

Industrial Sector

4th Quarter 2005

China Industrial M&A Quarterly

Highlights

- The Carlyle Group agrees to purchase an 85% stake in Xugong Group Construction Machinery, China's largest maker of construction equipment, for US\$375.0 million
- CITIC Pacific announces a US\$182.3 million investment in Shijiazhuang Iron and Steel Company for 65% of the company
- Lafarge Shui On Cement spends US\$160.0 million in an acquisition of the parent company of Shenzhen-listed Shuangma Cement Co., Ltd.
- China National Chemical Corp. expands into Australia with a US\$150.0 million purchase of polyethylene manufacturer Qenos Holdings
- A. O. Smith Corp. makes its fourth acquisition of a Chinese electric motor manufacturer through the purchase of Yueyang Zhongmin Special Electrical Machinery

Beijing

Suite 11J, Oriental Kenzo Plaza
48 Dongzhimen Wai Avenue
Beijing 100027, China
+86 (10) 8447 7398

Hong Kong

Suite 4310, Jardine House
One Connaught Place
Central, Hong Kong
+852 2973 5311

San Francisco

Suite 3330, 50 California Street
San Francisco, CA 94111, USA
+1 (415) 692 0088

info@latitudecapital.com

www.latitudecapital.com

INTRODUCTION

We are pleased to present our quarterly review of cross-border Industrial Sector M&A 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 previous quarter, highlighting notable selected transactions that are relevant to venture capital, private equity, and strategic buyers/investors. Our review is broken down into the following nine broad Industrial sub-sectors:

INDUSTRIAL SUB-SECTORS *

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

As can be seen from the transactions below, the trend of worldwide manufacturing companies buying into China continued in the fourth quarter of 2005. Through the acquisitions, these companies enlarged production capabilities, acquired technical expertise and skilled workforce, and more importantly, obtained access to China's vast domestic market.

Automotive Parts/Automotive

Overall M&A activity in the Automotive Parts/Automotive sector slowed in the fourth quarter as compared with the third quarter. One notable transaction was Trelleborg Group's acquisition from Wuxi Guolian Group of the latter's remaining 45% interest in their JV vehicle (jointly set up in 2000). Trelleborg plans to make further investment to enhance the plant's manufacturing capabilities in serving rapidly growing demand from domestic and international customers. The move reinforces the global industrial group's strategic drive to strengthen its positions in Asia, following the acquisition of the majority shareholding in another vehicle-components company, Kunhwa Co., Ltd. of South Korea, in 2003.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
October 31, 2005	Trelleborg Group (Stockholm listed)	Wuxi Trelleborg Vibration Isolator Co., Ltd. (Wuxi)	NA	45.0%	NA	Manufacturer of automotive components, serving primarily the light-vehicle industry

Fire, Safety & Security

There was only one notable M&A transaction in the Fire, Safety & Security sector in the fourth quarter. Ingersoll-Rand, a NYSE-listed diversified industrial firm, acquired an 80% stake in Shenzhen Bocom System Engineering Co., Ltd., the largest independent security systems integration company in China, in an effort to enlarge its security-systems portfolio and expand its global footprint to serve global customers in China. Bocom represents an excellent fit with Ingersoll-Rand's existing security solutions and will operate as part of its Security Technologies business.

Selected Fire Safety & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 1, 2005	Ingersoll-Rand (NYSE listed)	Shenzhen Bocom System Engineering (Shenzhen)	NA	80.0	NA	A China-based provider of security systems integration technologies and services

* Note that during the 4th quarter, there were no notable transactions in the Industrial Controls, Power Generation/Distribution and Tools & Hardware sectors.

HVAC

In the HVAC sector, A.O. Smith Corporation, one of North America's largest manufacturers of electric motors, acquired Yueyang Zhongmin Special Electrical Machinery, a producer of hermetic motors used in commercial air conditioning and refrigeration compressors. This is A.O. Smith's fourth acquisition of a Chinese electric motor manufacturer since 2001, undertaken to expand production capabilities and product offerings. Also of note was the US\$20.0 million purchase of US-based Melcor Corporation and its Chinese subsidiary, Melcor Hua Yua, by The Laird Group, a leading global electronics and security systems group, in a move to acquire additional key technologies. Melcor will be integrated into Laird's growing thermal management business and will benefit from Laird's greater product development and application engineering resources, customer presence and global reach.

Selected HVAC Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 8, 2005	A. O. Smith Corporation (NYSE listed)	Yueyang Zhongmin Special Electrical Machinery (Yueyang)	NA	100.0	NA	Manufacturer of hermetic motors used in commercial air conditioning and refrigeration compressors
October 26, 2005	The Laird Group (LSE listed)	Melcor Corporation & its Chinese subsidiary Melcor Hua Yua (Quanzhou)	20.0 ⁽¹⁾	100.0	20.0	Manufacturer and supplier of thermoelectric modules and cooling systems for aerospace, medical, and specialist industrial applications

(1) Total consideration of US\$20 mm is composed of US\$17.4 mm for the acquisition of Melcor Corporation and its Chinese subsidiary Melcor Hua Yua plus US\$2.6 mm for the purchase of all minority shareholder interest in Melcor Hua Yua

Machinery & Equipment

The most significant transaction announced in the Machinery & Equipment sector in last quarter was the US\$375.0 million purchase of an 85% ownership in state-owned Xugong Group Construction Machinery, China's largest maker of construction equipment, by US private equity giant The Carlyle Group. Taking two years to complete, the transaction is the largest private equity deal completed in China to date and is viewed as a major step for China's private equity industry and for foreign investors seeking controlling stakes in big state-owned companies. Another notable deal was Nasdaq-listed Watts Water Technologies' purchase of the assets and business of Changsha Valve Works, a leading company in the water works and water distribution markets in China. The latter's well-known brand name, a significant level of technical expertise and its direct sales force are expected to help strengthen Watts' position in China's fast-growing water works and distribution market.

