

## Industrial Sector

1st Quarter 2007

### China Industrial M&A Quarterly

#### Highlights

- KKR makes first ever Chinese investment, in Tianrui Cement, alongside IFC

The total investment amount is believed to be around US\$130 million, with a maximum of US\$100 million from KKR for a 36% stake and US\$30 million from IFC.

- Zijin Mining Group leads 100% acquisition of Monterrico Metals PLC for US\$186 million

The biggest gold miner leads a consortium of three Chinese companies in the first outright takeover of an overseas listed company by a Chinese firm.

- Carlyle buys 49% of Yangzhou Chengde Steel Tube for US\$80 million

The pre-IPO investment into Yangzhou Chengde reflects Carlyle's continued interest in low-cost production and niche players capitalizing on China's rapid industrialization and infrastructure build-up.

- Warburg Pincus acquires minority stake in downstream oil logistics company Titan Petrochemical for US\$175 million

The investment in the owner of China's largest supertanker is seen as a long-term growth play in the downstream oil business.

#### Beijing

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

#### Hong Kong

Suite 3518, Jardine House  
One Connaught Place  
Central, Hong Kong  
+852 2973 5311

#### Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China  
+86 (21) 6288 6555

info@latitudecapital.com  
www.latitudecapital.com

## Introduction

We are pleased to present our quarterly review of 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 first quarter of 2007, 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 first quarter of 2007, there was no notable transaction in the Fire, Safety & Security, HVAC, and Industrial Controls sectors.

## Automotive Parts/Automotive

Japanese private equity fund Asset Managers (Asia) (“AMA”) acquired the remaining 71.8% of HK-listed auto parts manufacturer Carico Holdings Ltd. in addition to the 28.2% it already held for a consideration of US\$42.8 million. AMA believes sales of Carico’s high-tech automobile-related products have great growth potential 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(s)
Mar 16, 2007	Asset Managers (Asia) Co., Ltd.	Carico Holdings Ltd. [HKSE: 729]	\$42.8	71.8%	\$59.6	Automotive components manufacturer

## Components

Softbank Asia Investment Fund (SAIF) recently invested up to US\$20 million in Greensaver Tech Corp, a silicone power battery maker in China. The proceeds will be used mainly to fund operations of two newly-purchased storage battery board plants of Greensaver in Zhejiang and Hebei provinces. Greensaver claims to be the only producer of silicone power batteries in the world, and claims that silicone batteries are 10% cheaper and more environmentally friendly than traditional storage batteries. Greensaver began generating revenues in 2005.

### Selected Components Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Jan 31, 2007	SAIF	Greensaver Technology Corp.	\$20.0	NA	NA	Silicone power battery manufacturer

## Machinery & Equipment

There were four notable transactions in the machinery & equipment manufacturing sector during the fourth quarter. Leading French electrical supplies distributor Rexel acquired 51% of Huazhang Electric Automation, whose industrial automation products are sold in the east and center/south regions of China. The acquisition complements Rexel’s existing business in China and increases its foothold in this rapidly growing market.

In another transaction by a major multinational corporation, General Electric’s finance arm, GE Commercial Finance, acquired an undisclosed minority stake in Nanjing Highspeed & Accuray Gear Co., Ltd. for US\$8.5 million. GE joins a consortium of current institutional investors which together has invested a total of US\$28 million to date. GE and Nanjing Gear are already collaborating on co-development of gear boxes for GE’s 1.5MW wind turbines.

