

Advisory

Asia Pacific M&A Bulletin

Leading the global recovery

Year-end 2009



M&A advisor of choice

Number 2 Advisor by Volume in Asia Pacific ex. Japan for 2009 by MergerMarket

Number 1 Advisor for Completed Deals by Volume in Asia Pacific ex. Japan for 2009 by Thomson Reuters

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

Yoshimoto Kogyo Co Ltd

Sale of 69.4% interest to a group of investors including Quantum Entertainment via tender offer for **JPY35.1 billion (US\$387 million)**

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

NEC Tokin Corp

Sale of 25.65% interest to NEC Corp for **JPY16.1 billion (US\$163 million)**

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

Nippon Milk Community Co Ltd

Merger with Snow Brand Milk Products Co Ltd via a share swap valued at **JPY13.3 billion (US\$149 million)**

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

Kitz Corporation

Acquisition of 100% interest in Perrin GmbH and its parent holding company, Nord Armaturen GmbH

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

Resource Holdings Limited

Sale to Keller Holdings Ltd for **S\$118.2 million (US\$85 million)**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Singapore

2009

Gwalior Chemical Industries Limited

Sale of chemical business to Lanxess India Pvt Ltd for **INR5.4 billion (US\$113 million)**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
India

2009

K S Oils Limited

Equity fund-raising through private placement of equity shares, warrants and GDRs for **US\$90 million**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
India

2009

Guan Sheng Yuan Group

Sale of 45% equity stake to Citic Capital for **RMB510 million (US\$73 million)**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
China

2009

Chinfon Commercial Bank Co Ltd

Sale of Vietnam Operations to Taipei Fubon Commercial Bank Co Ltd for **NT\$2.53 billion (US\$78 million)**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Taiwan

2009

Epoch Material Co Ltd

Acquired by Cabot Microelectronics Corp for **US\$66 million**

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Taiwan

2009

Shanghai POSCO E&C Real Estate Development (Group) Co Ltd

Sale to Shanghai Lujiazui Finance & Trade Zone Development Co for **RMB1.4 billion (US\$202 million)**

Financial Advisor:
Samil PricewaterhouseCoopers
Corporate Finance
Korea

2009

SSangyong Slag & Materials Co

Acquired Eugene Corp – Cement business for **US\$53 million**

Financial Advisor:
Samil PricewaterhouseCoopers
Corporate Finance
Korea

2009

We are the Accountancy Firm of the Year 2009

PwC is proud to have been named the Accountancy Firm of the Year 2009 at the Asia Pacific M&A Awards by MergerMarket and the Financial Times.



PricewaterhouseCoopers Transactions

We help companies make acquisitions, divestitures and strategic alliances, and to access the global capital markets. In each case we have the same overriding objective – **Maximising Returns and Minimising Risks for our clients.**

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With more than 6,200 dedicated specialists in our global Transactions practice, our clients include the world's leading companies and private equity houses. In Asia Pacific, we are the leading Transactions practice, with more than 1,600 specialists including 120 dedicated partners.



Foreword



Chao Choon Ong
Transactions Leader
Asia Pacific

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.

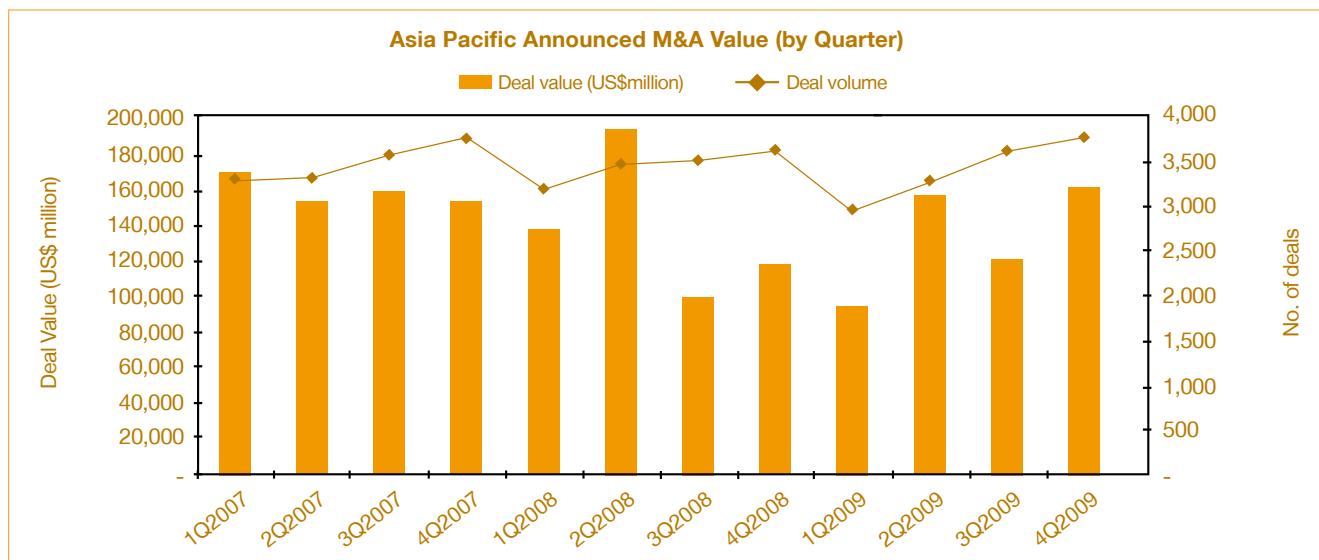
Re-engagement with Asia

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.

