



March 2011

Quarton Partners is one of North America's premier specialty investment banking firms. Quarton Partners provides a complete portfolio of services, including:

- Merger & Acquisition Advisory Services
- Private Capital Raising
- Restructuring & Recapitalizations
- Financial Advisory Services

QUARTON PARTNERS

300 Park Street, Suite 480
Birmingham, MI 48009
248-594-0400
www.quartonpartners.com

15/F, China World Tower
No.1 Jianguomenwai Ave
Beijing, China 100004
(86)-10-5737-2429

J. David Whittingham
Director of Asian Markets
dwhittingham@quartonpartners.com



CHINA BRIEFING INTRODUCTION

In this inaugural edition of the Quarton Partners China Briefing, we hope to bring you a quarterly update on the political, economic and market factors impacting bilateral trade between North America and China. In each issue, we will report on the various macroeconomic trends and policy issues affecting the world's foremost two economies. As a Detroit-based investment bank, we bring a unique perspective being located at one of the most important crossroads for industrialized China as it enters into its next phase of growth and expansion on the international stage. Quarton Partners is well positioned both in the U.S. and China to bring you the on-the-ground insight from the business leaders that are building the commercial bridge between these two nations. We hope you find insight for your business in each edition.

QUARTON CHINA PERSPECTIVE

At the close of the annual session of the National People's Congress, China's Premier Wen Jiabao put forth the government's two main objectives of cooling inflation while maintaining the country's economic growth. Both of the objectives are aligned with the government's constant mantra of a "harmonious society," or otherwise stated, the social stability that will keep the government in power and the economy moving forward. With this as a backdrop we will look at several of the economic factors affecting the Chinese economy this year.

At the center of the harmonious society issue is the growing income disparity between Eastern and Western China and the urban and rural population. Since enacting the Open Door policy in 1979, almost all of the economic development, modernization and job creation has occurred along China's Eastern seaboard. China emerged as the factory to the world and drew its workers from the Western and interior provinces. Over the last decade the government has combated this issue through a campaign of Western development, incentivizing industry to move factories to the interior, which has resulted in companies along the East coast to increase wages and move their products and services up the value chain.

China's role as the world's factory is far from over though it has made a profound economic shift where its domestic consumption is now one of its biggest growth engines. Demographics are the primary cause for China to remain as a large manufacturing based economy. According to the United Nations, China will add an estimated 69 million working age individuals to its population and see the majority of its citizens becoming urban dwellers for the first time in its history. Both of these factors create tremendous pressure on the Chinese regime to create jobs.

Despite many headlines claiming labor shortages, the reality is quite the opposite. The shift in industrial development has afforded workers with greater opportunities closer to home. Traditional manufacturing areas like Guangdong province have had to increase wages to lure labor from China's interior. Many firms are abandoning these traditional manufacturing centers, moving production inward while replacing existing facilities with design and engineering centers.

The significant investment that has gone into China's economic transformation, combined with record levels of personal disposable income, have created an environment where inflationary pressures are running high. Despite the central government's desire to curb inflation, it must also lend enough money to keep pace with the economic growth that will create jobs vital to China's social stability. Frequent calls from the West to appreciate the Chinese RMB run counter to the objectives of the state. The need to create jobs involved with the manufacture and export of low-cost products is likely to hold rapid appreciation of the RMB in check.

China moves forward this year with a unique set of challenges, but it has an unprecedented 30 year track record of achieving the inconceivable.



CHINA BRIEFING HEADLINES

3/14 – Chinese Premier Wen Jiabao made closing comments on the final day of the annual session of the National People’s Congress. Wen stressed that controlling inflation while maintaining growth was at the top of the government’s agenda. Recent events in the Middle East combined with rising global food prices have driven Chinese inflation to a near two-year high of 4.9%, as of February. Despite concerns over inflation, Wen added that Yuan (RMB) appreciation would still be gradual despite the benefits of reducing the cost of imports.

3/14 – Chinese credit continues to tighten as indicated by the dramatic decrease in loans between January and February. The Wall Street Journal reported that new loans in February totaled \$81.5 billion, or roughly half of the amount issued in January. The Chinese credit crunch may prove to be an opportunity for Western capital in China as private businesses look for alternative sources of financing.

2/22 – Best Buy, the number one retailer of electronics products in the U.S., closed all nine of its retail outlets in China just four years after entering one of the fastest growing consumer markets in the world. The company reports it is focusing its China efforts on its Five Star retail operation, which it acquired in 2009.

