

Industrial Sector

4th Quarter 2006

China Industrial M&A Quarterly

Highlights

- **DaimlerChrysler AG and Beijing Automotive Industry Holding invest in Beiqi Foton Motor Company Limited**

The US\$104 million investment for 24% of the company expands DaimlerChrysler's access to China's agricultural vehicle market.

- **CDH and JAFCO invest US\$100 million into solar power wafer manufacturer LDK Solar Power**

The pre-IPO round into the multi-crystalline silicon wafer manufacturer capitalizes on the current interest in Greentech and in solar power in particular

- **Goldman Sachs invests US\$113 million into Fuyao Group Glass**

Goldman's investment gives it a 10% strategic stake in the largest automotive glass maker in China

- **H&Q Asia Pacific invests US\$45 million into Yuchai Engineering Machinery Co.**

The pre-IPO investment into Yuchai is a play on the booming construction machinery industry in China, in which the excavator market is expected to grow 30%-50% annually.

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INTRODUCTION

We are pleased to present our quarterly review of cross-border 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 cross-border China Industrial M&A and private placement activities in the fourth 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
- Water Treatment

However, during the fourth quarter of 2006, there was no notable transaction in the HVAC and Water Treatment sectors.

Automotive Parts/Automotive

For the fourth quarter, there were five notable Automotive Parts/Automotive transactions. Most notably, DaimlerChrysler AG and Beijing Automotive Industry Holding announced their intention to acquire 24% of Beiqi Foton Motor Company as part of a technological and sales cooperation agreement. They will provide technology to improve Beiqi's R&D of light to heavy trucks and provide Beiqi with access to DaimlerChrysler's China sales network.

In private equity news, Goldman Sachs is tapping into the world's fastest growing major car market with an investment in Fuyao Group Glass Industries. Fuyao dominates China's vehicle glass market and is increasing its business with international automakers to boost earnings.

A notable outbound transaction was the acquisition of Lawrence Automotive Interiors by China's Huaxiang Group, which gives Huaxiang both advanced wood veneer making technology and global customers such as Cadillac, Saab and PSA Peugeot Citroen.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
November 20, 2006	Goldman Sachs	Fuyao Group Glass Industries [SHSE:600660]	113.1	10.0	1,131.0	China's largest automotive-glass maker
November 29, 2006	DaimlerChrysler AG and Beijing Automotive Industry Holding	Beiqi Foton Motor Company Limited [SHSE:600166]	104.0	24.0	433.1	Manufacturer of cars, reaping machines, agriculture vehicles, tractors, accessories, stamping parts, and molding tools
December 11, 2006	Cie Automotive, S.A. [CATS: CIE]	Shanghai Sandun Auto Parts Co, Ltd.	6.9	100.0	6.9	Designer and manufacturer of plastic injection products for auto interior decoration parts
December 18, 2006	Carlisle Companies Inc. [NYSE: CSL]	Meiyan Tire Group	NA	100.0	NA	Manufacturers and marketer of specialty tires and wheels
December 2006	Huaxiang Group	Lawrence Automotive Interiors (UK)	6.7	100.0	6.7	Manufacturer of interiors for automobiles specializing in premium decorative trim components. Was a fully owned subsidiary of Magna International, the worlds 3 rd largest interiors manufacturer.

Components

There was only one notable transaction announced in the fourth quarter. CDH and JAFCO invested US\$100 million into LDK Solar in a pre-IPO round. LDK Solar claims to be the biggest multi-crystalline wafer manufacturer in Asia, and is planning to increase its production capacity to 1000MW by 2010. The investment underlines the strong investor interest in Greentech opportunities at the moment.

Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
December 17, 2006	CDH Investments, JAFCO Investment Ltd	Jiangxi Saiwei LDK Solar Power	100.0	NA	NA	Developer and manufacturer of solar power silicon wafer

Fire, Safety & Security

There were three notable transactions in Fire, Safety & Security sector in the fourth quarter, all involving China Security & Surveillance Technology Inc. The Company made two acquisitions to enhance its technology platform and raised US\$10 million in a private placement to bolster its working capital position.

