

Industrial Sector

2nd Quarter 2006

China Industrial M&A Quarterly

Highlights

- CVC Asia Pacific Ltd. acquired 40% of Shandong Chenming Paper Holdings Co. Ltd. for US\$625.0 million

Shandong Chenming Paper Holdings Co. Ltd. is one of the leading paper manufacturers in China. The company will use the proceeds to build its own upstream pulp mill to reduce reliance on pulp imports.

- ROC Oil Co. Ltd., an Australian listed oil and gas company, announced the 100% acquisition of Apache China Corporation LDC, a natural gas and crude oil developer, for US\$259.8 million

Apache China Corporation is the operator of the Zhao Dong Block of Bohai Bay, an area that is a part of petroleum producing Shandong province. The transaction brings ROC Oil Co. Ltd. a 24.5% operation interest in the area.

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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 second 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 second quarter of 2006, there were no notable transactions in the Components, HVAC, Industrial Controls, Power Generation/Distribution, and Tools & Hardware sectors.

Automotive Parts/Automotive

The overall M&A activity in the Automotive Parts/Automotive Sector has increased slightly compared with the first quarter. Mitsubishi Motors Co. Ltd., a Tokyo stock exchange listed automotive and automotive parts manufacturer, acquired a 25% stake in South East (Fujian) Motor Co. Ltd., a Fujian based 50/50 joint venture (“JV”) between Fujian Motor Industrial Corporation and China Motor Corporation, in an effort to strengthen its production, operation and expand its sales of Mitsubishi branded vehicles in mainland China. This is Mitsubishi’s fourth equity investment in mainland China with the others being engine manufacturers. These previous investments included Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co. Ltd., Harbin Dongan Automotive Engine Manufacturing Co. Ltd. and automobile manufacturer Hunan Changfeng Motor Co. Ltd.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
April 13, 2006	Mitsubishi Motors Co. Ltd. (TSE Listed)	South East (Fujian) Motor Co. Ltd. (Fujian)	NA	25.0	NA	50/50 JV between Fujian Motor Industrial Corporation and China Motor Corp.; produces passenger and commercial vehicles
April 6, 2006	Ford Asia Pacific Holding Co. Ltd (NYSE Listed)	Chang'an-Ford (Chongqing)	NA	10.0	NA	Automotive manufacturer, a JV between ChangAn Auto and Ford
April 5, 2006	Mazda (TSE Listed)	Chang'an-Ford (Chongqing)	NA	15.0	NA	Automotive manufacturer, a JV between ChangAn Auto and Ford

Fire, Safety, & Security

There are two transactions in the Fire, Safety & Security Sector but all of them are of relatively small scale.

Selected Fire, Safety, & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
May 17, 2006	UniVision Engineering Ltd. (AIM Listed)	T-Com Tech Co. Ltd. (Taiwan)	1.0	52.3	1.8	Taiwan's leading developer and seller of CCTV, access control and integrated security systems
April 5, 2006	Pinnacle China Fund L.P. ⁽¹⁾ (USA)	China Security & Surveillance Technology Inc. (OTCBB Listed)	8.0	NA	NA	Manufacturer and distributor of security & surveillance products and solutions in China

(1) A consortium of Private Equity Investors

Machinery & Equipment

The number of transactions has increased slightly in the Machinery & Equipment Sector in this quarter as compared with the first quarter. The most notable transaction is Alstom (China) Investment Co. Ltd.'s ("Alstom") US\$41.2 million cash investment in Wuhan Boiler Co. Ltd, a Hubei based state-owned boiler manufacturer, for a 51% stake. Alstom is a wholly-owned subsidiary of the French infrastructure provider Alstom Holdings. Alstom will introduce new technology and improve management to boost the performance of Wuhan Boiler. Also, Alstom's involvement in Wuhan Boiler is set to increase the competition in China's boiler machinery sector, which is currently led by Sichuan-based Dongfang Boiler Group Co. Ltd. and Wuxi-based Wuxi Huaguang Boiler Co. Ltd.

Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
June 26, 2006	Pentair Inc. (NYSE Listed)	Beijing Jieming Environmental Protection Equipment Co. Ltd. (Beijing)	NA	70.0	NA	Developer, manufacturer, and distributor of water treatment equipment and related products
June 23, 2006	Hangzhou Machine Tool Group (Hangzhou)	aba z&b (Germany)	7.5	60.0	12.5	Germany's leading grinding machine manufacturer
June 14, 2006	International Mining Machinery Ltd. (USA)	1) Jixi Coal Mining Machinery Co. Ltd. (Heilongjiang) 2) Jiamusi Coal Mining Machinery Co. Ltd. (Heilongjiang)	NA	100.0	NA	China's leading suppliers of shearers, roadheaders and other coal mining equipment
May 17, 2006	ATS Automation Tooling Systems Inc. (TSX Listed)	GD Technologies (Shanghai)	1.8	NA	NA	High precision machinery company that serves the computer-electronics, disk drive, and healthcare sectors
April 26, 2006	Terex Corp. (NYSE Listed)	Sichuan Changjiang Engineering Crane Co. Ltd. (Sichuan)	NA	50.0	NA	China's leading manufacturer of on-highway truck cranes
April 17, 2006	Alstom (China) Investment Co. Ltd. (France)	Wuhan Boiler Co. Ltd. (SZSE Listed)	41.2	51.0	82.4	China's leading boiler manufacturer

Materials, Chemicals & Plastics

In the Materials, Chemicals & Plastics Sector, the total number of transactions increased threefold in the second quarter. Of note was the 40% stake purchase of Shandong Chenming Paper Holdings Co. Ltd., a leading Chinese paper manufacturer, by private equity firm, CVC Asia Pacific Ltd. CVC Asia Pacific Ltd. will become Chenming's largest shareholder after the investment. Chenming will use the proceeds to build its own pulp mill in order to raise its annual production capacity, reduce its reliance on imports and cut costs.

Also of note was the US\$259.8 million purchase of the natural gas and crude oil developer Apache China Corporation LDC, by ROC Oil Co. Ltd. ("ROC"), one of Australian's leading independent oil and gas companies that is listed on the Australian Stock Exchange. Through this 100% acquisition, ROC acquired a 24.5% operation interest in the Zhao Dong Block in the Bohai Bay. The Zhao Dong Block is part of petroleum producing Shandong province that offers considerable upside potential. The acquisition is expected to deliver a number of technical, commercial and strategic benefits to ROC.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
June 27, 2006	ROC Oil Co. Ltd. (ASX Listed)	Apache China Corporation LDC (Beijing)	259.8	100.0	259.8	Subsidiary of Apache Corporation that explores, develops and produces natural gas and crude oil etc.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
June 21, 2006	Zijin Mining Group (SEHK Listed)	China Gold Development Group (H.K.) Ltd. (Hong Kong)	20.0	70.0	28.6	HK-based gold-smelting company
June 13, 2006	Sonangol Sinopec International ⁽¹⁾	3 oil exploration blocks (Angola)	NA	NA	NA	Oil exploration blocks
May 25, 2006	CVC Asia Pacific Ltd. ⁽²⁾	Shandong Chenming Paper Holdings Co. Ltd. (SZSE Listed)	625.0	40.0	1,488.0	China's leading paper manufacturer
May 15, 2006	GDH Ltd. (Hong Kong)	Guangdong Medium Density Fibre Board Co. Ltd. (Guangdong)	NA	11.2	NA	Manufacturer of medium density and high density frames
May 9, 2006	Hunan Nonferrous Metals Co. Ltd. (SEHK Listed)	Compass Resources NL (ASX Listed)	23.4	10.5	222.5	Australian mineral exploration company
May 9, 2006	Hunan Nonferrous Metals Co. Ltd. (SEHK Listed)	ZhongWu GaoXin (SZSE Listed)	23.1	27.8	83.2	Chinese mineral exploration company
April 5, 2006	Rusal (Russia)	Shaanxi Linshi Cathode Block Plant (Shannxi)	NA	100.0	NA	Cathode blocks producer
April 3, 2006	ChemChina Group (Beijing)	Qenos Holding Corporation (Australia)	NA	100.0	NA	Largest ethylene producer and the sole polyethylene producer in Australia

(1) JV between Sinopec and Angola SOE oil company

(2) Private Equity Investor(s)

Steel

There was only one notable transaction announced in the Steel Sector in this quarter: Shougang Concord International ("Shougang")'s US\$52.5 million acquisition of Asia Iron Holdings Ltd. As a result of the transaction, Shougang, a Hong Kong listed unit of China's third largest steel maker, will gain control of the Extension Hill magnetite iron ore project in Western Australia which provides a long-term supply of magnetite concentrate for Shougang's mainland steel operations.

Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
June 7, 2006	Shougang Concord International (SEHK Listed)	Asia Iron Holdings Ltd. (Hong Kong)	52.5	73.0	71.9	Provider of iron ore mining and exploration services

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