Advisory

Asia-Pacific M&A Bulletin

Steaming into Choppy Waters

Year-end 2007

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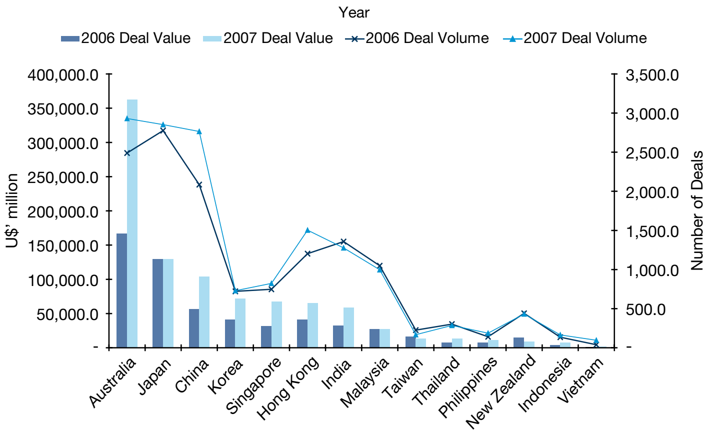
2007. What a year!

Foreword by Chao Choon Ong, Asia Pacific Transactions Leader

Global and regional economic growth remained strong. Stock markets reached unprecedented levels. Liquidity continued to flood the market as more private equity ("PE") and sovereign wealth funds ("SWF") were set up in the region, and corporate investment war-chests were beefed up by the stock markets and strong corporate performance. Credit, while showing signs of caution as a result of the US sub-prime crisis, is still available for the right deals. All these factors conjured up the perfect storm for a record year for M&A activity in the Asia Pacific region.

The volume of M&A in Asia-Pacific hit an all-time high of US$883 billion (excluding intra-regional deals), 69% higher than 2006's US$524 billion which was the previous record year. This growth was broad base, with Australia, Singapore, China and India leading the charge with YOY growth in excess of 80%. Indonesia and Vietnam both doubled their M&A volume, albeit from a low base. Apart from Australia, Singapore and New Zealand where 65% of the deals were outbound (mostly into USA and Europe), most of the deals in the other countries were either domestic or inbound (75%, 2006: 80%).

Asia Pacific Inbound, Outbound & Domestic Deal Value & Volume



PEs once again made their presence felt in the region. According to the Asia PE Report, PEs in Asia-Pacific raised US$37 billion during 2007 (up from US$29 billion in 2006), bringing total fund size to US$198 billion. Asia Venture Capital Journal also reported that PEs invested US$83 billion. SWFs were boosted by trade surpluses and oil revenue, and as an investor class, gained overnight prominence with their headline-grabbing acquisitions. SWFs made US$18 billion of M&A investments in Asia-Pacific. At the same time, Asia-Pacific SWFs invested US$47 billion around the world, of which US$37 billion came from Singapore.

Investment themes continued to be consistent across most of Asia-Pacific – financial services, real estate, consumer, energy and resources – reflecting the growing affluence of Asia's middle class and the resultant urbanisation, as well as rising oil and commodity prices. In the periphery, We are seeing (expecting) the emergence of the environment as another investment theme in the next 24 months, as political leaders around the world are finally facing up to the Inconvenient Truth of global warming. As featured in our previous issue of this Asia-Pacific M&A Bulletin, we are seeing an increasing interest in CDM ("Clean Development Mechanism") transactions whether in the form of green energy like solar or bio-diesel, or other means of trading in CERs ("Carbon Emission Reduction" units). Green is the new colour for investments – be it CDMs, renewable energy, waste and water management. With any new investment class (remember internet stocks?), there will initially be hype and bubbles amongst gems. Whether as investors, financiers or CER buyers, it would pay to start learning about the myriad of green technologies and their commercial substance now.

2007, while a record year for M&A, has ended with dark clouds on the horizon. A congruence of subprime write-downs and other fears have caused the stock markets to go through some of their most volatile months. Inflation is taking hold in most of Asia-Pacific and it poses a socio-political time bomb given the existence of low-income masses, widening wealth gap and the lack of social security cushion. The US economy, by most reckoning, is heading for a recession. A Democrat win in the US may also result in some protectionist changes affecting global trade, if the rhetoric at the primaries is to be believed. As the US is the largest consumer of Asia exports, the fear is that there will be a US-led global stagflation. Much has been made of the decoupling of Asia economies from the US, which in my mind is at best limited. No corporate or nation can be unaffected by the loss of its most significant customer. Unsurprisingly, most governments have since moderated their GDP growth projections for 2008.

The impact of these dark clouds on M&A in 2008 depends on how deep a recession the US economy falls into. There is certainly no lack of funds and cash-rich corporates ready to pounce on any investment opportunity in a recession. A mild recession, coupled with continued easy monetary policy and stock market correction, could actually be benign for M&A as they lower valuation expectations while not curtailing the demand for capital in any material way. On the other hand, in a deep and painful recession, the compensating distressed M&A opportunities are unlikely to make up for the loss of growth capital demand, which has driven most of Asia's M&A in recent years.

Personally, I remain optimistic, as do my colleagues who contributed to this Bulletin. We see many positive factors.

- Asian economic fundamentals are much stronger compared to a decade ago. China and India's domestic consumption may take up some of the slack from a US recession, even though decoupling from the US economy is at best limited. Economic growth across the region could moderate, but many countries in Asia will still be amongst the fastest-growing in the world.
- Across most parts of Asia, the level of M&A is still relatively low. Overall M&A transaction value is just 4% of GDP, compared with 11% in the US and 9% in Europe.
- Asian deals tend to have lower leverage as the focus has been on growth. They will be less affected by the credit crunch. Asian banks are also relatively unscathed by the sub-prime crisis, which is good news for leveraged buy-out players.
- After a decade of steady recovery from the Asia Financial Crisis, the region has an abundance of money looking for investments. The size of Middle Eastern and Asian SWFs will continue to increase rapidly, and are looking for better returns than the traditional US treasuries. PEs and a plethora of hedge funds and venture capital have raised substantial funds and are channeling more money into fast growing Asia. Asian corporates' investment war chests are also overflowing with surpluses and looking for opportunities to grow or diversify through M&A.
- The region, and the world, is seeing unprecedented congruence of political leadership changes in the past and next 12 months – from Australia, Thailand, Korea, Japan, Taiwan, Malaysia, Indonesia, New Zealand to US, UK and Russia. Many of these changes are (expected to be) positive for business and cross border co-operation – either through policies or better political climate.

In fact, as I speak to my colleagues and clients, the questions at the top of their minds have not changed. They continue to be asking:

- "Where are the growth opportunities?"
- "Can we get enough deals?"
- "Will government restrictions on M&A be relaxed?"
- "Can we improve the business to capture more value?"

These are questions which my colleagues and I think about every day. As we bring you this edition of our M&A Bulletin, we present to you our analysis on the happenings and our thoughts from our practical experience in the marketplace. We have included a special feature article on SWF, which have gained increased attention internationally, and another on Vietnam, the fastest growing M&A star in Asia-Pacific.

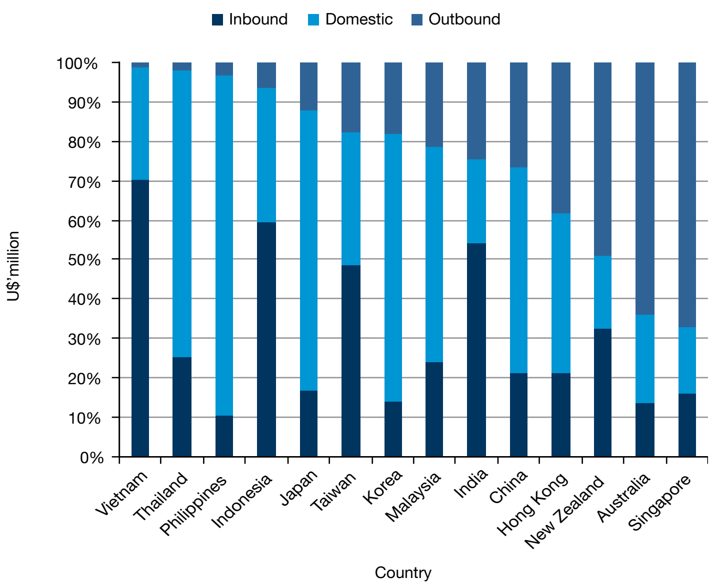
It has been said: "crisis creates opportunities". I hope that when we end the year in 2008, you would have found some truth in that statement.

2007 Asia Pacific Deal Activities

Announced M&A value and volume in AsiaPac by countries		
YOY Growth % for 2007		
Country	Deal Value	Deal Volume
Australia	117%	18%
Japan	1%	3%
China	83%	33%
Korea	75%	1%
Singapore	115%	10%
Hong Kong	59%	25%
India	82%	-6%
Malaysia	-3%	-5%
Taiwan	-17%	-26%
Thailand	73%	-5%
Philippines	42%	32%
New Zealand	-36%	-2%
Indonesia	103%	21%
Vietnam	233%	146%
Asia Pacific Deal Value (excluding Intra Asiapac Deals)	69%	11%

Source: Thomson Financials

Inbound-Outbound-Domestic Deal Value by Asia Pacific Country – 2007



Source: Thomson Financials

Regional Economic Indicators

Asia-Pacific Macroeconomic Indicators – Year-end 2007

	Nominal GDP US$'billion		Population (million)	Consumer Prices % Chg YOY	Industrial Production % Chg YOY	Real GDP Growth Chg YOY
	Market Exchange	PPP				
Australia	895.50	761.98	20.43	2.30	3.40	3.90
China	3,315.09	11,400.80	1,323.10	4.80	17.20	11.40
Hong Kong	202.82	279.88	6.98	2.00	-2.50	5.70
India	1,131.69	4,768.67	1,110.40	6.50	10.00	7.90
Indonesia	418.80	1,013.95	234.69	6.41	3.80	6.20
Japan	4,384.35	4,269.93	127.45	0.00	0.50	1.80
Korea	960.39	1,215.66	49.00	2.50	7.60	5.00
Malaysia	187.10	329.13	27.17	2.00	1.80	6.00
New Zealand	127.29	116.83	4.21	2.30	1.10	3.30
Philippines	143.61	485.59	91.08	2.70	7.00	6.90
Singapore	152.74	183.72	4.49	1.90	7.60	7.50
Taiwan	382.34	779.69	22.66	1.80	7.60	5.40
Thailand	244.70	646.38	66.50	2.20	6.10	4.60
Vietnam	70.06	313.14	85.95	8.30	17.30	8.50

Source: Economist Intelligence Unit, Feb 2008

M&A advisor of choice

Ranked No.1 by Thomson Financial for the 3rd year –
Financial advisor by volume in Asia Pacific excluded Japan

A selection of M&A Lead Advisory Transactions in Asia Pacific

Singapore
Dubai Drydocks World LLC
Acquisition of Labroy Marine Ltd through voluntary conditional cash offer
S$2.37 billion
2007

China
Xuejin Brewery
Sale of 100% interest to InBev, advisor to vendor
Euro 614 million
2007

Singapore
Oiltanking GmbH
Divestment of a 45% stake in 3 oil storage companies in Singapore, Amsterdam and Malta to 3i Infrastructure Ltd
Euro 305 million
2007

China
ChemChina
Disposal of 20% interest in China National Bluestar (Group) to Blackstone
US$600 million
2007

Australia
Axa Asia Pacific Holdings
Acquisition of Sterling Grace Portfolio Management Limited
AU$201 million
2007

Australia
Belfinger Berger
Takeover of Abigroup Limited, advisor to buyer
AU$186 million
2007

China
Hunan Your-Mart
Independent financial advisor to disposal of 30% interest to syndicate of financial investors
2007

India
Paymate
Financial advisor, raised funds from Kleiner, Perkins, Caulfield, Byers and Sherpalo Ventures
2007

Japan
Daio Paper
Independent financial advisor to acquisition of P&G's adult incontinence division
2007

Japan
Hitachi Koki
Independent financial advisor to acquisition of Carat Nederland BV
2007

Korea
Choongnam Spinning
Disposal of majority shareholding to SG Wicas consortium
2007

Thailand
Vega Balls
Financial advisor to establishment of new joint venture with SRI Sports Limited
2007

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Special Feature

New Barbarians at the Gates
Impact of SWF on M&A in AsiaPac

Vietnam
Taking stock at the first anniversary of World Trade Organisation ("WTO") membership

New Barbarians at the Gates

Impact of SWF on M&A in AsiaPac

Not since the advent of PE has a class of investors attracted so much controversy across the Globe. SWF have existed for the last quarter of century. However, their recent rise to prominence following their investments into troubled US financial groups has prompted much debate about their role in the broader global economy. In this article we look at some of the major SWFs in AsiaPac and consider what impact SWFs may have on the Mergers and Acquisition ("M&A") environment in Asia Pacific ("AsiaPac").

Summary

The impact of SWFs on AsiaPac M&A market will increase as surpluses continue to accumulate and are put to work seeking higher returns. The conservative mindsets of many AsiaPac governments are rapidly giving way to a race to build ever-larger funds. The additional liquidity these funds provide will undoubtedly support deal activity, and the fund management industry. SWFs from outside the region will also provide further sources of capital looking for growth opportunities. The privileged position of SWFs may displace some private sources of capital, and over time SWFs will develop their own PE teams and dis-intermediate PE funds for some deals.

Despite the storm of controversy and recipient governments' resistance, SWFs are going to be significant global and regional M&A players. Deal makers cannot afford to ignore the emergence of these enormous new pools of capital and potential competitors, and are already finding ways to work together with SWFs, both as sources of funds, as co-investors, and to provide access to new deal opportunities. In the process, the competitive dynamics of the PE industry in the region is being reshaped. This approach is not without risk, especially with recently established SWFs, whose government owners have also not yet determined what role they want their SWFs to play. Moreover, some of the regional SWFs will be viewed as being more politically motivated/sensitive than others, and PE funds hoping to build strategic relationships will need to consider how to manage the political fall out that could arise should some of these relationships go sour.

Finally, SWFs are susceptible to political interference from the governments who own them, and will encounter political opposition both globally and also intra-regionally. In particular Japan and China, holders of the largest foreign exchange reserves in the world, could be perceived to extend their strategic influence in the region through the activity of their SWFs.

Who and what are SWFs?

What exactly constitutes a SWF is the subject of some debate. SWFs generally exist to invest excess reserves of national governments. Globally, oil-producing nations and major export nations have generated the largest excess reserves ("excess" meaning the reserves in excess of what is required for monetary stability). SWFs generally take 3 forms.

i. Funds set aside specifically for investments from government reserves. Key SWFs in the region include Government of Singapore Investment Corporation ("GIC") with approximately US$150 billion of assets under management ("AUM"), China Investment Corporation ("CIC") with approximately US$200 billion, and Korea Investment Corporation ("KIC") of South Korea with US$20 billion. Japan is also reported to be considering establishing SWFs.

ii. State holding companies that are set up to hold investments in state-owned enterprises and use the accumulated disposal gain and dividend income as PE funds. Regional examples being Temasek of Singapore, Khazanah of Malaysia, and Vietnam's State Capital Investment Corporation, or a government organ like SASAC in China.

iii. State-owned enterprises ("SOEs"), both listed and unlisted, where government holds controlling stake, and are perceived as extension of their government. This is the grey area. Most SOEs, especially those listed on stock exchanges and include foreign funds as their shareholders, will argue that they operate independently and act commercially for interests of its shareholders. The efficacy of this argument varies from country to country, and SOE to SOE. However, judging by past events, recipient countries and governments do not always differentiate SOEs from their governments.

In this article, we use the term SWF's to refer to funds established to manage excess reserves, but also discuss the activity of state holding companies, recognising certain commonalities between the two.

SWF's from the AsiaPac region wield increasing power due to rising foreign currency reserves and the rapid establishment of SWFs to mobilise those reserves for higher returns. Asian foreign exchange reserves were around US$3 trillion at the end of 2006, of which slightly more than one-third was held by China, slightly less than one-third by Japan, and the remaining third by other Asian countries. To put this in perspective, the AUM of the Asian central banks exceeds the AUM of the global hedge fund and PE industries combined, although only a small portion of these assets are placed in SWFs. Much of the remainder is invested into US Treasuries and bonds, whose weakening exchange rate and low return create increasing opportunity cost in terms of investment income foregone. A key driver behind the formation of SWFs is to raise returns on these reserves above rates offered by the US Treasuries.

Are Asian SWFs less politically sensitive than petrodollar SWFs?

Apart from the AsiaPac governments themselves, the other major SWFs that will have an impact on the region are the petrodollar SWFs, mainly from the Middle East. The combined AUM of the Middle East SWFs is slightly higher than that of the AsiaPac governments, but the Middle East domestic and regional economies are much smaller. As the oil price has risen, consumers in non-oil producing nations have essentially been paying a "consumption tax" that has flowed back to the oil-producing nations, who in return have sought overseas outlets for their new found wealth. McKinsey estimate that if oil remains at US$50 per barrel, then the petrodollar SWFs will have an additional US$1 billion available for investment every day. As well as being a source of funds for the AsiaPac region, the rise of the petrodollar SWFs also signify a potential threat as further increases in the oil price could reduce the surpluses enjoyed by AsiaPac nations who are heavily dependent on energy imports.

The activity of SWFs and government holding companies have attracted much comment in recent months due to high-profile transactions that they have been involved in. The discomfort over the lack of transparency surrounding SWFs drives much of the growing hostility to SWFs in the US and Europe, where calls to regulate the activity of SWFs have been made. The International Monetary Fund has asked SWFs in Singapore, Norway and Abu Dhabi to draw up disclosure benchmarks for SWFs, amid calls by the US Treasury for SWFs to follow yet-to-be defined guidelines governing transparency and investment behaviour. The European Union is drawing up their own guidelines for SWFs.

SWFs from petrodollar countries wield real economic power over western economies as they control the supply of oil and also the investment of the resulting surpluses. Post September 11, there is also greater concern in the US over assets that may have national security implications. For example, Dubai World's GBP3.9 billion acquisition of Peninsular & Oriental Steam Navigation Company ("P&O") met with stiff US objections. As a concession, Dubai World was forced to segregate the operations of the 6 US ports managed by P&O and is in the process of divesting them.

Asian soverign-linked investors may not have the added "menace" of control of oil supply, but have nonetheless attracted political controversy in larger transactions, as Temasek has found with its acquisition of Shin Corp in Thailand from the then Prime Minister, Thaksin Shinawatra and two telecoms companies in Indonesia from the government of Indonesia. Further back in time, China National Offshore Oil Company Ltd ("CNOOC"), an SOE, had to withdraw its acquisition offer for US's Unocal Oil Company amidst "unprecedented political opposition".

In general, there is scepticism whether the governments behind SWFs are really only interested in commercial investments, rather than in increasing the cross border reach of their own political power.

AsiaPac SWFs have very different backgrounds and mandates

Most regional SWFs are in their infancy, and hence there are no strong historical precedents to refer to when trying to predict their future behaviour. Motives for establishing SWFs also vary greatly and these different mandates make performance comparisons difficult. On the one hand, you have GIC, the longest established SWF in AsiaPac, formed in an era of oil-shock driven high inflation and in a small country with no geo-political ambitions. It has focused on seeking returns above the rate of inflation in secure developed economies. On the other hand, CIC and the SWF under consideration for Japan, have quite different or as yet undefined mandates (see below) which could include mainly domestic investments. Moreover, initial actions by a new SWF may be a poor indicator of future trends, as the SWFs may have room for considerable flexibility in their mandates whilst their role is being refined.

Countries with the largest SWFs and state holding companies

SWF Greater than US$100 billion				
Country	Fund Name	Assets (US$'billion)	Established	Origin
UAE	Abu Dhabi Investment Authority	875	1976	Oil
Singapore	Government of Singapore Investment Corporation	330	1981	Non-commodity
Norway	Government Pension Fund	315	1990	Oil
Saudi Arabia	Various	300	Various	Oil
Kuwait	Kuwait Investment Authority	250	1953	Oil
China	China Investment Corporation	200	2007	Non-commodity
China	Central Huijin Investment Corp	100	2003	Non-commodity
Singapore	Temasek Holdings	100	1974	Non-commodity
Australia	Australian Government Future Fund	51	2004	Non-commodity
US (Alaska)	Alaska Permanent Fund	40	1976	Oil
Qatar	Qatar Investment Authority	40	2000	Oil
Russia	Stabilisation Fund of the Russian Federation	32	2003	Oil
Brunei	Brunei Investment Agency	30	1983	Oil
South Korea	Korea Investment Corporation	20	2005	Non-commodity
Malaysia	Khazanah Nasional	18	1993	Non-commodity
Kazakhatan	Kazakhstan National Fund	18	2000	Oil
Canada	Alberta Heritage Fund	17	1976	Oil
Taiwan	National Stabilisation Fund	15	2000	Non-commodity
Iran	Oil Stabilisation Fund	13	1999	Oil
	Total	2764		

Source: the Economist, Morgan Stanley

Selected Announced/Reported Transactions of Asian SWFs, 2007-8		
GIC		
TPG Fund	US$2.5 billion	PE
Westin Tokyo	US$719 million	Hotel property
Citigroup	US$6.9 billion	Financial services
UBS	US$10 billion	Financial services
WestQuay	US$299 million	Retail property, UK
CIC		
Blackstone	US$3 billion	PE
China Railway Group	US$100 million	Transportation
Morgan Stanley	US$5 billion	Financial Services
Central Huijin	US$67 billion	Financial Services
Korea Investment Corporation		
Merrill Lynch	US$2 billion	Financial Services

Source: Media reports

GIC – AsiaPac's most mature SWF

The most mature SWF in the region is GIC of Singapore. Established in 1981, it publicly discloses AUM of at least US$100 billion, and claims an annual real rate of return since establishment of 5.3%. Analysts believe the actual AUM to be much higher. It has developed from being a public markets investor to expand its range of asset classes and now has a significant real estate and PE portfolio. GIC has become the only mandatory Asian stop on any fixed income roadshow, and its influence was further demonstrated by its recent investment of US$6.9 billion into Citigroup, and its intended investment of CHF11 billion in UBS.

These latter investments have aroused some negative comment in recipient nations, to the extent that Dr Tony Tan, GIC's Deputy Chairman and Executive Director, made public comments in defense of SWFs, whilst acknowledging demands for greater transparency. It is thought that GIC has less to fear from greater transparency as its objectives are primarily financial, not political. GIC, in its role as an agent for the owner of the investments, the government of Singapore, does not publish an annual report, and does not disclose the size of assets it has under management, except to the nearest round US$100 billion.

CIC – a new heavyweight with an evolving strategy

China was reported to have considered GIC as a model in the establishment of its own SWF, CIC. However, CIC faces different pressures and is under the spotlight, not only in potential recipient nations, but also at home where its coming-out investment in the Blackstone IPO attracted criticism by not making immediate returns – with CIC at one point being US$1 billion down on its US$3 billion investment. As it is funded by Rmb-denominated debt which is appreciating in value, implies its expected return rates must be under further pressure.

Two-thirds of its initial capitalisation of US$200billion had actually already taken place and was re-allocated to CIC from its predecessors – US$67billion to acquire Central Huijin (the state-owned vehicle for stakes in policy banks), and a further US$70 billion for other recapitalisations of policy banks. The remainder is to be invested abroad, with around US$30billion currently being allocated to foreign investment managers. However, following its highly-publicised initial foray into Blackstone, and in view of other Chinese frustrations in purchasing foreign assets such as Unocal, CIC has announced it will avoid strategic industries in foreign countries. However, the opportunity to acquire nearly 10% interest in Morgan Stanley for US$5billion was irresistible (described as a 'big fat rabbit' by CIC's chairman), particularly as political barriers were lower at a time when the bank needed capital.

