

Foreword



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Leading the global recovery

The Chinese Year of the Ox did not disappoint; 2009 will be remembered for its bull runs.

Asia Pacific bourses gained 53% in 2009, reversing a similar-sized loss the year before. Two-thirds of this gain came from a strong first half. Leading the charge was China: it shot up 61% in the first half, and despite a sharp correction in August, ended the year up 76%. Indonesia and Taiwan each gained close to 90%, with both indices hitting new highs. Hong Kong and Singapore gained over 50% each, with the gains spread almost equally between the two halves. In contrast, over the same period, Australia's All Ordinaries and Japan's Nikkei increased relatively modestly by 33% and 24% respectively, and both the Dow and the FTSE gained only 19%.

Commodity prices rebounded from as early as March 2009. The CRB CMBT Index, a measure of the price movements of 22 basic commodities, ended the year 35% up. The International Monetary Fund (IMF) attributed the quick rebound to the improvement in the short-term outlook, which increased incentives to hold inventories, thus driving up prices. Prices of crude oil rose by 32% in the same period.

Real estate prices have recovered strongly in many parts of Asia. Hong Kong property prices rose by some 30% in 2009, while Singapore saw property prices rising by 24% in the second half of 2009. China, Hong Kong and Singapore have all introduced measures to curb speculation in a bid to rein in price increases.

A two-tracked recovery

At the Asia-Pacific Economic Cooperation (APEC) summit held in Singapore in November 2009, world leaders expressed optimism that actions taken by governments and central banks have been effective and that the worst of the financial crisis, particularly in Asia, seemed to be over.

The US and UK have both reported positive quarter on quarter growth in the fourth quarter of 2009, albeit by 0.1% for the US. The Euro area, however, continued to contract in the fourth quarter. Compared to the developed economies in the Western hemisphere, Asia Pacific has emerged from this crisis relatively unscathed. Major Asia Pacific economies like China, Australia, Indonesia and India, while experiencing a slowdown, continued to register positive growth throughout the global financial crisis of 2008 and 2009. China, the second largest economy in Asia Pacific and the third largest in the world, led the pack with 8.4% GDP growth for 2009, over a percentage point behind its 9.6% growth in 2008. India, with a 2009 GDP growth of 5.8%, proved its mettle as the other Asian powerhouse. At the other end of the spectrum, the GDP of Asia's largest economy, Japan, shrunk 5.5% in 2009. The country closed the last quarter of the year with a 0.4% quarter on quarter contraction.

Asia Pacific Macroeconomic Indicators – Year-End 2009

	Nominal GDP US\$'billion		Population (million)	Consumer Prices % Change YOY	Industrial Production % Change YOY	Real GDP Growth % Change YOY
	Market Exchange	PPP				
Australia	960.3	815.8	21.3	1.9	(3.3)	1.2
China	4,862.7	8,957.0	1,333.5	(0.8)	11.0	8.2
Hong Kong	208.9	301.3	7.1	0.3	(4.4)	(3.3)
India	1,269.3	3,615.2	1,166.1	10.3	6.2	5.8
Indonesia	517.5	960.1	240.3	5.0	0.9	4.3
Japan	5,069.9	4,154.6	127.1	(1.3)	(22.2)	(5.5)
Malaysia	206.3	383.0	28.3	0.5	(7.8)	(1.7)
New Zealand	113.1	115.7	4.3	2.3	(8.0)	(0.6)
Philippines	161.1	192.4	98.0	3.1	(17.0)	1.6
Singapore	169.5	192.4	5.0	0.5	(3.8)	(2.7)
South Korea	837.1	1,386.2	49.4	2.8	(1.3)	0.6
Taiwan	370.6	790.7	22.8	(0.7)	(9.7)	(3.6)
Thailand	255.7	535.7	67.0	(0.8)	(5.9)	(3.2)
Vietnam	91.9	255.7	87.0	7.4	7.7	4.7

Source: The Economist Intelligence Unit

The economic outlook for 2010 is generally optimistic. Governments and central banks are painfully aware of the danger of prematurely weaning their economies off the fiscal and monetary stimuli that have replaced the gap that was private consumption, even as the risks of asset bubbles and inflation loom. The fear of a double-dip recession has abated somewhat. The IMF forecasts that the global economy will grow by 4% in 2010. The first half is expected to perform stronger than the second due to post-recession inventory restocking. Overall, the recovery picture has emerged more optimistic than predicted by governments and analysts. If this trend persists, we are hopeful that there may be upside surprises.

