

INTRODUCTION

We are pleased to present our inaugural quarterly review of cross-border manufacturing M&A activity in China, focusing on both financial and strategic buyers/investors acquiring China assets or Chinese corporations acquiring overseas targets. The quarter's biggest news involved Haier Group launching a US\$1.3 bn bid for Maytag, the third-largest American appliance maker in the U.S. This bid has put Haier on the global M&A stage and focused the world's attention on China's fast growing and maturing manufacturing industry. The purpose of this report is to provide a summary of cross-border manufacturing 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 (i) Industrial Manufacturing and (ii) Consumer Manufacturing with specific focus on the following nine broad manufacturing sub-sectors:

Industrial Manufacturing

- Automotive Parts/Automotive
- Chemicals
- Machinery & Equipment
- Metalworks/Injection Molding

Consumer Manufacturing

- Consumer Products
- Furniture
- Food & Beverage
- Healthcare Products
- Printing & Packaging

INDUSTRIAL MANUFACTURING

Automotive Parts/Automotive

A dominant theme in the second quarter of 2005 M&A activity in the Automotive Parts/Automotive sector was leading international strategic players buying out their Chinese JV partners and aggressively expanding into the China market. Two notable transactions which illustrated this trend were: (i) ISUZU Motors acquiring Qingling Motors for US\$80.1mm and (ii) Ingersoll Rand buying Shanghai Electric Company's remaining 20.0% interest in their jointly held venture, which was established in 1987. In addition, PE firm Prax Capital and Hong Kong conglomerate New World made a US\$12.0mm investment in Zhejiang Tianneng Battery, the largest electric bicycle battery manufacturer in China.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 20, 2005	ISUZU Motors (Tokyo listed)	Qingling Motors (Chongqing)	\$80.1	13.1%	\$611.4	An automobile and automobile parts and accessories manufacturer in China under the brand-name of Isuzu
May 19, 2005	Prax Capital and New World (*)	Zhejiang Tianneng Battery (Zhejiang)	\$12.0	NA	NA	Largest manufacturer of electric bicycle batteries in China
April 29, 2005	Ingersoll-Rand (NYSE listed)	Shanghai Ingersoll-Rand Compressor (Shanghai)	NA (Buyout of JV partner)	20.0%	NA	China-based manufacturer of automotive parts and automotive related products

(*) Private Equity Investor(s)

Chemicals

Transactions last quarter in the Chemicals sector in China were focused on companies involved in the production of specialty chemicals. Engelhard acquired Nanjing Chemical Industry to solidify its competitive position in China, while the acquisition of Danfeng Silicon Carbide aided Saint-Gobain in expanding its presence in Asia, currently accounting for 3.5% of its worldwide sales.

Selected Chemicals Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 31, 2005	Engelhard (NYSE listed)	Nanjing Chemical Industry (Nanjing)	NA	NA	NA	China's leading syngas catalyst producer
May 3, 2005	Saint-Gobain (Paris listed)	Danfeng Silicon Carbide (Heilongjiang)	NA	NA	NA	A leading producer of fine silicon carbide powders, used in products including semiconductor parts, abrasives, and refractory products

Machinery & Equipment

One notable transaction in the Machinery & Equipment sector in the second quarter of 2005 was the co-investment in Lincoln Industrial by CITIC Provident, the private equity subsidiary of China conglomerate, CITIC Group, and Harbour Group, a privately owned operating company with a demonstrated track record of acquiring, developing, and building traditional manufacturing companies.

Selected Machinery & Equipment Transaction

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
April 15, 2005	CITIC Provident and Harbour Group (*)	Lincoln Industrial (St. Louis – US)	NA	NA	NA	Global leader in the design, manufacture, and service of lubrication systems and equipment

(*) Private Equity Investor(s)

Metalworks/Injection Molding

Hublink International's US\$7.1mm acquisition of Tong Da Metals, a leading manufacturer of ironware parts in southern China, marked the most significant M&A activity in the Metalworks/Injection Molding sector in the last quarter. The acquisition was viewed as an attempt by Hublink to improve its competitive position in China.

Selected Metalworks/Injection Molding Transaction

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 19, 2005	Hublink International (Private)	Tong Da Metals (Fujian)	\$7.1	100.0%	\$7.1	Manufacturer of ironware parts including shells of domestic electrical appliances, framework pieces, and heat-sinks

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Others

Other Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
May 31, 2005	Keppel Corporation (Singapore listed)	Shipyards in Nantong (Nantong)	\$5.4 (Asset acquisition)	100.0%	\$5.4	A shipyard in Nantong engaged in the engineering and construction of specialized vessels

CONSUMER MANUFACTURING

Consumer Products

In the Consumer Products sector, there was one major cross-border transaction announced last quarter. CITIC Provident partnered with two US private equity firms, Founders Equity and Main Street Resources, to acquire a majority interest in Colibri Group, a leading international jewelry and accessory maker. The consortium acquired Colibri Group for the company's high-quality brand name, diversified product offerings, and established sales and distribution platform.