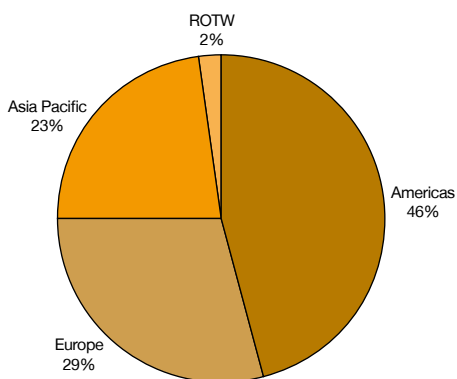
Due to the global financial crisis which hit in mid October 2008, the deal value of M&A activity for full year 2009, at US\$498 billion, was 3% lower than the US\$511 billion in 2008 and a fifth lower than 2007's US\$593 billion. The number of deals announced for full year 2009, at over 12,800, is 1%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

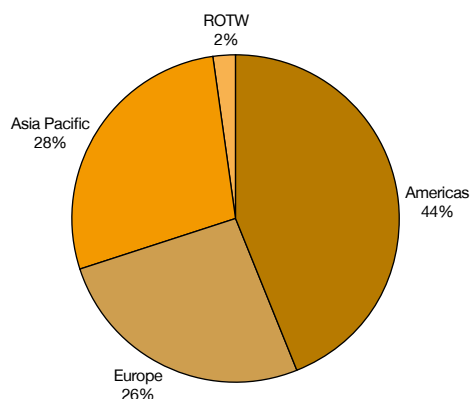
the same period last year; but it remains at a lower level than the periods prior to 30 June 2008. The number of deals announced in the second half of 2009, at over 6,900, was also highest in the last six half-year periods, albeit the average deal size was smaller than in the periods prior to 30 June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



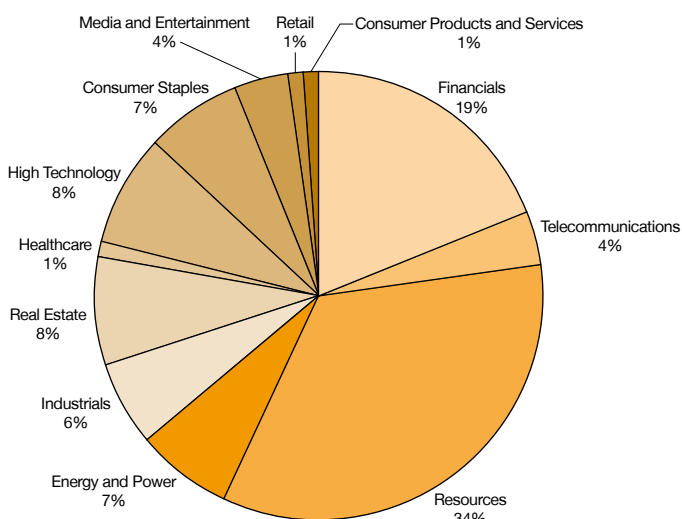
Global Announced M&A Value by Region (2H2009)



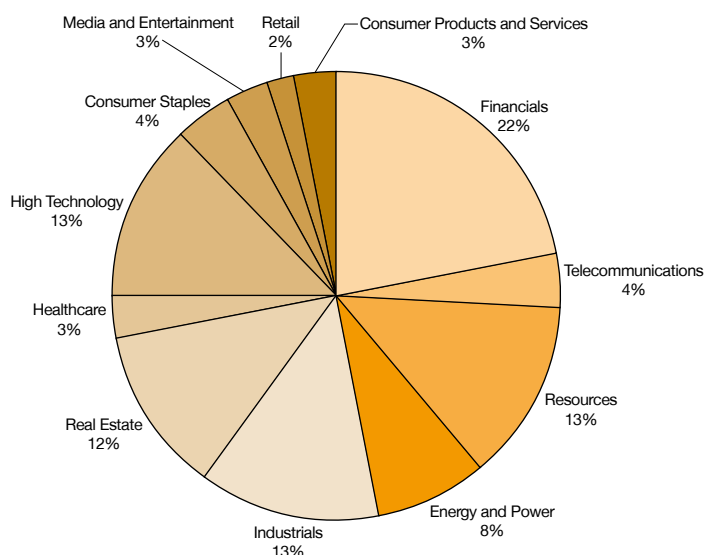
Asia Pacific's share of the global M&A pie increased from 23% in 1H2009 to 28% in 2H2009, at the expense of deals in the Americas and Europe. This reflects the relative depth of economic recession in these regions, and the speed of recovery of M&A activity in Asia Pacific vis-à-vis the rest of the world. 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.

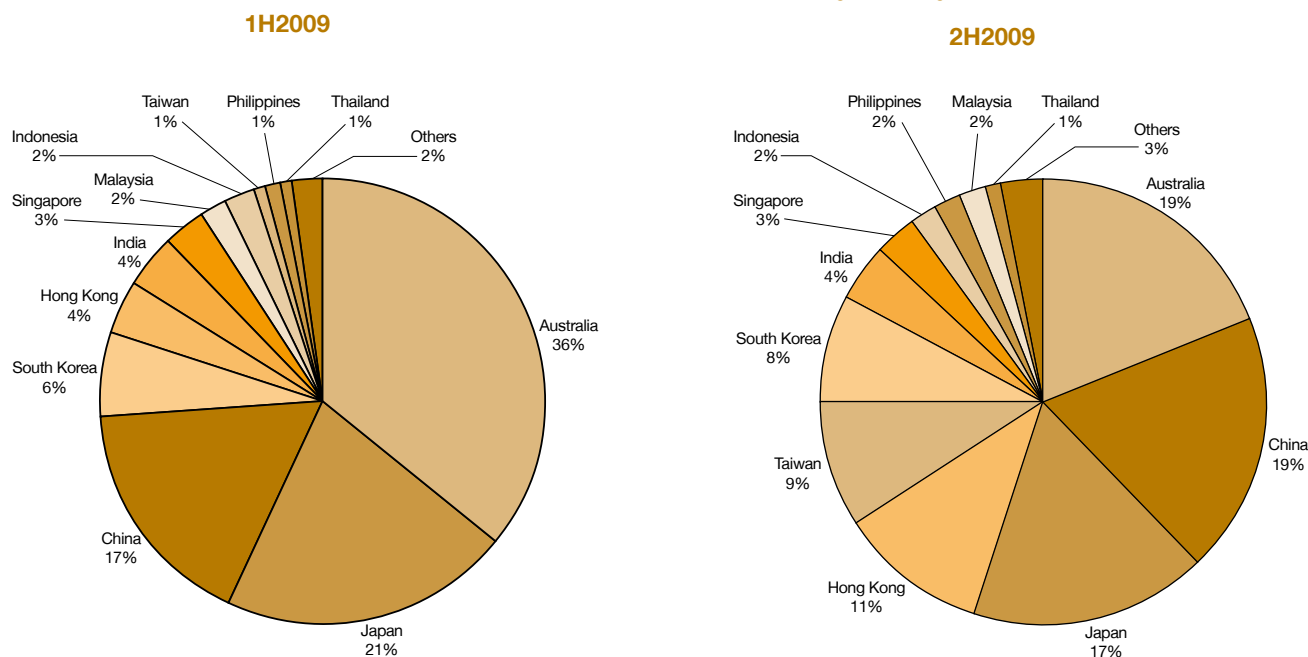
Industrials

- 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



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. ■

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Regional Merger & Acquisition Contacts



North Asia

People's Republic of China

China M&A activity bouncing back from the downturn



Matthew Phillips
Transactions Leader
China

China's main economic indicators in the fourth quarter of 2009, such as GDP growth, industrial output, foreign direct investment, export value and import value, all indicate that China has emerged from the economic downturn.