Asia excluding Japan is poised to lead the global recovery with an expected 7.4% growth, driven mainly by China's forecasted 10% growth and India's 7.7%, compensating for South Korea's 3.6% and Australia's 2%. Japan's 2010 growth is forecasted at 1.7%, higher than the past two years. Asia's emerging economies will benefit from the pick-up in global trade as well as increased domestic consumption.

In stark contrast, recovery in the US, UK and the Euro area is expected to remain relatively sluggish, with IMF forecasting 2010 GDP growth rates of 2.7%, 1.3% and 1% respectively. Unemployment and savings rates in the West have now hit a historic high and are likely to remain so in the short-term horizon. The US is suffering from a 10% unemployment rate; a figure that exceeds its historic mean of the last 10 years, and one that the IMF expects will persist into 2010. It is a largely parallel situation in the Euro area. Unemployment is close to 10% and is predicted to rise to 12% in 2010. According to the Organisation for Economic Co-operation and Development (OECD), household savings rates in the US and Euro area, at 4% and 12% respectively, are at their highest since 1999 and 1997 respectively.

The slow recovery in developed economies could dampen Asia's growth. Despite the rise of China's economic might, consumption in the G-3 countries (US, Japan and the Euro area) will remain as the main driver for Asia's export-oriented economies in the foreseeable future. US consumption alone accounted for 18% of global GDP and is 6.7 times that of China's. A sizable portion of Asian

exports into China are inputs for products ultimately destined for export to the G-3 countries. While Asia's export-based economies, including China, acknowledge the need to rebalance their economies in favour of domestic consumption, this can only be meaningfully achieved in the long term since significant structural and cultural barriers still exist. It is because of this that global consumption levels and economic growth cannot be expected to return to pre-crisis levels in the short-to-medium term.

Paying the price of bailouts

A repeat of the Great Depression was only averted through the concerted efforts of governments and central banks around the world. They flooded their economies with liquidity, cushioned the economic slowdown with increased government spending, and bailed out troubled financial institutions to prevent a systemic global financial meltdown. Many of these activities were funded via an extraordinary level of public debt. The idea of using debt, albeit public debt, to combat an economic crisis caused by too much debt is counter-intuitive, and there is a price to be paid.

Iceland and Ireland were early reminders that sovereign states do not enjoy diplomatic immunity from credit defaults. In 2009, we add to this list the Dubai government-owned Dubai World group as well as Portugal, Italy, Greece and Spain, which cast a pall over the European Union and the Euro. There are currently no signs that the US and other major advanced economies will be brought to their knees by the weight of this public debt; however, it will no doubt be an albatross around their neck, dictating fiscal agenda for years to come.

While the problem for policy makers in the West is public debt, governments in the East need to manage asset prices and capital inflows. Liquidity from low interest rates and capital flows has largely been responsible for significant rises in real estate and stock prices in the last three quarters. Left unchecked, the continued unabated liquidity could push prices higher and lead to asset bubbles.

The timing and fashion in which economies withdraw their monetary and fiscal lifelines will be the other major challenge for governments and central banks in 2010 as they walk a tight rope, balancing the risk of asset bubbles and excessive inflation on one hand, and the daunting possibility of plunging the economy into a double-dip recession on the other.