Selected Consumer Products Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 24, 2005	Founders Equity, Main Street Resources and CITIC Provident (*)	Colibri Group (Providence – US)	NA	NA	NA	International jewelry and accessory maker

(*) Private Equity Investor(s)

Food & Beverage

The second quarter of 2005 saw a high level of M&A activity in the Food & Beverage Industry, with the most notable transaction being the US\$52.2mm investment in Xuzhou VV Food & Beverages by a Japanese healthcare company Otsuka Pharmaceutical. Most transactions were led by regional Asian companies with major buyer interest in commodity food and foodstuffs producers, rather than branded consumer food producers. In addition, the International Finance Corporation made a US\$17.6mm investment into Yantai Changyu Pioneer Wine, a premier Shandong-based wine producer with a 21.0% share of China's wine market.

Selected Food & Beverage Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 8, 2005	American Dairy (US OTC listed)	Nutricia Nutritionals (Heilongjiang)	\$7.3 (Asset acquisition)	NA	\$7.3	Milk powder processing plant and equipment, including 19 raw milk collection stations
May 18, 2005	International Finance Corporation (*)	Yantai Changyu Pioneer Wine (Shandong)	\$17.6	10.0%	\$176.1	The oldest and largest wine producer in China

Selected Food & Beverage Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
April 14, 2005	Otsuka Pharmaceutical (Private)	Xuzhou VV Food & Beverage (Jiangsu)	\$52.2	25.1%	\$207.8	A leading producer and marketer of fresh milk, soybean milk, milk powders, flour, oatmeal, and other food and beverage products in China
April 11, 2005	Thai Union Frozen Products (Thailand listed)	Century Union (Shanghai) Foods (Shanghai)	\$4.0	50.0%	\$8.0	A manufacturer of canned tuna fish in China
April 5, 2005	Luk Ting (Hong Kong) (Private)	Shanghai Daijiang (Shanghai)	NA	42.4%	NA	A manufacturer of livestock, livestock feeds, and processed chicken products

(*) Private Equity Investor(s)

Furniture

There was comparatively little M&A activity in the Furniture sector last quarter, with China Direct Trading's (CHDT) investment in Beijing Huawei Furniture Manufacture being the most notable transaction. Following CHDT's US\$1.3mm investment, the acquirer has committed to invest another US\$12.5mm into the Beijing furniture maker over the next year to assist it in expanding into the US residential and commercial furniture markets and ramping up its China business.

Selected Furniture Transaction

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
April 26, 2005	China Direct Trading (US OTC listed)	Beijing Huawei Furniture Manufacture (Beijing)	\$1.3	40.0%	\$3.3	A premier Beijing manufacturer of quality commercial furniture

Healthcare Products

Last quarter's M&A activities in the Healthcare Products sector were aimed either at acquiring established products, operations, and distribution platforms or bolstering R&D and manufacturing capabilities, as in the case of AVT Plasma. Of the transactions listed below, the global eye-care company Bausch & Lomb's US\$200.0mm acquisition of Chai Tai Freda Pharmaceutical Group was most notable. The acquisition was widely viewed as an expansion move of Bausch & Lomb into China's rapidly developing vision care products market, complementing its well-established China contact lens and lens care products businesses. The collapse of Moulin under US\$0.7 bn¹ of debt last quarter provides a cautionary tale for those engaged in aggressive global M&A expansion.

¹ Moulin has received demand letters from a total of 16 Bank Creditors requiring repayment of an aggregate sum of approximately US\$121.6 mm, but it has an un-audited aggregate bank borrowings of around US\$0.7 bn as of June 20, 2005.

Selected Healthcare Products Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
July 5, 2005	Bausch & Lomb (NYSE listed)	Chia Tai Freda Pharmaceutical Group (Shandong)	\$200.0	55.0%	\$363.6	A leading manufacturer of eye medication products in China; product lines include Moisten and Mioclear eye-drops
May 11, 2005	STADA Arzneimittel (German listed)	Beijing Center-Lab Pharmaceutical (Beijing)	\$4.5	58.0%	\$7.8	A Chinese pharmaceutical company, manufacturing and distributing 10 branded products in the OTC market
April 21, 2005	AVT Plasma (Australia listed)	Wei Wu Guangming Biological Products Laboratory (Shenzhen)	NA	NA	NA	A state of the art blood fractionation plant in China with established operations

Printing & Packaging

There was one major transaction announced in the Printing & Packaging sector for the second quarter of 2005. RR Donnelley's US\$95.0mm acquisition of Asia Printer Group reflected the printer's Asia strategy – bolstering its printing and book production capabilities to serve its fast-growing business segments by acquiring a low-cost, China-based manufacturing platform. Asia Printers Group was backed by PE firm, CVC Asia Pacific.

Selected Printing & Packaging Transaction

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target
June 5, 2005	RR Donnelley (NYSE listed)	Asia Printers Group (Hong Kong)	\$95.0	100.0%	\$95.0	A prominent book printer for North American, UK, European and Asian markets; backed by PE firm CVC Asia Pacific

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