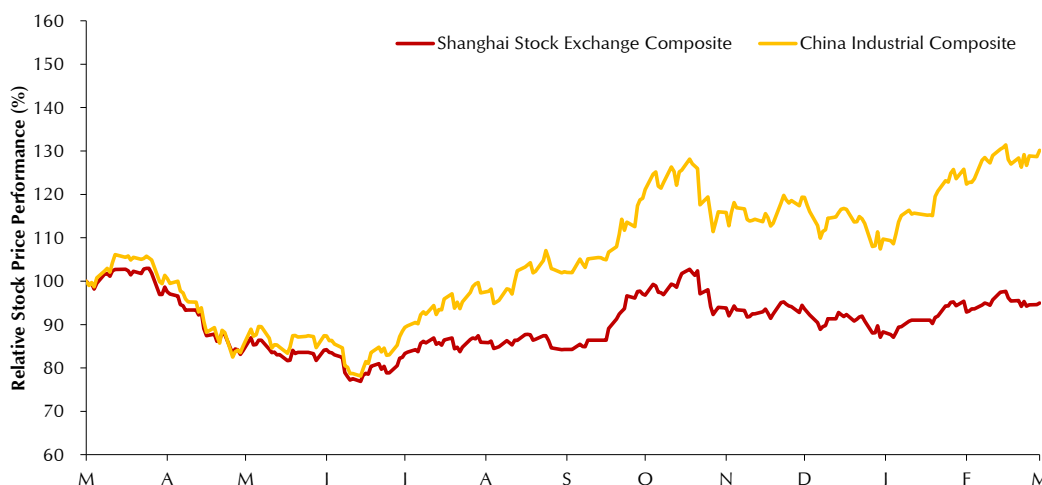
2/18 – China’s central bank, the People’s Bank of China (PBOC), announced it will increase the bank reserve requirement ratio 50 basis points on February 24th, marking the eighth rate increase since January 2010 to control inflation. Earlier this year the PBOC also raised its benchmark interest rate on February 9th in a further effort to curb inflation.

2/17 – The Chinese Yuan (RMB), gained 76 basis points to 6.5705 per U.S. dollar, hitting a new record level since the reform of the exchange rate system in China. Michael Buchanan, Chief Asia economist at Goldman Sachs Hong Kong, predicts that the RMB will appreciate 5.8% against the U.S. dollar by the end of 2011.

2/16 – China adopted a set of new rules for reviewing outbound foreign M&A deals. Chinese overseas investments under \$100 million can be audited and approved by provincial commissions. Additionally, inbound foreign investment under \$300 million will now only require approval from the provincial commerce department. These decentralizations mark a dramatic shift in the investment approval process and will enable the provinces to have more autonomy and promote greater efficiency in cross-border transactions.

1/10 – China's auto sales rose 32.4% to 18.1 million units in 2010, according the Chinese Association of Automobile Manufacturers (CAAM). For the first time in history, General Motors’ sales in China surpassed its U.S. sales, totaling 2.4 million compared to 2.2 million units, respectively. However, tightening credit markets and the expiration of government sponsored vehicle purchasing incentives are expected to depress sales in 2011, compared to 2010.

CHINA INDUSTRIAL EQUITY COMPOSITE PERFORMANCE ⁽¹⁾



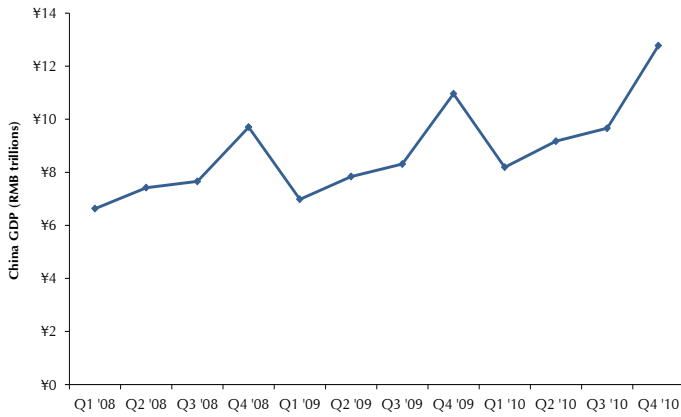
China Industrial Composite	
12-month change (LTM):	30.2%
One-month change:	7.1%

Shanghai Stock Exchange Composite	
12-month change (LTM):	-6.1%
One-month change:	2.2%