Selected Fire, Safety & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
November 29, 2006	JLF Asset Management	China Security & Surveillance Technology [OTCBB: CSCT]	10.0	NA	NA	Develops and markets digital security and surveillance systems
December 26, 2006	China Security & Surveillance Technology Inc. [OTCBB:CSCT]	Shenzhen Hongtianzhi Electronics Co., Ltd.	30.0	100.0	30.0	China's leading security camera systems manufacturer and marketer
December 27, 2006	China Security & Surveillance Technology Inc. [OTCBB:CSCT]	Wuhan HighEasy Electric Technology Development Co., Ltd.	10.0	100.0	10.0	China's leading provider of advanced compression technology used to enhance video and audio transmissions over telecom infrastructure

Machinery & Equipment

The Machinery & Equipment sector continues to be a focus of M&A activities. H&Q Asia Pacific invested US\$45 million into Yuchai Engineering Machinery Co. Ltd., beating out China Everbright Group and Singapore's Temasek Holdings among others. The pre-IPO expansion financing round is expected to help Yuchai grow sales as a tide of construction washes over China, generating demand for machinery and equipment such as compact excavators, mini bulldozers and small wheel loaders. In another notable transaction Jinpan International Ltd raised US\$25.7 million to fund a new manufacturing facility and expand its current operating capacity in Wuhan.

Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
November 8, 2006	H&Q Asia Pacific	Yuchai Engineering Machinery Co., Ltd.	45.0	43.3	103.9	China's leading manufacturer and exporter of small-sized excavators
December 7, 2006	Toshiba Corp.	Guangzhou Baiyun Electrical Appliance Equipment Factory	NA	60.0	NA	Vacuum valve production unit of Guangzhou Baiyun Electric Group Co.
December 19, 2006	Capital Ventures International, Cranshire Capital L.P., Crestview Capital Funds, Crestview Capital Master LLC, etc.	Jinpan International Ltd.	25.7	NA	NA	Designs, manufactures and distributes cast coil transformers for power distribution equipment in China

Materials, Chemicals & Plastics

This was once again an active sector for M&A activity. Aluminum Corp of China continued its consolidation of the fragmented domestic aluminum industry by acquiring 28.6% of Shandong Aluminum and 72% of Lanzhou Aluminum for a combined US\$881.7 million. Lanzhou Aluminum is a top ten producer of aluminum products in China and this controlling stake will further Aluminum Corp of China's goal of reducing overcapacity and stabilizing the price of aluminum.

Cement manufacturers were the subject of takeovers by foreign firms this quarter. Hedelberg Cement AG's acquisition of Liaoning Gongyuan Cement Group taps into the growth around Shenyang and Benxi. With its nearby iron ore and coal deposits, Shenyang is the center of the heavy industries in Northeast China and its strong growth potential has been further bolstered by the government's "Revive Northeast" development policy.

In Private Equity, Goldman Sachs, Lux Capital and Sequoia China invested US\$25million in Yashen Tech, a developer of catalysts and other specialty materials.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
October 4, 2006	Heidelberg Cement AG [DB:HEI]	Liaoning Gongyuan Cement Group Co., Ltd.	NA	80.0	NA	Local cement and related products manufacturer
October 10, 2006	Steel Partners China Access	Mudanjiang Hengfeng Paper [SHSE:600356]	NA	NA	NA	Industrial paper products manufacturer
October 10, 2006	CRH [ISE:CRG]	Harbin Sanling Cement Company	NA	NA	NA	Cement products manufacturer
October 16, 2006	Cimentos de Portugal SA [ENXTLS:CPR]	Shandong Liuyuan New Type Cement Development Company	2.6	60.0	4.3	Local producer and seller of cement
October 26, 2006	PolyOne Corporation [NYSE:POL]	Hing PlastChem Co	NA	NA	NA	Assets and operations of the vinyl compounding subsidiary of Ngai Hing Hong Co., Ltd.
October 27, 2006	China Bluestar Group	Rhodia Group	NA	100.0	NA	Specialty chemicals producer in France
October 30, 2006	Merrill Lynch, Western Asset Management	Jiutian Chemical Group Ltd. [SGX: J31]	12.1	6.3	191.6	Engages in fine chemical industry in China
December 8, 2006	Aluminum Corp. of China Ltd. [HKSE:2600]	Shandong Aluminum [SHSE:600205]	406.0	28.6	1,421.1	Local developer and manufacturer of Aluminum-related products
December 8, 2006	Aluminum Corp. of China Ltd. [HKSE:2600]	Lanzhou Aluminum [SHSE:600296]	475.6	72.0	660.5	Top 10 developer and manufacturer of Aluminum-related products
December 11, 2006	Goldman Sachs, Lux Capital, Sequoia	Yashen Tech	25.0	NA	NA	Developer and marketer of catalysts and other specialty materials for automobile, chemical, electrical & electronic industries
December 11, 2006	BASF Catalysts LLC	Guilin Reecat Environment Industry Co., Ltd.	NA	100.0	NA	Manufacturer and marketer of various catalysts used for purifying vehicle exhaust gas
December 18, 2006	BASF AG [DB:BAS]	Hi Con Concrete Admixture Ltd.	NA	NA	NA	Producer of concrete admixtures in China
December 26, 2006	Congqing Bosai	OBMI	48.0	70.0	68.6	Bauxite mine in Guyana
December 26, 2006	Italcementi Group	Fuping Cement	33.0	100.0	33.0	Cement manufacturer in China
December 27, 2006	Asian Dragon Group Inc. [OTCBB:AADG]	Loning Gold Mine	2.0	NA	NA	Gold and precious metals mine in China