Avoiding the excessive regulation trap

The financial community in the West is censured for their excessive and reckless risk-taking behaviour in exchange for short-term compensation. Their regulators are criticised for falling asleep at the wheels and allowing such unsafe

behaviour to put the entire global financial system and economy at risk. The public outrage is accentuated by the continued payout of huge bonuses to bank executives soon after an unprecedented amount of taxpayers' dollars was pumped into financial institutions to prevent their collapse. Governments acknowledged that the unbridled excesses demonstrated by financial institutions cannot be allowed to continue and that oversight and regulation of the financial sector had to be stepped up.

There is no doubt that better regulation and supervision is needed, and the financial sector needs to be reformed to prevent a recurrence of the global financial crisis we are just emerging from. However, there is concern that public unhappiness and pressure may lead to excessive regulation that could overwhelm market forces, restrain the creative and innovative forces that have been responsible for wealth creation, and impede the progress towards recovery.

Surviving the wave of protectionism

Faced with slow growth and mounting unemployment, governments will increasingly be under political pressure to take protectionist measures. The US has argued that one of the root causes of its growing unemployment lies with the dumping of cheap Chinese imports into the US. The US alleged that because China's currency is pegged by official policy at about 6.8 yuan to the dollar, China's manufacturing exports have a huge cost advantage over their rivals especially as the US dollar depreciates, leading to trade surpluses for China.

A spate of protectionist blows has recently been traded between China and the US. In September 2009, the US imposed a 35% tariff on automobile and light-truck tires imported from China. In retaliation, China launched anti-dumping and anti-subsidy investigations into the imports of US car parts and chicken products; issued a preliminary ruling against companies in the US and other countries for the alleged dumping of chemical fibres in China; and imposed duties on the import of certain steel products from the US and Russia. In January 2010, the US slapped anti-dumping duties ranging from 43% to 289% on Chinese steel products, on top of the 2% to 438% duties imposed in November 2009 to offset government subsidies granted to Chinese producers.

While these measures may help alleviate domestic pressures on the current administration, they are far from being long-term solutions. The perception that the US is retreating from free trade will do more harm than good to President Obama's attempt to re-engage with the world. Without a strong recovery in global trade, the prospects for a quick return to prosperity remain dim. The US needs to work actively to eliminate trade barriers and promote free trade. Asia will be a good place to start.