CIC's mandate seems less focused and may be perceived as more susceptible to political interference when compared to that of GIC. It combines domestic policy bank balance sheet rebuilding, support of domestic companies in their overseas fund-raising (CIC was a pre-IPO investor in the China Railway Hong Kong IPO) and overseas investments. Not all of these activity will necessarily achieve the overall objective of obtaining higher returns on excess reserves.

Japan – fear of being left behind

As holder of the second largest foreign exchange reserves in the world, Japan could establish a fund that could rival CIC in size, and Japanese ministers have disclosed that Japan is considering establishing such a fund. However, reports suggest that the purpose of the fund will be to support the domestic stock market. Given Japan's rapidly deteriorating demographics, future pension and medical costs need to be covered by a reducing workforce. A natural role for the SWF would be to invest current excess reserves to earn revenues to finance some of those future liabilities. That supporting the domestic stock market has even been suggested as an objective lent weight to criticism that Japan's SWF could be at the mercy of politicians. Paradoxically, in democratic Japan the political influence over the mandate of the SWF could be even greater.

The timing of Japan's moves is significant. Japan fears that the formation of CIC could lead to further marginalisation of Japanese interests if China uses CIC as a vehicle to increase its economic and political power in the region and globally. Some commentators in Japan view the takeover battle for Rio Tinto to be a sign of things to come, with Japan (whose key steel industry depends on imports of iron ore from producers including BHP Billiton and Rio Tinto) left on the sidelines as Chinalco, one of China's major state-owned enterprises, intervened with Alcoa of the US to acquire a 12% stake in Rio Tinto for US$14 billion, in a bold statement of interest in the deal. Japan would be put in the uncomfortable position of relying on its chief strategic competitor for a key raw material in a seller's market. In recent weeks Japan has also been mentioned as a target for investment from SWFs including CIC and Russian funds, and in response Japan has been one of the voices calling for restraint of SWF's.

Calls for Japan's own SWF to be put to use in supporting the domestic stock market reflect a narrow short term view, but in the longer term competition between the SWFs of China and Japan could be the new stage on which their struggle for strategic leadership of the region is played out.

South Korea – a new dawn

South Korea's Korea Investment Fund has also recently grabbed headlines with its US$2billion investment into Merrill Lynch. This bold investment marked a u-turn for the fund which had previously been limited to investing in bonds and developed markets by its Ministry of Finance. Only at the end of 2008 were some restrictions on its investment activity lifted to include emerging markets and other asset classes, and at the same time it was announced that the fund would increase from US$20 billion to US$50 billion by 2010, which is a significant statement of intent.

The impact of SWF's on M&A activity in AsiaPac

The formation of new SWFs in the region will greatly increase liquidity available for M&A. Part of their asset allocation will be into funds such as PE and hedge funds, and in so doing sustain an active and competitive fund management industry. In addition, the SWFs will be direct equity investors themselves. We will also see SWFs co-investing with SOEs in overseas acquisitions to share the risks and increase the SOEs' deal appetite.

In addition, SWFs from outside the region are likely to allocate increasing amounts of capital to developing markets in Asia. Petrodollar SWFs are taking their first steps in investing in China – a recent example being the agreement between Saudi Aramco, by some estimates the world's largest company (although Saudi Arabia does not currently have an SWF, Saudi Aramco fulfils a similar role), Sinopec and Exxon for two oil refinery projects in China with total investment of US$5 billion.

CIC's initial deal with Blackstone may be the first tentative steps in a pattern that could be repeated – that of PE funds trying to partner with AsiaPac SWFs and other state controlled vehicles to get access to funds and assets. In addition to raising capital, Blackstone may have hoped that having CIC as an investor could help it solve the most problematic issue for all PE investors in China – how to get big deals approved. During 2007, China underwent its own populist backlash against foreign investment, and as a result regulatory approval procedures became even more complex. Based on evidence to date, it appears that Blackstone's pursuit of a partnership strategy may be bearing fruit. An investment of 20% in China Bluestar, a leading domestic chemicals company, has been approved in principle in January, and Blackstone and Bluestar's parent made a joint bid for Nufarm, an Australian agrochemicals group.

A similar case of partnering with China Inc., albeit in a different asset class, is that of Barclays, who accepted an investment of US$3 billion from China Development Bank prior to Barclay's attempted takeover of ABN AMRO. Barclays now hope that relationship will support their bid to manage some of the US$30 billion of funds being allocated to global fund managers by CIC.

Other PE funds are seeking partnerships with CIC. JC Flowers, the US fund specialising in the financial services industry, is reported to have made an agreement with CIC to manage US$4billion of funds to invest in the US. By partnering with a US fund, it may be that CIC is hoping not only to benefit from the deep experience of JC Flowers in the financial services industry, but also reduce political resistance to direct investments. It appears that Blackstone and JC Flowers are seizing 'late mover advantage' to learn from the experience of others and create partnerships for mutual benefit as platforms which generate further investment opportunities.

Other China investments are following a similar partnering strategy, such as Chinalco's acquisition of an interest in Rio Tinto with Alcoa of the US as a co-investor. The ability to forge and manage these kinds of high-level strategic partnerships could be a key success factor for PE funds and strategic investors alike as China's strength increases.

SWFs pose a challenge to PE investors

The growth of SWFs in the region poses a challenge to PE funds who have been struggling to find and close deals in an environment of high valuation expectations and proliferation of newly set up funds seeking investments. More established SWFs and state holding companies like GIC, Khazanah and Temasek are already in the market for the same investments, and investment managers. Over the medium to long term, newer SWFs are likely to build their own PE teams. However, for the purpose of diversification and to tap into a wider pool of expertise, it is unlikely that SWFs will completely dis-intermediate PE funds. Moreover, PE funds also have another purpose for SWFs, as using the PE fund as an intermediary can reduce some of the political pressure when making overs eas acquisitions. Not all PE funds will be equally adept at managing these new types of sometimes conflicting, relationships.

Those funds that have not benefited from such a partnership may follow a strategy of using the political process in the US and Europe to try to force China into granting greater access. US Senators have already questioned whether or not US PE funds enjoy similar level market access into China as CIC does in the US. This approach needs to be carefully managed, but the kinds of questions already being raised by prominent US politicians through forums such as the Congressional Joint Economic Committee and the US-China Economic and Security Review Commission suggest that some funds are already using the US political process to put pressure on AsiaPac SWFs.

SWFs are increasingly competing with each other

Completing the circle, the rise of newer SWFs is also impacting the behaviour of the early movers, like GIC. It was reported that when the Citigroup stake came up for sale, many bankers were surprised at the speed which GIC moved to make its investment. This speed is in part attributed to the speed at which other competing SWFs, like CIC and petrodollar SWFs, had shown they could move. Similarly, GIC will be aware that for many deals, an investment from China, with the promise of further deal flow and market access, could sound more seductive than one from Singapore, with its far smaller, mature domestic market. Increasing competition between SWFs is also likely to be a trend of the future, and GIC's efforts towards greater transparency are partially to differentiate itself and strengthen its competitive position versus both new Asian and petrodollar SWFs.

Japan and China are likely to be competitors for influence through the activity of their SWFs. The assertion so often made by governments that SWFs are driven by purely commercial considerations could be severely tested in the hothouse of North-East Asian politics.

Vietnam

Taking stock at the first anniversary of WTO membership

Vietnam officially joined the World Trade Organization in January 2007 and in line with expectations the country has been able to benefit from the rights of membership and to observe its obligations too. The government, led by Prime Minister Nguyen Tan Dung continues to set ambitious goals in pursuance of the vision of turning Vietnam into an industrialized country by 2020. In this article we consider in further detail developments, trends, challenges and topics of particular interest to potential investors and foreign businesses already operating in Vietnam.

Development goals and concerns

In January 2008 government representatives including the Prime Minister committed to a number of specific goals for the year in a roundtable with international investors. These included: 9% GDP growth (compared to 8.5% in 2007), reduction of the poverty rate to 12% from 14.8% in 2007, continued improvement in infrastructure (especially in transport and electricity), increased investment in human resource training, administrative reform and continued fight against corruption.

These goals are interdependent, deficiencies in infrastructure and shortage of skilled labour in a number of fields hampers growth and despite the generally very favourable investment environment, Vietnam has scope to improve its ranking in international comparisons on ease of doing business and perceptions on corruption. The continuous emphasis on poverty reduction is a partial reflection on the fact that the fruits of economic growth are not shared equally across the country. In addition to these goals, there is a broad consensus about a number of other important targets, such as continued equitization of state-owned enterprises, attention to the value of the dong and curbing inflation that averaged 8.3% in 2007 but has been accelerating.

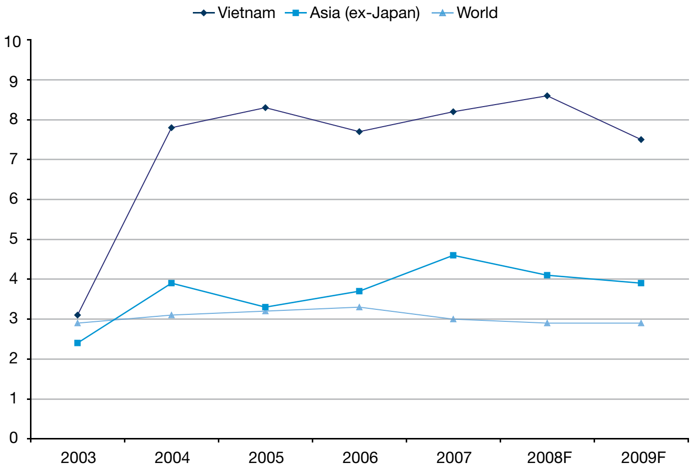
The attractions and challenges investors are confronted with are well reflected in a number of recent publications. Whilst the United Nations Conference on Trade and Development (UNCTAD) World Investment Prospects Survey 2007 – 2009 concludes that Vietnam is the 6th most attractive investment destination in the world amongst 141 economies, (surpassed only by China, India, the US, Russia and Brazil), the "Doing Business in 2008" report published by the World Bank ranked Vietnam 91st out of 178 economies across the world in terms of the ease of doing business, and the latest corruption perception index published by Transparency International ranks Vietnam with nine other countries 111th amongst 163 countries covered.

A number of concrete steps have already been taken to address some of the problems, for example in an effort to address some of the roots of corruption the government mandated a 20% increase in the minimum wage of state employees.

Continued integration into the world economy

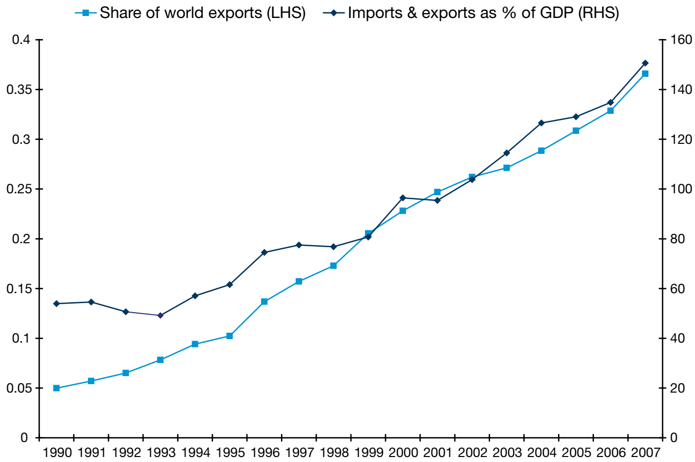
The value of international trade has increased significantly during 2007. The estimated value of exports of US$ 48.4 billion reflects a 21.5% increase against 2006, whilst imports reached US$ 60.8 billion 35.5 % higher than in 2006. The US$12.4 billion trade deficit was 2.5 times higher than in 2006 and reflects a marked rise in demand for machinery and equipment, price increases of raw materials such as steel and the decline in the purchasing power of the dong parallel to the fall of the US dollar. Whilst the growth in the trade deficit is certainly a macroeconomic concern, the continued integration of Vietnam to the world economy creates opportunities for foreign investment targeting export oriented sectors as well as those dependent on local consumption.

Consumer price inflation (year average, %)



Source: Economist Intelligence Unit

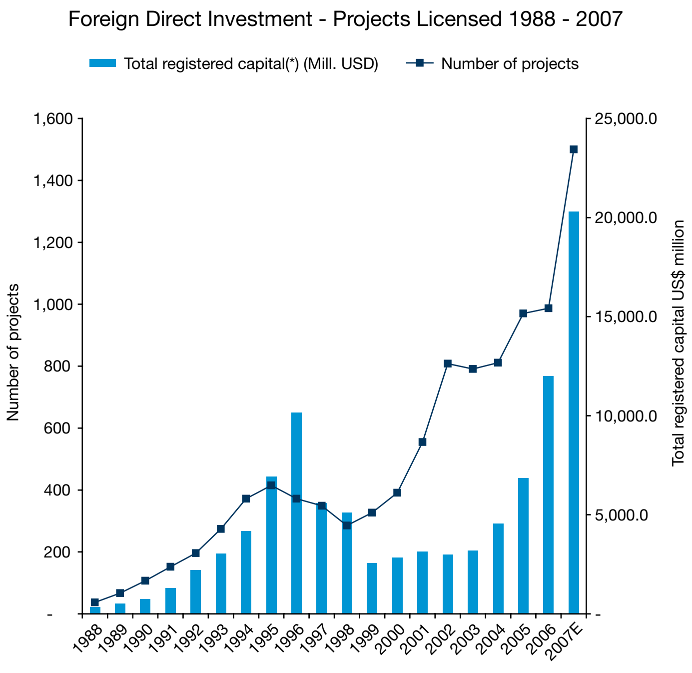
Indicators of Vietnam's integration into world trade



Source: Economist Intelligence Unit

Foreign Direct Investment

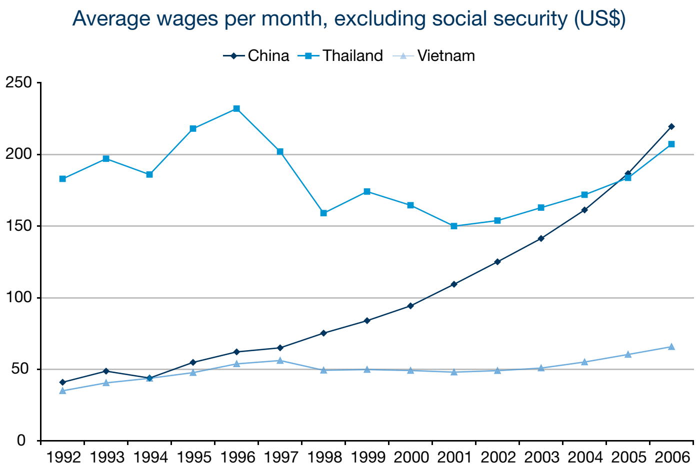
The 70% jump in Foreign Direct Investment ("FDI") projects authorized during 2007 significantly surpassed government expectations. The total committed investments during the year totaled US$20.3 billion and the total amount actually invested is estimated at between US$4.6 and 6 billion. In addition to focusing on ensuring that actual FDI inflows keep growing, policy makers continue to refine definitions for the right industries and regions that could benefit most from FDI and dissuade investments in areas that are considered to be overcrowded or damaging to the long term national interest. The government is particularly focused on encouraging investments in hi-tech industries, infrastructure development projects and also high value added, export oriented manufacturing. There is also increased scrutiny of the energy efficiency and environmental impact of proposed projects. Vietnam has opened investment promotion offices in the US and Taiwan and planning to do the same in Japan, Korea, Singapore, Germany, France, Qatar and Saudi Arabia. In addition the government has also committed to further increase the attractiveness of Vietnam from the quality of life perspective of foreigners working in the country.



Source: General Statistics Office of Vietnam

Human Capital

The availability of labour at highly competitive rates continues to be an important attraction for investors, especially in the manufacturing sector. In addition to the cost benefits, Vietnamese workers have gained a reputation for their ability to quickly absorb new practices. Reflecting these and other factors, the PricewaterhouseCoopers Emerging Market 20 Index published during the summer of 2007 found Vietnam to be the most attractive investment destination for manufacturers. However, all investors to the country need to be aware that there is a severe shortage of people in many professions and high staff turnover and rapid wage inflation is now a concern in the financial services, accounting, legal and other similar professions. The problem of a small pool of highly skilled employees, especially acute in Hanoi and Ho Chi Minh City, is exacerbated by the slow response in higher education to calls for updated and more practical curriculums.



Source: Economist Intelligence Unit

Regulatory Environment

In line with the spirit and letter of the commitments connected to WTO membership Vietnam continued to reduce tariffs and improved the regulatory environment during 2007. Amongst the highlights are new regulations allowing, and setting out the guidelines for, 100 % foreign owned banks, insurance companies and retail chains. The reduction of restrictions on foreign investment in certain sectors reinforces not only the continued efforts of the Vietnamese Government to encourage foreign investment but also the creation of a level playing field with local enterprises. In turn, local companies are expected to develop competitive advantages to compete with foreign invested entities in Vietnam, and to strengthen their capacity to expand into international markets. In connection to the internationalization of Vietnamese enterprises, overseas listings became topical during 2007. The conditions for Vietnamese firms to obtain licenses to list abroad have been defined and a number of companies publicly stated their interest in listing in Singapore and possibly other markets in Asia later this year.

During 2007, a number of important tax laws and regulations were also passed: The Law on Tax Administration ("LTA") introduced various administrative reforms, progressing towards full implementation of a self assessment system. Decree 24 and Circular 134 on Business Income Tax ("BIT") stipulates conditions in certain types of M&A deals for the continuation of BIT incentives previously granted. Vietnam's first Personal Income Tax Law ("PIT") was also passed and will be effective as of 1 January 2009. Previously the highest regulation on PIT was an Ordinance. The law introduces common progressive tax rates for foreign and Vietnamese individuals and reductions in the top PIT rate for tax residents from 40% to 35%, as well as a reduction in the PIT rate applicable to non-tax residents from 25% to 20%. Finally, Decision 106 on import tariffs became effective on 1 January 2008. The Decision introduced tariff reductions averaging 1% – 6% in import duty rates for approximately 1,700 tariff lines in addition to the cuts introduced on approximately 1,000 tariff lines during 2007.

Conclusion

During its first year of WTO membership the Vietnamese economy has continued its rapid integration to the world economy. The government maintains business friendly policies but is monitoring proposed investment projects more and more closely to ensure that the most immediate development needs of the country are met. Whilst concerns regarding inflation, infrastructure, the growing trade deficit and shortages of human resources in some professions became more pronounced during the year and whilst the country is unlikely to be immune to the current global slow down, it is likely to remain one of the fastest growing economies in the foreseeable future as it progresses on its path to become an industrialized nation by 2020.

North Asia

People's Republic of China

Hong Kong

Taiwan

Japan

Korea

People's Republic of China

Domestic activity reaching new heights, foreign activity held flat by valuation and regulations

Current Environment

China's GDP grew 11.4% in 2007, the fastest growth for 13 years. Growth has been so far unaffected by the ongoing sub-prime crisis in the US and Europe and the increasing threat of a global recession. Inflation has been the major domestic economic concern, estimated at 4.8% for the whole year (target: 3%) driven by surging food prices, particularly pork and grain.

China's contentious trade surplus grew by an unprecedented 48% in 2007 to US$262bn. The EU overtook the US as China's largest export market, although the EU's stronger export performance means the EU trade deficit with China is half the size of that of the US. Even though China's demand for imports, particularly resources to support economic growth, has increased significantly, demand for Chinese produced goods globally has been stronger. In 2007, Chinese exports came under scrutiny over safety concerns, e.g. lead in toys and toxins in pet food. These issues worry Chinese consumers too and Beijing has cracked down heavily on those responsible for these problems. In addition, Chinese goods have become more expensive due to rising wage and energy inflation, as well as the Chinese currency's gradual appreciation against the US dollar. On 31 December 2007 the exchange rate had moved to 7.31, overall a 13% rise against the US dollar since Beijing broke its currency peg in mid-2005.

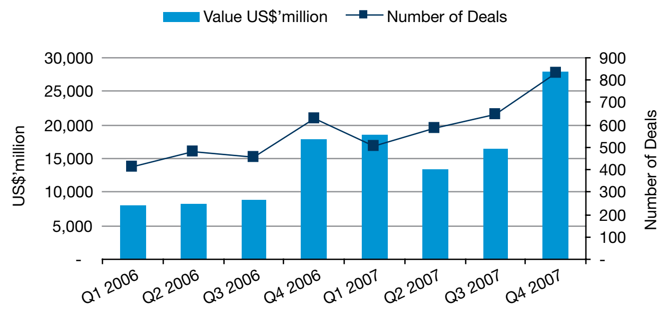
China's major Shanghai Composite Index grew continuously to the middle of October 2007 when it peaked at about 120% from the close of 2006. However, it subsequently declined 12% to the end of December and a further 16% in January. The key issue for the rest of 2008 is whether or not the market can find equilibrium in a gradual way that does not cause severe shock that undermines confidence and causes deal activity to be affected by uncertainty in valuations, fund-raising and exits.

2007 was an important year in politics with the 17th National Congress in October. This occurs every 5 years and lays down the overall policy direction. Key themes arising from this indicate continued emphasis on balanced growth benefiting both rural and urban residents (the 'harmonious society' campaign), promoting more efficient usage of energy and resources, improving the quality of the labour force, and promotion of both management and technological improvements. The passage of the new labour law is a significant move that puts into effect this desire to create a more harmonious society by strengthening the protection of workers, raising the cost (and income) of labour, and as a result gradually channelling investment into more value-added activity. The gradual strengthening of the currency can also be seen in this context as China shifts direction from its export-led growth stage.

Another key development was the establishment of a US$200 billion sovereign wealth fund, called China Investment Corporation ("CIC"). Although two-thirds of its capital is to shore up domestic policy banks, the remainder is for foreign investment, and it has made itself known through its US$3 billion coming-out investment in Blackstone, followed by a 9.9% stake in Morgan Stanley for US$5 billion, and pre-IPO support for the China Railway Group.

Deal Activity

Announced Mergers & Acquisition – China



Source: Thomson Financial

Domestic deal activity announced in China (excluding Hong Kong) in 2007 grew significantly from US$43 billion in 2006 to US $76 billion (growth of 76.7%). The number of deals also increased in 2007 from 1,982 in 2006 to 2,574 (growth of 29.8%). The second half of 2007 was more active with 38.8% more deals by value and 36.3% more deals by volume than the first half. There was a particularly strong fourth quarter for deal activity.

One clear major trend in deal activity continuing from 2006 is that domestic strategic buyers have been the drivers of growth in activity. Chinese companies have been consolidating their sectors through geographical, value chain or technological expansion. Deal activity has happened across most industries, although the most active have been financial services, mining & metals, manufacturing, real estate and retail. Strong domestic equity markets have provided companies with capital for M&A. The surge in valuations of the Shanghai and Shenzhen exchanges, coupled with changes to the regulatory environment making overseas holding structures more difficult to achieve, meant that domestic companies increasingly look to domestic capital markets to raise funds. The downside for foreign investors is that this has also encouraged unrealistic valuation expectations, and as a result foreign activity has not seen any growth. The number of deals being announced by foreign strategic investors has been roughly flat over the last 3 years as first regulations, then valuations, have made it harder to get deals done.

Nevertheless, foreign appetite for China deals has never been higher, and where strong strategic rationale exists deals have been driven through, e.g. Wal-Mart buying Trust-Mart stores and Arcelor's investment in China Oriental, a major steel producer.