### Selected Machinery & Equipment Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 22, 2007	Legend Capital	Guangdong FengKai Machinery Manufacturing Co., Ltd	\$4.5	24.0%	\$18.8	Largest sewing machinery manufacturer in Guangdong Province
Mar 19, 2007	Rexel SA [OTCPK: RXEE.F]	Huazhang Electric Automation	NA	51.0%	NA	Provider of industrial control and automation products and engineering solutions for manufacturing sectors in China
Mar 5, 2007	GE Commercial Finance	Nanjing Highspeed & Accurate Gear Group Co., Ltd.	\$8.5	NA	NA	Manufacturer of high-speed gears for power generation and heavy engineering equipment
Feb 7, 2007	Vision Opportunity Master Fund, Blue Ridge Investments, Old Lane LP, QVT Financial LP, TCW Americas Development Association LP, Halter/Pope USX China Fund, MidSouth Investors Fund LP, Whitebox Advisors LLC and Lighthouse Consulting Ltd.	Wuhan General Group (China) Inc. (OTCBB: WUHN)	\$24.0	NA	NA	Engages in the design, development, manufacture, and sale of industrial blowers.
Jan 4, 2007	Harbin Power Equipment Co. Ltd. [HKSE: 1133]	Acheng Relay Co. Ltd. [SZSE: 000922]	\$27.9	55.0%	\$50.7	Developer and distributor of mainly electric power generation and transmission equipment

### Materials, Chemicals & Plastics

In the Materials sector, KKR made its first China investment, collaborating with the IFC to take a minority stake in major cement producer Tian-Rui Cement. Few financial details have been disclosed apart from IFC's official commitment of up to US\$30 million for an unknown interest, but market sources indicate that KKR acquired 36% of the company with an option to increase to 49%, bringing its total investment to approximately US\$100 million. Proceeds will be used to fund Tian-Rui Cement's US\$720 million expansion project.

Another notable transaction was Citadel's purchase of US\$60 million in bonds of China's largest manufacturer of bimetallic wires, Fushi International, of which US\$40 million was floating rate notes and US\$20 million was convertible bonds. The proceeds will be used for operating cashflow and to fund future growth.

A significant outbound transaction was the acquisition of British copper firm Monterrico Metals in what could be the first outright takeover of an overseas listed company by a Chinese firm. Monterrico was purchased by a consortium consisting of Zijin Mining Group (45%), Chinese copper mining company Tongling Nonferrous Metals (Group) Inc. (35%) and Xiamen C&D Corp. (20%). China currently imports 70% of all the copper it uses and the capacity of up to 25 million tons of copper that Monterrico could extract from their mines in Peru should help meet part of China's growing demand.

### Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 14, 2007	KKR, IFC	He'nan Tian-Rui Cement	NA	NA	NA	One of the 10 largest cement producers in China
Feb 5, 2007	Gulf Resources, Inc. (OTCBB: GUFR)	Shouguang Yuxin Chemical Industry Co. Ltd.	\$18.9	100.0%	\$18.9	Manufacturer of commodity chemical products
Feb 5, 2007	Zijin Mining Group Co. Ltd. <sup>(1)</sup> [HKSE: 2899]	Monterrico Metals plc [AIM: MNA]	\$186.0	100.0%	\$186.0	Precious metal mining company

### Selected Materials, Chemicals & Plastics Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Jan 24, 2007	Citadel	Fushi International Inc. [OTCBB: FSIN]	\$20.0 <sup>(3)</sup>	12.5% <sup>(4)</sup>	\$160.0	Manufacturer of bimetallic composite wire products
Jan 5, 2007	China National Building Material Group Corporation [HKSE: 3323]	Jushi Group Co Ltd <sup>(2)</sup>	\$46.4	11.5%	\$403.5	Glass-fiber maker

(1) Zijin holds 45% of the equity stake, Chinese copper miner Tongling Nonferrous Metals (Group) Inc. holds 35% and Xiamen C&D Corp. holds 20%.

(2) Subsidiary of China Fiberglass Co., Ltd. [SHSE: 600176].

(3) US\$20 million of 3% senior secured convertible notes due 2012. The convertible notes have an initial conversion rate of US\$7 per share. In addition, Citadel also purchased US\$40 million of guaranteed senior floating rate notes.

(4) Represents the fully-diluted stake upon conversion of the convertible notes into 2,857,000 common shares.

### Steel

The steel sector picked up some momentum with a couple of notable deals by major foreign players – both in steel tubes manufacturing. US private equity giant Carlyle invested US\$80 million in one of the leading large-diameter seamless steel pipe suppliers in China, based in Yangzhou.