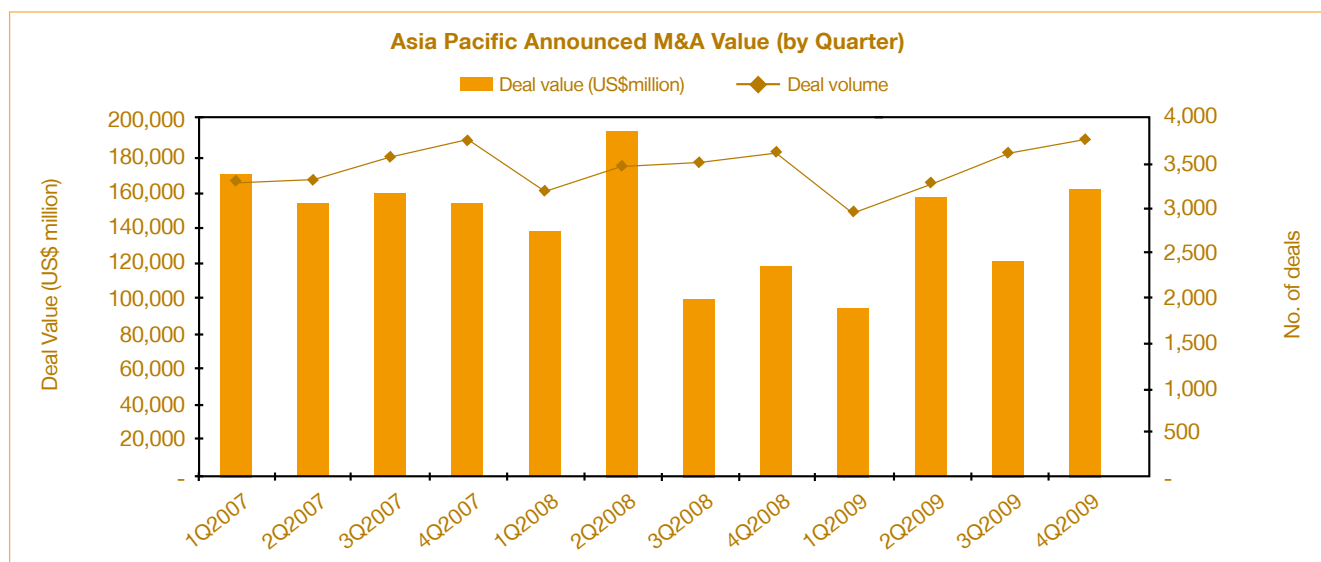
Re-engagement with Asia

There is a sense that US presence in Asia has diminished due to its preoccupation with Middle Eastern politics under the Bush administration. At the same time, China's influence has increased in tandem with its rapid rise as an economic and geopolitical powerhouse. One manifestation of China's more extensive reach in Asia is the free trade agreement signed with ASEAN in 2004. This came into effect in January 2010, covering 1.9 billion people and US\$6 trillion worth of trade. The Obama administration seems to have recognised the importance of re-engaging with Asia. In July 2009, US secretary of state Hilary Clinton signed ASEAN's Treaty of Amity and Co-operation; in November 2009, President Obama became the first American president to meet the ASEAN leaders as a group. He has also promised engagement in the Trans-Pacific Partnership, a free trade agreement by Brunei, Chile, New Zealand and Singapore, to eliminate regional trade barriers.

Sustainable growth

The conclusion of the Copenhagen summit was a massive disappointment to the many who had hoped that world leaders would demonstrate the political will necessary to effect a legally-binding agreement to reduce carbon emissions. The issue of global warming, the resulting climate change and the eventual depletion of natural resources given the current rate of consumption are problems that will not go away on their own and which will eventually impact living conditions and the costs of doing business. Corporate organisations are beginning to recognise the need for their businesses to be environmentally responsible. The governments of Hong Kong and Singapore have already announced measures to promote the green economy and to reduce carbon emissions. Going forward, we expect the impact of the environment and the opportunity costs of neglecting it to be increasingly featured in M&A considerations. There will also be growing opportunities in the green technology sector.

Overview of Asia Pacific M&A transactions in 2H2009



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

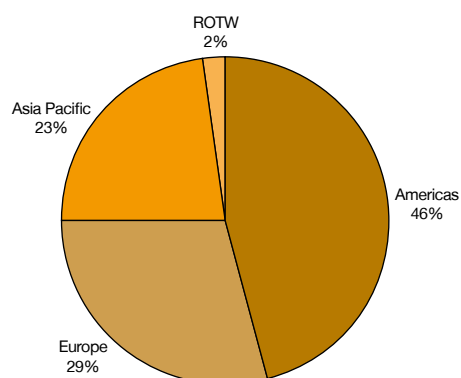
Due to the global financial crisis which hit in mid October 2008, the deal value of M&A activity for full year 2009, at US\$498 billion, was 3% lower than the US\$511 billion in 2008 and a fifth lower than 2007's US\$593 billion. The number of deals announced for full year 2009, at over 12,800, is 1% less than 2008 and 2% lower than 2007.

In line with the economic recovery, M&A activity in Asia Pacific picked up in the second half of 2009. The US\$263 billion worth of deals announced was 12% higher than the US\$235 billion in first half, and 30% over US\$203 billion for

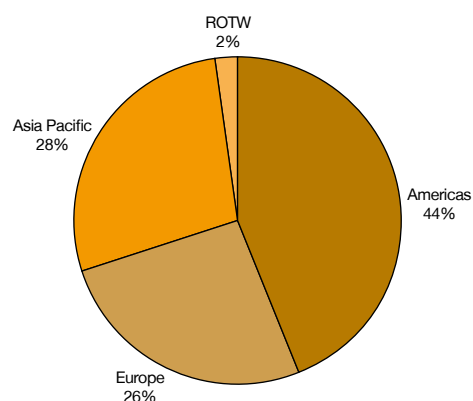
the same period last year; but it remains at a lower level than the periods prior to 30 June 2008. The number of deals announced in the second half of 2009, at over 6,900, was also highest in the last six half-year periods, albeit the average deal size was smaller than in the periods prior to 30 June 2008.

