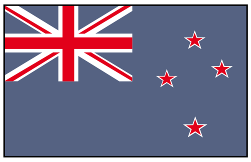

Australasia
New Zealand

The outlook for New Zealand's economy improved in 2009, with the economy recently recording two consecutive quarters of growth

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Current Environment

The New Zealand economy grew by 0.2% in the third quarter of 2009 following growth of 0.2% during the second quarter of 2009, having previously experienced five consecutive quarters of negative growth. GDP during the third quarter of 2009 was 2.9% lower than in the fourth quarter of 2007 when economic activity last peaked.

New Zealand's trade balance improved during 2009 as imports fell significantly more than exports. Exports remained resilient due to a strong increase in global commodity prices for New Zealand's key export products. As at November 2009, the ANZ Commodity Price Index, which measures international prices for New Zealand's key export commodities, was up 39% from the low point reached in February 2009 and was 17% higher than it was in November 2008. This growth has been underpinned by strong growth in dairy prices, New Zealand's largest export commodity, which are up 75% from a recent low point reached in February 2009.

The strong rise in the New Zealand dollar against certain trading partners has offset much of these price gains. Against the US dollar, the New Zealand dollar has risen from a recent low of around 0.50 in March 2009 to a peak of just over 0.76 in October 2009, but has eased back in December trading in a relatively narrow range of 0.70 to 0.73. Against the Australian dollar, the New Zealand dollar has traded between 0.77 and 0.85 during 2009. The trade-weighted index has risen 6.1% since the end of June 2009 and 28.2% since its low in March. As a result, the ANZ Commodity Price Index, in New Zealand dollar terms, is up only 13.6% since June 2009 and is down 8.5% compared to November 2008.

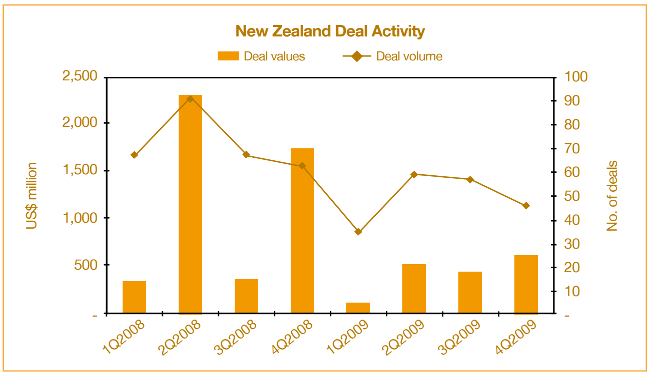
New Zealand's unemployment rate has risen from a low of 3.5% to 6.5%, the highest in almost a decade. Job losses have been concentrated in manufacturing, construction and household spending related industries. Retail spending has improved over recent quarters, up 0.5% in the third quarter of 2009, following a 1.1% increase in the second quarter of 2009. Residential building consents were down 24.3% for the year to October 2009, however, monthly building consents have been trending upwards since reaching a low in March 2009. House prices have also improved since reaching a low point at the start of 2009 and are now up 5.2% on prior year and up 9.2% on January 2009. This was driven by rising net migration, relatively low housing stock, low floating rate mortgage rates and increased consumer confidence.

Non-residential building consents were up 1% for the year ended October 2009 compared to the prior year, reflecting the relatively stable growth of the non-residential sector, which is underpinned by development of stadia and facilities for the 2011 Rugby World Cup and other infrastructure projects. Public sector investment has remained resilient throughout the recession, up 2% in the year to June 2009 while the private sector was down 18%. However, the overall investment outlook hinges on the private sector, which is 3.3 times the size of the public sector.

Inflation for the year ended September 2009 was 1.7% and in its Monetary Policy Statement on 9 December 2009, the Reserve Bank of New Zealand (RBNZ) Governor stated that annual inflation is expected to remain below 2.% until early 2011 and track within the RBNZ's target range of 1% to 3% over the medium term. The RBNZ has held the Official Cash Rate at 2.5% since 30 April 2009, however, the Governor indicated that if the economy continues to recover, conditions may support removing monetary stimulus around the middle of 2010.

Having reached a low point of 2,418 on 3 March 2009, the NZX50 rose 34.5% to a peak of 3,252 on 20 October 2009. The NZX50 finished the year at 3,230, up 19% from the start of the year but 25% below the high reached during 2007. During the 11 months to 30 November 2009, NZ$6.19 billion of capital had been raised on the New Zealand Stock Exchange (NZX), NZ$3.17 billion of which was equity and the remaining $3.02 billion was debt. This is an all-time capital raising record, up 119% on the same period last year and 33% on the same period of 2007. Rights issues to strengthen balance sheets accounted for the vast majority of the equity capital raised. The Kathmandu listing on 13 November 2009 was the largest new listing for the year.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

Deal activity remained relatively subdued in the second half of 2009, with 103 deals announced during the period compared to 94 deals in the first half of 2009 and 130 deals in the second half of 2008. Domestic deals accounted for 52% of deal volumes, with inbound deals accounting for 34% and the remaining 14% outbound deals.