M&A activity in the second half of 2009 also rebounded and returned to 2008 levels mainly driven by domestic Chinese strategic and financial buyer deal activity. Outbound deal activity reached record levels in 2009, with the highest value and volume of deals ever recorded.

Current Environment

China's GDP grew 8.7% in 2009, mainly driven by the impact of stimulus measures implemented by the government, such as increased government spending for infrastructure projects and relaxed monetary policies. New Renminbi-denominated loans in the first 11 months of 2009 amounted to RMB9.2 trillion, which was approximately 45% higher than in the same period of 2008.

Industrial output increased by 16.1% and 19.2% in October and November 2009, respectively, compared to the same months in the prior year. Interestingly, despite rising industrial output, there was a decrease in the value of exports, indicating that Chinese domestic consumption is gaining importance for the country's economic growth which, historically, has been export driven.

Foreign direct investment amounted to US\$77.9 billion in the first 11 months of 2009, down by 9.9% compared to the same period last year. This underscores the decline experienced in the first half of 2009, which saw overseas investors focused on managing the impact of the economic downturn vis-à-vis expanding overseas. Foreign direct investment showed growth in the months following August 2009 after 10 consecutive months of

decline, indicating that foreign investors are once again focusing on China and continue to place strategic importance on expanding their presence there.

The value of exports decreased by 18.8% year-on-year in the first 11 months of 2009. However, the rate of decline slowed to 1.2% in November 2009, indicating a possible end to this 13-month trend.

Import values have recently shown strong signs of growth, increasing 26.7% in November 2009 compared to November 2008. This increase was caused by a greater need for steel and iron ore to supply rising industrial output and urban fixed asset investments, as well as the rising price of crude oil¹.

Although import values increased in the fourth quarter of 2009, the total value of China's imports decreased by 15.8% year-on-year for the first 11 months of 2009.

Despite the decline in 2009 export values, overall export values in 2009 still exceeded import values. Additionally, foreign direct investment (FDI) into China rebounded in the second half of 2009. A combination of net exports and continued FDI has led to China's foreign exchange reserves to increase from approximately US\$1.9 trillion at the end of December 2008 to approximately US\$2.8 trillion at the end of November 2009.

2009 saw a continued increase in property prices and stock market indices. The Shanghai Composite Index closed at 3,277 points at the end of December 2009, representing an increase of 80% compared to 1,821 points, a year earlier. In addition, as mentioned in the mid-year 2009 issue of this publication, the stimulus money may have, indirectly, been invested in the stock market and the Chinese government is also concerned that part of the FDI included foreign speculative capital. This speculative capital may lead to the creation of asset bubbles and an excess of liquidity which could stoke inflation; the first signs of inflation may already exist with the consumer price index (CPI) rising by 0.6% year-on-year in November 2009, after nine months of decline.

In addition to the general market growth, another reason for concerns about the inflow of speculative capital is that foreign investors are anticipating an appreciation of the Renminbi as an additional return on their investment. International political pressure on China to revalue the Renminbi has continued to increase from many foreign countries. When the President of the United States visited China in November analysts expected a slight appreciation that did not happen. In December, Chinese Premier Wen Jiabao re-emphasised that the government would not respond to international pressure to revalue the Renminbi.

¹ For illustration, the average spot price of a barrel of West Texas Crude was approximately US\$78 versus US\$57 a year earlier. In the first 10 months of 2009 the oil price has not been higher than price in the same period in the prior year.



Deal Activity



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

In the first half of 2009 deal volumes fell 22% compared to the same period in the prior year and 32% compared to the second half of 2008. However, the number of transactions in the second half of 2009 showed a quick recovery.

Domestic and inbound M&A deal volumes in China in the second half of 2009 are returning to robust 2008 levels, indicating that the impact of the global economic downturn on M&A in China was short lived. Almost 1,600 domestic (China buyer) and inbound (foreign buyer) transactions were recorded in the second half of 2009, a total of about 2,700 deals for the full year. This compares to 1,607 deals for the second half of 2008, and a total of approximately 3,000 deals for the full year of 2008.

Underscoring the return of healthy deal volumes is the number of domestic transactions, indicating that deal makers are pleased with the growth of the Chinese economy through the global financial crisis and that they continue to be confident about the future.

Foreign strategic investors

Foreign strategic deal activity continued the decline that started in 2007, with less than 500 announced deals for the full year of 2009, representing a 27% drop from 2008 levels. Foreign buyers have been sorting out problems with their existing operations and this has taken their focus away from expansionary acquisitions.

Financial buyers

Financial buyer activity is comparable to 2008, but represents only 4.5% of overall domestic and inbound deal volume, less than 123 announced transactions. However, with 39 announced transactions in the third quarter of 2009,

the domestic (as opposed to foreign) financial buyer activity reached its highest quarterly level. The annual deal activity levels for domestic financial buyers was at its all time high with 94 deals for 2009 compared to 87 deals in the full year of 2008.

Foreign financial buyers were more focused on maintaining and improving operations at their portfolio companies and found new deals harder to come by as gaps in pricing expectations between sellers and buyers continued. Only 29 foreign financial buyer transactions were announced in 2009, making it the year with the lowest number of announced foreign financial transactions since 2006. Some noteworthy exit transactions reported include:

- TPG/Newbridge's sale of its Shenzhen Development Bank stake to Ping An (US\$2.3 billion); and
- 3i's and PraxCapital's sale of their stake in restaurant chain Little Sheep Group Ltd. to Yum! Brands Inc. (US\$40 million).