PE has remained very active throughout 2007, despite the partial slowdown in global PE in the US and Europe. Most China PE activity is pre-IPO stage with deal sizes of less than US$50m, which often are not leveraged, and so have been less affected by the credit crunch. Many PE investors had in any case adjusted their China strategies to focus on deals that attract less attention from the government to avoid regulatory approval delays, and have been flexible in doing minority investments rather than seeking buyouts. Global funds continue to seek deals and build

teams in the region, for example Blackstone announced a $600milloin investment for a 20% stake in China Bluestar Chemicals This was Blackstone's first deal in China after recently establishing a team. Previously, Blackstone has attracted US$3 billion of investment from the China Investment Corporation during its US IPO, and even prior to the Bluestar deal being approved, Blackstone and Bluestar's parent had teamed up to make an offer to acquire NuFarm, an Australian agrochemicals group. This modus operandi appears to represent a new strategic direction for PE funds in China, who have complained about the regulatory approval process blocking deals. By working together with parts of the state, Blackstone may be pioneering a new approach that other PE funds may try to imitate.

There have been difficulties in PE in finding attractive deals and once they are found there is strong competition from other funds and high vendor valuation expectations which have made completing deals difficult (particularly for foreign funds who are unwilling to pay as high premiums as they do not raise funds and exit domestically). Many foreign funds are actively considering domestic exits to take advantage of the p/e valuation differential between mainland markets and Hong Kong. Another development in PE is the formation of the first large-scale domestic funds, and the first of these, Bohai Fund, which is backed by the several major state-owned companies including Bank of China, completed a $200m investment into Tianjin Pipe. Local funds (which are denominated in Rmb) are expected to enjoy advantages in domestic deal making in terms of access to deals, easier regulatory approvals, and the ability to make domestic and foreign exits.

Outbound activity has increased in 2007 with Chinese companies becoming more active globally (particularly in Australia, Asia and other resource- and energy-rich emerging markets) with key focus in mining, metals and financial services. The largest deals have been high profile banking investments, e.g. ICBC's 20% stake for US$5.4bn in South Africa' Standard Bank and China Development Bank's 3.1% stake for US$3.0 billion in UK's Barclays Bank. CIC's formation will also support outbound deal activity.

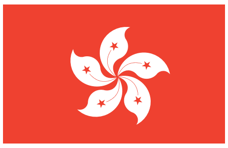
China is also deploying its wealth to achieve global strategic objectives. Chinese steel producers had already complained heavily about the pricing power of global mining companies, and when BHP announced its intention to acquire Rio Tinto it forced the Chinese government to consider its defence against a further concentration of bargaining power in the hands of the resources companies. On February 1st 2008 the Aluminium Corporation of China ("Chinalco"), partnering with the US's Alcoa, took a combined 12% stake for $14bn in Rio Tinto. This move is clearly intended to allow Chinalco and Alcoa to influence or even block the largest potential deal in mining history by BHP. Commentators have mentioned that partnering with the US's Alcoa was a clever move to lessen political opposition which has clouded previous outbound Chinese investments. Alcoa is interested in the assets Rio Tinto acquired from Alcan earlier in the year.

Outlook

2008 will be a big year for China overall with the highly anticipated Olympics in Beijing in August 2008. There are some concerns that there may be some loss of momentum after the Olympics and growth may have peaked in 2007. However, GDP growth estimates remain strong for 2008 at c.10%, even factoring in a global slowdown. Unexpected winter storms that have hit Southern China in early 2008 have damaged crops and infrastructure, but are only expected to have a negative short term impact, and they may actually encourage further investment to ensure this does not happen again.

Looking at existing trends in China and priorities laid down at the 17th National Congress, progress and growth going forward are expected in areas that promote energy and resource efficiency, infrastructure, environmental protection, social harmony and technological improvements. Some specific examples of this are ongoing construction of more energy efficient and less polluting power plants (mainly coal and some nuclear), China's new labour law, and ongoing road, rail, shipping and air investment to connect and stimulate poorer regions. As well as these priorities emphasised by the Government, demand in other areas of the domestic economy is clearly expected to grow as purchasing power increases, particularly amongst urban dwellers, e.g. education, automotive, retail and consumer goods, travel & leisure, financial services.

Fundamentals remain strong for future domestic M&A activity, with domestic-to-domestic activity expected to continue drive further consolidation. However, just as unrealistic valuation expectations have slowed foreign deal activity, too sharp a correction could derail M&A growth by creating a 'wait-and-see' attitude amongst vendors. How valuation expectations evolve in 2008 is key to M&A activity in 2008 and at time of writing the picture is unclear with daily swings of as much as 8% recorded in Shanghai. Despite recent declines some commentators are expecting another rally in domestic shares before the Olympics and then a downwards correction afterwards. However, regardless of this short-term uncertainty, fundamentals are strong for the medium term and with growth expected to slow around the globe and China expecting to keep growing, multinationals and funds are likely to continue to look to China for growth opportunities regardless of the increased competition for deals this produces.



Hong Kong

Look for slower but steady growth through the year end in both the IPO and M&A markets

Current Environment

Hong Kong's economy recorded sustained growth in the first three quarters of 2007 with GDP growth of 6.1%, putting it on track to meet the HKSAR government's forecast 2007 full year growth of 6% in real terms, down from 6.6% in 2006. The key drivers of economic growth were domestic demand as well as export demand from China and many other emerging markets. Private consumption surged 19.5% based on latest retail sales data to November 2007 boosted by the continued influx of mainland Chinese tourists into Hong Kong and Macau, with the latter driven by the opening of various new mega casinos in 2007. Externally, Hong Kong's exports rose by 8.5% whilst imports of goods increased by 10.5%.

Rising food prices and housing costs contributed to an increase in consumer prices to December 2007 of 3.8%, up from 2.3% in 2006. Analysts forecast a gradual upward trend in inflation due mainly to increased import costs, resulting from increased prices from China food imports coupled with continued Renminbi appreciation.

The labour market remained robust in 2007, with total employment surging to another record high of over 3.53 million, posting a faster rate of increase than the available labour force. The seasonally adjusted unemployment rate in October – December 2007 dropped to 3.4% from 4.4% in the same period 2006, the lowest level since 1997 immediately before the Asian financial crisis.

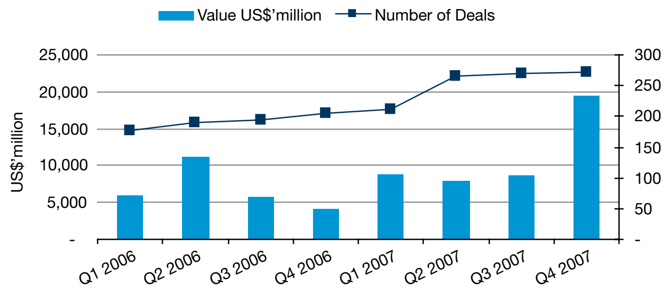
Hong Kong's stock market experienced a remarkable year in 2007, as the Hang Seng Index increased by nearly 60% from year end 2006 to reach record highs of over 31,000 in October 2007, with daily securities market turnover values exceeding US$25 billion. Among other factors, these record highs were propelled by speculation that China's government would allow some degree of retail investment in Hong Kong's market by mainland Chinese individuals (the so-called "through train"); strong upward pressure on mainland Chinese H share stocks; as well as the relaxation of the Qualified Domestic Institutional Investor ("QDII") scheme allowing greater mainland Chinese institutional investment in Hong Kong. In the event, the through train did not arrive and, as the fall out from the sub prime crisis and fears of a US recession materialised, the markets – showing tremendous volatility – retreated back into the low 20,000s by the end of January 2008.

In 2007, US$37.2 billion was raised on the Hong Kong stock exchange, compared to US$42.6 billion in 2006. Excluding the US$16 billion raised in Hong Kong by the Industrial and Commercial Bank of China ("ICBC"), the world's largest ever IPO in 2006, funds raised increase by US$10.6 billion in 2007 compared to 2006. The increase was driven by the increased number of IPOs, a 46% increase compared to 2006. Some of the successful IPOs included China CITIC Bank's April listing which raised US$4.2 billion; China Railway Group Ltd (December, US$2.8 billion); Chinese real estate group Country Garden Holding Co. Ltd (April, US$1.9 billion); and Alibaba.com Ltd (November, US$1.7 billion).

The Hong Kong property market also rode the upward economic trend in 2007. Property prices, particularly in the high-end market, bounced back to or even exceeded the peak levels seen in 1997. In the first eleven months of 2007, the number of homes changing hands surged 46% from a year ago to over 110,000 at a total value of HK$79.7 billion.

Deal Activity

Announced Mergers & Acquisitions – Hong Kong



Source: Thomson Financial

The value of Hong Kong's deal activity in the second half of 2007 increased significantly to US$28.0 billion compared with US$16.6 billion in the first half of 2007. For the full year 2007, deal values increased by 66%, or US$17.7 billion, compared to year 2006. The number of announced deals also increased from 769 to 1018. Some of the major deals in each industry sector include:

Telecommunications sector

Hong Kong listed TOM Group, owned by billionaire tycoon Li Ka-Shing, announced in March 2007 that it would buy out its Beijing-based internet arm TOM Online Inc, listed in both HK and NASDAQ, for US$300 million, in response to falling profits resulting from new restrictive regulations in China. TOM Group completed the deal in August 2007 and TOM Online Inc. was delisted on 3 September 2007.

Vodafone won a bid in March 2007 to buy Hutchison Essar, the Indian arm of Hutchison Telecommunications International Limited ("HTIL"), itself a subsidiary of Hong Kong conglomerate Hutchison Whampoa. Vodafone agreed to pay US$11.1 billion in cash for 67 percent stake in Hutchison Essar, and assumed US$2 billion of its net debt. The transaction completed on 8 May 2007 and the deal was a winner at "Asia's Best Deals of the Year Awards", published in the CFO Asia magazine.

Real Estate sector

Hong Kong listed property players have been pursuing acquisitions mainly in China during 2007. Most notable deals included:

- Hong Kong listed Guoco Group announced in February 2007 that it would acquire a 90 percent stake in Beijing Cheng Jian Dong Hua Real Estate Development Company Limited for US$752 million, to enhance the long-term growth of its property development and investment business. The transaction completed in November 2007.
- Hong Kong listed Shimao Property Holdings Ltd announced in June 2007 that it would acquire a 57 percent interest in Shanghai Shimao Co. Ltd through its subsidiaries for US$1 billion by injecting its retail and commercial properties into Shanghai Shimao. This was part of Shimao Property's strategy to focus its resources on the development of retail and commercial properties.

Energy sector

Hong Kong listed Henderson Land Development Co Ltd, a property development company, announced in October 2007 that it would acquire a 39 percent stake in The Hong Kong and China Gas Co. (Towngas) for US$1.9 billion. The transaction will allow Henderson Land to obtain solid recurring income from Towngas to backup its China expansion, whilst it is expected that Towngas could benefit greatly from mainland demand for piped gas due to continuing urbanisation.

Stanley Power Inc., the Canadian acquisition vehicle formed by Cheung Kong Infrastructure Holdings Ltd ("CKI"), a listed company in Hong Kong, acquired TransAlta Power L.P., the listed Canadian power generation and wholesale marketing company for US$645 million in October 2007. Hong Kong Electric Holdings Ltd also agreed to acquire a 50 percent stake in Stanley Power Inc. The transaction is in line with CKI's strategy to invest in infrastructure opportunities globally and to enter and grow in the North American markets.

Financial Services sector

BOC Hong Kong (Holdings) Limited, the Hong Kong based branch of Bank of China, acquired a 4.9% stake in the Hong Kong based Bank of East Asia Limited ("BEA") for US$508 million in November 2007.

A consortium led by Longreach Group, the Hong Kong and Japan based PE group, acquired a 51% stake in EnTie Commercial Bank, the listed Taiwanese bank, for US$695 million in June 2007. Longreach Group's investment into EnTie is tied to their belief that a consolidation will take place in Taiwan's overcrowded banking industry.

Retail sector

Hong Kong listed Chia Tai Enterprises International ("CTEI") acquired 19 Shanghai Lotus Supermarket Chain Stores for US$288 million in May 2007. As a result of the transaction, CTEI Group will become one of the major Chinese hypermarket chains with coverage in Northern, Eastern and Southern regions of the Mainland China.

LF Centennial Limited, the Hong Kong based subsidiary of Hong Kong listed Li & Fung Limited, acquired CGroup in June 2007 , one of the Hong Kong based leading international health, beauty and cosmetics supply chain companies, for US$241 million. The transaction is Li & Fung's first foray into the sector and it is looking at this sector as a complement to its existing soft goods and hard goods business.

Private Equity

The number of PE houses setting up offices in Hong Kong continued to grow in 2007. Most of the PE focus is on mainland China and overall deal values of mainland China, Hong Kong and Macau deals roughly doubled to over US$11 billion in 2007 compared to 2006. The biggest deal was Permira's US$840 million investment for a 20% stake in Galaxy Entertainment, which was used by Galaxy to finance part of its latest Macau mega-casino development.

Outlook

Buoyant sentiment from continued employment growth, increasing wage trends and accelerating retail sales is expected to drive Hong Kong's domestic demand in early 2008. This in turn would support an overall GDP growth of 5.0% as forecast by the Hong Kong Trade Development Council.

Furthermore, the prospects of further declines in interest rates due to the US Federal Reserve's rate cuts (the Hong Kong dollar is pegged to the US dollar and therefore Hong Kong's rates follow those in the US), along with rising inflation in Hong Kong may result in negative real interest rates. Asset price inflation may further accelerate and take residential property prices to a higher level in 2008.

Despite a favourable outlook in the property market, Hong Kong's economy is still largely coupled with other economies, in particular the US and China. The recent volatility in global equity markets due to mounting fears of a US led recession, uncertainties resulting from the US sub-prime crisis and record oil prices will pose a challenging 2008 for Hong Kong's equity markets (as noted earlier, much of last year's gains in the Hang Seng Index have been wiped out in the first few weeks of 2008). This could be offset to an extent, by the prospect of funds flowing into the Hong Kong stock market from the "through train" scheme, if and when it eventually arrives.

It is difficult to forecast M&A activity in Hong Kong looking into 2008, as the fall out from a possible US recession adds a great deal of uncertainly. However, early signs indicate that if anything, 2008 deal activity could exceed that of 2007. In particular, we expect to see strong continuing growth of activity from financial investors such as PE. With PE deals tending to be smaller and less aggressively geared than in the west, the local PE teams have shrugged off the credit crisis and bolstered their headcounts for another record year in 2008.

Taiwan

Foreign partnership alongside industry consolidation fuels M&A activity

Current Environment

Taiwan's economy in 2007 boasted a strong improvement over the previous two years. GDP growth in 2007 accelerated to 5.5%, the highest since 2005. The unemployment rate dropped to 3.9%, the lowest in the past seven years. Market watchers cited export expansion, combined with recovering private consumption and robust private fixed-capital formation as the main factors behind GDP growth. Taiwan's total foreign trade, exports, imports and trade surplus all exceeded historic highs in 2007. Total exports rose 10.1% to US$247 billion, and imports climbed 8% to US$219 billion. The trade surplus saw a 28.4% increase to US$27.4 billion. Foreign demand in 2008 will continue to drive economic growth. In the aftermath of the subprime crisis and subsequent slow-down of the global economy, Taiwan's exports will experience more modest growth in 2008, with GDP growth predicted at 4.5%.

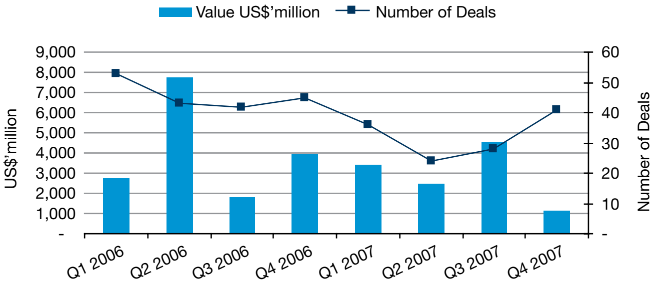
In the wake of the US subprime crisis, with approaching parliamentary and Presidential elections, Taiwan's stocks fluctuated widely in the second half of 2007. The government announced a series of favorable policies in the third quarter, which included a US$15 billion investment in the construction of public infrastructure and an over US$843 million investment in the biotech sector, toward the goal of developing Taiwan as a bio-tech island. Optimism about domestic political conditions and a potential opening-up of the "three links" between Taiwan and China partially offset negative effects of the downturn in the US economy. The Taiwan Weighted Stock Index rocketed over 9,800 in July and October 2007, with annual securities market turnover value of over US$1 trillion, the highest since 1998.

The New Taiwan dollar advanced steadily against the US dollar over the second half of the year. At the end of December, US$1 traded for NTD32.443, compared to NTD32.596 at the end of 2006. The New Taiwan dollar is expected to continue gaining against the US dollar as market watchers expect the victory of the Kuomintang party's in securing a legislative majority in January 2008 to generate more fund inflows and a bullish stock market in 2008.

Total applications for Foreign Direct Investment approved in 2007 reached 2,266, an increase of 22.75% over 2006, according to statistics from the Investment Commission of the Ministry of Economic Affairs. Thanks to active inbound M&A activity and buoyant PE fund investment, Foreign Direct Investment approved in 2007 peaked a record US$15 billion.

Deal Activity

Announced Mergers & Acquisition – Taiwan



Source: Thomson Financial

M&A activity rose 40% in 2007, although deal value declined to US$11.5 billion without the benefit of the series of mega deals which occurred in 2006. Technology, telecommunications, and financial services dominated M&A transactions in 2007. Cross-border acquisition deals comprised the bulk of transactions valued above US$300 million. Inbound activity over-shadowed outbound activity in terms of both the deal value and volume, with PE funds still prominent among those inbound deals. Outbound deals rose sharply, nonetheless, with announced deal value in 2007 five times that of the previous year, concentrating largely in the technology and industrial sectors.

We summarise below some representative deals in the second-half of 2007.

Outbound activity

Acer and Gateway

Acer acquired a 99.62% stake in Gateway for US$755 million in cash to boost its global market share by entering the US market with a well-known brand name and better access to crucial retailers. This deal will push the Taiwanese company past China's Lenovo Group as the world's third-largest vendor of personal computers.

Lite-on Technology acquires Perlos Corp

Lite-on Technology, a Taiwan-headquartered manufacturer of computer peripheral equipment, has made a tender offer, via a Finland-incorporated wholly-owned subsidiary, to acquire all outstanding shares of Perlos, a Finland-based handset casing maker for US$529 million. The transaction will create a new global handset manufacturing powerhouse.

MediaTek Inc. and Analog Devices

In the trend of global baseband vendor consolidation, MediaTek, the world's leading fabless semiconductor company for wireless communications and digital media solutions, plans to acquire Analog Devices' handset transceivers, basebands and related platform product lines and staff for US$350 million in cash. This acquisition will bolster MediaTek's global operations and development in converging consumer solutions through enhanced customer base, strengthened radio transceiver and baseband chipset products, and key patents and intellectual property.

Prime View International Co. and BOE Hydis Technology Co.

Prime View, which makes LCD panels for a wide range of products, including DVD players and mobile phones, announced plans to buy a 95% stake in bankrupt BOE-Hydis Technology for US$287 million to secure its panel capacity and boost its position in the small-to-medium TFT panel market. The deal will boost Prim View's capacity four-fold after merging three plants owned by BOE-Hydis.

E-Ton Solar Tech Co. and Adema Technologies

E-Ton, one of Taiwan's top solar cell makers, acquires Adema Technologies, a US-based manufacturer of solar power parts, for US$154 million in cash and stock to secure a long-term stable supply of high-quality raw materials. The move is part of a trend that has seen solar panel makers form tie-ups with materials providers to ensure supply as silicon prices climb amid rising demand for alternate energy sources.

Private Equity activity

Global Viewcomp Holding BV and Nien Made Enterprise

Nien Made, the world's number-one window shutters and number-three window blinds player and Asia's largest branded manufacturer, received a US$750 million buyout offer from Global Viewcomp Holding BV, the investing vehicle of CVC Capital Partners, a global PE fund. The transaction exemplifies growing cross-strait economic ties. This move is seen as a way to avoid China investment caps of 40% of the company's net worth set by the government as Nien Made is establishing itself as a fully integrated Greater China Enterprise. The Nien Made acquisition represents the second-largest public-to-private buyout by a PE fund in Taiwan, following the acquisition of Fu Sheng Industrial by Oaktree Capital Management. After the acquisition, Nien Made will delist from the Taiwan Stock Exchange and is anticipated to relist in 3~5 years.

Carlyle Group and Ta Chong Bank Limited

Ta Chong Bank, Taiwan's fifth-biggest cash card issuer, agreed to issue convertible financial debentures, common shares and preferred shares worth US$650 million to a consortium led by the Carlyle Group to improve financial structure, marking the US PE fund's first entry into Taiwan's banking sector. This capital injection is expected to improve the asset quality and enhance the BIS ratio of Ta Chong. After the capital injection, Carlyle will control a 37% stake and majority control of Ta Chong's board with ability to oversee major corporate decisions.

Inbound activity

HSBC and The Chinese Bank

HSBC agreed to take over the distressed The Chinese Bank in return for a payment of US$1.47 billion (NTD47.488 billion) from the government's financial restructuring fund. The acquisition will expand HSBC's branch network from 8 to 47.

Eaton Corporation and Phoenixtec Power Co.

Eaton, a diversified industrial manufacturer, launched an all-cash tender offer to acquire Phoenixtec Power Company, a Taiwanese manufacturer of single- and three-phase uninterruptible power supply ("UPS") systems, for US$1.54 per share. Approximately 69% of Phoenixtec's outstanding shares have been tendered into the offer valued at US$451 million. Phoenixtec has leading positions in UPS markets, particularly in China, Southeast Asia and Eastern Europe.

Domestic deals

Cathay United Bank and China United Trust and Investment Corp

Cathay United Bank, the banking unit of Taiwan's largest financial group, won a bid to take control of China United Trust and Investment Corp in October. Cathay United Bank received US$396 million (NTD12.9 billion) in compensation from the Financial Restructuring Fund. This transaction would give Cathy an additional 20 branches, increasing its number of branches from 139 to 159.

Outlook

We expect M&A activity will remain robust through the second half of 2008 after the Presidential election held in March. The pro-China Kuomintang party won a landslide victory in parliamentary elections in January, hinting that curbs on Taiwanese companies investing in China may ease and whetting the appetites of both foreign investors and domestic enterprises for further consolidation. For foreign investors, Taiwanese companies are still traded at lower multiples compared with those in other Asian countries and are regarded as an advantage for entering the Chinese market. For domestic conglomerates, the possible easing of regulations will fuel an increasing number of China investments, which serve as a way to tap the Chinese market and integrate manufacturing.

Financial and Technology sectors will continue to dominate M&A deals in 2008. An increasing number of outbound activity are anticipated, with no sign of decline in PE deals.

Financial Services sector

As a series of bank acquisitions took place in 2007, consolidation within the sector will slow. Auctioning of distressed banks will start to tail-off after the auction of the Bowa Bank in the end of January. Although affected by the subprime crisis, foreign PE will still play an important role in the consolidation of Taiwan's financial sector in 2008. At least two other distressed banks seek cash injection from PE to avoid take-over by the government. We expect another wave of consolidation in the financial industry after 2008 as many PE funds seek to exit from their investment to realise profits after holding shares for several years.

