

Industrial Sector

3rd Quarter 2007

China Industrial M&A Quarterly

Highlights

- Blackstone to invest up to US\$600 million for a 20% stake in China National BlueStar (Group) Corp.

The investment in the specialty chemical company marks the first major move by Blackstone in China.

- Shanghai Electric to buy out Shanghai-listed subsidiary for US\$390 million in A-share listing

The share swap acquisition would allow Shanghai Electric to float in Mainland China and be better-positioned to diversify and expand in China's rapidly growing power equipment market.

- Goldman Sachs to acquire 25% of Hongshi Holding Group for US\$80 million

Goldman Sachs continues to increase its investment exposure in China's traditional industries after recent deals in meat processing, toolmaking and automotive glass companies.

- Wanxiang Group to acquire a 30% stake in AI Corp. for US\$25 million

Acquisition of the US-based auto-module assembly and distribution company is the largest outbound transaction by Wanxiang this year.

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Introduction

We are pleased to present our quarterly review of the 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 notable China industrial M&A and private placement activities in the third quarter of 2007, highlighting selected notable 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
- Steel
- Power Generation/Distribution
- Water Treatment

However, during the third quarter of 2007, there were no notable transactions in the Components, HVAC and Industrial Controls sectors.

Automotive Parts/Automotive

As its third deal in the North America region year to date, China's largest automotive parts manufacturer Wanxiang Group acquired a 30% stake in Detroit-based AI Corp for US\$25 million and became the largest shareholder of AI. AI Corp owns 12 factories in the US that assembles transmission and power systems on motor vehicles. Through this acquisition, Wanxiang obtained control over AI's sourcing channels and the development of a compatible purchasing center in China that would allow AI to leverage on Wanxiang's low-cost structure in autoparts manufacturing and localized sourcing capabilities in China.

Domestically, after taking over the operations of the previously bankrupt Dongfeng Tyre, Qingdao Double Stars announced that it would acquire all the assets of Dongfeng Tyre for US\$41.6 million. The transaction is a follow-through of the signing of a trusteeship agreement in 2005 for Double Stars to manage Dongfeng's assets and operations. Dongfeng Tyre has since undergone a series of operational restructuring and returned to profitability in the 1st half of 2007.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 13	Qingdao Double Stars	Dongfeng Tyre	41.6	100.0	41.6	Tyre manufacturer based in Hubei
Jul 9	Wanxiang Group	AI Corp.	25.0	30.0	83.3	US-based automobile parts assembler and distributor

Fire, Safety & Security

Sweden-based Assa Abloy announced the acquisition of a 70% stake in China Baodean Group, a high security anti-theft door locks and cylinders manufacturer based in Zhejiang Province. Baodean is expected to reach approximately US\$46 million of revenues in 2007. In addition, NASDAQ-listed China Fire & Security Group made a strategic investment in Wan Sent (China) Technology Co., an emerging Chinese fire emergency remote-monitoring system provider based in Beijing.

Selected Fire, Safety & Security Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Aug 1	Assa Abloy AB [OM: ASSA B]	China Baodean Group	NA	70.0	NA	Manufacturer and distributor of anti-theft door locks
Jul 18	China Fire & Security Group, Inc. [NASDAQ: CFSG]	Wan Sent (China) Technology Co.	1.0	NA	NA	Chinese fire emergency remote-monitoring system provider

Machinery & Equipment

There were two notable private placements in the machinery & equipment sector in this quarter. China Development Bank and Shenzhen Venture Capital Co., Ltd. injected approximately US\$26.7 million into Mingyang Group, a wind power equipment manufacturer based in Guangdong. Merrill Lynch also announced in July its plan to invest in Ming Yang for an undisclosed

amount and stake. In addition, Sinoenergy Corporation, a manufacturer of compressed natural gas (CNG) vehicle and gas station equipment, received US\$30 million through the issuance of senior secured notes and secured convertible bonds to hedge fund Abax Global and China Century Investment Fund. The investment would be used to finance Sinoenergy's plan to build 100 CNG filling stations in Central and Eastern China by the end of 2009.