Sector activity

As usual, deal activity was fairly evenly spread across industry sectors, however the industrial manufacturing sector was the most active by number of deals in the second half of 2009. The financial services sector had the highest announced deal value in 2009 (including the Shenzhen Development Bank transaction), followed by the real estate sector.

Outbound deal values are at record levels

Outbound activity is growing strongly, with deal volumes up by at least 33% in the second half of 2009 compared to each of the previous half-year periods. Outbound deal values for the full year 2009 were at a record level of around US\$32.8 billion, approximately 82% higher than 2008. The largest announced deal was the US\$8.9 billion acquisition of Swiss Addax Petroleum by Sinopec in the first half year, and there were three other deals valued over US\$1.5 billion announced in the second half of 2009 including:

- Yanzhou Coal Mining Co. Ltd's acquisition of Australian Felix Resources Ltd. (US\$2.6 billion);
- PetroChina's investment in Canadian Athabasca's oil sand assets (US\$1.7 billion); and
- China Investment Corporation's (CIC) 15% investment in AES Corporation (US\$1.6 billion).



Besides the AES investment noted already, CIC announced eight more investments in 2009 with a combined announced value of approximately US\$3.3 billion mainly in the energy, mining and real estate sectors.

The 2009 value of outbound deals is still only around a third of the value of domestic and inbound transactions, and Chinese outbound deals are focused on the energy and resources sector. With the Chinese government's encouragement, and Chinese companies' focus on overseas expansion, we expect to see outbound transactions continue to grow in 2010.

Outlook

The stage is set for continued growth in M&A activity, supported by growing investor confidence and continued economic growth (the World Bank estimates 8.7% GDP growth for 2010) focused on increasing domestic consumption. Domestic deal activity in 2010 is expected to grow by more than 20% compared to 2009.

There are also indications that foreign strategic buyers will re-emerge in greater volume and deal size starting in the second quarter of 2010, reflecting a pent-up appetite for acquisitions in China. In the last few weeks of 2009,

we have already seen an increasing appetite for deals from both foreign and domestic buyers.

Domestic private equity (PE) activity is likely to grow strongly in 2010 and foreign PEs appear to remain as committed as ever to the Chinese market, with many looking to set up Renminbi denominated funds to facilitate easier deal making as well as provide access to new sources of funding and debt financing. From discussions with our clients, we understand that PE investors have a significant volume of attractive prospects in their deal pipelines and we expect to see many of these coming through in 2010, bringing activity back to 2008 levels.

As economic growth in 2010 is expected to be more reliant on consumer spending, rather than the economic stimulus spending experienced in 2009, sectors which cater to domestic consumption in China are expected to be favoured targets for M&A by both domestic and foreign acquirers.

The China outbound growth story will continue and year-on-year outbound M&A growth of about 40% is not an unlikely outcome. Whilst deals for energy and resources will continue to dominate, owners of the larger Chinese privately-owned enterprises are looking for know-how and access to foreign markets and deals in other sectors can also be expected to grow strongly. ■



North Asia Hong Kong

Economic recovery will continue in the first half of 2010 driven by the increases in private consumption from an improved job market, an increase from inbound tourism and new major infrastructure projects



David Brown
Transactions Leader
Hong Kong

Current Environment

While still in decline, Hong Kong's economy showed some improvement in the second half of 2009 reflecting the effects of the government stimulus programmes (including temporary tax cuts and loan guarantees for enterprises) and benefiting from the rapid recovery in the Chinese economy. Real GDP recorded a third quarter decline of 2.4% in 2009 as compared to a 7.8% and 3.6% decline in the first and second quarters of 2009 respectively.

Private consumption expenditure, having declined for four consecutive quarters, bottomed out in the third quarter of 2009 on a year-on-year basis and showed a 0.2% increase. For businesses, capital spending increased by 3.4% in the third quarter of 2009 after three consecutive quarters of decline.

Hong Kong total trade exports, after three consecutive quarters of decline, recorded year-on-year growth of 1.3% in November 2009. Yet, the momentum of recovery is uncertain and is highly dependent on global demand as advanced economies are still struggling to recover from the aftermath of the global financial crisis.

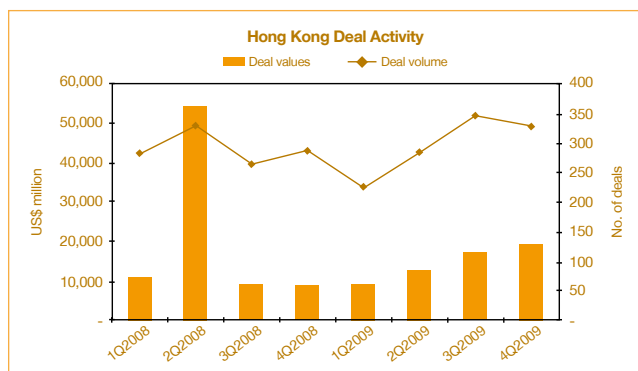
The unemployment rate in the third quarter of 2009 was 5.3%, a slight improvement from 5.4% in the second quarter of 2009 and the first reduction since the onset of the global financial crisis.

Attracted by relatively low valuations for quality assets and the low interest rate environment, high levels of capital inflow were recorded in the second half of 2009. This lifted the Hong Kong equity markets and pushed the Hang Seng Index up 19% between June 2009 and December 2009. Further, both the average daily turnover and the market capitalisation in November 2009

increased by 24% and 7% respectively, compared to June 2009. The number of IPOs jumped to 40 in the second half of 2009 from 18 in the first half. Funds raised in the equity markets increased over ten-fold from HK\$17 billion in the first half of 2009 to HK\$185 billion in the second half.

The Hong Kong property market also benefited from the inflow of liquidity and the low interest rate environment with residential property prices increasing by over 30% in 2009. Average monthly sales transactions more than doubled from 5,488 in the first quarter of 2009 to approximately 11,800 in each of the second and third quarters of 2009. In October 2009, the Hong Kong Monetary Authority adopted new measures by advising banks to lower the loan-to-value ratio for luxury apartments to curb speculation and ease any concerns of a property bubble developing.

Deal Activity



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

Deal activity in terms of value decreased from US\$82 billion in 2008 to US\$57 billion in 2009. However, there continues to be increased activity in the Hong Kong deal environment with total deal value for the second half of 2009 increasing to US\$36 billion, a 40% increase over the US\$21 billion of deals announced in the first half of 2009.