The final quarter of 2009 posted the strongest showing of M&A activity in the last six quarters, with deal value and volume exceeding the last quarter of 2008 by 36% and 4% respectively.

Global Announced M&A Value by Region (1H2009)



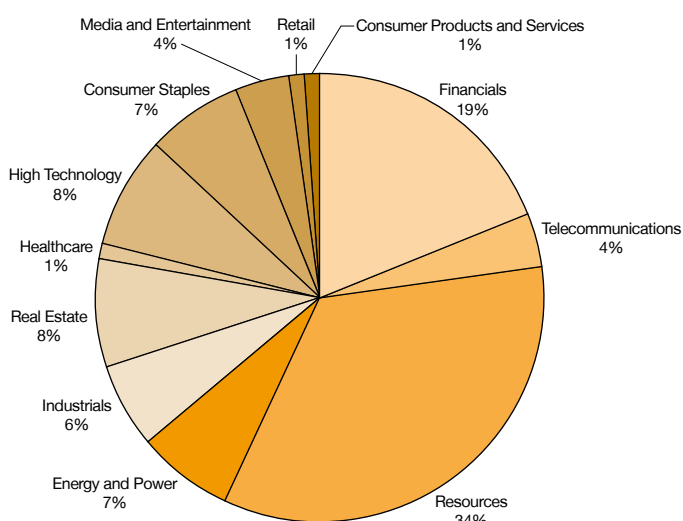
Global Announced M&A Value by Region (2H2009)



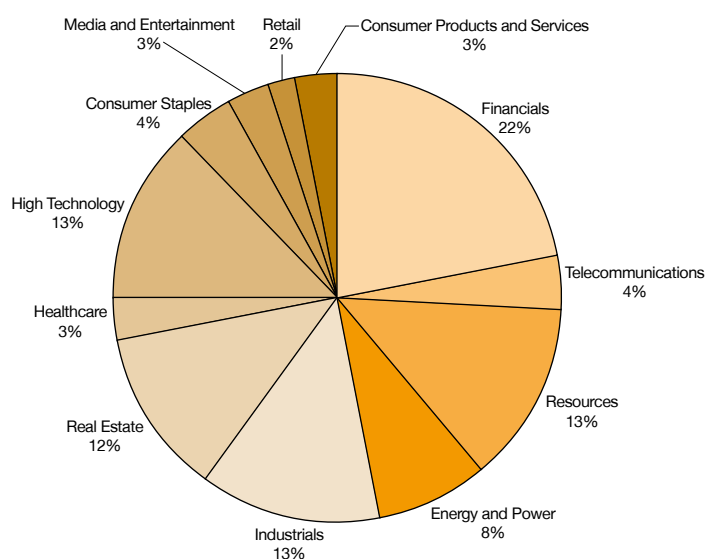
Asia Pacific's share of the global M&A pie increased from 23% in 1H2009 to 28% in 2H2009, at the expense of deals in the Americas and Europe. This reflects the relative depth of economic recession in these regions, and the speed of recovery of M&A activity in Asia Pacific vis-à-vis the rest of the world. Asia Pacific would probably enjoy a larger share in 1H2009 if the US and European governments' bailout transactions were to be excluded from the statistics.

Asia Pacific Announced M&A Value by Industry

1H2009



2H2009



Asia Pacific M&A in 2H2009 was dominated by transactions in the resources and financial services sectors, which jointly contributed 35% of total deal value, down from 53% in the first half. This decline is attributed to the US\$58 billion Rio Tinto-BHP joint venture deal announced in 1H2009, which accounted for 74% of the total resources deal value in the period.

The next three sectors recording the highest deal values were high technology, industrial and real estate, each of which contributed about 12% of total deal value. There were no significant changes in the percentage share for other sectors over the two periods.