On the M&A side, China International Marine Containers Group Co. Ltd. announced the acquisition of 42.2% stake in Enric Energy Equipment Holdings, a company that engages in the design, manufacture, and sale of specialized gas equipment. The transaction is in substance a complete takeover after the mandatory tender offer for all outstanding shares of Enric under the Hong Kong Takeover Code. The total deal size is expected to be around US\$342 million. Elsewhere in Asia, Huaxinfa Technology (Shenzhen), an IT system integration and consulting company, completed a reverse merger with a Singapore-listed electrical distribution and controls manufacturer Ite Electric in a backdoor listing.

Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 26	China Development Bank, Shenzhen Venture Capital	Mingyang Group	26.7 ⁽¹⁾	25.6	104.3	Wind power equipment manufacturer based in Zhongshan, Guangdong
Sep 1	Abax Global Capital, China Century Investment Fund	Sinoenergy Corporation [OTCBB: SNEN]	30.0 ⁽²⁾	NA	NA	Manufacturer of CNG vehicle and gas station equipment as well as a designer, developer and builder of CNG stations in China
Aug 29	Zhejiang Tianma Bearing Co. Ltd. [SZSE:002122]	Qiqihar Heavy CNC Equipment Corporation Ltd	40.0	65.1	61.6	Heavy machinery tools manufacturer
Jul 30	China International Marine Containers Group Co. Ltd. [SZSE: 000039]	Enric Energy Equipment Holdings Ltd. [SEHK: 3899]	144.4	42.2	342.4	Engages in the design, manufacture, and sale of specialized gas equipment
Jul 9	Huaxinfa Technology (Shenzhen) Co., Ltd.	Ite Electric Company Ltd. [SGX: 581]	NA	100.0	NA	Engages in the manufacture, assembly, and distribution of electrical distribution and control equipment

(1) The value does not include the announced investment by Merrill Lynch.

(2) The value includes US\$16 million of 12% senior secured notes and US\$14 million of 3% senior secured convertible bonds, both are due in 2012.

Materials, Chemicals & Plastics

Blackstone announced an investment of up to US\$600 million for a 20% stake in China National BlueStar (Group) Corp., a specialty chemical product manufacturer with US\$4 billion annual sales operating under China National Chemical Corp., China's largest chemical maker. The investment marks Blackstone's first deal in China that represents a long-term growth play in China's chemical industry.

Following landmark deals made by KKR and Taiwan Cement in China's cement sector recently, Goldman Sachs announced an investment of US\$80 million in Zhejiang-based Hongshi Holding Group for a 25% stake. Hongshi is China's 6th largest cement clinker producer with annual production capacity of 16.5 million tons.

In the mining sector, China Metallurgical Group Corp. entered into an agreement to purchase 20% of Sino Iron, a wholly-owned miner of CITIC Pacific that mines and extracts from magnetite ore in Western Australia. In addition, Hong Kong-listed Hunan Nonferrous Metals Corp. announced a share placement for US\$153.5 million in view of favorable investment conditions to explore potential overseas acquisition opportunities.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 25	Fushi International [NASDAQ:FSIN]	Copperweld Bimetallics LLC	22.5	100	22.5	A US bimetallic wire manufacturer
Sep 10	Blackstone Group	China National BlueStar (Group) Corp	Up to 600.0	20.0	~3,000.0	Leading manufacturer in new chemical materials, industrial cleaning, membrane technology and water treatment and petrochemical products

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 9	Zhejiang Prospect Co., Ltd. [SEHK:8273]	Shaoxing Huaxin Environmental Technology Co., Ltd. ("Huaxin") and Shaoxing Huasheng Environmental Protection Science and Technology Co., Ltd. ("Huasheng")	40.0 ⁽¹⁾	NA	NA	Two chemical waste treatment companies
Sep 3	Aluminum Corp of China	Northeast Light Alloy Co., Ltd.	159.0	75.0	212.0	State-owned aluminum processing company in Harbin, Heilongjiang Province
Aug 30	Goldman Sachs	Hongshi Holding Group	80.0	25.0	320.0	Privately-owned cement maker in East China
Aug 28	YTL Cement Bhd [KLSE:YTLC]	Jin Yuan Cement Co., Ltd.	20.0	100	20.0	The largest cement manufacturer in Lin'an, Zhejiang Province
Aug 20	China Metallurgical Group Corporation	Sino Iron Pty Ltd.	99.6	20.0	498.0	Provides iron ore mining services in Australia
Aug 10	Western Mining Group	Tibet Yulong	13.6	17.0	79.9	Copper mining company
Aug 6	Zhejiang Longsheng Group Co., Ltd. [SHSE: 600352]	Shandong Befar Group Co., Ltd.	18.9	9.6	197.4	Manufactures fine chemical and petrochemical products
Jul 19	H&Q Asia Pacific	Dalipal Pipe Company	35.0	30.0	116.7	Petroleum pipeline manufacturer

(1) US\$16 million for a 45% stake in Huaxin and US\$24 million for a 100% stake in Huasheng.