In the second half of 2009, 673 deals were announced, compared with 508 deals in the first half of 2009 and 551 deals in the second half of 2008.

Some of the major transactions in the second half of 2009 include:



Financial Services

China's Haitong Securities (Haitong) has agreed to buy Hong Kong's Taifook Securities (Taifook) for US\$232 million. According to the agreement, Haitong will acquire a 52.9% controlling stake in Taifook. The acquisition offers an opportunity for Haitong to establish a sizeable customer base and distribution network in Hong Kong, which is important to its international expansion strategy.

China Insurance International Holdings Company Limited (CIIH) has signed a definitive agreement to acquire Ming An (Holdings) Company Limited, a Hong Kong-based property and casualty insurance company from China Insurance HK (Holdings) Company Limited (CIHK). The deal consideration was US\$233 million.

China CITIC Bank Corporate Limited has signed a share purchase agreement to acquire a 70.3% stake in CITIC International Financial Holdings Limited, an investment company involved in banking and asset management based in Hong Kong from Gloryshare Investment Limited, a Hong Kong-based investment holding company and a wholly owned subsidiary of CITIC Group. CITIC bank had financed the transaction with a deal size of US\$1.75 billion through its internal cash reserves.

Consumer and Retail

Esprit Holdings Limited, the listed Hong Kong-based company engaged in wholesale and retail distribution and the licensing of fashion and lifestyle products, has agreed to acquire the remaining 51% stake in its joint venture CRE Esprit Inc, the China-based joint venture company engaged in retail sales and wholesale distribution of Esprit and Red Earth branded apparel and accessories, from China Resources Enterprise Limited (CRE), the listed Hong Kong-based conglomerate. The deal was announced in December 2009 for a cash consideration of US\$500 million. The acquisition will enable Esprit to unify its interests in China and further facilitate its expansion in China.

Real Estate

China Overseas Land & Investment Ltd., a Hong Kong-listed property developer, announced in September 2009, that it will acquire the property business of Shell Electric Manufacturing (Holdings) Company Ltd., a Hong Kong-listed electrical appliances manufacturer. The value of the general offer is approximately US\$440 million. The deal is expected to be completed subject to the satisfactory result of due diligence and the Hong Kong Stock Exchange listing committee's approval.

Telecommunications

In September 2009, China Unicom Ltd., the Hong Kong-listed arm of Unicom Group, and Telefonica, a Spanish telecommunication operator listed on the Spanish Stock Exchange, signed a mutual investment agreement of US\$1 billion to foster a strategic alliance between the two telecommunications companies. The alliance will enable Telefonica and China Unicom to strengthen their business relationship in the telecommunications sector and enhance services to their clients. It will also create synergies and provide better growth prospects to strengthen their core business. The agreement is effective for a period of three years but may be terminated in the event that Telefonica's holding in China Unicom falls below 5%, or China Unicom holds less than a 0.5% stake in Telefonica.

Recently, Hutchison Whampoa Limited announced its plan to privatise its international telecommunications arm, Hutchison Telecommunications International Limited (HTIL).

Energy and Mining

China Investment Corporation (CIC) has signed a framework agreement to acquire a 20.1% share in GCL-Poly Energy Holdings, a Hong Kong-based green energy supplier in November 2009. CIC also entered into a joint venture agreement with GCL-Poly Energy Holdings to establish a joint venture company which will operate in a photovoltaic electricity generating businesses.

Pharmaceutical

China Pharma Limited, a Hong Kong-based company incorporated by Morgan Stanley Private Equity Asia III Holdings for acquisitions in the pharmaceutical sector, announced in August 2009 that it was to acquire Sihuan Pharmaceutical Holdings Group Ltd (Sihuan). Sihuan is a listed China-based investment holding company engaged in manufacturing cardiocerebral vascular drug and research and development. The total deal size is approximately US\$246 million and the offer made by China Pharma has been declared unconditional as of October 2009. China Pharma will make a compulsory acquisition of Sihuan after the privatisation offer closes by the end of October 2009. China Pharma will delist and privatise Sihuan post-acquisition.



Private Equity

China Investment Corporation (CIC), the China-based investment company and sovereign wealth fund owned by the Chinese Government, has agreed to acquire a 40% stake in CITIC Capital Holdings Limited, the Hong Kong-based company engaged in private equity investment, real estate funds, structured finance and alternative investments, for an undisclosed consideration. The deal was announced in July 2009. CITIC Capital has approximately US\$2 billion of funds under management from international investors.

Outlook

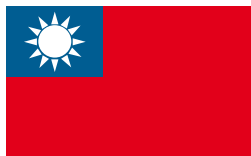
The Hong Kong economy will continue its recovery in the first half of 2010 driven by the increases in private consumption from an improved job market, an increase from inbound tourism and the launch of new major infrastructure projects, such as the extensions of the MTR, the development of West Kowloon Cultural District and the new Guangzhou-Shenzhen-Hong Kong railway.

With continued low interest rates and the pegged currency, liquidity will continue to be available in the

market in 2010. However, any reversal of “hot money” flows may have an immediate effect on the Hong Kong economy and investor sentiment.

While both corporate and private equity buyers have remained cautious in 2009, we expect Hong Kong’s M&A activity in 2010, both in terms of volume and deal value, to match or exceed 2009 levels fuelled by growing investor confidence, improved rates of economic growth and due to valuation gaps between buyers and sellers reducing. Increased private equity deals and the financial services, real estate and consumer related sectors will likely be key drivers of the M&A market.

Inevitably, Hong Kong’s economy in 2010 will continue to leverage on its close ties with China and benefit from the latter’s robust economic growth. It will also be dependent on the advanced global economies of the US and Europe recovering and continued government stimulus programmes. The recent announcement of Dubai World’s financial difficulties is an indication that the recovery from the global financial crisis is still only tentative and the possibility of Hong Kong suffering another setback from a potential downturn in the global economies can not be eliminated. ■



North Asia Taiwan

Taiwan's M&A transactions dominated by the technology sector were active in 2009 Q4 and expects to continue through 2010



Peter Yu
Corporate Finance Leader
Taiwan

Current Environment

Taiwan's export-driven economy has gradually recovered from the global financial turmoil. Taiwan's GDP fell 1.29% in the third quarter of 2009, and was expected to rise 6.89% in the fourth quarter after the serious recession in the first half of the year. However, GDP through 2009 is still expected to decrease 2.53%. Although exports recovered gradually in the fourth quarter of 2009, full year exports dropped 20.3%, driven by a decrease in exports to North America and Europe.

