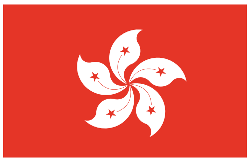


Hong Kong

Economy is unlikely to rebound significantly before the end of 2009. However, with its status as an international finance centre and its close ties to mainland China, Hong Kong is well placed for a solid recovery and will benefit from the continuing economic growth and development in the Chinese economy.

David Brown
Transactions Leader
Hong Kong

Current Environment

The global financial crisis in 2008 carried over to 2009 and continued to weigh heavily on the Hong Kong economy. In the first quarter of 2009, GDP declined by 7.8% in real terms from a year earlier, compared with the 2.6% decrease in the fourth quarter of 2008. This marked the largest decline since the third quarter of 1998 when the Hong Kong economy was hit by the Asian financial crisis.

Total exports of goods decreased markedly by 22.7% in real terms (compared with the 4.9% decrease in the fourth quarter of 2008), reflecting a sharp decrease in global demand. This was the largest decline since the second quarter of 1954. Exports of services also decreased by 8.2% in real terms in the first quarter of 2009 from a year earlier, similarly hit by the drop in global and regional demand. Inbound tourism nevertheless experienced solid growth with the continued influx of mainland Chinese visitors, partly aided by the further relaxation of the Individual Visit Scheme by the Chinese government.

The labour market continued to adjust to the economic downturn through downsizing and wage cuts. The unemployment rate rose to 5.2% in the first quarter of 2009.

Private consumption expenditure contracted by 5.5% in real terms in the first quarter of 2009 from a year earlier, following the 4.1% decline in the fourth quarter of 2008 on higher unemployment and lower income. The decline is likely to have been higher were it not for the various stimulus packages announced by the Hong Kong government.

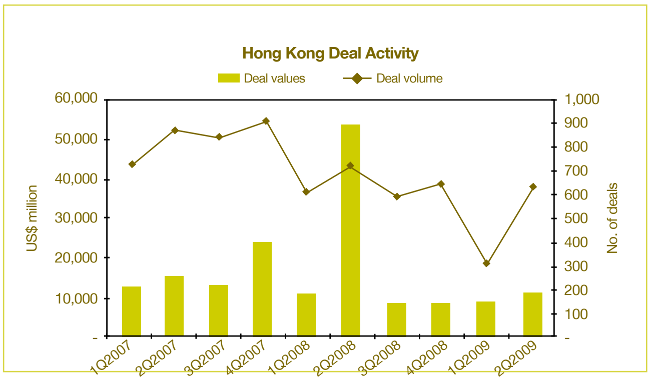
Given the global recession and the first quarter 2009 GDP data being worse than expected, the Hong Kong government revised its GDP forecasts for 2009 to contract by 5.5% to 6.5% in real terms, down from the original forecast decline of 2% to 3%.

Driven by more attractive valuations, foreign capital has however been flowing into Hong Kong stock markets. The Hang Seng Index recovered from its lowest point of 11,849 in March 2009 to a high of 19,162 in June 2009, a 62% increase for that period. However, the average daily turnover for the first half of 2009 was HK$58.3 billion, a decrease of 33% over the same period in the prior year.

The number of IPOs dropped from 21 in the first half of 2008, to 18 in the first half of 2009. More significantly, the amount of funds raised through these IPOs fell from HK$50 billion to HK$17 billion in the respective periods.

Lower interest rates, market liquidity and the Chinese government's stimulus measures have seen a rebound in the prices of the Hong Kong property market in the second quarter of 2009 and a gradual increase in sales volume since March 2009.

Deal Activity



Source: *Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009*

In value terms, deal activity in the first half of 2009 (US$20 billion) improved 17.6% as compared to the second half of 2008 (US$17 billion). However, this is still significantly down when compared with the first half of 2008, both in number of deals (decreased from 602 deals in the first half of 2008 to 422 deals in the first half of 2009) and by deal value (US$44.8 billion). Some of the major deals during the first half of 2009 in each industry sector include:

Telecommunications

Hutchison Telecommunication International Ltd (HTIL) completed the spin-off of its wholly-owned subsidiary, Hutchison Telecommunication Hong Kong Holdings Limited (HTHKH) in May 2009 which was listed on the

Hong Kong Stock Exchange. HTIL's holding company, Hutchison Whampoa Limited held a 60.4% stake in HTHKH after the spin-off. The total transaction value was US$1.3 billion.

China Mobile Limited, a Hong Kong-listed company, acquired a 12% stake in Far Eastone Telecommunications Company Ltd, a Taiwan-based listed telecommunications company that provides mobile and internet services, for a consideration of US$526 million in cash. The offer price represents a premium of 15.3% over Far Eastone's closing price per share as of the deal announcement date. Along with the same acquisition, China Mobile also entered into a strategic cooperation agreement with Far Eastone with the purpose of a long-term mutual strategic development in several business areas including joint purchases, roaming, data and value-added businesses, and network and technology advancement.

Energy

GCL- Poly Energy Holdings Limited (GCL Poly), a Hong Kong-based supplier of polysilicon and wafers to companies operating in the solar energy industry, has signed two acquisition agreements in the first half of 2009.

The first deal was for the US$2.6-billion acquisition of GCL Solar Energy Technology Holdings Inc. from four Chinese-based investment holding companies (Happy Genius Holdings Limited, Mandra Silicon Limited, Mandra Materials Limited, and Mandra Esop) in June 2009. The acquisition will allow GCL Poly to diversify its current utility business portfolio, bring in expertise and reduce production cost as well as expand its upstream business operations.