The major transactions announced in 2H2009 were:

Resources

- Mitsubishi Chemical Holdings Corp's US\$2.4 billion merger with Mitsubishi Rayon Co Ltd, a Tokyo-based manufacturer and wholesaler of fine chemicals.
- Yanzhou Coal Mining Co Ltd's US\$2.6 billion acquisition of Felix Resources Ltd, an Australia-based coal, gold and silver mining company.

Financial Services

- AMP Limited and National Australia Bank's US\$5.5 billion offer for the Australian and New Zealand businesses of AXA Asia Pacific Holdings Ltd.
- Shinsei Bank Ltd's US\$3.1 billion merger with Aozora Bank Ltd.
- Hubei Triring Co Ltd's US\$2.5 billion acquisition of Hubei Energy Group Co Ltd.

Technology

- Innolux Display Corp's US\$12.7 billion acquisition of Chi Mei Optoelectronics.
- Advanced Technology Investment Co LLC's US\$3.1 billion acquisition of Chartered Semiconductor Manufacturing Ltd.

Industrials

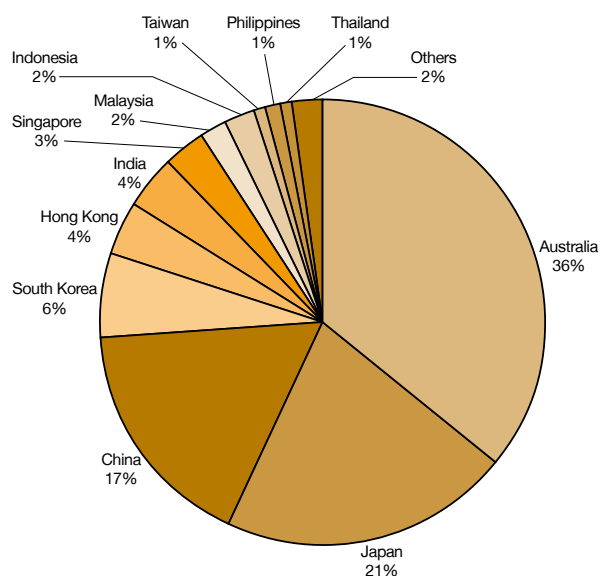
- China Eastern Airlines Corp's US\$2.6 billion acquisition of Shanghai Airlines Co Ltd.
- Volkswagen AG's US\$2.5 billion acquisition of a 20% stake in Suzuki Motor Corp, an automaker.
- Korea Development Bank's US\$2.5 billion acquisition of a 50% interest in Daewoo Engineering and Construction Co Ltd.

Real Estate

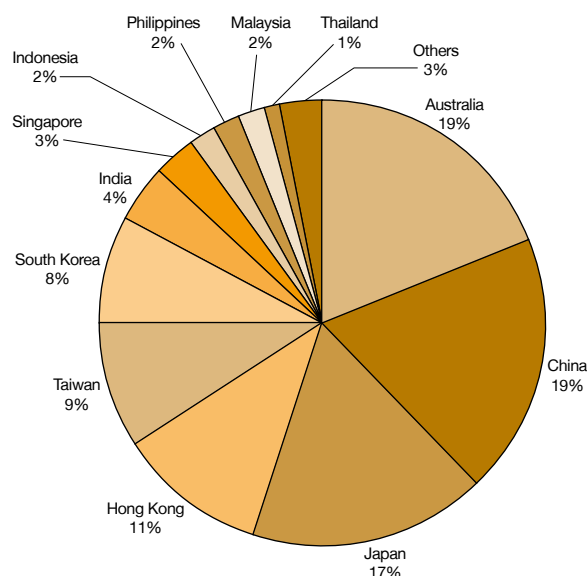
- Stellar Megaunion Corp's US\$2.7 billion acquisition of Guiherme Holdings (Hong Kong) Ltd for US\$2.7 billion via a reverse takeover transaction.
- Advance Residence Investment's US\$2.3 billion acquisition of Nippon Residential Investment Corp, a real estate investment trust based in Japan.
- Lend Lease Corp Ltd's US\$2.3 billion acquisition of the remaining 56.77% interest in Lend Lease Primelife Group, a Melbourne-based provider of retirement care services.