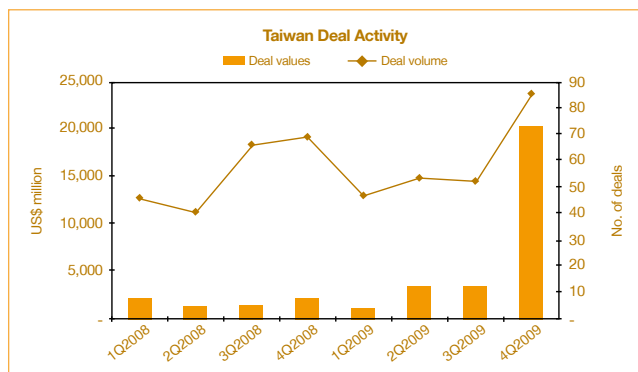
Facing currency depreciation from competing Asian countries in the first quarter, Taiwan's central bank let the Taiwanese dollar devalue against the US dollar from 33.15 to 34.34, a 4% decrease, in order to keep exports competitive. The Taiwanese dollar has risen to 32.28 at the end of 2009 which is consistent with the appreciation of most Asian currencies.

Boosted by the profits of Taiwanese companies operating in China, combined with the positive sentiment generated by the frequent cross-strait talks between the Chinese and Taiwanese governments, the Taiwan Stock Exchange index (TAIEX) rebounded 78% in 2009, one of the top ten best performances worldwide in 2009.

In November 2009, Taiwan signed a Memorandum of Understanding (MOU) with China which included cross-strait cooperation and supervision in the following sectors: banking, insurance and securities brokerage services. The most significant impact of the MOU is that Taiwan and China will progress towards more open financial regulations surrounding cross-border transactions. Signing the MOU is simply the first step of cross-strait economic and trade cooperation. The Economic Cooperation Framework Agreement (ECFA), which is expected to be signed in 2010, will further allow

Taiwan to significantly benefit from China's economic growth through tariff harmonisation and reduction. This which will help to strengthen Taiwanese products' competitiveness in China. Taiwan will be upgraded from the status of an average foreign trade partner to a priority partner status by signing the ECFA with China.

Deal Activity



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

Compared to the same period in 2008, announced M&A transaction volume in 2009 rose slightly from 135 deals to 137 deals, while deal values jumped from US\$3.5 billion to US\$23.6 billion, or 573%, as of the second half of 2009. The overall M&A market became more active in the second half of 2009 with the recovery of the domestic stock market and global economy. Compared to first half of 2009, trading volume rose 37% while deal value increased 435%. The major drivers were domestic deals, especially in the technology sector, and to a lesser extent, inbound deals. The financial sector saw the largest value of inbound activity while the technology sector posted the highest volume of inbound deals.

Several representative deals for the second half of 2009 include:

Financial Sector

China Strategic Holdings Ltd., a Hong-Kong company backed by a group of individual investors, teamed up with Primus Financial Holdings Ltd., to win a controlling stake in Nan Shan Life Insurance Co., AIG's Taiwan-based life insurance unit and Taiwan's second-largest life insurer, at a value of US\$2.2 billion. AIG was selling assets to help repay



loans from a US\$182.5 billion US government bailout. Nan Shan Life Insurance, with four million policyholders and 35,000 agents, was burdened with unprofitable guaranteed-return policies it sold in the 1990s when interest rates were higher, raising concerns that a buyer may need to inject more capital to make the company successful.

Chinatrust Financial Holding Co. planned to pay China Strategic Holdings and Primus Financial Holdings US\$649.1 million for a 30% stake in Nan Shan Life Insurance Co. after losing its bid to buy the business from AIG. Meanwhile, China Strategic will buy a 9.95% stake in Chinatrust for about US\$648 million as part of the deal. Chinatrust is Taiwan's third-largest financial company by market value. The transaction will help Chinatrust diversify its business away from the low growth banking sector. Chinatrust has been striving to become a leading regional player and is seeking opportunities to expand its franchise beyond a banking-focused operation.

Telecom and Media Sector

Taiwan Mobile Co., Taiwan's second-largest phone carrier, agreed to buy cable television operator Kbro Co. from Carlyle Group for US\$1.8 billion in stock and cash, making it the market leader. After the transaction, Carlyle will be the second-largest shareholder of Taiwan Mobile, with a 15.5% stake. Taiwan Mobile seeks to leverage its cable television business, its fastest-growing division, to boost revenue from so-called convergence services that combine phone, internet and television as one package. The transaction will raise Taiwan Mobile's share of the cable television market from 6.6% to 32%, making it the industry's largest provider with almost 1.6 million customers.

Technology Sector

Innolux Display, Foxconn Group's LCD manufacturer which specialises in the integration of system assembly, announced in October 2009 that it will acquire TPO, Compal Group's LCD panel producer, to strengthen its competitiveness in the small to medium-sized LCD panel market. Following the acquisition of TPO, Innolux announced another merger deal with CMO, which has the fourth-largest panel capacity in the world. The three-way all-stock transaction was valued at US\$13.8 billion. The consolidation will create significant synergies through integrated supply chain management, streamlined operations, greater economies of scale and a complementary customer base, and should result in a reshaping of the global LCD manufacturing market.

TSMC, the world's largest contract chip maker, formed a strategic alliance with Motech to tap TSMC's growth in the solar market. Motech is the largest solar cell manufacturer in Taiwan and one of the top ten manufacturers worldwide in terms of production capacity and output in 2008. With manufacturing facilities in Taiwan and China, Motech has a vertical integration strategy, in-house ingot and wafer capabilities and has invested in polysilicon production. TSMC will invest US\$193.2 million to gain a 20% stake in Motech. TSMC is expected to extend Motech's streamline integration further downstream to the system integration market for solar power plants.

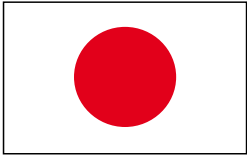
Chipbond Technology, the only company in Taiwan to supply a true full turnkey service for backend assembly processing of LCD driver ICs from wafer bumping to packaging, announced that it will merge in an all-stock transaction with International Semiconductor Technology, Compal Group's IC-testing company. The transaction was valued at US\$240.5 million. The deal will create the world's number one LCD IC driver testing firm and is expected to take more than 50% of the market.