GCL Poly also signed an agreement to acquire Greatest Joy International Limited and Sun Wave Group Limited from Happy Genius Holdings Limited for a consideration of US$831 million. This deal was also announced in June 2009 and it is expected to be completed by October this year.

Mining

Nubrands Group Holdings Limited (formerly known as Wanji Pharmaceutical Holdings Ltd), a Hong Kong-based listed investment holding company with businesses in health, beauty products and medical equipment, announced in May 2009 that it was to acquire Seawise Group Limited from Wonder Champion Investment Limited for US$197 million. The acquisition will bring the long-term prospects of the coal and energy segment to Nubrands and complement its recent acquisition in the coal mining sector, helping it to expand its geographical coverage into China. The transaction is currently subject to shareholders' and regulatory approval.

As announced in April 2009, North Mining Shares Company Ltd (formerly known as Sun Man Tai Holdings Co. Ltd), a listed company in Hong Kong engaged in property investment and securities trading, has agreed to acquire Qinghai Province Qilianshan Copper Co Ltd, Qinghai Zhenguan Mining Co. Ltd, and Boertala Mongolian Autonomous Perfecture Lamasu Copper Mine from four private individual investors for a consideration of US$193 million. The consideration for the transaction is to comprise cash and equity.

Industrial

Kai Yuan Holdings Limited, a listed Hong Kong-based company trading in consumer goods including sports merchandise, photographic equipment and brand name audio-visual products, announced the acquisition of Fame Risen Development Ltd, a company that has three steel manufacturing businesses in China for a consideration of US$671 million. The deal was completed in May 2009.

Entertainment

Sociedade de Turismo e Diversoes de Macau S.A., a Macau-based holding company engaged in the leisure sector, acquired Mandarin Oriental Macau from Mandarin Oriental Holding Company Ltd and Hong Kong-listed Shun Tak Holdings, which each held 50% of the target, for a cash consideration of US$206 million. The deal was completed in May 2009.

Financial Services

Bank of America (BOA) sold a 5.78% stake in China Construction Bank (CCB) to a group of investors, including BOCI Asia Limited, Temasek Holdings Pte Ltd, China Life Insurance (Group) Company, along with its two insurance subsidiaries and Hopu Investment Management Co. Ltd (a Chinese private equity firm managed by Fang Fenglei) for a total consideration of US$7.3 billion. The transaction was completed in May 2009. BOA decided to sell the bank shares after the lockup period expired on 7 May 2009. It still owns an 11% stake in CCB, which it can sell by 29 August 2011.

China CITIC Bank Corporation (CITIC Bank), a commercial bank and a 62.3% subsidiary of CITIC Group, has agreed to acquire a 70.32% stake in CITIC International Financial Holdings Limited (CIFH) from Gloryshare Investments Limited for a cash consideration of US$1.75 billion. This transaction is in line with CITIC Group's previously announced intention of merging CIFH with CITIC Bank. After the acquisition, CITIC Bank will benefit from CIFH's presence in Hong Kong, which will enable the former to expand its operations to international financial centres and solidify its position in Hong Kong. The deal is expected to close in October 2009.

Real Estate

China Central Properties Limited (CCP) has received an offer from Shui On Construction and Materials Ltd to acquire the remaining stake of CCP. The deal was announced in May 2009 with a value of approximately US$40 million. The transaction is subject to Hong Kong Stock Exchange's and shareholders' approval.

Private Equity

GS Holdings Corp., a listed South Korea-based company engaged in the provision of consumer petrochemical products and electricity, has agreed to acquire from Morgan Stanley Private Equity Asia, the Hong Kong-based private equity firm, a 69.53% stake in Ssangyoung Corporation, another listed South Korea based company engaged in the import and export of steel and metal products. The deal was valued at US$96 million and announced in May 2009. The completion of the transaction is still pending as of July 2009.

Bain Capital Glory Ltd agreed to acquire 5% convertible bonds of GOME Electrical Appliances Holding Ltd, a Hong Kong-listed China-based retailer of household appliances and electronics, which could convert into an 11.32% equity stake, or 1.628 billion new ordinary shares for a total consideration of US$233 million. The acquisition was announced on 22 June 2009.

Outlook

The Hong Kong economy is unlikely to rebound significantly before the end of 2009 as it is significantly impacted by the global economy. However, with its status as an international finance centre and its close ties to the mainland China, Hong Kong is well placed for a solid recovery and will benefit from the economic growth and development in the Chinese economy especially when the US and Europe begin to show signs of recovery

Domestically, consumer spending may remain moderate going forward, but the recent rebound in the local stock and housing markets, and low interest rates should provide support to a relatively stable local environment.

Unlike mature markets, emerging markets like China have a greater potential to recover from the current downturn as they have more fiscal flexibility to stimulate the economy. With China's recent signs of recovery, Hong Kong's external trade should see relative improvements later in the year.

With respect to Hong Kong's M&A market, the start of 2009 has seen little activity with many buyers uncertain about the global economy and many adopting a "wait-and-see" approach to investing. However, in recent months we have seen increased activity particularly from corporate buyers looking for opportunities to expand or invest in attractively priced assets. We believe this trend will continue in the second half of 2009 and possibly increase as valuation gaps between buyers and sellers reduce. Many private equity firms that have raised funds in the past will no doubt continue to source new investment opportunities which will add to M&A activity in the second half of 2009. The increasing number of companies in distress looking to restructure their debt financing will also lead to more distressed M&A activity in Hong Kong. ■