Industrial Controls

Similar to the third quarter, M&A activity in the Industrial Controls sector has been relatively quiet in the fourth quarter. There was only one notable transaction, a private equity investment by Baring Private Equity Asia for 25% of China Airtac Enterprise Group, China's leading pneumatic equipment manufacturer with three manufacturing facilities in China.

Selected Industrial Control Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
November 9, 2006	Baring Private Equity Asia	China Airtac Enterprise (Group) Co., Ltd.	NA	25.0	NA	China's leading pneumatic equipment manufacturer

Steel

M&A activity in the steel sector was relatively quiet in the fourth quarter. Maanshan Iron & Steel Co invested US\$7.7million into Burwill Coil Centre, formerly a wholly foreign owned enterprise, to form a sino-foreign equity joint venture. Burwill Holdings believes that the new joint-venture company to be set up with Maanshan would further strengthen its market position and improve its scale of operation as they plan on increasing the joint venture's capacity from 150,000 tonnes to 800,000 tonnes.

Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
November 23, 2006	Maanshan Iron & Steel Co., Ltd. [SHSEL600808]	Burwill Coil Centre (Yangzhou) Co., Ltd.	7.8	71.0	10.9	Steel coil processing, production and distribution

Power Generation/Distribution

China is now the second largest consumer of energy after the US and the Power Generation/Distribution sector continues to be a focus of M&A activities. The highlight of this sector during this quarter was CITIC group's purchase of a Oil & Gas Field in Kazakhstan from Nations Energy Company for US\$1.9 billion. It is the third largest purchase of an oil field by a Chinese firm. The oil field has proven reserves of over 340 million barrels and current production of over 50,000 barrels per day.

Domestically, listed Chinese Gas companies continue to consolidate smaller private companies in China. Green Dragon Gas Ltd acquired 59% of Beijing Huayou United Gas Development Co. Ltd, the balance of which is owned by China National Petroleum Company (CNPC). As well, Hong Kong listed China Gas Holdings acquired Shanghai Zipower, which holds 51% of gas distribution company Taineng Natural Gas. Taineng holds a contract to supply natural gas to Qingdao for 30 years.

Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
October 27, 2006	CITIC Group	Kazakhstan Oil & Gas Field	1,910.0	NA	NA	Kazakhstan oil & gas field assets in Mangistau Oblast, Kazakhstan. Owned by Nation Energy of Canada.
December 18, 2006	China Gas Holdings Ltd. [HKSE:0384]	Taineng Natural Gas	32.8	51.0	64.4	Supplies natural gas, coal gas and liquefied natural gas in Qingdao, China
December 20, 2006	Green Dragon Gas Ltd. [AIM:GDG]	Beijing Huayou United Gas Development Co. Ltd.	26.0	59.0	44.1	Operates gas pipeline networks in China
December 29, 2006	China Oil and Gas Group Ltd. [HKSE:0603]	Vast China Group	25.2	100.0	25.2	Invests in and builds natural gas stations and supply of natural gas

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