4.2	100%	4.2	An established manufacturer of lithium batteries in China

(1) Private Equity Investor(s)

Transactions last quarter in the Components sector were focused on companies involved in the production of batteries for mobile phones, consumer electronics, and household appliances. CLSA Private Equity invested US\$10.0mm in Great Speed Enterprises, one of the largest mobile phone battery makers in China, while Ultralife Batteries, a global provider of high-energy power systems, acquired Able New Energy for a total consideration of US\$4.2mm.

### Fire, Safety, & Security

#### Selected Fire, Safety, & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 26, 2006	Legrand (Paris listed)	Shidean (Shenzhen)	NA	51%	NA	China's leading audio and video door entry systems manufacturer

Legrand, the market leader in Europe for audio and video door entry systems, acquired a controlling stake in its Chinese counterpart Shidean. The acquisition, coupled with its recent investments in TCL International Electrical which is the largest wiring devices manufacturer in China and TCL Building Technology, signifies its continued interest in building its China presence through consolidating market leaders in its respective business areas.

### Industrial Controls

#### Selected Industrial Controls Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 9, 2006	Chardan North China Acquisition Corp (China; OTCBB listed)	HollySys Holdings (Beijing and Hangzhou)	302.6 <sup>(1)</sup>	100%	302.6	China's leading industrial automation and control systems manufacturer

(1) Earn-out transaction of US\$302.6mm, of which US\$30.0mm is upfront cash payment, with the remaining consideration being fulfilled by Chardan North China's common shares

There was one notable transaction announced in the Industrial Controls sector in the first quarter. HollySys, the number two player in China's Distributed Control Systems (DCS) market with a market share of 16%, was acquired by Chardan North Acquisition Corp. This back-door listing allows HollySys to finance its vertical integration initiative through the equity capital markets, strengthening its position in China's increasingly competitive automation and controls industry, which is currently dominated by multinationals including ABB, Honeywell, Siemens, and Yokugowa.

## Machinery & Equipment

Selected Machinery & Equipment Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
January 26, 2006	Kadant (NYSE listed)	Jining Huayi Light Industry Machinery (Jining)	20.0 (Asset acquisition)	NA	NA	A supplier of stock-preparation systems in China, primarily serving the pulp & paper industry
February 13, 2006	Metso Corporation (Helsinki listed)	Shanghai Chenming Paper Machinery (Shanghai)	NA	100%	NA	A manufacturer of paper machines
February 27, 2006	Asia Water Technology (Singapore listed)	Wuhan Kaidi Water Services (Wuhan)	3.6	9.6%	37.9	Provides water purification treatment and wastewater treatment systems
March 9, 2006	Ashland (NYSE listed)	Nanjing Clear Environment Protection (Nanjing)	NA (Asset acquisition)	NA	NA	A supplier of water treatment systems

First quarter of 2006 M&A activity in the Machinery & Equipment sector was focused on strategic players acquiring their counterparts in the paper and water treatment industries. Three notable transactions were: (i) Kadant acquiring Jining Huayi Light Industry Machinery for a low-cost manufacturing base in Asia; (ii) Metso Corporation acquiring 100% of Shanghai Chenming Paper Machinery; and (iii) Ashland purchasing the assets of Nanjing Clear Environment to increase its share of China's rapidly expanding water treatment market.

## Materials, Chemicals & Plastics

Selected Materials, Chemicals & Plastics Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
March 7, 2006	Holcim Ltd. (Swiss listed)	Huaxin Cement Co., Ltd. (Hubei; Shanghai listed)	125.0	24%	516.5	A top 10 cement manufacturer in China
March 16, 2006	Silvercorp Metals Inc. (Toronto listed)	Hou-Ping-Gou mine (Henan)	5.2	60%	8.6	A silver, gold, and lead mine in Henan
March 16, 2006	AA Investments Company (Management buy-out)	Asia Aluminum Holdings (Hong Kong; HKSE listed)	606.5 <sup>(1)</sup>	100%	606.5	Designs, manufactures, and sells customized aluminum extrusion products and processes

(1) Transaction value based on revised offer price to shareholders.

Holcim, a worldwide supplier of building materials, increased its shareholding in its Chinese strategic partner Huaxin Cement from 26.1% to a controlling 50.3% stake. The acquisition strengthens Holcim's competitive position in China's fragmented cement industry, where the top five producers account for less than 10% of installed capacity, significantly lower than the 60-75% average for other cement markets. Another transaction of note was the US\$606.5mm management buy-out of HKSE-listed Asia Aluminum.

## Steel

## Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
February 24, 2006	Arcelor SA (Luxembourg listed)	Laiwu Steel Corporation <sup>(1)</sup> (Shandong)	259.5	38%	675.5	China's second biggest maker of steel construction beams

(1) *Subsidiary of Laiwu Steel Group, one of China's leading steel manufacturers*

The world's second largest steel producer Arcelor's US\$295.5 investment in Laiwu Steel marked the most significant M&A activity in the Steel sector in the last quarter. The investment was viewed as an attempt by Arcelor to expand its market share in the world's fastest growing steel market, where demand for steel grew by 10.7% in 2005, far outpacing the 5% average for other countries.

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