Selected Machinery & Equipment Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 4, 2005	Watts Water Technologies (NYSE listed)	Changsha Valve Works (Changsha)	NA (Asset acquisition)	100.0	NA	Manufacturer of large diameter hydraulic actuated butterfly valves for thermo-power and hydro-power plants and water works projects in China
October 25, 2005	The Carlyle Group ⁽²⁾	Xugong Group Construction Machinery (Xuzhou)	\$375.0	85.0	\$441.2	A Chinese state-owned manufacturer of construction machinery

(2) Private Equity Investor(s)

Materials, Chemicals & Plastics

Chinese materials, chemicals and plastics makers continued to be popular investment targets in the fourth quarter with investors' interest shifted to two areas – construction materials and commodity chemicals. The construction industry in China has been growing rapidly in recent years due to the massive build-up of infrastructure and private and commercial real estate. The trend is expected to continue with the continued strong economic growth and rising living standard in China, and thus continue to attract foreign companies to buy into the industry. Of note was Lafarge Shui On Cement's US\$160.0 million acquisition of Sichuan-based Shuangma Investment Group, which holds a 66.5% stake in Shenzhen-listed Shuangma Cement Co. Ltd. The deal significantly increased Lafarge Shui On Cement's production capability, bolstering its position as the leader in Southwest China, and one of the top three cement producers in China. Also in the construction materials area, Canada-listed mining company McVicar Resources exercised its option to acquire the remaining 75% interest in two manufacturing subsidiaries of Shenzhen Kingdom Chemical, a leading manufacturer and supplier of specialized chemical products used in China's construction industry, following its previous purchase of 25% interest in the two facilities in August 2005, as reported in our 3rd Quarter 2005 Report. In the commodity chemicals area, a major transaction was China National Chemical Corp. ("ChemChina")'s US\$150.0 million bid for Australia's Qenos Holdings, the country's only polyethylene materials manufacturer. The acquisition provides ChemChina with a strong Australian platform for further business growth, and makes it the first Chinese company to acquire 100% ownership of an asset in resource-rich Australia.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
December 19, 2005	CP Kelco U.S. (NYSE listed)	Shandong Gold Millet Biological Products Co., Ltd. (Shandong)	NA	100.0	NA	China's second largest producer of xanthan gum
December 6, 2005	Alcoa Inc. (NYSE listed)	Alcoa Closure Systems International (Tianjin)	NA	30.0	NA	Manufacturer of plastic closures for beverages
November 23, 2005	Umicore SA (Brussels listed)	Suzhou Alloy Material Factory (Suzhou)	\$8.8 (Asset acquisition)	100.0	\$8.8	Manufacturer of precious-metals-containing contact materials in China
November 18, 2005	McVicar Resources (Canada listed)	Shenzhen Kingdom Chemical (Shenzhen and Shanghai)	NA ⁽³⁾ (Two manufacturing subsidiaries)	75.0	NA	Manufacturer and supplier of specialty chemical products used in China's construction industry
November 15, 2005	Lafarge Shui On Cement (A subsidiary of Paris-listed Lafarge SA)	Shuangma Investment Group (Mianyang)	\$160.0	100.0	\$160.0	Shuangma Investment Group holds a 66.5% stake in Shenzhen-listed Sichuan Shuangma Cement Co. Ltd.
November 7, 2005	Henkel Group (Germany listed)	Huawei Electronics (Lianyungang)	NA	Majority stake	NA	Manufacturer of epoxy molding components for semiconductors in China
October 30, 2005	China National Chemical Corp. (China State-owned company)	Qenos Holdings (Australia)	\$150.0	100.0	\$150.0	Australia's sole polyethylene manufacturer
October 18, 2005	DSM NV (Amsterdam listed)	Syntech Synthetic Resin Co., Ltd. (Shunde)	NA	100.0	NA	Manufacturer of synthetic resins for paint coatings in China

(3) Consideration will be determined at a P/E multiple of eight times the earnings of the two subsidiaries for fiscal year ended December 31, 2005.

Steel

CITIC Pacific continued to be the most active investor in the Steel sector in 2005. Following its purchase of Hubei-based Daye Special Steel earlier in the year, CITIC Pacific announced in November that it would spend US\$182.3 million in an acquisition and recapitalization of Shijiazhuang Iron and Steel Company in Hebei province for a 65% stake in the company. The Hong Kong-listed conglomerate has been building a portfolio of special steel production assets to capture the robust growth in demand for steel in China.

Selected Steel Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
November 15, 2005	CITIC Pacific (HK listed)	Shijiazhuang Iron & Steel Co., Ltd (Shijiazhuang)	\$182.3	65.0	\$280.5	Steel manufacturer, focusing on automobile steel production
October 26, 2005	Saint Gobain (Paris listed)	Xuzhou General Iron and Steel Works (Xuzhou)	NA	100.0	NA	Manufacturer of cast iron, galvanized welded pipes, and ductile iron pipes in China

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Beijing

Suite 11J Oriental Kenzo Plaza
48 Dongzhimen Wai Avenue
Beijing 100027, China

Tel +86 (10) 8447 7398
Fax +86 (10) 8447 7396

Hong Kong

Suite 4310 Jardine House
One Connaught Place
Central, Hong Kong

Tel +852 2973 5311
Fax +852 2295 3979

San Francisco

50 California Street, Suite 3330
San Francisco, CA 94111
USA

Tel +1 (415) 692 0088
Fax +1 (415) 366 1408

info@latitudecapital.com

www.latitudecapital.com

 **LATITUDE**
CAPITAL GROUP