Taishin Financial Holding Co. announced its withdrawal of the merger proposal with Chang Hwa Commercial Bank. A temporary halt on the merger plan indicate that both sides still await better timing after the Presidential election.

Investment in mainland Chinese banks is anticipated within the sector as Taiwan's government is in its final step of policymaking to allow the island's banks to buy a stake in mainland Chinese rivals via their Hong Kong units. Hua Nan Financial Holdings Co., the island's fifth-largest financial services company by assets, has shown its intent to do so.

Technology sector

In 2008, outbound deals are expected to increase in the technology sector in light of the increasingly important role of Taiwanese companies in the global supply chain. Domestic companies try to enhance competitiveness to boost global market share through integration to increase brand value or acquire channels, which are the key drivers for outbound deals in 2008. The acquisition of Gateway by Acer exemplified the ambition of Taiwanese companies in this regard.

Smaller domestic deals will be driven by vertical or horizontal integration as a way to acquire the key technology or materials or enlarge capacity. Two of these horizontal integration deals were announced in panel and electronic parts distribution industries in January.

PE funds will continue to invest in competent companies which are considered undervalued or are well-established in China. Taiwan Mobile, the island's No.3 telecom operator with stable cash flow, has sold a 6% stake to a foreign PE fund in a deal estimated at US$433 million in early 2008.

Japan

M&A statistics remained constant but the mix has changed to bigger and bolder deals

Current Environment

The view of the Monetary Policy meeting of the Bank of Japan ("BOJ") at end of December 2007 is that Japan's economy is gradually expanding. The decrease in residential real estate investment seems to indicate the beginning of an economic slow down, but the BOJ meeting concluded that the effect would be only temporary.

Real GDP growth during Q3 2007 was 0.4% (Q1:0.8%, Q2:-0.5%) and the annualised rate was 1.5%. The overall economic outlook is still for growth, and that it will continue to expand at moderate speed after the current short-term slow down.

Credit spreads are widening due to both actual and anticipated losses related to sub-prime loan problems, meaning the banks have started tightening their credit. This might cause some impact on individual consumption and corporate capital expenditures. However, other economic indices show that corporate capital expenditure is strong and that individual consumption is firm in anticipation of reductions in unemployment.

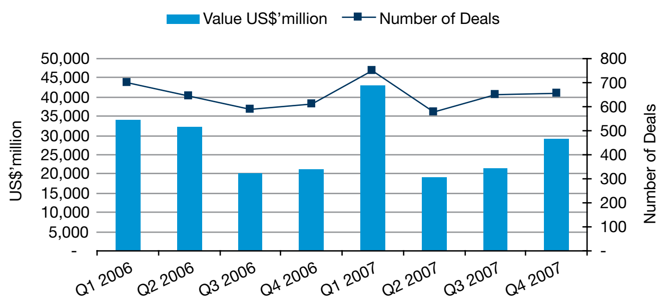
In 2007, growth in demand in overseas markets allowed export businesses in Japan to expand. At the same time, due to the continual weakening of the US Dollar against the yen, net exports are improving.

Monetary Policy is expected to remain at ease and the BOJ meeting decided to keep the current policy of controlling the overnight rate at around 0.5% for now. However, this does not mean that the Consumer Price Index is free from inflationary pressure. Increasing demand in the labor market and the crude oil price are factors of concern, especially for the mid- and the small-size businesses which do not have strong enough power to pass on the raw materials price increases.

The stock market has been pushed downward since the sub-prime loan issue became public. The Nikkei Index had reached over 17,000 at the beginning of August 2007. One week later, it fell below 16,000. About 60% of the trading volume at Tokyo Stock Exchange consisted of foreign money. Those foreign funds had pushed the Nikkei Index upward until July. However, these funds are now selling Japanese stocks to repatriate funds, and as of January 2008, the Nikkei Index has fallen below 14,000.

Deal Activity

Announced Mergers & Acquisition – Japan



Source: Thomson Financials

In 2007, Japanese companies announced 2,634 deals (H2:1,310) with a total value of US$113.2 billion (H2:US$50.7 billion), an increase of 90 deals and US$5.4 billion over 2006. In 2007, Japanese companies completed 2,696[1] deals (2006: 2,775[1] deals) including minority investments. The number of completed deals decreased for the first time in the past 4 years.

In recent years, around 75% of M&A activity in Japan was domestic deals, by volume 2,022[1] deals in 2007. Most large deals were made in the pharmaceutical and health care industries, in which industry reform was triggered by policy change. Tanabe Pharmaceutical merged with Mitsubishi Pharmaceutical Corp. in October, at deal value of JPY525 billion. The merged company became the sixth largest in the Japanese pharmaceutical industry. Kirin Holdings acquired Kyowa Hakko Kogyo and also plans to merge its pharmaceutical subsidiary Kirin Pharma with Kyowa Hakko in April 2008. Major department stores were also in a merger rush. Daimaru and Matsuzakaya Holdings established a holding company, "J. Front Retailing," in September. Hankyu Department Store and Hanshin Department Store established a holding company, "H2O Retailing," in October. And Mitsukoshi and Isetan agreed to establish a holding company, "Mitsukoshi-Isetan Holdings," in April 2008, which will be the leading department store in Japan.

Inbound deals have increased from 129 deals in 2006 to 308[1] deals in 2007. The total deal value was JPY3.2 trillion (JPY630 billion in 2006). Among the 308[1] deals which include minority investment (including investment by hedge funds), about a half were by U.S. investors, and around 10% were by each of UK and China. Citigroup acquired Nikko Cordial Group through its wholly owned subsidiary in Japan. Citigroup made a takeover offer and collected over 61% of the voting stock of Nikko Cordial. Citigroup will offer a stock-for-stock exchange to the remaining individual shareholders of Nikko Cordial in January 2008. This is the first deal to use ordinary stocks issued by a foreign company as consideration following the amendment of Japan's Company Law in May 2007 which allowed foreign companies to use ordinary stocks as merger currency to acquire Japanese corporations in tax deferral transactions.

[1] *Source: MARR*

Among the 308[1] deals in 2007, the majority were made by financial investors. J.C. Flowers and Company, a U.S. Investment Fund, became the largest of the major shareholders of Shinsei Bank by acquiring 32.6% of the voting stock for JPY202.3 billion. Oil money from Middle East is also showing interest in Japan. IPIC, wholly owned by the UAE government, acquired 20.8% of Cosmo Oil through a private placement valued at JPY89.7 billion in October. This is the first case in which a company owned by a Middle East government has become a major shareholder of a domestic oil company in Japan.

In the meantime, Steel Partners attempted to acquire Bulldog Sauce, a Japanese sauce company, by tender offer after they acquired 30% of the stock on the market in June. However, in order to avoid a hostile takeover, Bulldog Sauce implemented a takeover defense measure, a poison pill using a rights plan. Despite the appeals of Steel Partners, Tokyo Supreme Court approved the poison pill plan, and as a result, Steel Partner's tender offer saw an unsuccessful close in July 2007. At the shareholders' meeting, Steel Partner's proposals such as the request for increased dividends and prevention of formulating takeover defense plans were all rejected. After this defeat, Steel Partners became relatively inactive during the second half of 2007 but has become active again in early 2008 in connection with Sapporo and Aderans in which it holds approximately 19% and 24% of equity, respectively. Whether its hostile takeover bids, unsuccessful or otherwise, pave the way for further development of the M&A market in Japan remains to be seen.

Private Equity

In October 2007, Permira, the UK-based PE fund, announced the acquisition of Arysta LifeScience ("Arysta"), a global agrochemical business headquartered in Japan, for JPY250bn (USD 2.19bn). Arysta was owned by Olympus Capital Holdings Asia. This event has excited Japan's relatively inactive PE market. Whilst some may see this as a sign that Japanese companies are finally opening up to PE investment, this may not be a good example given that the seller itself was a PE fund and also due to the roles Arysta's non-Japanese management members may have played in the deal.

This general environment remains difficult for foreign PE funds, due to issues surrounding the future 'control' or otherwise of the target business and continued general inefficiency in deal discussion with sellers and/or target business' incumbent management.

Certain significant deals requiring international finance raising appear to have been negatively impacted by the global credit crunch.

Outbound activity

Outbound deals totaled 366[1] in 2007, 55 deals less than the previous year. Among the 366[1] deals, 122[1] deals were in North America (116[1] deals in the U.S. alone,) 121[1] deals in Asia, and 95 deals in Europe. These deals are mainly for the purpose of expanding sales channels abroad. For example, Eisai Corporation of North America, a wholly owned subsidiary of Eisai acquired 100% of MGI Pharma, whose particular strength in oncology drugs, for about US$3.9 billion. Kirin Holdings acquired National Foods of Australia, a wholly-owned subsidiary of San Miguel, a Philippine food major. Kirin is aiming to expand its overseas business focusing in Oceania to break out of its saturated domestic beverage market.

Outlook

Japanese investment banks and commercial banks are strengthening their services targeting domestic M&A funds in expectation of further increases in M&A activity by those funds in light of on-going industrial reform in Japan. There are more than a hundred such funds operating in Japan today. Daiwa Securities established an organisation to serve domestic M&A funds in September and Sumitomo-Mitsui Bank did likewise in October.

Within the Liberal Democratic Party's proposal for tax reforms to be enacted from April 2008, there is a particular item of interest to the fund industry proposing that an independent agent exception be created to allow Japan-based investment managers to manage client funds without exposing the clients to Japanese taxation. The proposed change is to amend Japanese domestic law and introduce an "independent agent exemption" to the dependent agent permanent establishment rules. It is anticipated that this independent agent exemption may be broadly in line with OECD model treaty established precedents and is consistent with the Financial Service Agency's stated objective over the past several months of providing some type of tax relief for funds managed by Japan-based fund managers. No further details with regard to this proposal have been released and therefore at this point it is unclear both as to the types of investment managers that can qualify as "independent" and as to the types of investments within its scope.

In conclusion, the developments and trends in the market suggest no change to our outlook of steady growth of M&A. However, the global slow-down and credit crunch loom large, and their full impact on M&A activity has not yet been felt.

[1] *Source: MARR*

Korea

After a slow start, M&A activity will accelerate on the back of financial services and construction deals

Current Environment

The Korean economy ably navigated difficult headwinds in 2007 to achieve an expected annual growth rate of 5.4%. Although buoyant exports drove the economy in the first three quarters of the year, a weakening global economy in the fourth quarter dampened the outlook for 2008. Korea's macroeconomic sentiment was bolstered by three major events in 2007.

First, the US and Korea signed a free trade agreement ("FTA") in June that will eventually give exporters increased access to the world's largest consumer market, while also deregulating key sectors in the Korean economy spurring greater competition for goods and services. Korea also began FTA negotiations with the EU in May that will likely conclude in 2008.

Second, the historic summit between South and North Korea in October eased existing security tensions over the North's nuclear weapons program and laid the groundwork for long-term inter-Korean economic cooperation. Finally, and likely to have a great impact in 2008 and well beyond, was the election of conservative Lee Myung Bak as the new president in December. Lee, who previously served in numerous executive roles at the Hyundai Group, campaigned on implementing a top down reform of the domestic economy including deregulation and restructuring of the industrial and financial sector, as well as initiatives to boost domestic and foreign investment.

The main economic drivers of growth continued to be exports, capital investment and consumer goods. Exports grew a robust 14.5% year-on-year in 2007 to total $372 billion on the back of strong global demand for ships, industrial machinery and liquid crystal panels. Imports marked an impressive 15.3% year-on year increase to total $356.7 billion due primarily to higher costs for energy. Overall, Korea's trade surplus totaled $15.1 billion in 2007, a slight deterioration from the $17 billion surplus posted in 2006.

Capital investment and consumption played a critical role in aiding the economy, particularly as export growth decelerated toward the end of the year. Construction investment maintained solid initial growth in 2007 as the government front-loaded a number of large-scale public works projects sparking a 3.5% increase in the first half of the year. Construction, along with private investment, however, tailed off as government efforts to increase capital gains and real estate taxes deterred investors. In the wake of lackluster investment sentiment, firms picked up the slack investing in machinery and equipment posting a 30% year-on-year growth in 2007.

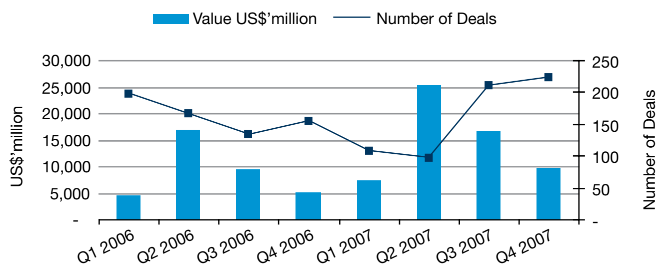
Finally, traditionally tepid personal consumption accelerated throughout 2007 in difficult conditions likely surpassing the 4% growth rate registered in the previous year. Retail sales grew on the back of robust consumer demand for luxury goods, personal electronics, and appliances even as shockwaves from the US sub-prime mortgage crisis and higher oil prices dented consumer confidence.

The Bank of Korea ("BOK") adopted a hawkish stance on monetary policy raising interest rates 50 basis points to 5.0% in 2007 to aggressively control excess liquidity and the accompanying problem of price inflation in assets and goods and services. Indeed, Korean equity markets tallied robust gains with the KOSPI up 33% and the KOSDAQ rising nearly 14% for the year. Strong gains in the equity market coalesced with an overheated real estate market to fuel rapid monetary growth and fan fears of a rapidly forming asset bubble. Although contained for most of the year, the specter of price inflation for goods and services also rose in the final quarter of 2007 due to higher oil prices that pushed the consumer PPI index to 3.6% in December, 0.1% above the BOK's stated target ceiling of 3.5%.

While interest rates provided a favorable environment for a stronger won, the currency's early gains were offset by increasing volatility in global markets towards the end of the year. The won strongly appreciated against the tumbling dollar and yen in the first three quarters of 2007 breaking the psychologically important 900 won/dollar threshold in October and the 7.5 yen/won threshold in July. The won, however, sharply depreciated against major currencies in the fourth quarter of last year due to government policies to relax restrictions on outbound capital flows and foreign investors selling of Korean equities triggered by the sub-prime mortgage crisis in the US. Indeed, investors' "flight to quality" assets and the unwinding of the Yen carry trade wiped away a majority of the won's gains strengthening only 1% against the dollar and marginally weaker vis-à-vis the yen.

Deal Activity

Announced Mergers & Acquisitions – Korea



Source: Thomson Financial

M&A deal volumes in Korea soared by 78% in 2007 year-on year to set a record total of US$73.8 billion; announced transactions totaled 757, a 1% rise from 2006. One of the most significant trends in M&A activity was the increase of cross-border M&A deals in 2007: Korea's cross-border M&A reached US$24.1 billion (inbound: US$9.9 billion, outbound: US$14.2 billion) the highest annual volume ever, nearly trebling 2006's US$8.3 billion. Broken down by deal type, two out of the top five deals for 2007 were spinoffs, a substantial turnaround from 2006 when no spinoffs were recorded in the top 20 deals.

Some of the more significant announced transactions of 2007 included:

- In July, SK Corp. split into two adopting a holding company structure and reorganised existing cross-shareholdings among its SK group affiliates. SK Corp. was established as a holding company to enhance transparency and corporate governance and the other entity, SK Energy Co., Ltd, will be an operating company specialising in the energy business. This new structure allows the new holding company to concentrate on business investments, while it allows the operating unit to focus on its core businesses.

- In July, Doosan Infracore announced and completed the largest outbound M&A deal by a Korean firm in its acquisition of three business units from Ingersoll Rand (Bobcat, Utility Equipment, and Attachment). The acquisition was not only noteworthy for its size, but also in Doosan's adroit use of M&A as a strategic tool to build its presence in mature markets and leverage off existing management strength. Indeed, after the purchase Doosan shot up from the 19th largest construction firm in the world to the 7th largest with a substantial footprint in the developed US and European machinery markets and beyond (3,500 dealers and 20 manufacturing plants world wide). In addition, Doosan agreed to keep on local management in many of the subsidiaries to take advantage of existing management expertise.

- In December, SK Telecom, the largest mobile carrier in Korea, announced that it became the preferred bidder for Hanaro Telecom hoping to position itself for new business opportunities in the bundled service segment between mobile and landline telecom products (e.g., internet and internet-based TV.) SK Telecom agreed to take a stake in Hanaro for US$1.159 billion acquiring 38.9% of total shares from a consortium comprised of AIG and Newbridge Capital Inc. SK Telecom has long searched for new growth drivers as its main business line, the mobile service market, has reached maturity resulting in flat revenues.

- In September, HSBC Holdings PLC announced a US$6.3 billion cash deal to acquire a 51.02% stake in Korea Exchange Bank from private-equity firm Loan Star. The deal, however, has not yet closed as the government has not cleared Lone Star of alleged legal improprieties stemming from its 2003 purchase of the bank. The transaction would have been the largest of the year and further increased foreign ownership in Korea's banking sector.

- Korea Express, the nation's largest logistics company which fell under court control after its parent Dongah Construction went bankrupt in 2000, was the largest deal in the second half of 2007. In mid-January 2008, Kumho Asiana Consortium was announced as a preferred bidder for the deal and the deal size of around US$4.5 billion.

- In October, Korean industrial group STX paid $796 million to acquire a 39.2% stake in Norwegian ship builder Aker Yards. STX's cross-border deal was predicated on the need to bolster its shipbuilding arm to move up the value chain from producing basic cargo vessels to produce more value added vessels such as cruise ships. The proposed merger would accomplish this through giving STX greater access to materials and technical know-how in order to upgrade its existing production processes. The acquisition, however, still awaits approval as EU competition authorities have set a May 15 deadline to examine whether the proposed cooperation would stifle cooperation in the industry.

- On January 15, 2008, Korea Investment Corp. ("KIC") announced that it would invest $2 billion in Merrill Lynch, a top U.S. investment bank negatively impacted by the sub-prime mortgage issue. This was KIC's first strategic investment since the Korean government lifted the restrictions of overseas investments last November and is a sign that KIC is shifting away from its previous low-risk, low-return investment pattern. This landmark investment is a stark contrast to the Asian financial crisis of 1997-98 when Korean banks were lining up for assistance from the IMF and Wall Street investors. KIC's purchase of preferred stock, will pay a 9 percent yield for 33 months, and would be converted to common stock (approx. 3% of equity).

Outlook

The Korean economy is expected to grow 5% in 2008 driven by continued double-digit growth in exports and sustained levels of domestic investment and consumption. The downside risks to economic growth in 2008, however, significantly outweigh the upside risks. In particular, two major issues will determine Korea's economic trajectory this year: the extent to which the domestic economy decouples from an economic slowdown in the US and EU, and the government's timeline to implement a comprehensive package of economic reforms.

Korea's exports, while still projected to grow 11% in 2008, will likely experience a slight deceleration (at least through the first half of the year) due to an economic slowdown in developed markets that may significantly dent demand for bellwether exports such as cars and electronics. Although Korea has actively diversified export markets over the past several years, a substantial portion of products are merely intermediate goods used in final assembly to be shipped into other markets. In addition, Korea maybe particularly vulnerable to a global slowdown due to its high dependence on IT-related exports, a highly cyclical sector that usually trends downward during contractions in global economic activity. Thus, the real question will be the depth and extent of the downturn abroad; the Korean economy is arguably at its most resilient point since the 1997 Asian crisis and can endure a brief slowdown employing fiscal stimulus and sustaining consumer spending levels. However, a deep, prolonged economic downturn in advanced economies,

accompanied by either a protracted rise in oil prices or a significantly stronger won, would adversely affect economic growth. Lower economic growth would, in turn, put pressure on the buoyant labor and wage market squeeze consumer spending, and dampen investment sentiment sending the entire economy downward.

The other major issue will be the timeline and scope of President Lee Myung Bak's ambitious economic reforms. Lee, who assumes office in February, promised to revitalise the domestic economy through comprehensive deregulation and increased competition, raising the economy's potential growth rate over the long-term on the back of increased investment and efficiency gains. However, these benefits are hard to maximise over a short time frame. Indeed, timely government action to deregulate the real estate market, lower or abolish transaction taxes and investment ceilings, could potentially revive investment sentiment in the second half of the year and provide a boost in economic activity.

The outlook for M&A (both inbound and outbound) in 2008 is optimistic due to numerous planned large domestic M&A deals and Korean firms continuing to seek targets abroad. A number of substantial deals will dot the domestic landscape in 2008 as several high-profile companies are sold after finishing government-sponsored work-outs: those companies include Ssangyong Engineering Daewoo International, Daewoo Shipbuilding & Marine Engineering, and Hynix.

M&A volume in 2008 will likely be driven by deals in the financial services sector as well as by outbound M&A.

Financial Services sector

Korea's financial services sector will likely undergo a thorough round of consolidation as a result of deregulation and the looming specter of powerful foreign entrants into the sector. Korea's National Assembly passed the Capital Market Consolidation Act ("CMCA") in July that will fundamentally redraw the sector's landscape as regulatory firewalls between securities, banking and insurance firms are removed allowing for the creation of "pure" investment banks. Indeed, although the act doesn't technically go into effect until 2009, larger financial firms such as Kookmin (Korea's largest bank) and Industrial Bank of Korea are targeting smaller rivals to bolster their existing product offerings and aggressively enter new business spaces. Non-sector players, such as Hyundai Motor Group and Lotte, have also made key acquisitions in the sector looking to diversify revenue streams and investments. President Lee Myungbak's proposal to remove the investment ceiling on large chaebol's investment in banks, if implemented, should also promote further growth. All of these reforms are part and parcel of government efforts to create national "champion" financial firms that will face stiffer competition in the form of foreign firms entering the market.

Outbound M&A

Outbound M&A skyrocketed in 2007 on the back of several high profile deals; this trend is likely to continue in 2008. The boom in cross-border M&A is the product of several key structural and cyclical factors. First, Korean firms are facing saturated domestic demand in a number of key industries that have led companies to aggressively tap emerging markets as potential new drivers for growth. Numerous Korean companies have looked to expand operations into high growth economies (such as China and Vietnam) as well as the Middle East in order to successfully expand their global footprint.

Second, as domestic firms increase in both size and scale they face inherent constraints competing against more established global players. Indeed, while firms such as STX and Doosan have become highly successful due to economies of scale and efficiency, they have actively used M&A to acquire valuable technology and expertise to move up the value added chain and offer products with higher margins.

Third, the investment by Korea's sovereign wealth fund, KIC, reflects the country's readiness for overseas investments. With lighter restrictions on overseas investments, 2008 will signal a turning point of higher interest for outbound investments for financial institutions.

These structural factors will likely join with favorable cyclical ones in 2008. While the US sub-prime mortgage crisis and the ensuing credit crunch has made acquiring deal financing more difficult, it has also effectively sidelined more powerful players such as PE funds decreasing the overall level of competition for M&A. This presents a good opportunity for Korean firms with cash-rich balance sheets who are seeking targets in developed economies that might be substantially undervalued due to heavy market volatility. At the same time, however, cross-border deals will also posses higher risk as investors and firms continue to reassess in an environment of high volatility.

South Asia

India

Indonesia

Malaysia

Philippines

Singapore

Thailand

Vietnam

India

A landmark year for India Inc.

Current Environment

The Indian economy grew over 9% during the first half of fiscal 2007-08 (i.e. April-September 2007), slightly lower than the 9.9% growth registered in first half of 2006-07. The marginal reduction in GDP growth was attributed to lower growth of the manufacturing sector, which grew by 9.7% during the period, significantly lower than the 12.3% growth during the prior period. The service sector maintained double digit growth of 10.4%, although lower than the 11.8% growth of the prior period. On the other hand the agriculture sector witnessed an improvement by registering 3.7% growth compared to 2.8% during same period last year.