Power Generation/Distribution

Shanghai Electric Group announced its plan to buy out its Shanghai-listed vehicle, Shanghai Power Transmission & Distribution Co. Ltd. ("Shanghai Power") in a US\$392 million deal through the issuance of domestic A-shares. The result of the transaction would be the floating of Shanghai Electric on the Shanghai Stock Exchange. Shares of both Shanghai Electric and Shanghai Power [s1]soared after news of the transaction. The move represents the latest trend of Chinese companies listed in Hong Kong to return to the Mainland stock markets.

Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Aug 30	Shanghai Electric Group Co., Ltd. [SEHK: 2727]	Shanghai Power Transmission & Distribution Co. [SHSE: 600627]	392.6	NA	NA	Manufactures power transmission & distribution equipment

Steel

China Powerplus, a portable power tools manufacturer listed in Singapore, acquired 30% shares of China Steel for US\$15.2 million. China Steel owns a subsidiary that engages in the manufacturing of nickel alloy that is used in the production of stainless steel. The acquisition represents an upward migration in value chain for China Powerplus to ensure availability of stainless steel in its components production. The deal was valued based on a trailing P/E ratio of 8.5x.

Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 18	China Powerplus Limited [SGX: Z02]	China Steel Pte Ltd.	15.2	30.0	50.6	Shandong-based company that principally engages in manufacturing nickel alloy that is used directly in the production of stainless steel

Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 5	Fosun International [SEHK: 656]	Hainan Mining United Co., Ltd	120.0	60.0	200.0	Mining and exploitation of black, colored and non-metallic iron ore and others

Water Treatment

The Water Treatment sector gathered considerable momentum in this quarter. On the M&A side, Beijing Capital invested US\$45.7 million to acquire a 51% stake in Shenzhen Longgang Water that would help consolidating water resources in Shenzhen through centralized ownership of 7 water suppliers at the Longgang area. Kardan NV, an infrastructure investment company based in Netherlands, agreed to acquire 88.2% of Tianjin Huanke Water Development, a water treatment company with 6 treatment plants. Kardan expects to invest an approximately US\$130 million in water-related infrastructure in China in the coming 20 months.

In an outbound transaction, Epure International, a leading Chinese water and wastewater treatment solution provider listed in Singapore, announced that it would acquire at least 70% and up to 100% of Beijing Hi-Standard Water Treatment Equipment, an environmental protection equipment maker in China. The deal provides Epure International extensive global sales reach and an improved cost base.

On the private placement side, China Water Industry Group announced an issuance of convertible bonds to Abax Global Capital and UBS for gross proceeds of US\$49.2 million. In addition, SAIF Partners invested US\$10 million into Guangzhou-based water treatment company AquaMats. AquaMats is engaged in improving water quality and conservation for various aqua culture and livestock raising industries.

Selected Water Treatment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Sep 4	Kardan Water International	Tianjin Huanke Water Development Ltd.	24.0	88.2	27.2	Operates 6 water treatment plants
Aug 16	Beijing Capital [SHSE: 600008]	Shenzhen Longgang Water	45.7	51.0	89.5	Water services provider in Shenzhen, Guangdong Province
Aug 1	Abax Global Capital, UBS	China Water Industry Group Ltd. [SEHK: 1129]	49.2 ⁽¹⁾	12.6	390.5	Engages in the provision of water supply and sewage treatment services in China
Jul 25	SAIF Partners	AquaMats Holdings Ltd. ⁽²⁾	10.0	NA	NA	Possesses proprietary IP in water treatment and purification technology
Jul 16	Epure International Limited [SGX: P75]	Beijing Hi-Standard Water Treatment Equipment Co., Ltd.	18.5	70.0 ⁽³⁾	26.4	Provider of water treatment equipments

(1) In the form of convertible bonds with an effective yield-to-maturity of 9.75% due 2012 and conversion price at HK\$1.42.

(2) Co-established by US-based Meridian Aquatic Technology LLC and SAIF Partners.

(3) With an option to acquire up to 100%.

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