⁽¹⁾ Refer to page 4 for list of companies included in composite.
Source: Capital IQ, 3/29/11

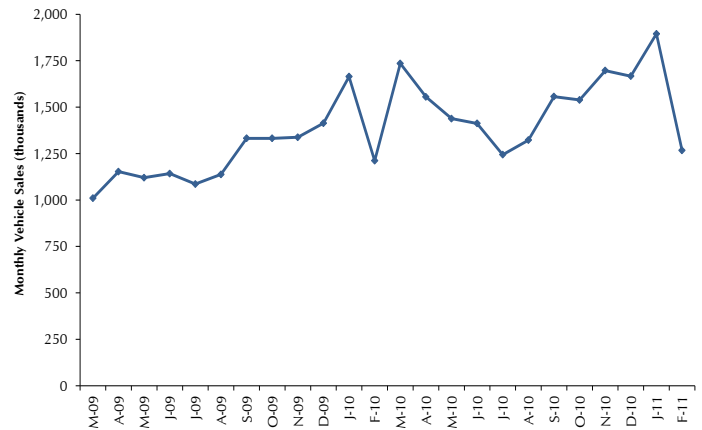


CHINA GROSS DOMESTIC PRODUCT (RMB)



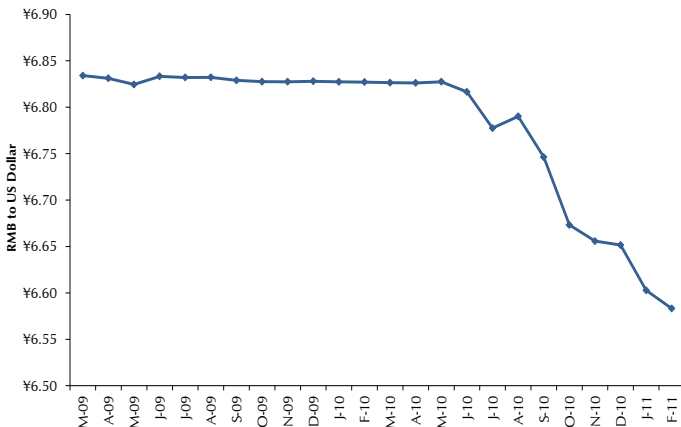
Source: National Bureau of Statistics of China

CHINA DOMESTIC AUTOMOTIVE SALES (UNITS)



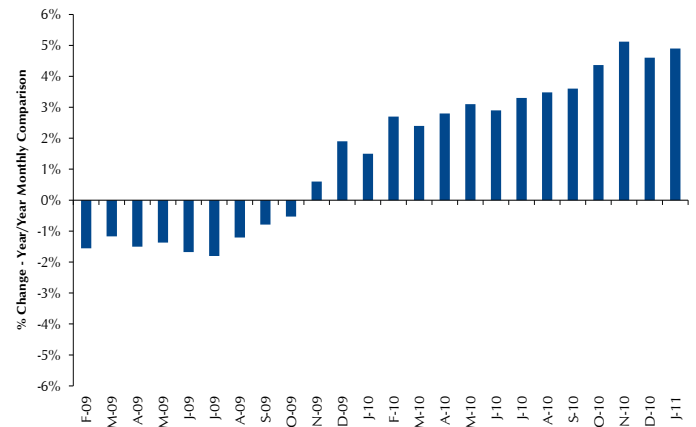
Source: Chinese Association of Automobile Manufacturers (CAAM)

RMB vs. US DOLLAR



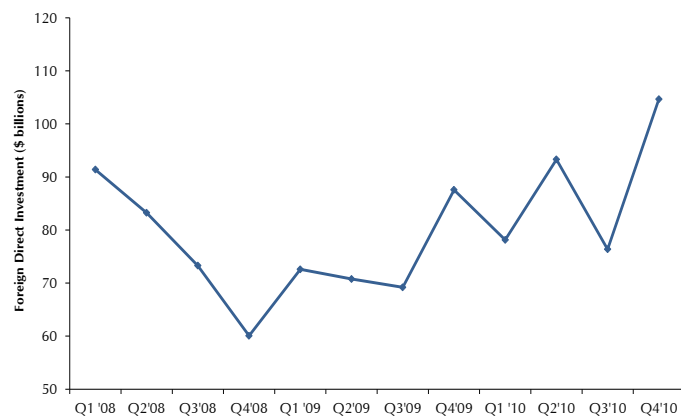
Source: State Administration of Foreign Exchange