Inflation declined to 3.5% by end of December 2007 compared to 5.9% a year ago. India's current account deficit stood at US$10.7 billion during April-September 2007 due to the negative merchandise trade balance. However this is was not much higher than US$10.3 billion registered in 2006.

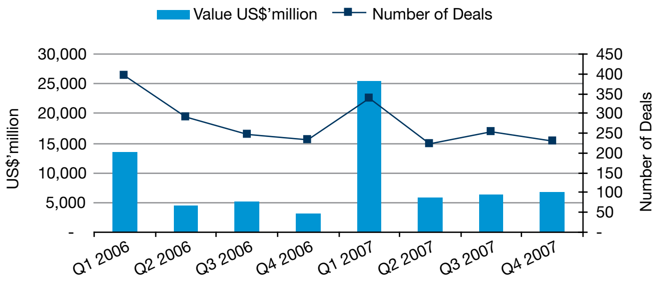
India's capital markets remained vibrant and reached new heights with the sensex crossing the 20,000 mark during the period, driven by foreign institutional investments ("FII"). There were significant fund mobilisation by way of initial public offerings ("IPOs") too, and an estimated US$110 billion was raised through IPOs and follow-on public offerings ("FPOs") during 2007, almost 85% higher than the previous year.

Inflows under foreign direct investment ("FDI") were US$13.8 billion during April-November 2007 as against US$10.1 billion during the prior period, a growth of over 35%. India retained second place in AT Kearney's FDI Confidence Index, a position it has held since displacing the United States in 2005. Sectors such as services (financial and non-financial), IT, telecoms and construction accounted for over 50% of the total FDI.

The bullishness of FIIs and the rise in FDI investments has resulted in India's foreign reserves increasing to over US$275.5 billion by end December 2007, adequate to meet 15 months of imports. Based on these trends, the government expects the FDI inflows to reach $26 billion in the current fiscal year ending March.

Deal Activity

Announced Merger & Acquisitions – India



Source: Thomson Financial

2007 has undoubtedly been a landmark year for India Inc. It began with Tata's announcement of the US$12.2 billion acquisition of Corus, and India Inc., has not looked back since. 2007 saw the value of M&A deals reach US$44.3 billion, spread over 1,048 transactions, representing growth of over 65% in value over 2006. In the first six months of the year, the total M&A deal value had exceeded the total deal value for entire 2006. Strategic M&A was dominated by cross border transactions. Cross border deals, including both Indian companies acquiring abroad and multinationals acquiring equity stakes in Indian companies, accounted for over 90% of total M&A by value.

The continued growth in the Indian economy and relatively easy availability of financing (both equity and debt) triggered a strong urge on the part of Indian companies to catch up with their global peers through increased outbound M&A activity. This is demonstrated by the fact that outbound acquisitions made by Indian companies were spread across all major industry segments and were of varying deal sizes and structures.

Some of the notable outbound deals during the year, apart from the Tata – Corus and the Hindalco – Novelis deals are:

- Tata Power's acquisition of PT Kaltim Prima Coal and PT Arutmin Indonesia for US$1.1 billion (This deal has given Tata Power access to one of the largest exporting thermal coal mines in the world)
- Essar Steel's acquisition of Canada-based integrated steel producer Algoma Steel Inc. for US$1.6 billion
- United Spirit's (part of UB Group) acquisition of premium scotch distillers Whyte & Mackay, Scotland for US$1.2 billion
- Suzlon Energy Limited acquired a 74.6% stake in RE Power Systems AG, the German manufacturer and supplier of wind-powered generating facilities for US$ 1 billion
- Indian IT major Wipro's acquisition of USA service provider, Infocrossings Inc., for US$600 million

- Havell's India acquired Netherlands-based SLI Sylvania's lighting business for US$300 million
- Reliance Communications Ltd. ("RCom") acquired USA based Yipes Enterprise Services Inc. for a consideration of US$300 million

Corporate India's acquisition spree is no longer restricted to the US and the England alone as it is finding its way to newer offshore horizons such as Scotland, Canada and Singapore. Although the United States remains the favourite M&A shopping destination for Indian companies, the volume of deals in other countries has been steadily growing.

The total value of PE deals in India announced in 2007 exceeded US$17 billion, spread over 380 deals, a growth in value of 115% over 2006. A key feature of PE investments during the year was extension of interest to sectors such as real estate, infrastructure, and financial services. These sectors accounted for over 50% of PE investment made in India in 2007. Some of the other sectors which have seen significant PE investment include logistics, power & power equipment, media & entertainment. PE investors have also been open to finance Indian companies looking at making acquisitions in India and overseas, and in some cases even looking to finance specific projects for well known business houses. Some of the notable PE deals during the year:

- Singapore based PE firm Temasek Holdings invested US$ 2 billion in Bharti Airtel Limited, India's largest private telecom operator, for a 4.99% stake
- Starwood Capital and Walton Street Capital acquired a 66% stake in Bengal Shriram Hi-Tech City Private Limited for US$1.25 billion
- Deutsche Bank picked up a 25% stake in a real estate special purpose vehicle owned by Mumbai-based Lodha Group for US$425 million
- Merrill Lynch & Co picked up a 49% stake in seven projects of DLF Ltd., one of the largest real estate groups in India, for US$370 million
- Global Infrastructure Partners and Zeus acquired 74% of East India Petroleum
- Blackstone Group acquired a 50.1% stake in textile major Gokaldas Exports, for US$165 million
- Blackstone Group invested US$200 million in Intelenet BPO for a 80% stake

The above list includes few buy-outs, which are not expected to contribute significantly to PE activity in the near future.

The growing clout of PE funds can be gauged by the fact that there were over 50 PE deals of US$100 million-plus in 2007 as compared to only 11 such deals in 2006. PE firms have been doing very well in India. A buoyant stock market has meant that PE firms had more than one exit mechanism and has enabled them to realise positive returns on their investments. There were also a number of secondary exits made by offloading stakes to other PE funds, which symbolises the level of confidence financial investors have in the Indian markets. Successful exists included the below:

Company	PE exiting	Industry	Sale value US$ million	Return %
Infomedia Limited	ICICI Venture	Publications	45.2	107%
Info Edge	ICICI Venture	IT / ITeS	20.0	2,150%
Firstsource	Sequoia Capital	IT / ITeS	42.0	511%
ACE Refractories	ICICI Venture	Manufacturing	137.1	135%
Neilsoft	GVFL	Engineering	3.0	100%

Source: PwC Analysis

PE firms which have been seeing returns from investments in developed markets diminished are betting on emerging economies like India for big returns. The significant returns achieved by PE firms in India over the past two years has buoyed new funds to set up India offices, and raise India dedicated funds, including the following:

PE House	Sector / Industry Focus	Fund Size US$ million
Sandalwood Capital	Growth stage	380
3i Capital	Infrastructure	1,000
Baer Capital	Infrastructure / Financial services and Consumer oriented	1,500
Kotak	Real Estate	350
Trikona Capital	Real Estate	1,000

Source: PwC Analysis

Outlook

Despite a lower GDP growth during the first half of fiscal year 2007-08, the Ministry of Finance is optimistic of GDP growth for the fiscal year 2007-08 being in the region of 9% with investment remaining buoyant. Consistently strong economic growth, combined with a continuation of the reform process and improvements in infrastructure by the Indian Government, will provide further boost to FDI and deal activity. M&A activity is expected to further heighten in 2008 with the euphoria of outbound deals set to continue as the Tata Group is widely expected in win the bid to acquire US auto giant Ford's iconic British brands Jaguar and Land Rover.

On an overall basis, the outlook for M&A activity in 2008 looks fairly positive. However there will be some challenges , in particular the ongoing sub prime crisis in the US, which would make borrowings for overseas acquisitions, difficult to obtain and costlier. Some of the other issues that could influence M&A activity in 2008 include:

- As anticipated in the previous bulletin, the Indian government has recently brought major changes to FDI rules, easing existing curbs on overseas capital in such key areas as real estate, petroleum refining, commodity exchanges, mining and aviation. The changes include increasing the limit on FDI to 100% on titanium mining and aircraft maintenance companies, from 49 to 74% in cargo and chartered airlines, from 26% to 49% in public sector refining companies. Also, foreign institutional investors ("FIIs") can invest in realty companies subject to regulatory approval. This move is expected to result in significant future investments.

- Another significant regulatory change on its way is the Competition Bill which has been passed by both the houses of the Indian Parliament. After the Presidential Assent is received, the Indian Government will notify the Rules under the Act and other steps will be taken for operationalisation of the Competition Commission of India ("CCI"). The new law, when it comes into operation, would bind the companies to inform CCI about mergers and acquisitions within 30 days. Further prior notification to the CCI has been made mandatory in case of combinations between persons, groups or companies if the the combined entity has assets of at least Rs. 5 billion or turnover of at least Rs.15 billion in India. Hence all large deals will be examined.

- Introduction of the New Company Law Regime which amongst other things, proposes to shorten the merger approval process in companies where no public interest is involved, by eliminating the requirement for court approvals.

- Rising oil prices coupled with global economic slowdown.

With new funds being set up, PE and venture capital investments in India are expected to rise even further with wider range of sectors open for investment, aided by a booming stock market which provides easier exit opportunities. PE and VC players are now looking for promising companies in industries ranging from technology to textiles to retail and seek to give them a boost, doing everything from injecting more capital for expansion to hand-holding management and providing strategic guidance, and helping them make overseas acquisitions.

Indonesia

Sustained growth and private investment will drive up M&A activity

Current Environment

President Susilo Bambang Yudhoyono still enjoys strong public support, but he will need to make faster progress in fulfilling his promises to eradicate corruption, encourage foreign investment, create jobs and reduce poverty to establish a strong platform for re-election at the next presidential poll, due in July 2009.

Indonesia's overall economic performance in 2007 showed heartening results with real GDP growth estimated at 6.3%, the highest annual growth rate since the 1997 crisis. The Indonesian Central Bank considered this as a major achievement, especially in view of the alarming challenges confronting the world's economy in 2007 caused by the subprime mortgage crisis in the United States which led to disorder in international money markets.

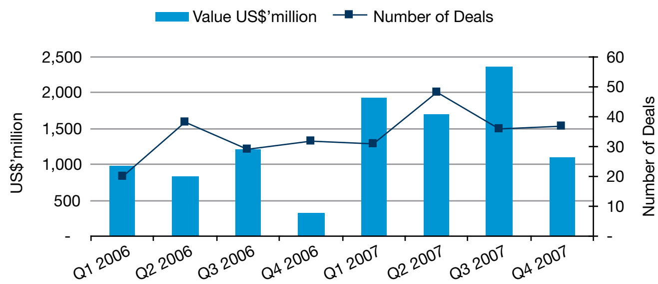
The Indonesia Investment Coordinating Board reported that in 2007 they have approved 1,976 projects with a total investment value of US$40 billion. Indonesia's exports, which reached US$114 billion during 2007, showed a 13.1% increase compared to the same period in the previous year. Non-oil and gas exports accounted for US$92 billion, showing a year-on-year increase of 15.5%. Meanwhile, Indonesia's imports reached US$74 billion, an increase of 21.8% compared to the same period in the previous year. 70.6% of total imports were derived from non-oil and gas imports. Overall, the trade surplus reached US$40 billion.

During the second half of 2007, the rupiah has become less sensitive to changes in world oil prices. In the first half of 2007, the rupiah underwent 1.8% appreciation. Later in the year, in the wake of the subprime mortgage crisis and soaring world oil prices, the rupiah weakened by a modest 1.1%. Accordingly, for 2007 overall, the rupiah was valued at Rp 9,136 to the US dollar, an appreciation of 0.3% compared to 2006.

The stock market has also improved in most sectors. According to statistics released by the Indonesian Stock Exchange, average daily trading in second half of 2007 was Rp 5,157billion (US$558 million) which was significantly higher than average daily trading in the first half of 2007 and 2006 of Rp 3,415billion (US$378 million) and Rp 1,842billion (US$201 million), respectively.

Deal Activity

Announced Mergers & Acquisition – Indonesia



Source: Thomson Financial

In the second half of 2007, there were 73 deals announced, mostly by foreign investors, with a total estimated value of US$3.4 billion. M&A activity in energy and mining sectors once again dominated M&A activity in Indonesia.

A selection of key deals completed in the second half of 2007 are summarised below.

Energy and Mining sector

Borneo Citrapertiwi Nusantara, a 99%-owned unit of Straits Resources Ltd's 60.34%-owned subsidiary Straits Asia Resources Ltd ("SA"), acquired the entire share capital of Separi Energi, a coal mining company, from Pacific Communication Corp. and Mitsui Matsushima International Co. Ltd., for US$410 million. The acquisition included the thermal coal mining business, located in East Kalimantan.

Mitsubishi Corp. acquired a 39.4% stake in Encore Energy Pte. Ltd from Encore International Ltd. for US$352 million. Through this acquisition, Mitsubishi Corp. indirectly has ownership in Medco Energi, a company operating in the oil and gas exploration and production business and listed in the Jakarta Stock Exchange since 1994.

SA acquired the entire share capital of Karbon Mahakam, a coal mining company, from TTI Trans Global, Robert Priantono Bonosusatya, Aan Sinanta, Yongki Sutanto, and Heddy Soerijadji. Concurrently, SA agreed to acquire the entire share capital of Metalindo Bumi Raya. The two transactions have a combined value of US$139 million.

Woodlark Gold Project was divested by Gem Diamonds Ltd, a fast emerging listed diamond producer, for US$26.5million to a company jointly owned by PE fund Pacific Road Resources and resources financing and investment business RMB Resources Limited, a subsidiary of Rand Merchant Bank.

Kuwait Bawean Indonesia, a majority-owned unit of Kuwait Energy Co, acquired a 35% stake in Bawean Oil block, an oil and gas exploration and production block from Camar Bawean Petroleum Ltd, subsidiary of Encore International Ltd. for US$23.5 million.

Telecommunications sector

Emirates Telecommunication Corporation ("Etisalat") has announced acquisition of 15.97% stake in the Indonesian mobile operator Excelcomindo Pratama ("Excelcom"), the third largest mobile operation in Indonesia from Rajawali Group. Etisalat, a telecommunications carrier and Internet Service Provider from the United Arab Emirates has agreed to pay US$438 million, implying the equity value of Excelcom to be US$2.7 billion. With this acquisition, Etisalat now operates across 16 countries worldwide.

Financial Services sector

In October 2007, Jakarta Stock Exchange acquired 100% stake in Surabaya Stock Exchange for a total announced value of US$220 million. Together they merged to form a new entity, the Indonesian Stock Exchange.

Singaporean state-owned Temasek Holdings Pte Ltd raised its interest to 75% by acquiring a 20% stake, in Sorak Financial Holdings, an investment holding company, from ICB Financial Group, for US$147.7 million in cash and a 5% stake from Barclays PLC.

Consumer and Industrial Products and Services sector

A Singapore based company, E-Crips Trading Ltd, acquired a 70.5% stake in Bali Nirwana Resort for US$55.9 million from Perusahaan Pengelola Asset ("Persero"), a state-owned asset management enterprise.

Kingdom Hotel Investments ("KHI"), the leading international hotel and resort investment company in the United Arab Emirates acquired the Four Seasons Hotel Jakarta for US$48 million. This transaction further expands KHI's portfolio in Asia to nine properties in seven countries, which now includes the Indonesian hotel market; a market showing real signs of recovery and development, fuelled by economic growth and increases in travel and tourism to the region.

Unilever Indonesia, one of the largest consumer products manufacturers in Indonesia, acquired the trading brand of Buavita and Gogo Juice from Ultrajaya Milk Industry and Trading for an announced value of US$43.7million.

Euroseas Ltd, a shipping company based in Greece acquired M/V Trust Jakarta, a Panamax drybulk vessel for US$28.6 million from an unnamed seller.

Olam International Ltd, a Singaporean based company, acquired the entire share capital of Dharmapala Usaha Sukses, a sugar refinery, US$12.6 million.

Outlook

The Board of Governors of the Indonesian Central Bank predicts a year of sustained economic growth in 2008 supported by macroeconomic stability, forecasted at 6.2%-6.8%.

The strong momentum maintained by domestic economy will support growth. Cheaper borrowing costs, efforts to encourage infrastructure investment, and a new package of measures introduced by Indonesian Central Bank to stimulate bank lending will all contribute to strong private-sector investment.

M&A activity may still grow as there is a plan by the Indonesian government to privatise its state-owned enterprises such as Asuransi Jasa Indonesia, an insurance company, Krakatau Steel, one of the largest steel manufacturing company in Indonesia, Bank Tabungan Negara, an Indonesian bank; Semen Baturaja, a cement producer and two consulting companies, Sucofindo and Surveyor Indonesia. State-owned ministries of Indonesia also plan to divest government-held minority shares in several companies.

The government is also seeking to promote consolidation and strengthen capitalisation thru a policy framework known as the Indonesian Banking Architecture ("API"). Underpinning the API is the Single Presence Policy ("SPP"), which would prohibit shareholders from having a controlling stake in more than one bank by the end of 2010. Those with multiple stakes will need to divest, establish a bank holding company or merge their banking interests in Indonesia. We expect to see more mergers in the banking sector in the near future.

There will be a major-sized deal in telecommunications sector as Excelcom plans to sell and lease back about two-thirds of its mobile phone towers to lower costs and improve the company's ability to expand. The company aims to sell 7,000 towers. Excelcom spent as much as US$108,000 on each of its more than 10,000 towers.

Nevertheless, progress and optimism is also tempered by caution due to high global oil prices, rising food prices and faltering progress on government's tax and labor policy which are likely to strain government finances and private investment in 2008.

Rising oil prices may force the government to curtail other spending to contain the budget deficit since it is unlikely that the government will raise the price of subsidised fuels.

In policy trends, the Economist Intelligence Unit noted that progress on changes to tax laws has been disappointing. Amendments to income tax and value-added tax ("VAT") laws, which were initially proposed in 2005, are still being considered by the legislature. Furthermore, the government has now decided to seek a smaller reduction in the corporate income tax rate, from 30% to 28%, rather than to 25% as it had initially wanted.

Movement on labour market reform also has been similarly slow. The government is reportedly near to signing a regulation that would require firms to fund severance pay insurance equivalent to 3% of workers' annual salaries and place a cap of Rp5.5 million (US$600) on the amount of a worker's salary covered by severance insurance.

Prospects for M&A activity in Indonesia remain promising. However, a slight slowdown in investment growth may occur toward the end of 2008 due to uncertainty in the political climate as a result of upcoming parliamentary and presidential elections in 2009.

Malaysia

A combination of privatisations and industry consolidation will lead to another stellar year for Malaysian M&A

Current Environment

Despite challenging global economic conditions, Malaysia's economic growth in 2007 matched 2006, expanding by 6.3% compared to 5.9% in 2006, spurred by strong domestic demand, service sector, private consumption and investments as well as expansionary fiscal policies.

Both the services sector and private consumption spending achieved strong growth of 9.7% and 11.7% respectively in 2007, which will offset slower growth in manufacturing sector estimated at around 3.1% due to softer external demand for electronics and electrical products. Similarly, exports which are closely tied to manufacturing rose modestly by 2.7% in 2007.

Despite higher government consumption and investment in 2007, which increased by 6.4% and 8.0% respectively, the overall government budget deficit as a % of GDP remained low at 3.2%. Higher government spending was related to investments of the five-year government development plan, i.e. Ninth Malaysian Plan.

Meanwhile, private investment rose by 12.3% in 2007, in almost equal proportion from both domestic and foreign direct investment. The total investment approved for the first three quarters in 2007 reached US$11.5 billion compared to US$13.4 billion in 2006, with 51% or US$5.9 billion from foreign sources.

Malaysia's inflation rate continues to remain contained, with Consumer Price Index ("CPI") for 2007 increasing 2% despite higher commodity and fuel prices. Notable increases were recorded in food and beverages, transportation, housing, water, electricity, gas and fuels.

With inflationary pressure contained, the central bank, Bank Negara Malaysia ("BNM"), has maintained a stable policy rate in 2007 in efforts to support domestic demand amid the uncertain global economic environment. BNM has kept the Overnight Policy Rate ("OPR") unchanged at 3.5% since April 2006.

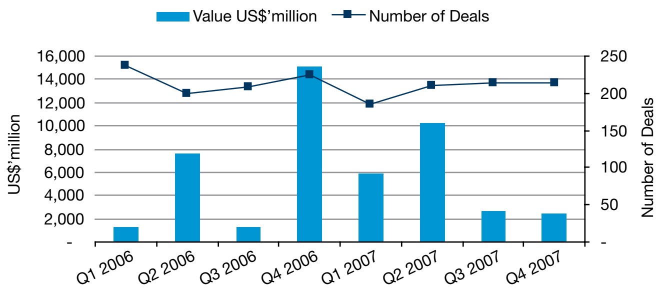
Similar to other Asian currencies, the Malaysian Ringgit has strengthened against the US dollar in 2007 due to the weakening US economy and cut in Federal Reserve rates. The Ringgit appreciated 6% against the US dollar reaching 3.31 in December 2007 compared to 3.53 in 2006. For other major currencies, the Ringgit has remained relatively stable against the Japanese yen, appreciated 4% against the British pound whilst depreciating around 5% against the Euro.

The local stock market, Bursa Malaysia, experienced a volatile ride in 2007 reporting a 31% gain in the benchmark KL Composite Index ("KLCI"). The local bourse climbed more than 25% in the first half of the year before plunging close to 15% in August due the US subprime woes and risk of a US slowdown. It later recovered to reach a record high of 1,447 points in December 2007 on the back of strong domestic demand and growth.

In the bond market, 2007 was a record year for the primary debt market with US$20 billion gross private debts securities issued in 2007, doubled the amount raised in 2006. Sukuk (Islamic bonds) securities dominate the local bond market accounting for 58% of total outstanding bonds compared to 42% for conventional bonds. The Sukuk market is expected to grow even further given the Government's strong encouragement for the development of Islamic banking and financial services.

Deal Activity

Announced Mergers & Acquisitions – Malaysia



Source: Thomson Financial

Malaysia's M&A market continues to remain active in 2007, although total announced deals in 2007 reported a drop of 16% to US$21.2 billion from US$25.3 billion in 2006 due to he absence of the three-party mega plantation merger between Sime Darby, Golden Hope and Kumpulan Guthrie worth US$8.8 billion in 2006. In terms of number of deals, there is a slight dip of 5% to 825 deals in 2007 – Malaysia, however, continues to the second most active market in South Asia after India.

Over the second half of 2007, Malaysia M&A was fairly broad-based, dominated by a number of sectors like oil and gas, financial services, property, leisure, telecommunication and utilities. There is also growing PE interest, with firms such as Apollo Management LP, Primus Pacific Partners Ltd and CVC Capital Partners Asia III Ltd investing or interested in Malaysian related companies.

Cross border deals involving Malaysian companies were particularly active, accounting for more than a quarter of deals above US$100 million, with both Malaysian company acquiring foreign assets and vice versa.

A number of corporations were particularly active, notably Petronas the national oil and gas company and tycoon Tan Sri Syed Mokhtar.