The above data excludes the expected sale of Shell New Zealand's downstream assets to Infratil, a NZX-listed investment company, and the New Zealand Superannuation Fund. The parties announced in December 2009 that they had signed a letter of intent regarding a potential acquisition of Shell New Zealand's downstream assets, which includes its supply and distribution infrastructure and a 17% stake in NZX-listed New Zealand Refining Company.

During the second half of 2009, Abano Healthcare Group (Abano) sold its New Zealand audiology business, Bay Audiology, to National Hearing Care (New Zealand) Limited (National Hearing Care), a company associated with Australian private equity firm Crescent Capital Partners, for NZ$158 million. Abano is a NZX-listed healthcare company that provides audiology, dental, diagnostics, and rehabilitation services in New Zealand, Australia and Southeast Asia. Abano used the proceeds to provide a capital return to shareholders and reduce debt. It intends to continue investing in existing growth businesses, namely audiology in Australia and Asia, dental in New Zealand and Australia, and radiology in New Zealand. As part of the transaction, Abano together with Bay Audiology's founder Peter Hutson invested NZ$30 million for a joint 13% stake in the merged Bay Audiology-National Hearing Care business.

A number of private equity investments were realised during the period. Crescent Capital sold Simply Squeezed, a premium chilled fruit juice company, to Frucor Beverages (a subsidiary of Suntory Group) for an undisclosed amount. Crescent Capital acquired the business in 2006 from its founder Steve Brownlie, who retained a 40% interest in the company before selling out completely to Frucor. PwC advised Steve Brownlie on the sale to Crescent Capital and subsequently advised Crescent Capital on its sale of the business to Frucor Beverages.

Another notable transaction was Archer Capital's sale of Onesource Group for NZ$132 million to CSG, a Northern Territory IT services company listed on the Australian stock exchange. The Onesource Group consists of print services company Konica Minolta Business Solutions New Zealand (Konica Minolta New Zealand) and equipment financing firm Leasing Solutions. CSG will take a 90% share in Konica Minolta New Zealand and own Leasing Solutions outright, with the transaction partly funded through a AU$65 million share placement. The deal is subject to New Zealand Overseas Investment Office and CSG shareholder approval.

Direct Capital sold Express Logistics Group, one of New Zealand's largest freight forwarding companies, to Toll Group for approximately AU$50 million. Direct Capital acquired the company in 2005. The acquisition by Toll is in line with the growth strategy for its global forwarding business, and the company has made a number of acquisitions globally in this sector during 2009.

Another Australian corporate, Amalgamated Holdings, agreed to acquire Sky City's core cinema business for NZ$59 million. Amalgamated Holdings had existing operations in New Zealand through ownership of the Rydges Hotel group. Sky City sold the business to focus on its core entertainment and gaming businesses.

NZX-listed rural services company PGG Wrightson (PGW) announced that Agria Corporation (Agria), a China-based agricultural solutions provider, had agreed to make a NZ$36 million investment in PGW for a 13% stake and form a strategic partnership under which a range of business opportunities would be explored, including joint development and international commercialisation of seed cultivars and development of livestock demand in China. PGW subsequently announced an NZ$181 million pro rata rights issue and placement of NZ$33 million convertible redeemable notes in PGW to Agria, taking the total amount to be raised to NZ$249 million. Proceeds are to be used predominantly to repay debt. PwC advised Agria during this process.

The Agria transaction follows an NZ$80 million strategic investment by Chinese whiteware firm Haier in Fisher & Paykel Appliances in the first half of 2009, as reported in the Mid-Year 2009 issue of this publication. Both of these transactions coincide with a significant increase in trade between China and New Zealand following the New Zealand-China Free Trade Agreement coming into force on 1 October 2008.

Singapore-based Olam International (Olam) acquired a 14.35% stake in New Zealand Farming Systems Uruguay (NZFSU), an operator of large scale New Zealand-style dairy farming operations in Uruguay, for NZ$14 million. NZFSU is listed on the NZX. The investment was in line with Olam's Dairy Products strategy, which includes participation in dairy farming in low cost origins that will strengthen its market position in the dairy industry.

Outlook

Consensus GDP forecasts are for the New Zealand economy to contract by 0.4% in the year to March 2010 before growing by 2.8% in the year to March 2011. The forecast range for March 2011 is unusually wide at 1.8% to 3.7% but nevertheless reflects a common view among economic forecasters that the New Zealand economy is on a recovery path. Business and consumer confidence surveys have tailed off slightly over recent months but remain well above the levels seen at the start of the year.

New Zealand's export sector outlook is improving with increased demand from New Zealand's trading partners aided by recently announced Free Trade Agreements. For example, following the New Zealand-China Free Trade Agreement coming into force in October 2008, New Zealand's exports to China increased almost 60% to NZ$3.5 billion, with dairy exports experiencing the largest increase. Closer relations with key trading partners are expected to continue to drive foreign investment in New Zealand.

The large number of privately-owned companies in New Zealand facing near-term succession issues is also expected to be a driver of near-term M&A activity. The recent ANZ Privately-Owned Business Barometer, which surveys 2,000 privately-owned businesses with an annual turnover of between NZ$10 million and NZ$150 million, found that almost half of all respondents aspire to retire in the next five years. The improving economic outlook is likely to mean that a number of these owners decide to exit their business in 2010. ■