CHINA CONSUMER PRICE INDEX



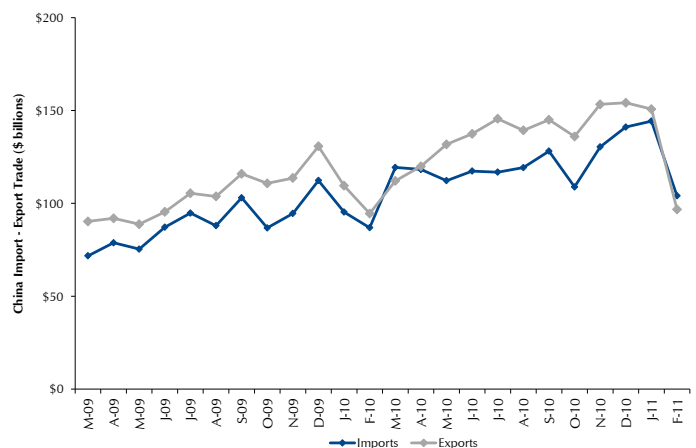
Source: National Bureau of Statistics of China

CHINA FOREIGN DIRECT INVESTMENT



Source: Ministry of Commerce of the PRC

CHINA IMPORT - EXPORT TRADE VALUE



Source: Ministry of Commerce of the PRC



CROSS BORDER M&A MONITOR

- 3/9 - China Nuvo Solar Energy, Inc.** announced plans to acquire Florida-based lithium ion battery manufacturer **Freya Energy Inc.** Freya has developed large format lithium ion cells and batteries for high-power and high-energy applications which prevents batteries from overheating and catching fire.
- 3/9 - Canada-based fastener distributor Interfast Inc.** announced that it had signed a letter of intent with **AVIC International Zhuhai Company Limited** to create a fastener joint venture in Zhuhai. The new fastener company will serve China's growing domestic aerospace industry and the existing international customers in the aircraft manufacturing, airlines and aerospace maintenance markets.
- 2/28 - Being Automotive Industry Corp. (BAIC)**, China's fifth-largest automaker, acquired Sweden-based gearbox manufacturer **Weigl Transmission Plant AB** for \$43 million. The Weigl Transmission Plant is the former GM Powertrain Transmission Plant in Gothenburg, Sweden. In 2009, BAIC acquired technology and tooling related to three SAAB vehicle platforms from General Motors for \$200 million.
- 2/28 - China Aviation Industry General Aircraft Co., Ltd. (CAIGA)**, a subsidiary of **Aviation Industry Corporation of China (AVIC)**, announced it had entered into a definitive agreement to acquire **Cirrus Industries, Inc.**, a manufacturer of all-composite personal aircraft and airframe parachute systems. Based in Zhuhai, CAIGA is a leading manufacturer of general aircraft products and is seeking to grow its light piston aircraft business through the acquisition. The deal will be the first Chinese acquisition in the U.S. aircraft industry.
- 2/19 - Huawei**, China's largest telecom equipment manufacturer, announced that it was backing away from its acquisition of California-based **3Leaf**. In May of 2010, Huawei acquired the assets of 3Leaf for \$2 million but failed to file with the Committee on Foreign Investment in the United States (CFIUS) until November. Soon after, CFIUS requested that Huawei voluntarily divest the assets adding to further tensions after CFIUS failed to approve Huawei and Bain Capital's joint acquisition of 3Com in 2008.
- 2/15 - GP Strategies Corporation** acquired **Communication Consulting**, a China-based training and consulting company. Communication Consulting specializes in training solutions the areas of leadership, communication skills, sales and customer service training in China and India.
- 2/11 - Fulida Group Holdings Ltd.** acquired Canada-based **Neucel Specialty Cellulose Ltd.** from a group of investors led by **Wellspring Capital Management** and **GSC Group**. Fulida is a leader in the Chinese textile industry and will leverage Neucel's products and technology to gain market share in China's highly competitive viscose rayon fiber market.
- 2/4 - Tencent Holdings Ltd.**, one of China's leading internet and mobile value-added-service providers, announced that it had acquired a majority stake in Los Angeles-based **Riot Games** for \$350 million. Riot Games is a leading publisher of premium online games and the deal marks the largest acquisition by a Chinese firm in the U.S. online gaming industry.
- 1/26 - Integrated Silicon Solutions, Inc.** announced that it had reached an agreement to acquire **Si En Integration Holdings Limited** for \$20 million. Headquartered in Xiamen, China, Si En Integration provides high-performance analog and mixed signal integrated circuits for the mobile communications, digital consumer, networking and automotive markets.