Outlook

With an anticipated recovery of the global economy in 2010, it is expected that Taiwanese firms with operations throughout Asia, in particular in China and Vietnam, will be the most attractive M&A candidates in 2010.

More capital raising activities are expected with a recovery in the stock market, especially in the solar cell and LED industries in 2010. Taiwan's solar cell and LED suppliers have been trying to extend their vertical integration and will continue to seek capital to finance their expansion and acquisition plans.

The MOU on cooperation across the Taiwan Strait was officially signed in November 2009 and should lead to some M&A activity in the finance sector. Taiwanese financial institutions have been aggressively exploring investment opportunities in China's finance sector since 2009 and will continue to do so in 2010. Conversely, Chinese banks are interested in the Taiwanese banking sector but due to regulatory restrictions imposed by both Chinese and Taiwanese governments, deals in the finance sector are expected to take the form of significant minority equity investments without full control being transferred. ■



North Asia Japan

Japanese companies have continued to be involved in the deal activities for business restructuring and expansion. Political change can also generate a range of new investment opportunities especially in the renewable energy sector.



Matthew Wyborn
Corporate Finance Leader
Japan

Current Environment

Japan's economy experienced considerable difficulties during 2009, in spite of its quarter-on-quarter growth in real GDP of 0.7% in the second quarter and 0.3% in the third quarter.

For the first half of 2009, exports from Japan decreased by 42.7% in terms of value, imports as well declined by 38.6%, primarily reflecting lower trade volumes with both US and China. While there has been some recovery in recent months, total export values declined by 36% over the 11 months ended November 2009. Export-orientated companies have been impacted by the appreciation of the Japanese yen against the US dollar from 100 in January 2009 to 92 by year-end, having attained its strongest position in 15 years, a level of 84 in November 2009. The yen remained steady against the Euro, closing the year at a level of 132.

The continued difficult economic circumstances have meant that Japanese companies continue to refrain from investment and in the third quarter, total corporate investment expenditure (excluding software) was down 25.7% year-on-year. The Ministry of Finance commented that many manufacturers have taken drastic cost cutting measures resulting in an overall reduction in expenditure of 40.7%, the most significant decrease since 1955.

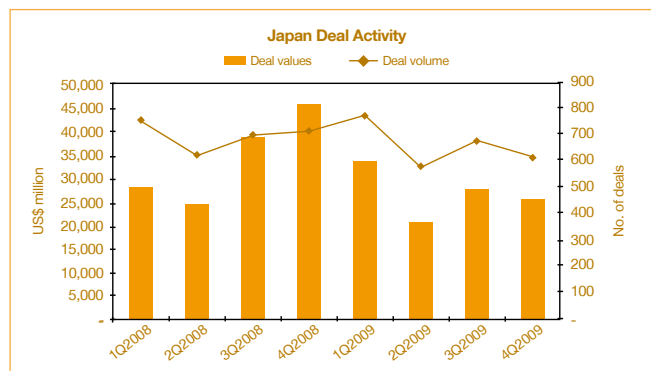
Outbound direct investment in the period from January to September 2009 amounted to US\$59.6 billion, a decline of 12.7% over 2008. From a geographical perspective, Japanese investment declined in a number of key regions, including North America (54.1%), Oceania (20.2%) and the European Union (13.5%). By contrast, outbound investment into China and ASEAN rose by 15.6% and 33.1% respectively.

From an inbound perspective, direct investment into Japan decreased by 44.2% during 2009. There has been a significant rise in investment from the European Union (up 80.9%), but inflows have declined from all other regions, including North America (66.3%) and Asia (53.5%).

Japan's stock market performance showed an overall gain during 2009, following a rally in the Nikkei index which reached 10,767 points in August and closed the year at 10,546 points after a slow final quarter. While the overall gains in 2009 indicate that Japan may have passed the worst of financial crisis, uncertainty remains over the economic and monetary policies of the new government led by the Democratic Party of Japan (DPJ).

Within the financial sector, there has been a continued tightening within the lending environment. At year-end, the Bank of Japan's (BOJ) discount rate stood at 0.3%, although it is expected to rise in the near future. Given this, many leading Japanese companies such as Mitsubishi UFJ Financial Holdings, Nomura, Toshiba, Hitachi and All Nippon Airways have obtained additional bond or equity financing in recent months. Total stock financing was JPY3,399 billion for the period January to October 2009, more than double the equivalent for the previous year.

Deal Activity



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

According to Thomson Reuters, the total announced value of M&A transactions involving Japanese companies in 2009 was US\$105.9 billion, a decrease of 22% against the previous year. The overall decline is mainly attributable to a 74% fall in the value of outbound transactions from Japan.



Deal activities in the second half of 2009 reflect three notable characteristics: Firstly, industrial product manufacturers, food companies and pharmaceuticals businesses, who have, historically, generally relied on the domestic market for growth, continued to show increasing interest in acquiring overseas competitors in order to increase global sales. The main transactions in this space include:

- The acquisition by Suntory Holdings, which continues to progress on a merger with rival, Kirin, of Orangina, a Paris-based producer and wholesaler of soft drinks with an estimated deal value of US\$3.8 billion. Suntory followed this in December with the announcement that they will acquire a South Carolina-based bottler for Pepsi in a US\$110 million deal.
- A number of pharma deals including Taisho Pharmaceuticals' purchase of Bristol-Myers Squibb Indonesia, the acquisition of AkaRx, a US biopharmaceutical company, by Eisai, the decision by Hisamitsu Pharmaceuticals to secure US-based Noven Pharmaceuticals and the announcement by Daiippon Sumitomo Pharma to acquire Sepracor.
- On the electronics side, Canon was active and announced two European acquisitions, most notable was the takeover of Dutch printing system developer Océ for US\$1.1 billion and also a US\$85 million outlay to acquire Optopol Technology, a Polish healthcare equipment supplier.