Petronas continues on its expansion overseas with a combination of upstream and downstream oil and gas acquisition, totalling more than US$2.3 billion, they include:

- FL Selenia SPA, Europe's largest independent branded automotive lubricants firm for US$1.5 billion
- Star Energy Group plc, a UK gas-storage operator for about US$415 million
- Oilfields in Mauritania for US$425 million

Meanwhile, companies related to Tan Sri Syed Mokhtar announced a mixture of disposal and acquisition worth more than US$1.5 billion including:

- Disposing 20% stake in EON Capital Bhd, the listed arm of EON Bank, Malaysia seventh largest bank for US$393 million
- Injecting assets into his diversified listed company, DRB-Hicom Bhd, including an Islamic bank, Bank Muamalat (M) Bhd, and a power plant operation company for a combined US$542 million
- Acquiring 51% in Jordan's Central Electricity Generating Co for US$320 million, through Malakoff Corporation Bhd and its consortium partners
- Taking private several listed companies in its stable including Edaran Otomobil Nasional Bhd an automotive distributor and Tradewinds Corp Bhd a diversified company involved in property, hotel, plantation and sugar refinery

There were also a number of sizeable financial service deals totalling more than US$2 billion. Prominent transactions other than those mentioned earlier are:

- RHB Capital Bhd, the parent of RHB Bank, Malaysia's fourth largest bank, offering to buy the bank's preference shares for US$502 million
- State fund manager Permodalan Nasional Bhd ("PNB") offers US$447 million to take investment bank Malaysian Industrial Development Finance Bhd private
- Hong Leong Bank Bhd, controlled by tycoon Tan Sri Quek Leng Chan, purchase of 20% of China's Chengdu Bank for US$265 million
- Affin Holdings Bhd, parent of Malaysia's smallest bank Affin Bank Bhd, to place 15% new shares in the bank to Hong Kong's Bank of East Asia Ltd for US$153 million

Another key sector making headway in M&A market is property, clocking more than US$1.8 billion in deals, they include:

- RB Land Bhd acquisition of property developer, IJM Properties Sdn Bhd, for US$369 million
- Singapore's CapitaLand Ltd acquiring two shopping centres in Malaysia for US$363 million
- Ekovest Bhd acquisition of a property development project in the Iskandar Development Region in Johor for US$333 million
- YTL Corp purchase of Westwood Apartments located on Singapore's famed Orchard Boulevard for US$302 million

Other significant deals announced during the second half of 2007 are:

- Malaysia's largest telecommunication company, Telekom Malaysia Bhd plans to split its fixed line and mobile business in an effort to unlock value and to allow each unit to grow their business further. The demerged entities are estimated to be worth around US$12 billion, 20% more than current valuation.
- Genting Group's cruise operator, Star Cruises Ltd selling its 50% stake in NCL Corporation Ltd, a US cruise operator, to Apollo Management LP for US$1 billion.
- Resorts World Bhd, subsidiary of Genting Bhd, disposing 14% stake in Star Cruises Ltd for US$353 million to Datuk Chua Ma Yu.
- DiGi.Com Bhd ("Digi") to acquire Time dotCom Bhd's ("TDC") 3G spectrum for nearly US$212 million. DiGi's parent, Telenor ASA, has also invited TDC to take part in the placement of DiGi shares amounting to US$327 million.

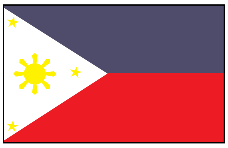
Outlook

Malaysia's economy is expected to continue to grow reasonably strongly at around 6% per annum over 2008 to 2009 despite the US economic slowdown. In light of lower external demand, growth will be domestic driven, particularly within services sector, private investments and private consumption.

In line with the global M&A outlook for 2008, Malaysian deals momentum over the next 12 months may not reach record highs of 2006 and 2007, but will be driven by healthy domestic demand and banking liquidity aside from improving corporate returns.

The underlying deal environment is expected to remain unchanged driven by a combination of industry consolidation, investment opportunities and unlocking asset values through disposals and privatisation.

Key sectors to watch include financial services, oil and gas, power, plantation and real estate. The market will continue to see cross border deals opportunities, with both Malaysian companies expanding abroad and foreign investors investing in local assets.



Philippines

As the economy takes off, so too does M&A activity

Current Environment

Government estimates indicate 2007 as an exceptional year for economic growth in the Philippine economy with GDP increasing at 6.9% pa. Government sees their growth estimates as the strongest for the economy in more than 30 years.

Strong economic results were driven by growth in personal consumption expenditure, supported by an estimated US$14.3 billion remitted by overseas Filipino workers ("OFWs") – an increase of 10.8% from the US$12.9 billion remitted in 2006. In addition to encouraging spending on consumer goods, OFW funds have fueled growth in the property and real estate markets. Increased government spending for the May 2007 elections further buttressed the local economy.

On the supply side, the services sector continued to make the largest contribution to growth with an 8.2% growth rate for the first three quarters of 2007. Leading the sector's growth were retail trade, private services, transportation, communication and storage sub-sectors. Revenues from the burgeoning business process outsourcing ("BPO") industry are estimated to have grown to US$4.5-5 billion from US$3.3 billion in 2006. The agriculture sector contributed to growth by advancing steadily with a 4.7% growth rate.

2007 was a volatile year for the Philippine Stock Exchange index as the local equities market adjusted to uncertainties brought by the credit crisis in the US during the 2nd half of the year. Midway through 2007, news of the sub-prime crisis erased the approximately 20% of gains that had already been made in the year. Nevertheless, the index managed to settle at its highest year-end closing level of 3,621.6, achieving a 21.43% gain for the year. Annual value turnover hit a record US$32.46 billion, 133% more than 2006's US$13.87 billion figure. The year-end level of the market's total capitalisation hit a new record US$193.3 billion, 11.2% higher than the US$173.7 billion recorded in 2006. Proceeds from IPOs and other capital raising activity reached US$2.17 billion in 2007, 57% higher than the previous high of US$1.39 billion in 2006. IPOs of note include Aboitiz Power Corporation, National Reinsurance Corporation of the Philippines, Splash Corporation, and GMA Network, Inc.

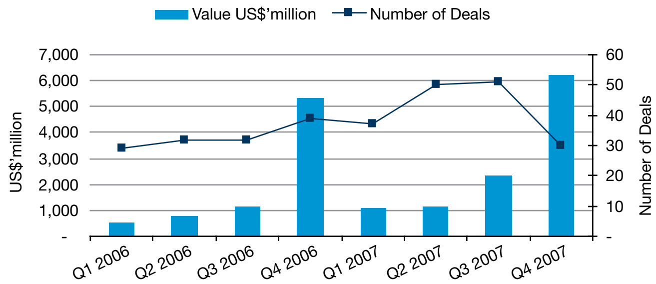
As in 2006, the Philippine peso continued the trend of appreciating against the US dollar, buoyed by dollar-remittances overseas and also the overall weakness of the dollar. It ended 2007 at Php41.28 to the US dollar, having appreciated 19%, the fastest rise in Asia for the year. The strength of the peso mitigated the effect of rising prices of imports, such as petroleum, on the local inflation rate. Food supplies and consequently food prices remained stable as a result of favorable weather throughout the year. Government estimates placed the annual inflation rate at 2.7 percent.

Levels of approved foreign direct investment ("FDI") in the economy dipped 24.2% from Php148.5 billion to Php112.6 billion in the first nine months of 2007. Investment levels picked up in the 2nd and 3rd quarter of 2007 with fresh investments in sectors such as BPO, finance and real estate, but overall levels remained depressed due to the sharp contraction of investments in manufacturing in the first quarter.

On the fiscal side, balancing the budget remains to be the main policy priority of the government for 2008. This follows budget deficit estimates for 2007 at between US$144 million and US$216 million. Improved budget numbers for 2007 have resulted in muted confidence as budget gaps have been plugged through the sale of large state assets rather than through improvements in tax collection efficiency and addressing the perennial problem of tax evasion.

Deal Activity

Announced Mergers & Acquisitions – Philippines



Source: Thomson Financial

The value of announced deals was up 29% to US$10.1 billion in 2007, with deal volume increasing to 168 as compared to 132 for 2006.

San Miguel Corporation ("SMC")

In 2007, SMC continued to divest more of its food and beverage units. In addition to the sale of its stakes at National Foods Australia, Coca-Cola Bottlers Philippines, Inc. and Del Monte Pacific Limited, the firm has decided to spin off its top revenue-earning domestic beer division. In 2008 San Miguel plans to conduct an IPO of newly formed subsidiary San Miguel Brewery, Inc. to raise Php14.73 billion to Php25.27 billion. Funds generated by these activity are to push forward SMC's thrust to enter other industries.

SMC has attempted, unsuccessfully, to acquire power assets under privatisation by the Philippine government. The company bid for the government's 60% stake in geothermal energy firm Philippine National Oil Co. – Energy Development Corporation ("PNOC-EDC"). The stake was awarded to First Gen Power Corporation, which submitted a Php58.5 billion bid. The company also participated in the auction for a 25-year concession to run National Transmission Corporation ("TRANSCO"), the country's power grid. The concession was awarded to the US$3.95 billion bid submitted by a consortium comprised of Monte Oro Grid Resources Corporation, Calaca High Power Corporation and the State Grid of China.

Power Assets Privatisation

The government-run Power Sector Assets and Liabilities Management Corporation ("PSALM") has been aggressive in auctioning state power assets, in addition to already mentioned PNOC and TRANSCO.

600-MW Masinloc coal-fired power plant, awarded the previous year to YNN Pacific Consortium, was re-auctioned due to the group's failure to pay the upfront payment of US$227.54 million. The new auction was won by AES Corporation with a US$930 million bid.

The auction for 600-MW Calaca coal-fired power plant was won by Franco-Belgian firm Suez-Tractebel with its bid of US$786.5 million.

The bidding for the 100-MW Binga and 75-MW Ambuklao hydroelectric complex was won by SN-Aboitiz Power with a bid valued at US$325 million.

Mining sector

Developments in the Mining industry include Zijin Mining Group Co Ltd signing a memorandum of understanding to acquire a 20% stake in Far Southeast Gold Resources Inc. and a 60%-owned unit of Lepanto Consolidated Mining Co for US$70 million.

Republic Cement Corp and Lafarge Holdings (Philippines) Inc, agreed to acquire certain assets of Concrete Aggregates Corp, a quarrying company for US$15.7 million

Anglo Philippine Holdings Corp, a majority-owned unit of PCD Nominee Corp, acquired a 3.28% stake in Atlas Consolidated Mining & Development Corp for US$10.17 million.

ATN Holdings Inc plans to acquire a 70% interest in Mariestad Mining, in addition to planning to acquire a 70% interest in Sierra Madre Consolidated Mines.

Oil and Gas sector

Otto Energy Ltd acquired a 31.38% stake in Galoc Production Co WLL from Granby Oil & Gas PLC and Cape Energy Philippines SA for US$19.25 million. The transaction includes an 18.28% stake in Galoc Field Offshore.

Telecommunications sector

Metro Pacific Assets Holdings Inc acquired a 46% stake in Philippine Telecommunication Investment Corp ("PTIC") from Philippine state-owned Presidential Commission on Good Government ("PCGG") for US$523 million.

Financial Services sector

Banco De Oro-EPCI Inc acquired Philippine consumer banking operations of Amercan Express Co ("AE"). The acquisition includes the bank's peso and US dollar credit card portfolios, and the banking services of American Express Savings Bank.

Outlook

While the real Philippine economy is slated to continue growing strongly for 2008, the local equity market is affected by the uncertainty and volatility originating from the US financial market. Some IPO activity initially planned for the early part of 2008 have been postponed, ostensibly to the second half when markets are expected to stabilise and recover.

IPO Activity

Cebu Air, Inc. operator of budget airline Cebu Pacific, indefinitely postponed its US$309 million public offering originally scheduled for February. Pepsi-Cola Philippines which pushed through with their IPO, lowered their indicative offer price and raised US$98 million.

Other IPOs planned this year include the following:

- Viva Communications, Inc., Php1.85 billion offering, March
- San Miguel Brewery, Inc., Php15 to 25 billion, first quarter 2008
- Rockwell Land Corporation., US$100 million, late 2008
- Seaoil Philippines Corporation, Php2.5 to 3.0 billion, first quarter 2008

Power Asset Auctions

Power asset auctions are to continue in 2008, with several more plants up on the block, including the 192.5-MW Palinpinon geothermal plant, the 110-MW Panay diesel power plant, the Manila Thermal plant, and the geothermal complex comprised of the 275-MW Tiwi and 410-MW Makban power plants.

In the latter half of the year the following power plants are scheduled to be auctioned: 150-MW Bacman and 0.8-MW Amlan hydropower plants, 114-MW Iligan I and II diesel-fired power plants, 620-MW Limay power plant, and the decommissioned Aplaya, Bataan and General Santos power plants.

BPO and Real Estate

Demand for commercial real estate is expected to continue being strong in 2008. The slowdown in the US economy is seen to further encourage US firms to outsource back-office operations to local BPO firms. BPO firms are projecting an annual growth of 40% to US$7 billion, already taking into account the effect of the appreciating Philippine peso. BPO firms currently occupy 60% of commercial office space in Metro Manila's financial district, Makati City. Much of the planned new commercial space in Metro Manila have already committed to tenants through pre-leasing.

Singapore

A mix of players and forces make for more broadly based and sustainable M&A activity

Economic Environment

The Singapore economy continued its fourth year of robust growth in 2007. Advance estimates showed that GDP grew by 7.5% in 2007, comparable to the 7.9% growth achieved in 2006.

However, unlike previous growth cycles, the manufacturing sector's contribution, led by the electronics cluster was significantly lower amidst a continued down cycle in the global IT and electronics market. In 2007, growth was broad-based with strong contributions from the property, financial services, marine & offshore engineering and biomedical sectors.

Foreign direct investment continued to pour into existing industries and new industries which the government has been promoting, such as biomedical science, clean energy and environmental technology. Several mega projects were announced in the year. For example, ExxonMobil committed to building a multi-billion petrochemical complex. Renewable Energy Corporation of Norway announced plans to build the world's largest solar panel manufacturing plant valued at US$4.2 billion.

As a result, the value of fixed asset investments from manufacturing was a record US$10.7 billion in 2007, almost double that of the previous year. These investments will create considerable economic activity, especially in capital and knowledge intensive sectors in the coming years.

The strong economic environment created a tight labour market, with a high job vacancy rate among professionals and experienced executives. To meet the demands of businesses, Singapore continued its liberal immigration policy to supplement its talent pool. The government has stated a target to increase the population from 4.5 million to 6.5 million through immigration.

The strong economy, coupled with external factors also led to domestic price pressure towards the end of 2007. Prices of accommodation, transport, and food rose simultaneously. The consumer price index rose by 4.4% in December compared to a year earlier. This is the highest level in 25 years and is significant for a country that is used to 1.5% to 2% inflation.

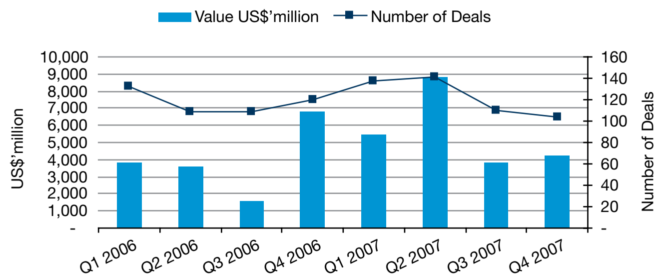
Currency and Stock Markets

To combat inflation from imports, the Monetary Authority of Singapore has accelerated the appreciation of the Singapore Dollar. Over the course of the year, the Singapore dollar appreciated by approximately 6.5% against the US dollar to reach S$1.44/US$1 in December.

The stock market was buoyant for most of the year, reflecting the strong economic fundamentals. The benchmark Straits Times index began the year at around 3,000 points and reached an all-time high of 3,900 before declining to 3,400 as turbulence in the global markets began to in the third quarter.

Deal Activity

Announced Merger & acquisitions – Singapore



Source: Thomson Financial

Against the strong economic backdrop, the M&A market in Singapore was active in 2007. M&A transaction value was 9% of GDP, approximately the same level as the US.

The total value of announced M&A deals was US$22.2 billion, a 41% increase from the US$15.7 billion registered in 2006. This was contributed by a higher volume of deals and larger deals. The number of deals announced increased from 470 in 2006 to 492 in 2007. The average deal size increased to US$45.2 million from US$33.5 million a year ago.

The major investment themes largely mirrored global trends and the economic activity in Singapore, focusing on the property, retail and consumer, oil and gas and electronics sectors.

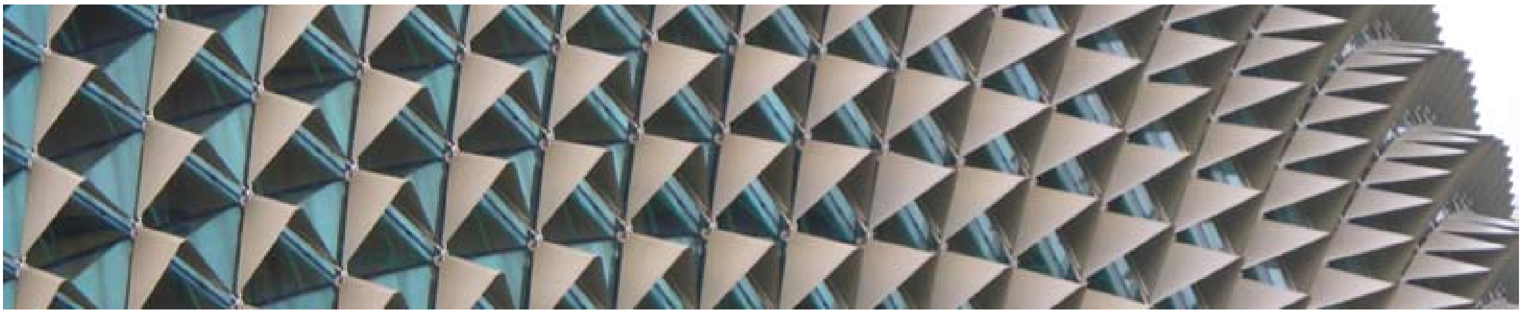
Property sector

The property market hogged the limelight for much of the year as property prices approached their highest levels in a decade. Property investment sales reached an all time the high of US$36 billion, far surpassing the previous historical high of US$21 billion recorded in 2006.

The supply crunch for commercial space was led by the heightened demand by financial institutions and MNCs. As a result, the sector attracted major international investors. Macquarie, Goldman Sachs, CLSA each forked out between US$350 million and US$690 million for acquisitions of commercial buildings in the central business district. Strong demand and foreign investment were also seen in the residential sector, driven by improved sentiments, rising income levels and inflow of foreigners.

Retail and Consumer sector

The healthy employment market and positive consumer sentiments contributed to the growth in the retail and domestic-oriented services sector. The implementation of the 2% hike in the Goods and Services Tax in July did not appear to have a major impact on consumer spending.



The consumer theme attracted significant investor interest. Some of the notable deals include:

- MGF and Emaar Properties' acquisition of RSH, a fashion sporting products wholesaler and retailer for US$250 million
- Peace Mark's acquisition of Sincere Watch, a luxury watch wholesaler and retailer which valued the company at US$366 million
- Barings PE and Topaz Investment's acquisition of Courts Singapore and Courts Mammoth Malaysia, a home furniture and appliances retailer

Many of the acquisitions in the retail and consumer sector also aimed at gaining exposures to the regional markets considering the limited size of the Singapore market.

Oil and Gas sector

The marine and offshore engineering segment registered strong growth on the back of strong demand resulting from high oil prices. Local shipyards were kept busy on a number of ship repair, conversion and rig fabrication projects to meet robust demand for offshore exploration and production equipment.

Dubai Drydocks was by far the largest investor as it seeks to expand its business in Asia. It acquired Pan United Marine, a Singapore shipyard, for US$429 million in June. It followed in December with the acquisition of Labroy Marine for US$1.6 billion in one of the largest deals of the year.

Other areas that attracted dealmakers' attention include offshore transportation and energy related engineering services. Many more deals could have been realised if not for the rich valuations demanded by vendors.

Electronics sector

The electronics manufacturing sector, once the lynchpin of the Singapore economy, experienced slow growth amidst lacklustre conditions in the global IT market. However, many investors consider the current environment as an opportunity to acquire fundamentally-sound companies that have been under-valued by the financial markets. As a result, the sector attracted considerable PE interest in public to private deals.

Some of the major transactions involving major PE houses include:

- Affinity and TPG's joint acquisition of United Test and Assembly Center for US$1.7 billion
- Temasek's acquisition of 47% in STATS ChipPAC, a semiconductor testing products manufacturer valued at US$1.1 billion
- KKR's acquisition of MMI Holdings, a precision engineering company for US$663 million
- CVC and Standard Chartered PE's acquisition of Amtek Engineering, a metal components and products manufacturer for US$362 million

Private Equity

These public to private deals contributed to strong overall PE activity. Total investment by PE houses amounted to US$5.3billion in 2007, a nine-fold increase from US$577million registered in 2006. The openness to foreign investment, availability of financing, low borrowing rates and a favourable economic environment continue to attract PE participation in Singapore.

Government-linked M&A

The state-owned Temasek Holdings and Government of Singapore Investment Corporation ("GIC") continue to be significant players on the world stage. In June, Temasek invested US$2billion in Barclays, representing 2.1% of its share capital to bolster its bid for ABN Amro. GIC was active in real estate, snapping up several property assets in the US, the UK, Australia and Japan.

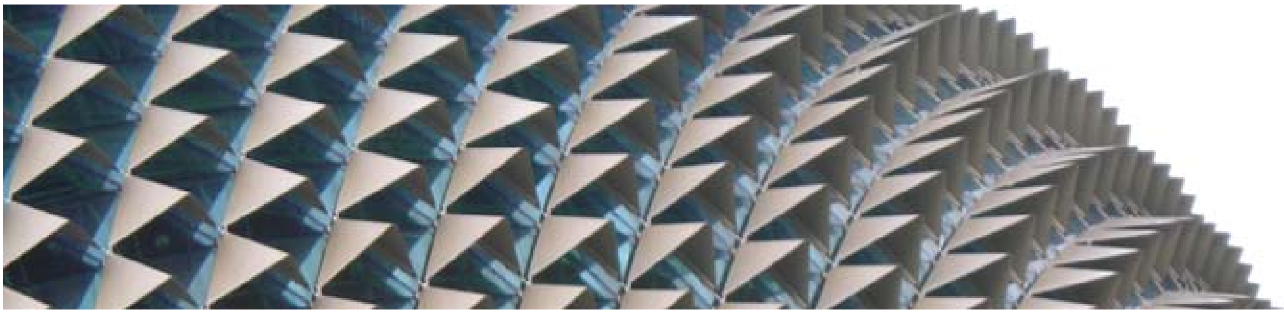
The sub-prime crisis and the negative impact felt by financial institutions opened up further investment opportunities. GIC acquired an undisclosed number of notes convertible into ordinary shares in UBS for US$11.5 billion. Upon completion, GIC will become the largest shareholder in UBS with a 9% stake. Similarly, Temasek injected US$4.4 billion into Merrill Lynch, giving it close to a 10% stake in the investment bank.

However, it has not been plain sailing for the two sovereign investors. Temasek and Singapore Airlines' US$920 million bid to acquire a 24% stake in China Eastern Airlines was derailed by Air China. It remains to be seen if the deal, painstakingly negotiated over two years will eventually be revived at a higher price.

Outbound Deals

Singapore corporates continue to be active in cross-border M&A, with a focus on emerging markets in Asia. In particular, we have observed increased activity in regulated industries, such as telecommunications, media, healthcare and education.

- In the telecommunications sector, Singapore Telecoms continued its regional expansion with the acquisition of a 30% stake in Warid Telecom, a Pakistan wireless services provider for US$758 million. Singapore Technologies Telemedia, another major Singapore player acquired a 49% stake in Shenington Investments, a mobile telecommunications services provider in Indo-China for US$212 million.



