

Industrial Sector

3rd Quarter 2006

China Industrial M&A Quarterly

Highlights

- Volvo AB acquired 70% of Shandong Lingong Engineering Machinery Co., Ltd.

Acquisition of the fourth largest wheel loader manufacturer in China, with sales of US\$250 million in 2005, allows Volvo to catch up to Caterpillar and Komatsu in China.

- INA-Schaeffler KG to acquire 100% of Luoyang Bearing Corp. for US\$137.5 million

Proposed transaction has become under review by authorities due to Luoyang Bearing's leading market position.

- Warburg Pincus acquired Shandong Deosen Corp. for US\$181 million

LBO of China's leading xanthan gum manufacturer may indicate increased buyout activity ahead.

- Suntech Power acquired 66.7% of MSK for up to US\$200 million

Acquisition provides Suntech with access to Building Integrated Photovoltaic (BIPV) technology as well as a distribution channel in Japan, one of the world's largest markets for photovoltaic modules.

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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 third 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 third quarter of 2006, there were no notable transactions in the HVAC, Industrial Controls, and Steel sectors.

Automotive Parts/Automotive

Overall M&A activity in the Automotive Parts/Automotive Sector has been relatively quiet compared with the second quarter. Autoliv, the worldwide leader in automotive safety systems, has acquired another 20% of Nanjing Hongguang-Autoliv Safety Systems Co., Ltd. from Nanjing Hongguang Airborne Equipment Factory, increasing its interest in the Chinese seatbelt JV to 70%. After increasing its stake in Hongguang, Autoliv is now better positioned to benefit from the growing Chinese automotive market. Nanjing Hongguang Autoliv had sales of US\$50 million in 2005.

Selected Automotive Parts/Automotive Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
July 24, 2006	Autoliv [NYSE: ALV]	Nanjing Hongguang-Autoliv Safety Systems Co., Ltd.	NA	20.0	NA	Manufacturer of seat belts for passenger cars

Components

There were two notable cross-border Components M&A transactions announced in the third quarter. Eaton, the US diversified industrial manufacturer, declared a tender offer to the shareholders of Senyuan International, the Hong Kong listed parent of Changzhou Senyuan Switch Co., Ltd., a manufacturer of switchgear components. The acquisition will strengthen Eaton's medium-voltage electrical business in China as Changzhou Senyuan had US\$47 million in sales in 2005.

Energys, the world's largest manufacturer, marketer and distributor of industrial batteries, announced that it has entered into a definitive agreement to purchase the assets of Chaozhou Xuntong Power Source Company Limited, which produces 2-volt valve-regulated lead acid batteries used for reserve power applications. The acquisition, together with ongoing investment, will increase Energys' production capacity in China by an additional US\$30 million worth of batteries.

Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
August 22, 2006	Eaton Corp. [NYSE: ETN]	Senyuan International Holdings [SEHK: 3333]	65.9	100.0	65.9	Manufacturer of vacuum circuit breakers and electrical switchgear components
July 26, 2006	Energys [NYSE: ENS]	Chaozhou Xuntong Power Source Co., Ltd.	NA	100.0	NA	Manufacturer of sealed lead acid batteries

Fire, Safety & Security

There was only one notable transaction in Fire, Safety & Security sector in the third quarter. On August 29, China Security & Surveillance Technology entered into an agreement to acquire 100% of Shanghai Cheng Feng Digital Technology for a total consideration of US\$15 million, half in cash and half in restricted stock.

Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
August 29, 2006	China Security & Surveillance Technology, Inc. [OTCBB: CSSTF]	Shanghai Cheng Feng Digital Technology Co., Ltd.	15.0	100.0	15.0	Developer, manufacturer and distributor of security surveillance software

Machinery & Equipment

The Machinery & Equipment sector continues to be the focus of M&A activities. Volvo announced that it will acquire 70% of Shandong Lingong Engineering Machinery, the 4th largest wheel loader maker in China with annual sales of US\$250 million in 2005.

INA-Schaeffler KG, the second largest bearing manufacturer in the world, signed a deal with the Luoyang Municipal State-owned Asset Bureau to buy 100% of debt laden Luoyang Bearing Corp., one of top three bearing producers in China, for roughly US\$137.5 million. However, the Bearing Industry Association has filed an objection to the acquisition as after the transaction INA-Schaeffler will control over 50% of the railway bearing product market in China. As a result, the Henan Provincial State-owned Asset Bureau is currently reviewing the transaction. In the meantime, Dalian Wafangdian Bearing Group, another top 3 bearing maker in China, as well as other interested companies are exploring making competing offers for Luoyang Bearing Corp.

Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
September 27, 2006	Volvo AB [OM: VOLV B]	Shandong Lingong Machinery Co., Ltd.	NA	70.0	NA	China's leading construction machinery manufacturer; the No. 4 wheel loader maker in China
September 19, 2006	Highway Holdings Ltd. [NASDAQ: HIHO]	Golden Bright Plastic Manufacturing Co. Ltd	1.5	100.0	1.5	OEM manufacturer, specialized in tool making, plastic injection molding, and mechanical and electronic assembly
September 6, 2006	Atlas Copco Group [OM: ATCO A]	Shanghai Bolaite Compressor Co., Ltd.	NA	100.0	NA	Manufacturer of compressors
July 31, 2006	Euro Tech Holdings Co., Ltd. [NASDAQ: CLWT]	Zhejiang Jia Huan Electronic Co. Ltd.	2.5	20.0	12.3	Manufacturer of air and water treatment equipment
July 4, 2006	INA-Schaeffler KG	Luoyang Bearing Corp. (Group)	137.5	100.0	137.5	Manufacturer of bearing products in China

Materials, Chemicals & Plastics

The third quarter of 2006 appeared to be an extremely busy one in terms of Materials, Chemicals & Plastics M&A activities with almost twenty transactions. However, two companies alone accounted for more than half of the value related to these transactions.

First, in an effort to consolidate a fragmented domestic aluminum industry suffering from overcapacity and low profitability, the Aluminum Corp of China Ltd. embarked on a series of acquisitions. During the quarter, it acquired a 55% stake in Huayu Aluminum and Power Co Ltd., 51% of Gansu Hualu Aluminum Co., Ltd. and 56.9% of Huaxi Aluminum Co., one of the top three aluminum companies in China. The company also announced it will further cut its alumina price by 22.4% to US\$475/ton which is expected to accelerate the consolidation of the domestic industry.

Second, HK-listed Anhui Conch Cement Co., Ltd completed a series of acquisitions in August, to consolidate its holdings in four cement producers, two cement packaging material producers and one cement products trading company, all of which were subsidiaries of Anhui Conch Group and Anhui Conch Venture Investment, through the issuance of new shares.

In private equity, the quarter saw the US\$181 million LBO of xanthan gum manufacturer Shandong Deosen Corp. led by Warburg Pincus LLC and Deosen board chairman Zhengfu Shi. Debt financing was provided by ING and BNP Paribas, amongst others. The transaction may indicate increasing activity in the buyout market in the near future.

In a strategic acquisition, Suntech Power acquired 66.7% of MSK Corporation for an initial cash payment of US\$107 million and between US\$53 million to US\$193 million in Suntech stock depending on MSK's performance against revenue targets. The transaction enables Suntech to gain access to MSK's leading Building Integrated Photovoltaic (BIPV) technology as well as to the Japanese photovoltaic (PV) cell/module products market, one of the largest in the world.

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
September 28, 2006	Zijin Mining Group [HKSE: 2899]	Xinjiang Zijin	4.0	32.0	12.5	Non-wholly owned subsidiary of Zijin Mining Group, engaged in exploration, mining, production, refining and sale of gold and other metal resources in the PRC
September 28, 2006	Zijin Mining Group [HKSE: 2899]	Allied Gold Ltd. [ASX: ALD]	13.6	10.0	136.0	Engaged in the exploration, evaluation, and development of mineral resources in Australia, Mexico, and Papua New Guinea
September 20, 2006	China Direct, Inc. [OTCBB: CHND]	Shanghai Long Chemicals Co., Ltd.	0.7	51.0	1.4	Manufacturer and distributor of specialty chemicals
September 15, 2006	Warburg Pincus	Shandong Deosen Corp.	181.0	98.0	185.0	China's leading manufacture of xanthan gum
September 13, 2006	Sinosteel Corp.	Crocker Well and Mount Victoria Uranium Deposits	22.9	60.0	38.3	Uranium deposit field in Australia
August 30, 2006	Aluminum Corporation Of China Ltd. [HKSE: 2600]	Huaxi Aluminum	29.5	56.9	51.9	Manufacturer of aluminum foil
August 21, 2006	Anhui Conch Cement Co. Ltd. [HKSE: 914]	Anhui Ningchang Packing Material Co., Ltd.	NA	100.0	NA	Manufacturer of plastic packaging materials
August 21, 2006	Anhui Conch Cement Co., Ltd. [HKSE: 914]	Wuhu Conch Plastic Manufacturing Co., Ltd.	NA	75.0	NA	Manufacturer of plastic packaging materials
August 21, 2006	Anhui Conch Cement Co., Ltd. [HKSE: 914]	Shanghai Conch Construction Material International Trading Co., Ltd.	NA	100.0	NA	Exporter of cement and other construction materials
August 21, 2006	Anhui Conch Cement Co. Ltd. [HKSE: 914]	Anhui Digang Conch Cement Co., Ltd.	NA	49.0	NA	Manufacturer of cement clinker
August 21, 2006	Anhui Conch Cement Co. Ltd. [HKSE: 914]	Anhui Zongyang Conch Cement Co., Ltd.	NA	49.0	NA	Manufacturer of cement clinker
August 21, 2006	Anhui Conch Cement Co. Ltd. [HKSE: 914]	Anhui Chizhou Conch Cement Co., Ltd.	NA	49.0	NA	Manufacturer of cement clinker
August 21, 2006	Anhui Conch Cement Co. Ltd. [HKSE: 914]	Anhui Tongling Conch Cement Co., Ltd.	NA	31.9	NA	Manufacturer of cement clinker

Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
August 11, 2006	Aluminum Corporation of China [HKSE: 2600]	Gansu Hualu Aluminum Co. Ltd.	33.8	51.0	66.2	Manufacturer of aluminum products
August 2, 2006	Suntech Power Holdings Co., Ltd. [NYSE: STP]	MSK Corporation	160-200	66.7	238-300	Provider of building integrated photovoltaic products to construction material companies
July 20, 2006	Xinjiang Tianye Water Saving Irrigation System Company Limited (SEHK: 8280)	Xinjiang Tianye Co., Ltd. [SHSE: 600075]	87.6	NA	NA	Manufacturer and distributor of water irrigation plastic films, pipes, and industry chemicals
July 14, 2006	Aluminum Corporation of China [HKSE: 2600]	Shandong Huayu Aluminum and Power Co., Ltd.	NA	55.0	NA	Manufacturer of aluminum products
July 6, 2006	Valspar Corp. [NYSE: VAL]	Huarun Paints Holdings	281.0	80.0	351.0	Manufacturer of pigment products
July 3, 2006	Amcort Ltd. [ASX: AMC]	K Laser (China) ⁽¹⁾	10.0	16.7	60.0	Producer of holographic film for the tobacco packaging business

(1) *Subsidiary of K Laser Technology [TSEC: 2461]*

Power Generation/Distribution

In the Power Generation/Distribution sector, CCMP Capital Asia (formerly the JP Morgan Asia Investment Fund), acquired 70% of Wuhan Kaidi Electric Power Environment Protection Co., Ltd. for a consideration of US\$35 million and up to an additional US\$8.86 million in an earn-out package. Wuhan Kaidi Electric Power Environment Protection, which had US\$19.5 million of sales in 2005, provides gas desulphurization solutions for coal-burning power plants.

Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
September 27, 2006	Huadian Power International Co., Ltd. [HKSE: 1071]	Anhui Huadian Wuhu Power Co., Ltd.	3.2	95.0	3.3	Engaged in the power generation business in the PRC
September 25, 2006	China Natural Gas, Inc. [OTCBB: CHNG]	2 compressed natural gas filling stations	NA	NA	NA	Natural gas filling stations
September 22, 2006	Royal Dutch Shell PLC [LSE: RDSB]	Xianyang Tongyi Petroleum Chemical Co., Ltd. ⁽²⁾	NA	75.0	NA	Producer and distributor of lubricants
September 22, 2006	Royal Dutch Shell PLC [LSE: RDSB]	Beijing Tongyi Petroleum Chemical Co., Ltd. ⁽²⁾	NA	75.0	NA	Producer and distributor of lubricants
September 20, 2006	CCMP Capital Asia	Wuhan Kaidi Electric Power Environment Protection Co. Ltd.	35.4 - 44.3	70.0	50.6-63.3	Provider of environmental protection solutions for power plant
August 23, 2006	PetroChina Co. Ltd. [SEHK: 857]	PetroKazakhstan Inc.	55.0	67.0	82.1	Engaged in exploration, refining and trading of oil and gas products
August 11, 2006	CNPC (Hong Kong) Ltd. [HKSE: 135]	Continental-GeoPetro (Bengara II)	35.0	70.0	50.0	Oil and gas field

Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
August 11, 2006	SINOPEC CORP. [HKSE: 386]	Kantons Gas Station Investment & Management Co. Ltd.,	21.0	100.0	21.0	JV between Guangzhou Petrochemical Complex and Sinopec Kantons, engaged mainly in the gas station business
<p>(2) <i>Shell China Holdings BV has acquired 100% of Xiang Jia International Investment Holdings Limited, which has a 75% shareholding in Beijing Tongyi Petroleum Chemical Company Limited and Xianyang Tongyi Petroleum Chemical Company Limited. The other 25% is owned by Beijing Bailiwei Science and Technology Development Company Limited.</i></p>						

Water Treatment

In the Water Treatment sector, Siemens continued to expand its China business by acquiring CNC (HK) Water Technology Ltd., which owns 70% of Beijing CNC Water Technology Inc., with an option to acquire the remaining 30 per cent after three years.

Also, Dow Chemical announced it will acquire Zhejiang Omex Environmental Engineering, which had annual sales of approximately US\$62.5 million in 2005. The acquisition gives Dow Chemical an entry into the China water purification market, which is growing at 20% per year and provides it with three critical enabling component technologies for water treatment: ultrafiltration, membrane bio-reactor membranes and electrodeionization.

Selected Water Treatment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
September 28, 2006	Montpelier Asset Management	China Water Affairs Group Ltd. [SEHK: 855]	2.0	0.9	231.8	Engages in the business of investing in and operating of water services projects in the PRC
September 6, 2006	Siemens [DB: SIE]	CNC Water Technology Inc.	NA	70.0	70.0	Water treatment company in China
July 10, 2006	Dow Chemical Company [NYSE: DOW]	Zhejiang Omex Environmental Engineering	NA	100.0	NA	Manufacturer of air and water treatment equipment

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