Arcelor Mittal, the world's top steel maker, increased its current stake in Hunan Valin Steel Tube & Wire co. to 33.3% from 29.5% by subscribing to 49.3% of the new shares offered by Valin in its latest round of financing, for no less than US\$146 million. Proceeds will principally be used to buy several subsidiaries from its parent. Mittal bought its original stake in Valin in 3Q 2005 to create the world's largest mill.

### Selected Steel Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 30, 2007	Carlyle	Jiangsu Chengde Steel Tubes	\$80.0	49.0%	\$163.3	Steel tubes manufacturer and distributor
Mar 6, 2007	Arcelor Mittal (NYSE: MT)	Hunan Valin Steel Tube & Wire Co. Ltd. [SZSE: 000932]	\$146.5	NA	NA	Manufactures and markets steel products

### Power Generation/Distribution

There were two major acquisitions in the oil distribution segment, one by private equity firm Warburg Pincus and another by Sinopec. Warburg Pincus paid a total of US\$175 million in exchange for ownership takes in Titan Petrochemical, a Hong Kong based oil logistics company and China StorageCo, Titan's onshore storage subsidiary. The transaction gives Warburg Pincus common and preferred shares equivalent to 18.2% of Titan and preferred shares equivalent to 49.9% of China Storage Co. In addition, Warburg Pincus received warrants enabling it to get to an aggregate ownership of up to 22.1% of Titan and 50.1% of China StorageCo. The transaction increases Titan's liquidity and reduces its financing costs as the company ramps up its onshore storage operations to support growth.

Chinese top refiner Sinopec announced its intent to acquire filling stations and other petroleum assets from China Resources Enterprise for approximately US\$512 million. Sinopec sees this as an opportunity to lift its brand exposure and gain market experience in order to better compete against global oil giants such as Exxon Mobil. For China Resources Enterprise, the deal allows the group to continue its efforts to divest non-core assets and focus on consumer businesses going forward.

### Selected Power Generation/Distribution Transactions

Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 28, 2007	Warburg Pincus	Titan Petrochemicals Group Ltd. [HKSE: 1192]	\$175.0	NA	NA	Fully-integrated downstream oil logistics company
Mar 14, 2007	China Petroleum & Chemical Corp. [NYSE: SNP]	China Resources Enterprise Ltd., Oil Distribution Operations	\$511.8	100.0%	\$511.8	Subsidiary of China Resources Enterprise Ltd., providing oil distribution services mainly in Hong Kong

## Water Treatment

The only notable transaction in the water treatment sector was an investment of US\$20 million by private equity firm Blue Ridge China in Shanghai United Water, a water supplier and treatment company in Eastern China. The utilities firm currently operates in Jiangsu and Zhejiang exclusively, and the investment shall be used to expand operations to other coastal cities. The water industry in China is expected to grow at a pace of 15% annually, with various strategic multinationals such as Siemens and Dow Chemical already jockeying for market share in this high-growth segment.

Selected Water Treatment Transactions						
Announcement Date	Lead Investor(s) / Buyer	Target	Transaction Value (US\$ mm)	%	Implied Valuation (US\$ mm)	Description of Target(s)
Mar 2, 2007	Blue Ridge China	Shanghai United Water	\$20.0	NA	NA	Engages in investment and operation of water treatment business in China

\* \* \* \* \*

The information and statistical data herein has been obtained from sources we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to any change of our views. This is not a solicitation or any offer to buy or sell. Latitude Capital Group ("Latitude") has produced this report for private circulation only. All information and advice is given in good faith but without any warranty. Latitude, our affiliates or companies or individuals connected with Latitude, may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell, or may be materially interested in any of the securities mentioned or related securities.

## 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 3518 Jardine House  
One Connaught Place  
Central, Hong Kong

Tel +852 2973 5311  
Fax +852 2295 3979

## Shanghai

5F Crystal Century Tower  
567 Weihai Road, Jingan District  
Shanghai 200040, China

Tel +86 (21) 6288 6555  
Fax +86 (21) 6288 6585

[info@latitudecapital.com](mailto:info@latitudecapital.com)

[www.latitudecapital.com](http://www.latitudecapital.com)

 **LATITUDE**  
CAPITAL GROUP