- In the media sector, MediaCorp, Singapore's largest broadcaster concluded a deal in Indonesia. It was a 5% stake in Global Mediacom and a 6.5% stake in its subsidiary, Media Nusantara Citra, a television station operator for a total of US$183 million.
- In education, Raffles Education acquired Oriental University City Development, an educational asset owner and operator in China for US$267 million. Temasek acquired a 12% stake in ABC Learning Centres, a childcare and education services provider in Australia, for US$329 million.
- In healthcare, Parkway Holdings, the country's largest private healthcare provider bought Medical Resources, a network of medical centres in China for US$44 million.
- In infrastructure, CitySpring acquired the Basslink Interconnector Project of Australia's National Grid for US$1 billion.

These deals highlight the desire and need for Singapore companies to expand internationally as they approach the limits of the domestic market.

Outlook

Singapore's GDP growth is expected to moderate with the impending slowdown in the US, its key export market. The financial market turmoil will inevitably affect the sentiment that drove the financial and property sectors. Inflation is expected to climb in the coming months to a 30-year high of 5% as surging costs for housing, transport, food and electricity tariffs push up consumer prices. As a result, GDP is forecasted to grow at a slower pace of between 4% to 6% in 2008.

Nevertheless, the strong long-term economic fundamentals remain intact. The development of new industries and foreign investments will undoubtedly enhance Singapore's economic competitiveness over time.

There are reasons to believe that M&A activity will be sustained to a considerable degree. Singapore remains one of the most open economies in Asia for M&A. New players, such as international PE houses and Middle Eastern investors are looking to Asia for investment opportunities. A subdued stock market could make public to private deals more palatable. Outbound deals will continue as Singapore-based companies with strong balance sheets continue their internationalisation drive.

The Singapore growth story has not ended. We are optimistic that the local M&A scene will continue its vibrancy over time.

Thailand

Large domestic deals highlight M&A activity for 2007

Current Environment

Ongoing political uncertainty and changes in government policy have resulted in a rather quiet 2007. Structural reforms, including the privatisation of state-owned enterprises and removal of trade barriers, have largely stalled, possibly undermining competitiveness, as investors look elsewhere in the region where there has been more robust growth. The outcome of the elections in Dec 2007, restoring a democratic government, raised the prospect of stabilisation, but the incoming coalition government faces some challenges; principle among these is jump starting the country's economy.

Thailand's economic growth for 2007 was approximately 4.6%, the lowest in the region. The economy was also negatively impacted in 2007 by the New Years Eve bombings, continued violence in the South, fast rising oil prices and increased household debt. Exports grew nearly 20% year-on-year (in dollar terms) in 2007 to an all-time high, despite sluggish US sales. This was thanks to more sales to new markets such as Eastern Europe and the Middle East. But most commentators say that exports will not be the easy answer to Thailand's woes in 2008.

The inflation rate in 2007 was estimated at 2.2%, and the Kingdom expected to have a trade surplus of US$10.7 billion and a current account surplus of US$11.8 billion. Consumer sentiment picked up somewhat after the military-drafted constitution narrowly passed in a referendum. Not surprisingly, private consumption grew slowly at 1.5% year-on-year in 2007.

While Thailand's economic fundamentals remain strong, some analysts fear inadequate investment due to low business confidence is constraining growth. At 30% of GDP, gross domestic investment remains well below pre-1997 financial crisis levels. The overall trend in foreign direct investment since 2007 has been downward, despite a rise in 2006, caused by the sale of Shin Corp. to Singapore's Temasek Holdings. The general sentiment is that conditions for foreign investors have deteriorated since 2006.

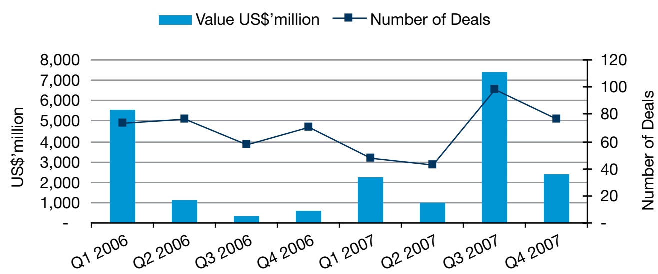
Thailand's Board of Investment ("BoI") is optimistic that investment in the kingdom will grow despite concerns over the US economy and Thailand's political problems. Investment projects seeking promotional privileges from the BoI in 2008 are expected to exceed US$ 15 billion. Investment in vital industries in the country continues in sectors such as the upstream steel industry, independent power programmes, the mass transit rail system, and energy-related industries. Talk of the "megaprojects", initially proposed in 2004 but stalled following the coup, has recently been revived as a major initiative of the new government's economic stimulus plan.

The Baht has been propelled upwards by strong current account surpluses due to robust exports and weak private investment resulting from falling consumer confidence. The Baht continued to appreciate even after the Bank of Thailand implemented a 30% reserve requirement on capital inflows in December 2006 to stem short-term inflows and arrest the Baht's appreciation. Weak confidence motivated the central bank to offer ways around the harsh capital controls in February by allowing investors to hedge against bonds and foreign direct investment. The capital controls have raised foreign firms' operating costs and reduced their competitiveness against domestic rivals. However, the Baht's cumulative appreciation over the past two years has been more in line with regional currencies offering the hope that the government may lift the capital controls.

In spite of the general negative factors hurting investment sentiment, the Thai stock market managed to rise 26% in 2007 closing at 858.10. The lowest level was 617 on 9 January and the highest was 915 on 29 October. Analysts agreed that the main factor contributing to the market rise was foreign capital inflows, which were even smaller than the year before. Moreover, Thai stocks were considered relatively cheap when compared to their regional peers, given the price-to-earnings ratio of approximately 11-12 times. The Stock Exchange of Thailand ("SET") market capitalisation rose to Bt6.64 trillion at the end of 2007 from Bt5.11 trillion at the end of 2006.

Deal Activity

Announced Merger & Acquistions – Thailand



Source: Thomson Financial

M&A activity in Thailand continues to be dominated by deals in the telecommunications, energy and financial services sectors which consistently accounting for the majority of deal value. While deal volumes decreased to 265 deals for 2007 (2006: 277), announced and completed deal value for 2007 reached a surprising US$13.1 billion, surpassing 2006's US$7.6 billion, on the back of large domestic transactions and strong activity in the financial services sector.

Financial Services sector

Important deals include:

- GE Capital International Holdings Corporation completed its acquisition of a 25.4% stake in Bank of Ayudhya ("BAY"), Thailand's sixth-largest bank, in January 2007 for Bt22.3 billion (US$583.5 million). An additional 6% was acquired in July 2007 for Bt7 billion (US$220 million) to raise its stake in the Thai listed lender to 31%. In another deal designed to bring together GE's consumer finance operations in Thailand, BAY has agreed to purchase GE Capital Auto Lease for Bt17 billion (US$486 million) accelerating the bank's growth in consumer lending, specifically new and used car financing. The deals are in line with GE Money's strategy of strengthening its position in the Thai financial market.

- In the first quarter of 2007, Bank of Nova Scotia agreed to buy 25% of Thanachart Bank Pcl, the eighth-largest of Thailand's 14 banks, for Bt7.1billion (US$220m), with an option to raise its stake to 49%. The Canada-based Bank is expected to inject another Bt7billion (US$225.4million) into the Thai Bank by mid-year 2008.
- PE fund TPG Newbridge is in the process of buying a larger stake in state-controlled Bankthai Pcl to gain more management control in Thailand's eighth-biggest commercial bank. TPG Newbridge and its partners may buy up to 42% of Bankthai, more than the 24.99% stake announced in August for Bt2.3 billion (US$70 million).
- TMB Bank PCL, the Thailand-based lender, has brought in ING Group of the Netherlands as a strategic partner acquiring a 30.12% stake for a total value of US$1,284 billion.

Telecommunications sector

Notable deals include:

- Total Access Communication Pcl, Thailand's second-largest mobile-phone operator, aquired a 99.51% interst in United Communication Industry Pcl ("UC") a telecommunications services provider in a stock swap transaction via its tender offer to acquire the entire ordinary share capital of UC. The deal value was approximately US$1.353 billion.
- Shin Satellite, the Thailand-listed media company, announced a proposal to sell 49% of the total issued shares in Shenington Investments to Asia Mobile Holdings for US$200 million. After the proposed sale, Shin will remain a major shareholder of Shenington, holding the remaining 51% of issued shares.

Energy sector

This sector continues to be strong. Notable deals include:

- PTT Pcl, Thailand's largest energy company, acquired the fuel retail business of ConocoPhillips Co., consisting of 147 gasoline stations and convenience stores, for US$281 million to tap rising motor-fuel demand in Southeast Asia's biggest automobile market.
- CLP Holdings Ltd., the larger of Hong Kong's two power utilities, sold its 50% stake in Thailand's BLCP Power Co. to Thailand's Electricity Generating Pcl for US$121 million. BLCP is building a 1,434 megawatt coal-fired power plant in Rayong, Thailand that is almost ready to commerce operation. Banpu Pcl, Thailand's largest coal miner, owns the other 50% of BLCP.
- Rayong-Aromatics The Aromatics (Thailand) Public Company Limited ("ATC"), the Thai government-owned petrochemical business, and Rayong Refinery Public Company Limited ("RRC"), the Thai petroleum refiner and supplier of refined petroleum products, have agreed to merge forming PTT Aromatics & Refining PCL. The transaction is in the form of stock swap with an estimated deal value of US$2.7 billion.

Other sectors

Other deals worth mention include:

- In November, Bangkok Dusit Medical Services, the Thai listed hospital operator, launched an offer to buy listed peer Ramkhamhaeng Hospital for Bt4.8 billion (US$171 million) aimed at expanding the group's customer base.
- In August, Magnecomp TDK Corporation, the listed Japanese manufacturer of electronic components, has agreed to acquire a 74.3% stake in Magnecomp Precision Technology PCL, the listed Thailand based manufacturer of precision suspension assemblies, from Magnecomp International Limited, the listed Singapore based manufacturer of head suspension assemblies, for an estimated deal value of US$123 million.
- In July, STATS ChipPAC, a leading independent semiconductor test and advanced packaging service provider, has signed a definitive agreement to acquire LSI's assembly and test operation in Pathumthani, Thailand. STATS ChipPAC is to acquire the operation for an aggregate purchase price of US$100 million.

Outlook

Expectations for growth in 2008 are as high as 6% with potentially more realistic expectations on par with 2007. A strong baht and a weak global economy may prevent an export–led rebound with additional risks to economic growth including ever-rising energy costs and mounting fears over a recession in the US, Thailand's largest trading partner. Exports, which account for 60% of the Thai economy, are likely to expand by only 9-12% year-on-year in 2008, which may require Thailand to rely on domestic demand to boost economic growth.

The upward pressure on the baht is likely to ease in 2008 owing to a slowdown in exports and an expected recovery in investment. However, the baht is expected to strengthen in the first quarter of 2008 if the central bank holds foreign exchange as the second priority to inflation and does not reduce interest rates. The inflation rate for the year is expected to range between 2.8-4.0%, with high oil prices among the major risk factors for inflation, possibly impacting expected growth. But recovered spending could increase demand for imports and ease pressure on the baht, which some experts expect to reach 32 to the US dollar in 2008.

Analysts and the SET note that the stock market may be more volatile in 2008 as the unsolved sub-prime crisis, which would slow the US economy further, would continue to put pressure on market sentiment this year. Nevertheless, some analysts are optimistic that the SET index could reach 1000 points in 2008.

For M&A, the number of deals has slowed considerably and our expectation remains that deals in Thailand will continue to be dominated by local activity – traditionally at low deal values – most likely through the year.

Vietnam

Continued growth and further improvement in regulatory framework lures ever more investors

Current Environment

The economy continued to perform well in the second half of 2007. According to the initial year end summary of major indicators released by the General Statistic Office ("GSO") of Vietnam, GDP has increased by 8.48% from 2006. The rate of growth was within range of the target set by the government as well as the expectation of reputable independent forecasters. Industrial production grew by 17.1%, services by 8.7% and the agriculture, forestry and fishery sector grew by 3.4%. Inbound tourism has grown above expectations with international arrivals to the country totaling 4.23 million, 18% higher than in 2006.

Unfortunately, inflation has also continued to grow during the year and became the number one macroeconomic concern. In December 2007 consumer prices were 12.6% higher than in December 2006 whilst the annual average consumer price index grew by 8.3%. At the end of 2007, the Vietnamese Dong was trading at 16,030 to the US dollar compared to 16,101 at the end of 2006. In essence Vietnam's currency remains pegged to the dollar and speculation about changes in the policy have been intensifying. Unlike in previous years, the State Bank of Vietnam has not announced a Dollar/Dong exchange rate target for 2008 and in December, the daily trading range of the exchange rate was widened from 0.5% to 0.75%.

Domestic politics continued to be favourable to the investment climate, in particular the re-election of Prime Minister Nguyen Tan Dung in the Summer was a statement for further reform and economic growth. In addition, on its path for a more active role on the international stage, the country has succeeded in becoming a non-permanent member of the United Nations Security Council effective 1 January 2008.

Initial statistics from the government indicate that Foreign Direct Investment commitment in 2007 amounted to US$20.3 billion, 70% higher than in 2006. Estimates of the total amount actually invested during the year ranged between US$ 4.6billion to US$6 billion. Asians, led by Korean, Singaporean and Taiwanese enterprises, continued to be the most active investors, but there has also been increasing interest from companies in Europe, America and the Middle East. Most notably in September, Taiwan's Foxconn signed a framework agreement with the Ministry of Planning and Investment committing to total investments of US$5 billion in hi-tech, real estate and other sectors.

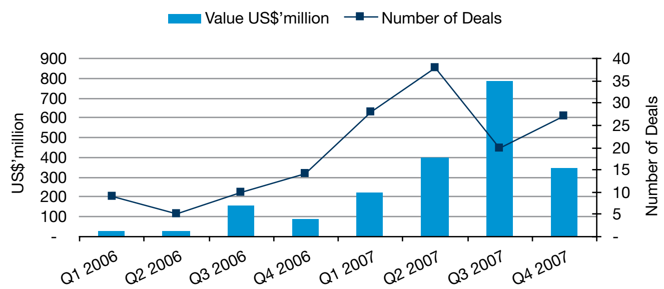
The benchmark stock exchange indicator, the VNINDEX, as calculated by the Ho Chi Minh City Securities Trading Center, closed the year at 918 points, up by 24% from the 2006 close. The market has been volatile but the record set at 1,170 points in March was not broken. The returns disappointed many investors who were caught up in the stock exchange fever of the spring and summer months and also contributed to the delay or lackluster performance of some IPOs. Despite the overall gains, investment in equities has certainly ceased to be seen as a one way bet. There has been a significant growth of interest in all forms of real estate investments.

The market capitalisation of listed stocks was estimated to reach 40% of GDP (around US$30 billion) up from 23% in 2006 and only 1.2% at the end of 2005. The OTC market continues to grow rapidly and is estimated to be worth at least US$20 billion, up from just US$2.3 billion in 2006. However there is speculation that the OTC market in fact might be even bigger than the listed market. It should be noted that majority of listed companies are former state-owned enterprises ("SOEs") and this is unlikely to change for a while due to the Government's commitment to continue its equitisation programme. We expect to see many more SOE's go through the transformation to listed company status. The listing of Vietnamese companies on overseas stock exchanges has become a hot topic.

According to regulators, the number of Vietnamese individual investment account holders almost tripled from the 2006 level and is now above 300,000. Reliable indicators of foreign institutional investments are not available but it is commonly estimated that at least US$5 billion has been invested during 2007, and funds of similar size have been raised and are ready for investment.

Deal Activity

Announced Merger & Acquisitions – Vietnam



Source: Thomson Financial

M&A activity in Vietnam has continued to increase significantly and there have been improvements in data availability. The total value of the 113 deals reported during the year set a record value of US$1,753 million compared to just 38 deals reported with total value of US$299 million in 2006. Deals of over US$1,350 million, or 76% of total deal value, were recorded in the financial services industry.

Notable deals announced during the first six months include:

At the end of July - The Vietnam Export Import Commercial Joint Stock Bank ("Eximbank") announced a capital increase through the sale of a 15% stake valued at US$225 million to a selected strategic partner, Sumitomo Mitsui Banking Corporation ("SMBC"). An agreement for the sale was signed in Tokyo in November and was witnessed by Vietnam's President Nguyen Minh Triet. As is customary in most deals involving a foreign investor, SMBC committed to technical assistance for the improvement of risk management, retail banking and other operations of Eximbank. Ho Chi Minh City based Eximbank was established in 1989 and is ranked 8th biggest in the country by assets. The bank announced plans for an IPO in 2008.

The current cap for foreign ownership in a Vietnamese bank is 30%, with a 15% limit for a strategic investor. In certain cases however, subject to individual government approval, a strategic foreign investor may take up to 20%. Subsequent to the tie up with SMBC, Eximbank has agreed to sell a further 10% stake to two investment funds, VinaCapital and the PE arm of South Korea's Mirae Asset Management. No details of the transactions were officially reported but according to press reports the deal was valued at approximately US$170 million.

In another significant deal in the financial services sector, HSBC announced in September the acquisition of a 10% stake in the biggest insurance group in the country, Vietnam Insurance Corporation ("Bao Viet"), for approximately US$255 million. It is estimated that in 2006 Bao Viet had approximately 37% of the life insurance market and 35% of the non-life insurance market in Vietnam. Following the transaction, HSBC become Bao Viet's sole foreign strategic partner. As part of the agreement, HSBC offered technical assistance across all business lines and has committed, amongst other things, to the secondment of specialists and the provision of training to Bao Viet employees.

In September AXA and Bao Minh Insurance Corporation announced establishment of a strategic partnership. As part of this agreement, AXA pledged to acquire a 16.6% stake of the share capital of Bao Minh for a total amount of VND1,194 billion (US$75 million). Bao Minh is the 2nd largest player in the Vietnamese non-life insurance market with a 21% market share. As part of the partnership, and in order to fully benefit from the growth prospects of the Vietnamese market, Bao Minh will have access to the technical expertise of AXA's global and regional platforms.

In yet another deal in the financial services sector Morgan Stanley paid US$217 million for a 10% stake in Hanoi-based PetroVietnam Finance Corp ("PVFC"), a subsidiary of Vietnam Oil and Gas Corporation ("PetroVietnam"), Vietnam's state oil firm. PVFC is a non-banking credit institution and is principally involved in financing energy sector projects. Morgan Stanley paid equal to the average price offered at PVFC's IPO in October. The deal was announced in October and completed in December.

In July, ANZ announced the acquisition of a 10% stake in Saigon Securities Incorporation ("SSI"), for US$88 million. Established in 2000, SSI is the leading securities and investment banking company in Vietnam. The company aspires to become the first ever Vietnamese company to list in Singapore during 2008. ANZ was the first Australian bank to establish a presence in Vietnam, opening a branch in 1993. In January 2008, ANZ increased its holding in Sacombank, one of the largest joint-stock banks of Vietnam, from 9.84% to 10%.

In November, the Singapore-based Overseas Chinese Banking Corporation ("OCBC") increased stake in Vietnam Bank for Private Enterprises from 10% to 15% for a consideration of US$25.5 million.

Amongst PE deals during the second half of the year, in November, Vinasun Corporation, a Ho Chi Minh City based company operating in the restaurant, travel and taxi services businesses sold a 41% stake to six domestic and foreign financial investors for an undisclosed amount. The buyers included Prudential Vietnam Investment Fund Management and Temasek Holdings of Singapore.

Binh Chanh Investment and Construction Shareholding Corp. sold 18% of its shares to VinaCapital, Dragon Capital and Temasek Holdings for a reported US$32 million.

Prudential Vietnam Fund Management Company bought a 15.6% stake in Au Lac Joint Stock Company, a leading company in the oil transport business for a consideration of US$17.5 million.

In November, Saint-Gobain, the French construction materials and specialty glass maker acquired Vietnamese plaster producer Vinh Tuong Corporation for approximately US$13 million.

In December, Sojitz Corporation of Japan acquired 25.01% of food wholesaler Huong Thuy Manufacture Service Trading Corporation for an undisclosed sum. Sojitz, a conglomerate formerly known as Nissho Iwai Corporation, has annual sales of about US$1 billion in Vietnam.

Other deals include Lotte Confectionary of Korea buying a 30% stake in Bien Hoa confectionary for US$19 million, and IDG Ventures Vietnam acquiring a 20% stake in information retrieval services provider Tai Viet for an undisclosed sum.

Outlook

Vietnam undoubtedly remains on the path of rapid economic growth and ever-closer integration to the world economy. Interest in all forms of investments, including M&A, remains high. The continued commitment to the equitisation of state-owned enterprises, including the 71 major so-called General Corporations, the easing of ownership restrictions applicable to foreign investors and certain changes in the tax regulations all contribute to improvements in the deal environment and the availability of target companies.

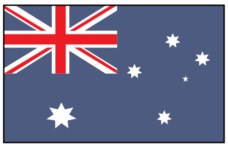
Affordable high quality labor in manufacturing remains a key driver of foreign investment. In addition, the growing purchasing power of the 86 million Vietnamese will surely attract further interest in the country especially in the financial services and the telecommunications sectors. Major new industries are opening up and more foreigners are expected to enter Vietnam both via the M&A and the FDI routes, retail, distribution and aviation are prime examples. Significant investment needs in infrastructure will also continue to attract foreign investors.

Conditions for sourcing and executing deals are likely continue to improve at a slow but steady pace. The government has committed to speeding up administrative reform thus obtaining licences is expected to be a faster and more transparent process. Strategic buyers interested in major stakes in present and former state-owned enterprises will continue to face not only tough price negotiations but also expectations for significant technical assistance in bringing the operations of their targets in line with international standards.

Australasia

Australia

New Zealand



Australia

As the economy remains on track, PE continues to thrive

Current Environment

GDP rose by 1% in Q3 2007 with growth at 4.3% pa, a solid step up from the annual growth of 3.7% recorded in Q2. In seasonally adjusted terms, agriculture, forestry, fishing, finance and insurance were the largest contributors to GDP growth for the quarter. The non-farm economy expanded at a faster rate of 4.5% pa in Q3. The drought-driven drop in farm output sliced 0.3 points from GDP growth in the year to September 2007. In addition, rising employment, wages and tax cuts are likely to continue to encourage consumer spending. The price index for established houses in eight Australian capital cities rose by 12.3% in 2007.

Consumer Price Index ("CPI") rose 0.9% in Q3 to an overall 3% for 2007. The main drivers were rising fuel prices, loan facilities, house purchases, rents, domestic holiday travel and other financial services. The main downward factors on CPI were fruit, vegetables, pharmaceuticals and audio, visual and computing equipment. The Reserve Bank of Australia ("RBA") observes inflation risks arising from stronger domestic demand outcomes. The predicament in Australia is essentially that growth is strong and the economy is reaching capacity constraints. The RBA, at its meeting on 5 February 2008, decided to increase the cash rate target by 25 basis points to 7.0 percent in view of current economic activity and CPI.

The labour market has remained strong with employment rates up 2-3% during 2007. Growth over the year has been concentrated in full time employment. The participation rate has remained around record highs in October at 65% and the unemployment rate of 4.3% is the lowest for decades.