CHINA INDUSTRIAL COMPOSITE – EQUITY MARKET PERFORMANCE METRICS

Company	Trading				Size		Profitability	Three-Year Growth (CAGR)		Leverage
	Stock Price 3/29/2011	% of LTM High	TEV / LTM Sales	TEV / LTM EBITDA	Market Cap	LTM Sales	LTM EBITDA %	Sales	EBITDA	Debt / LTM EBITDA
Anhui Conch Cement Co. Ltd.	\$5.86	97.0%	5.1x	20.0x	\$20,694	\$4,526	25.6%	17.3%	16.9%	1.7x
Anhui Jianghuai Automobile Co., Ltd.	2.06	92.0%	0.6x	9.4x	2,654	4,528	6.4%	30.1%	45.8%	2.4x
Baoding Tianwei Baobian Electric Co., Ltd.	3.68	77.1%	4.6x	NM	4,298	1,163	10.0%	34.2%	21.0%	11.3x
Beiqi Foton Motor Company Limited	3.59	80.9%	0.4x	8.4x	3,782	8,154	4.4%	28.5%	52.7%	1.2x
China Erzhong Group (Deyang) Heavy	1.72	69.7%	3.6x	NM	2,901	1,025	11.9%	7.2%	NA	11.5x
China First Heavy Industries	0.83	70.8%	4.8x	25.3x	5,412	1,155	18.9%	NA	NA	3.2x
China Shipbuilding Industry Corporation	2.01	90.1%	5.5x	NM	18,432	2,989	12.4%	NA	NA	2.4x
CSR Corporation Limited	1.14	81.6%	1.6x	22.1x	13,500	9,166	7.1%	NA	NA	3.2x
Dalian Daxian Enterprises Holdings Co.,Ltd.	1.24	98.4%	8.4x	NM	1,317	171	18.2%	10.1%	NA	5.2x
Founder Technology Group Corp.	0.65	67.3%	1.1x	23.4x	1,435	1,263	4.7%	0.3%	NA	4.7x
Fuyao Glass Industry Group Co., Ltd.	1.95	90.2%	3.4x	10.5x	3,896	1,297	32.2%	18.1%	18.9%	1.3x
HUAYU Automotive Systems Company,	1.95	86.0%	0.8x	8.2x	5,044	6,130	9.5%	104.7%	59.1%	0.6x
Long March Launch Vehicle Technology	2.14	81.1%	4.3x	NM	1,733	451	11.8%	13.6%	-4.7%	5.0x
Qingdao Haier Co., Ltd.	4.42	91.7%	0.8x	16.7x	5,922	6,756	4.7%	19.9%	NA	2.3x
SAIC Motor Corporation Limited	2.81	82.2%	0.6x	9.4x	25,994	40,923	6.4%	37.2%	76.5%	0.8x
Sany Heavy Industry Co. Ltd.	4.13	93.4%	4.2x	18.6x	20,898	5,176	22.4%	54.8%	60.0%	1.3x
Shanghai Zhenhua Heavy Industry (Group)	0.68	88.6%	3.1x	NM	3,003	2,609	4.5%	-10.6%	-37.8%	30.2x
Shuangliang Eco Energy Systems Co Ltd	2.39	68.9%	3.5x	NM	1,940	590	9.4%	NA	NA	4.5x
Yantai Wanhua Polyurethanes Co., Ltd.	4.09	96.4%	5.3x	27.1x	6,805	1,437	19.5%	7.5%	-9.2%	2.7x
Median	\$2.06	86.0%	3.5x	17.7x	\$4,298	\$2,609	10.0%	18.1%	21.0%	2.7x
Mean	\$2.49	84.4%	3.2x	16.6x	\$7,877	\$5,237	12.6%	24.9%	27.2%	5.0x



QUARTON PARTNERS

INVESTMENT BANKING

China Briefing

300 Park Street • Suite 480 • Birmingham, Michigan 48009

This material is for your private information, and we are not soliciting any action based upon it. This material is for general information only and should not be read as containing advice or recommendations. It has not been prepared taking into account any person's particular objectives or needs. Any person should consider whether the information is appropriate to their needs or seek advice before making a decision based on this information. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without Quarton Partners' prior written consent.