Asia Pacific Announced M&A Value by Country

1H2009



2H2009



M&A activity, in terms of both deal value and volume, picked up in the second half of 2009 in most Asian economies, with the exception of Japan and Australia. In Australia, deal value in the 1H2009 was skewed by the Rio Tinto-BHP deal. This deal alone accounted for 66% of Australia's total deal value in 1H2009. Excluding this deal, the value of M&A activity in the second half of 2009 would have been an improvement over the first half. Key Australian deals announced in 2H2009 include AMP Limited and National Australia Bank's US\$5.5 billion acquisition of AXA's Australian and New Zealand businesses, and Yanzhou Coal Mining Co's US\$2.6 billion acquisition of the entire share capital of Felix Resources Ltd.

Within Asia Pacific, Australia remained the country with the highest value of deals announced in 1H2009 and 2H2009, though its percentage share of the overall deal value dipped in the second half of the year. China overtook Japan in deal values announced in 2H2009, although for the full year 2009, Japan maintained a slight lead over China.

In Japan, domestic deals accounted for over 80% of the M&A activity taking place in the country. This was mainly driven by domestic companies looking to stay competitive by increasing market share, and strengthening business and financial bases. Key domestic deals include the

formation of Japan's largest chemical company through a US\$2.4 billion merger of Mitsubishi Chemical Holdings and Mitsubishi Rayon Co Ltd, and the US\$3.1 billion amalgamation of Shinsei Bank with Aozora Bank. In addition, outbound deals in 2H2009 spiked by 70% compared to 1H2009. Companies in the industrial product, food and pharmaceutical sectors that traditionally relied on domestic markets for growth have turned to acquiring overseas competitors as an avenue to grow sales overseas.

M&A activity in China in 2H2009 was dominated by domestic deals, particularly in the financial and real estate sectors. Key domestic deals in the period include Stellar Megaunion Corp's US\$2.7 billion acquisition of Guiherme Holdings (Hong Kong) Ltd, and China Eastern Airlines Corp's US\$2.6 billion merger with Shanghai Airlines Co Ltd. Although the value of inbound deals by foreign investors declined by 27% between 1H2009 and 2H2009, the number of such deals increased by 22%. At the same time, outbound deal activity grew strongly, with deal volume up by approximately 60% in 2H2009 compared to 1H2009. Some of the notable outbound deals announced in 2H2009 include Yanzhou Coal Mining Co Ltd's US\$2.6 billion acquisition of Australia's Felix Resources Ltd, and PetroChina's US\$1.7 billion investment in the oilsand assets of Canadian oil company, Athabasca.

Final thoughts

The 21st Century has long been hailed as the Pacific Century; with the economic and geopolitical centres of the world progressively shifting from the Atlantic to the Pacific Ocean. The 2008-2009 global financial crisis and recession, and the resultant public debt and slow recovery in the West, have certainly accentuated this inevitable tectonic shift.

With Asia leading the world out of the shadows of this unprecedented crisis, and Asian financial institutions and governments emerging relatively unscathed, a new enthusiasm for deals has emerged, especially in economies with large domestic markets (China, India and Indonesia) which are better able to rebalance the fall in Western exports with domestic consumption. We see M&A opportunities in the financial services, infrastructure, retail, healthcare and real estate sectors. Outbound investments from Asian countries will continue to increase in the coming years, in tandem with stronger currencies and heightened need for resource and food security.

As it turned out, 2009 was a year many wish they could erase from memory; yet for others, it was a game-changing year filled with opportunities. If the brewing sovereign debt crisis in the West and the growing asset bubbles in the East can be contained, 2010, the Chinese Year of the Tiger, will be a roaring year for M&A in Asia Pacific. ■