The movements in the AUD over the past few months have been largely driven by swings in investors' risk appetite. There was a particularly sharp depreciation in mid-August with the rise in global risk aversion arising from the credit market crunch. The AUD fell 4% against the US dollar, 6.2% against the Japanese yen, 3.6% against the Euro, 3.3% against the British pound and 3.8% in trade weighted terms. The AUD dropped to an intra-day low of US$0.767 to AUD 1 on August 17. However, as market conditions began to normalise and signs of renewed appetite for risk appeared, the AUD has been tracking upwards. The currency has achieved highs of US$0.94 and is currently trading at around US$0.89. The outlook for the AUD is uncertain given the increase in asset market volatility amid a global economic slowdown speculation, and the divergent monetary policies of Australia (rising interest rates) and the US (rapidly falling).

The All Ordinaries stock index fell by almost 10% between July 2007 and the end of January 2008 amidst heavy volatility, in particular during August 2007 and January 2008. The driving factors are deterioration in the US sub-prime housing market and concerns over the US recession. The US sub-prime market crisis led to equity market falls, broader credit concerns, hedge fund losses and illiquidity in the money markets. The All Ordinaries index experienced a drop of almost 13% in August 2007, however managed to recover by November 2007 before falling again in January 2008, when a major downtrend in the global equity markets pulled the All Ordinaries index down by almost 20%. The US Federal Reserve decision to cut the interest rates by 125 basis points in January 2008 helped the All Ordinaries index to recover by almost 9% to settle at 5,697 as at 31 January 2008.

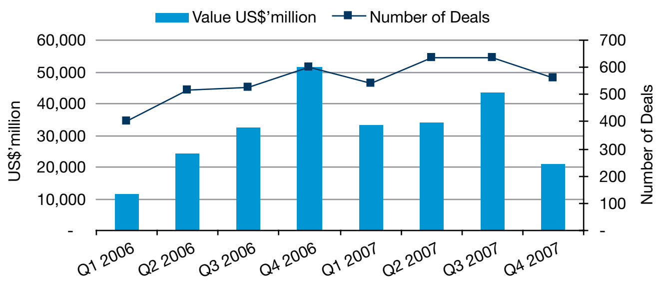
Following the sub-prime crisis in the US, banks that bought the debt instruments that fuelled the sub-prime boom have tightened corporate lending on both lending volumes and cost of funds to minimise exposure to losses incurred on these instruments and in the face of mounting uncertainty about the standing of potential borrowers. The tightening of lending parameters from bankers made debt funding more expensive which negatively impacted the mergers and acquisition market. However, most of the mid-size deals in Australia are funded by Australian banks, hence the impact of the credit crunch has been far less than for large deals which typically need access to the US debt markets or lenders.

RAMS Home loans became the first local victim of this credit liquidity crisis followed by Centro Properties Group and MFS Group. The biggest victim, Centro Properties, made an announcement to the market in December 2007 that negotiations to refinance AUD$1.3 billion of maturing debt could not be concluded due to a tightening in the credit markets. Centro obtained an interim extension until 15 February to refinance the maturing debt and is currently exploring a number of options including sale of whole or part of the business, fresh equity issuance, etc. Listed trusts are likely to remain under pressure until the conclusion of the crisis at Centro Properties.

The Australian general election in November 2007 resulted in a change of governing party, with the Australian Labour Party win putting to an end to John Howard's Coalition which had spanned 12 years. The Australian Labour Party laid out policies on the environment, education, health, broadband and the proposed phasing out of the controversial Industrial Relations program.

Deal Activity

Announced Mergers & Acquisition – Australia



Source: Thomson Financial

The biggest event of 2007 was the engagement of two of Australia's corporate titans in a takeover battle with geopolitical ramifications. BHP Billiton ("BHP"), the world's largest diversified resources company, approached Rio Tinto with an all share

proposal to create a $350 billion mining and metals leviathan. This offer is the largest takeover bid in the resources sector and a successful merger would likely create the world's fourth largest company. In response to BHP's offer, Rio Tinto concluded that the offer significantly undervalued the prospects of the company and was not in the best interests of its shareholders. Subsequently, Rio Tinto applied to the UK Takeover Panel for a ruling under the UK Takeover Code in relation to this offer. On 24 December 2007, the UK Takeover Panel ruled that BHP must either announce a firm intention to make a formal offer for Rio Tinto or announce that it does not intend to make an offer by 6 February 2008. BHP subsequently made an offer, and at time of writing it is being considered by the Board and shareholders of Rio Tinto. China, which has already suffered from rising prices of the commodities that feed its industries, feared this further consolidation in the iron ore and coal mining industry would further weaken its negotiating power, and hence Chinalco teamed up with Alcoa Inc. to acquire a 9% stake in Rio Tinto as a spoiler. Now that BHP has made an offer, the reaction of Chinalco remains to be seen.

In the last 6 months of 2007, despite global markets being gripped by a credit liquidity crisis, PE firms struck more deals in Australia. The PE firms sealed a total of 38 deals worth US$3 billion in the second half of 2007 compared to 36 deals worth US$2.2 billion in the first half. The major transactions in the second half included Pacific Equity Partners ("PEP") acquisition of the Hoyts cinema chain followed by Coates Hire takeover by a consortium set up by National Hire Group and the Carlyle Group. Overall PE deals fell 39% in value in 2007 over 2006, accounting for only 6% of total Australian M&A activity compared to 12% in 2006.

In 2007, announced deals were up 51% to US$405.6 billion (including the BHP announcement) versus US$195.8 billion in 2006. The total number of transactions increased by 469 in 2007 to 3,155. The increased activity is arising from the resource and real estate sectors. The activity in the resource sector was driven by continued higher commodity prices.

Significant transactions announced since July 2007 include:

- Rio Tinto acquired Alcan Inc., a leading global materials company based in Canada, in a cash transaction of approximately AUD$44 billion (US$38.1 billion)
- Xstrata plc acquired Jubilee Mines NL, the Australian listed mining and exploration company, for AUD$3.1 billion (US$2.9 billion)
- Primary Healthcare Ltd announced its intention to acquire the 83% of shares not already owned of Symbion Health Ltd for AUD$2.7 billion (US$2.4 billion)
- BUPA Australia Health Pty Ltd, a subsidiary of UK health insurance and service provider BUPA, agreed to acquire MBF Australia Limited, an Australian health insurance company, for a cash consideration of AUD$2.4 billion (US$2.1 billion)
- A consortium set up by National Hire Group and the Carlyle Group announced their intention to acquire the entire share capital of Coates Hire Ltd, the Australian listed equipment hire company for AUD$1.5 billion (US$1.4 billion)
- Bendigo Bank Limited agreed to merge with Adelaide Bank Limited valuing Adelaide Bank at AUD$1.9 billion (US$1.7 billion)
- National Australia Bank agreed to acquire Great Western Bancorporation, the holding company of Great Western Bank, a regional bank based in the mid-west agricultural region of the United States of America (USA) for AUD$0.9 billion (US$0.8 billion)
- Centro Retail Trust, the listed Australia based real estate group, agreed to acquire Centro Shopping America Trust, another listed Australian real estate company, for a total consideration of AUD$1.2bn (US$1.0 billion): funding of this deal has been instrumental to the current Centro crisis discussed earlier
- Murchison Metals Limited, the Australian listed mining company, made an offer to acquire Midwest Corporation Limited for AUD$0.9 billion (US$0.8 billion)
- Territory Resources Ltd, the Australian listed miner, made a public offer to acquire Consolidated Minerals Ltd for AUD$0.8 billion (US$0.7 billion)
- Zinifex Ltd, the Australian listed zinc mining company made an offer to acquire the entire share capital of Allegiance Mining NL, the Australian listed nickel mining company, for AUD$0.8 billion (US$0.7 billion)

Outlook

In 2007, the Australian economy grew at a robust pace, but growth is expected to soften in 2008. Although the Australian economy is not directly exposed to the US housing market, the turmoil in global financial markets and the slow down in global growth are major risks to the domestic economy, in particular the resources sector.

Strong retail spending in 2007 was supported by growing household disposable income and low levels of unemployment. The additional tax cuts expected in July 2008 and continued strong growth in employment indicates that consumer spending is likely to remain strong in 2008. However, the likelihood of further interest rate rises due to inflation being outside of RBA's target range and an indication of 'tough budget' from the new labour government may have a negative impact on consumer spending.

The focus is increasingly on the possibility of a US recession and its impact on the rest of the world. Heading into 2008, the key issue is whether the Australian economy, supported by its buoyant employment conditions, strong consumer spending and robust demand for resources from growing Asian economies, will be able to avoid the same fate as the US. Recent signs of slowing growth in key export markets like China suggest that there will be a knock-on effect.

Resources, real estate and infrastructure and PE are likely to generate most M&A activity in Australia in 2008.

Resources

The volume and size of resource sector deals in 2007 and strong commodity prices support the argument that the current momentum in the resources sector will continue in to 2008. Market reports and company announcements suggest that mining companies have spare capacity to make deals in the short to medium term like Zinifex, Oxiana, Newcrest mining, Lihir Gold, Sally Malay, CBH Resources, etc.

Real estate and Infrastructure

Listed Property Trusts ("LPT's") and Australian Commercial Properties

The domestic listed property index and hedged global property index fell 8.94% and 17.02% respectively in 2007 compared with 12% increase in the overall equity market. However, LPT's with transparent business structures, strong management and an Australian focus have managed to fare better. The property trusts with exposure to US and UK markets fell significantly due to a downturn in the US and UK property prices, the rising cost of debt and strengthening Australian Dollar.

UBS analysts believe that a longer term lift in the sector could come from further M&A activity as many trusts are cheaper for potential acquirers than for many years and there is significant value in certain LPT's at current price levels.

The wholesale funds are still active in the Australian property market due to their long term focus, bullish outlook for Australian commercial properties and the stability of the political system in Australia. Most active buyers include Singapore's GIC, Asia's LaSalle Investment Management, Europe's Standard Life, New Star and Credit Suisse. Interest in Australian property has been building for years and fears about the future of the US economy following the sub prime fallout and the dramatic drop in prices of the UK commercial market have made it more attractive. However, further increases in interest rates may have a negative affect on foreign interest in the Australian properties.

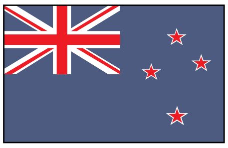
Privatisation of NSW assets

The NSW government is considering a plan for a AUD15 billion partial privatisation of the electricity industry which involves the sale of the retail arms of EnergyAustralia, Integral Energy and Country Energy and long term lease of generators Macquarie Generation, Delta Electricity and Eraring Energy. However, transmission and distribution will remain Government owned. Media reports suggest possible bidders include companies such as International Power, Origin, TRUenergy, Singapore's Temasek Holdings, Cheung Kong Infrastructure and Intergen.

Private Equity

Whilst global M&A activity at the mega-deal end of the PE market has slowed considerably, the forward pipeline remains reasonable for mid-market funds. Local banks are confident that acquisitions of up to AUD3 billion still remain possible in the Australian market, with the credit crunch having less of an impact locally than overseas. Home-grown fund PEP is on track to raise a massive AUD4 billion fund, while Archer raised AUD1.65 billion, Ironbridge AUD1.05 billion and Catalyst is in the process of raising AUD800 million. It is inevitable that the higher cost of capital driven by more expensive debt levels will impact buoyancy in the equity market in the short term which should cause valuations to fall to more realistic levels. In turn, this should drive a resurgence in deal flow activity towards the middle of 2008, albeit at a more sustainable pace than the heady days of 2007.

Source: Commonwealth Bank, Macquarie Bank and Reserve Bank of Australia research reports, Australian Financial Review and mergermarket news articles, announcements made by listed companies on the Australian Stock Exchange and PricewaterhouseCoopers research.



New Zealand

Record exports support the economy, while several major deals remain in limbo

Current Environment

Economic activity increased 0.5% in the September 2007 quarter, compared with a 0.8% increase in the June 2007 quarter. Annual GDP growth was 2.7% in the year to September 2007. This softening in GDP growth was primarily due to an easing in household spending activity. Household spending growth increased by 0.3%, following an increase of 0.5% in the previous quarter. Manufacturing activity decreased by 2.2% in the September quarter, and the electricity, gas and water sector contracted by 3.8%.

The recently released trade balance report reveals that New Zealand's trade deficit has narrowed to its smallest level in more than two years. Soaring prices for dairy products have driven exports to a record, reducing the trade deficit for the year to 30 November 2007 to NZ$5.3 billion (US$4.2 billion). Fonterra Co-operative group, the world's largest dairy exporter, said that supplies from dairy farmers had increased, allowing it to take advantage of high prices. At the new Tui oil field, output increased to 48,000 barrels per day, following modifications to the production plant. Oil receipts were NZ$254 million (US$197 million), a significant increase from NZ$25 million (US$19 million) a year earlier (New Zealand remains a significant net importer of crude oil and the Tui field is expected to have a short lifespan).

Imports into New Zealand were 3.64 billion (US$2.83 billion) in December 2007, an increase of 11% over December 2006. Purchases of fuel and trucks contributed to the increase.

For the September 2007 quarter, foreign direct investment ("FDI") into New Zealand totalled NZ$1.1 billion (US$0.9 billion), a significant fluctuation from the June quarter total of NZ$1.9 billion (US$1.5 billion). FDI income from dividends and interest totalled NZ$2.1 billion (US$1.6 billion) in the September quarter, which represented a significant contribution to the current account deficit.

The New Zealand Dollar reached a high of US$0.8078 on 24 July 2007. It then fell sharply, reaching a low point of US$0.6734 on 17 August 2007. Following this, it climbed back to the US$0.76 level by September, and has traded between US$0.76 and US$0.79 since. The trade weighted index remained relatively flat, decreasing from 71.3 in May 2007 to 71.6 in December 2007. This indicates that the volatility in the bilateral exchange rate has been primarily driven by weakness in the US Dollar, rather than news specific to New Zealand.

Overall, the strong growth in exports in spite of a persistently high New Zealand Dollar is encouraging. The export-led growth has greatly helped New Zealand's economic situation, offsetting declining domestic business and consumer spending.

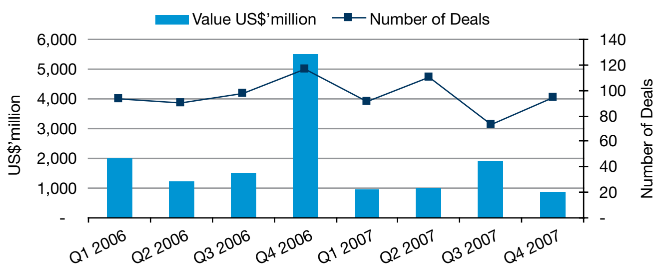
On 24 January, the Reserve Bank held the benchmark interest rate at 8.25%, saying that inflation pressures remained persistent. The Bank raised interest rates four times in 2007 in a bid to contain housing demand, which the Bank has named as the chief contributor to inflation. However, inflation risks remain strong, due to a forecast record milk payout from Fonterra Co-operative Group Ltd, and the higher probability of increased fiscal expenditure in the lead-up to the general election later in 2008.

The NZX50 index declined from 4,302 at 31 May 2007 to 3,680 at 31 January 2008, a 14.4% decline. In the first half of January 2008 the market declined sharply, following large falls in many overseas markets. Share prices have come under pressure due to full valuations and the impact of the high interest rate environment on domestic earnings. In the December quarter the telecoms, healthcare, property and energy sectors, which all can be described as defensive, outperformed the overall market. The investment and tourism sectors underperformed.

Deal Activity

Although the graph shows announced deal activity of approximately US$2 billion in the third quarter of 2007, several major deals have not been completed; this put further pressure on share prices. A firm bid for Sky City did not eventuate, and the Canadian Pension Plan Investment Board bid for Auckland International Airport is subject to political approval. The Warehouse Group shares increased on the news of the High Court decision to allow Foodstuffs and Woolworths to bid for The Warehouse but fell back when the Commerce Commission appealed.

Announced Mergers & Acquisitions – New Zealand



Source: Thomson Financial

Casino operator Sky City first attempted to sell only its Adelaide casino. However, it announced in September that it was accepting offers for the whole company after receiving an approach from an interested party, rumoured to be PE fund TPG. Sky City then announced that it has received a second approach, and that both parties were conducting due diligence. However, no firm bid emerged, with the global credit crunch making it difficult for buyers to secure funding. Contemporaneously with the sale process, Sky City searched for a new CEO following the resignation of the previous CEO Evan Davies in June. In December, the company announced that it had appointed Nigel Morrison, a gaming executive from Macau, to the position.

In the previous edition, we reported that Dubai Aerospace Enterprise ("DAE") had made a partial takeover offer of Auckland International Airport ("AIA"). DAE has now withdrawn its offer. Another bidder, Canadian Pension Plan Investment Board ("CPPIB"), made a partial takeover offer for 40% of AIA. The Board of AIA firstly recommended that shareholders reject the offer, expressing concern that CPPIB had no airport expertise. However, following a large decline in AIA's share price, (in line with the rest of the New Zealand sharemarket), the CPPIB offer price became more attractive and the AIA Board reversed its recommendation. CPPIB has received acceptances from greater than 40% of shareholders in AIA. Nevertheless, the offer is still subject to Overseas Investment Office ("OIO") approval. The OIO decision is due by 11 April.

The High Court has overturned the takeover ban imposed by New Zealand's competition regulator, the Commerce Commission. The ban prevented supermarket operators Woolworths and Foodstuffs from each making a takeover bid for general merchandise retailer The Warehouse Group. However, the Commerce Commission has appealed the ruling. The Commerce Commission's case will be heard in the Court of Appeal from 29 April.

Australian PE fund Crescent Capital recently made a takeover offer for listed healthcare firm Abano. The offer failed, with acceptances (including Crescent's initial shareholding) of 38.2%, 11.9% short of the required 50.1% shareholding for the offer to succeed. A major factor that influenced this outcome was the purchase of a 20% blocking stake in Abano by a group of audiologists who believed that the Crescent offer undervalued the Company. Abano's businesses include dentistry, audiology, rehabilitation services and laboratory services. Crescent has not yet made any announcement about whether it will initiate a new takeover offer or not.

Although incomplete deals made headlines, there have been several successfully completed deals. Billionaire Graeme Hart's Rank Group has purchased American firm Alcoa's packaging business for US$3.5 billion. Rank Group now has a large packaging empire, which includes Carter Holt Harvey, Evergreen Packaging and Swiss firm SIG. Rank has issued a US$1.6 billion syndicated loan to help fund the purchase.

State owned bank Kiwibank acquired the New Zealand residential mortgage book of HSBC for NZ$720 million (US$500 million).

Arab-owned Haumi has bought 19.9% of property investor AMP NZ Office Trust for NZ$180 million (US$140 million). Haumi is owned by Abu Dhabi Investment Authority of the United Arab Emirates, the largest sovereign wealth fund in the world.

Outlook

The incomplete takeover offers for Auckland Airport and The Warehouse will continue to unfold. However, a successful bid for Sky City appears increasingly unlikely.

If CPPIB's partial offer is not approved by the OIO, it is likely that AIA will try and seek out a cornerstone investor who has aeronautical expertise, and can build the route network connected to the airport and develop tourism. Three major Middle Eastern airlines have been suggested by an AIA analyst as having this ability. The airlines – Etihad, Qatar Airways and Emirates, have an ability to develop new international routes for AIA which are not in direct competition with its major customer Air New Zealand.

If the Commerce Commission's appeal does not succeed, then it is highly likely that either Foodstuffs, Woolworths, or both companies will make a takeover offer for the general merchandise retailer. The Court of Appeal hearing is expected to take place in February; therefore a takeover offer for The Warehouse could be made by March or April.

Sky City Group's new CEO Nigel Morrison's personal view is to hold on to the Adelaide casino, so it is unlikely to be offered for sale again. The US housing slump and decline in credit markets has made an offer for Sky City Group much less likely.

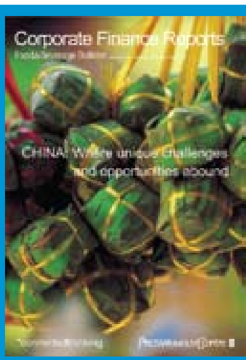
Electricity lines and gas network company Vector has offered its Wellington electricity network for sale, and is currently dealing with five or six interested parties. These are thought to be Hastings Funds Management, Babcock and Brown, the Australian Infrastructure Fund, an Allco and Electra joint venture and Christchurch lines company Orion. These parties are currently conducting due diligence, and final bids are due by mid April. Vector is reported to be seeking at least NZ$1 billion for the network. However, this target may prove optimistic due to high interest costs and a regulatory regime that has recently become much more intrusive.

PE executives have commented that the boom in aggressive deals is over, and PE funds will be more cautious in 2008. The cautious mood has been put down to the credit crisis, which has increased the cost of buyouts, together with the turbulence in world equity markets.

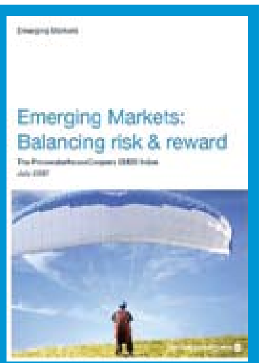
Some of the other PricewaterhouseCoopers Publications

The World in 2050 – Beyond the BRICs: a broder look at emerging market growth prospects

CHINA: Where unique challenges and opportunities abound



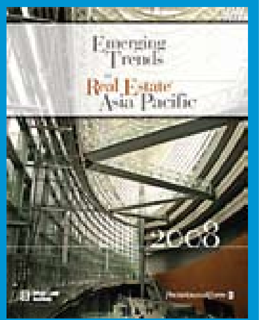
Emerging Markets: Balancing risk & rewards – July 2007



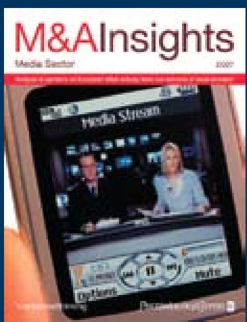
Asia Financial Buyer – February 2007

Asia Pacific IMRE News (November 2007) – Informing on the changing face of Asia

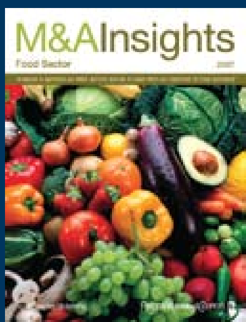
Emerging Trends in Real Estate Asia Pacific 2008



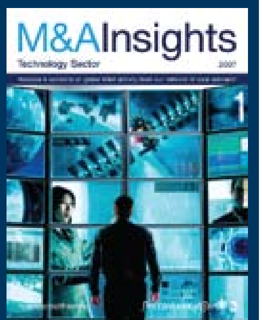
M&A Insights – Media Sector 2007



M&A Insights – Food Sector 2007



M&A Insights – Technology Sector 2007

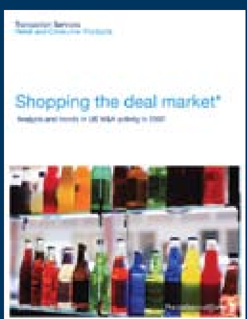


M&A Insights – Telecoms Sector 2007

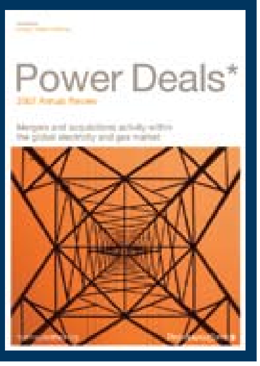
M&A Insights – Construction and house building 2007

Financial Services M&A – Going for Growth in Europe April 2007

Shopping the deal market – Retail and Consumer Products 2007



Power Deals* (2007 Annual Review) – Global electricity and gas market



For more information on PricewaterhouseCoopers, please visit www.pwc.com.

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Australasia

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