Secondly, there has been further progress on domestic mergers, which competitors are continuing to explore as a means of increasing market share and as a necessary means of strengthening their businesses and financial bases. Key activities on this front include:

- The announcement by Japanese brewery Sapporo Holdings that it will invest in domestic soft drinks manufacturer, Pokka.
- The merger of Mitsubishi Chemical Holdings with Mitsubishi Rayon in a US\$2.4 billion deal which sees the formation of Japan's largest chemical company.
- Progress towards an amalgamation of Shinsei Bank with Aozora Bank under a stock swap transaction valued at US\$3.1 billion.
- An agreement by Hitachi and NEC to integrate their semiconductor and mobile phone subsidiaries as a means of pursuing economies of scale and improving their international competitiveness.

Thirdly, the market is seeing a round of equity injections into struggling firms as a means of securing business assets, sales networks, customers, technologies and brands. A number of situations have seen the usage of business recovery frameworks such as the Japanese Association of Turnaround Professionals' Alternative Dispute Resolution (ADR) process. A revised Act on Special Measures for Industrial Revitalization was also enacted in 2009 in order to facilitate business restructuring through official financial support, including tax exemptions or debt guarantees. Recent highlights in the distressed sector include:

- A merger of two of Japan's real estate investment trusts (J-REITs) whereby Advanced Residence Investment Corporation sponsored by trading house, Itochu Corporation, acquired Nippon Residential Investment Corporation, which had previously been owned by bankrupt real estate investor, Pacific Holdings.
- Japan's largest department store operator, Mitsukoshi Isetan Holdings, acquired Iwataya, a regional department store group and utilised the above Act to advance the restructuring process.
- The largest residential construction company, Daiwa House Industry, sponsored Cosmos Initia, a top tier residential developer, in its ADR application.
- A high profile restructuring involving Japan Airlines, which is reportedly considering a range of possible revival measures that may involve the application of bankruptcy laws or ADR. Other alternatives being considered include debt relief via the state-backed Enterprise Turnaround Initiative Corporation of Japan (ETIC) fund, or a capital participation via competing overseas carriers, Delta and American Airlines.

Private Equity

The difficult financial environment has forced certain funds to decelerate their portfolio activities in Japan, although divestments have in turn provided some attractive investment opportunities for strategic buyers.

Portfolio reductions by the activist Steel Partners included divestment of its 7.91% stake in Nihon Tokushu Toryo, a specialty resin paints and coating materials maker to Kansai Paint for JPY421 million and the disposal of its 16.38% stake in New Cosmos Electric, a leading manufacturer of gas detectors and alarms, to Iwatani Corporation for JPY2,025 million



US-based real estate investor, Athos Group, divested its 78.74% stake in MID Urban Development to Kansai Electric Power Company, which is reportedly planning to expand its real estate activities.

Amongst the domestic funds, Unison Capital sold Cosmos Initia to Daiwa House Industry and Advantage Partners sold its minority stake in beverage maker Pokka to Sapporo. These funds, together with MKS Partners, sold Kracie, a sanitary and cosmetics maker (formerly known as Kanebo), to Japan's leading hair dye producer, Hoyu.

In contrast, there has been limited buy side activity in Japan involving fund investment. Notables include the MBOs of restaurants operator, Chimney, backed by Carlyle and that of Universal Studios Japan, backed by a Goldman Sachs fund affiliate. In addition, Bain Capital Partners outbid a number of rivals to secure Bellsystem24, a leading call center services provider, from Nikko Citi.

The latter half of the year also saw some activity from other funds including NTT Investment Partners, SBI Group and NIS Group, as well as some added focus on specific regions and small and medium-sized enterprises.

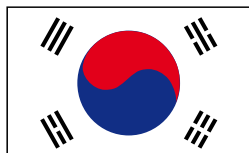
Outlook

Economists are forecasting that the Japanese economy and corporate earnings will improve in the year ahead, with real GDP growth estimates of between 1.2% and 1.8% for 2010. As the economy gradually recovers, it is anticipated that healthier companies will continue to pursue M&A opportunities, even as more underperformers will be exposed to business restructuring through group reorganisation, MBOs, ADR application schemes or the ETIC initiative.

In the domestic market, sectors such as engineering, regional banking, IT consulting, wholesaling and retail are likely to see pressure towards further consolidation. From a cross border perspective, it is anticipated that a continuation of the strong yen will see further outbound M&A in sectors such as food and beverage, pharmaceuticals, healthcare, chemicals, IT consulting, energy and financial services. Prospects on both the inbound and private equity fronts will remain relatively slim, although restructuring will continue to present some opportunities.

Finally, the year ahead should start to see some clarity around the DPJ policy environment, especially after upper house elections in July 2010. Investors have to date shown caution and it remains difficult to predict what impact the DPJ policies will have on M&A activity. The DPJ has released a "Policy Index" statement containing articles on areas such as the introduction of a carbon tax, an increase in the minimum wage and a possible restructuring of the corporate and financial income tax system.

Of particular interest will be the ability of the DPJ to follow through on its bold pledge to reduce greenhouse gas emissions by 25% from 1990 levels by the year 2020. The DPJ has yet to announce details of its environmental and renewable energy policy but it is anticipated that the pledge can generate a range of new investment opportunities if supported by incentives such as subsidies for renewable power and the introduction of a carbon credit trading market. The Shosha trading houses, energy companies, utilities and major electronics players have all been active in the development of renewable energy capabilities and have been seeking out opportunities to deploy their skills in innovation and partnering as a means of building their expertise and international presence in advance of a stepped change in renewable activities in Japan. This activity can be expected to accelerate in the year ahead. ■



North Asia Korea

Cautious optimism for 2010 with M&A activity expected to increase with ongoing restructuring of conglomerates and privatisation of state-run firms



Sang-Tai Choi
Transactions Managing Partner
Korea

Current Environment

The Korean economy was one of the few economies not to enter a technical recession in 2009, posting positive growth of around 0.2% for 2009. Although exports started to rebound towards the end of 2009, government stimulus and low interest rates propped up domestic demand and kept the economy resilient throughout the year.

The Korean government played a key role in driving growth, spending nearly 3.6% of GDP in 2009. Government spending focused on job retraining efforts, tax cuts for the poor, assistance to troubled companies, and subsidies for firms promoting “green” products.

Exports declined roughly 14% year-on-year in 2009 resulting from lower demand in the US and EU. While Korean exports were lower for the year, the first half of 2009 witnessed a substantial drop off (a continuance of late 2008), but exports gradually accelerated during the year ultimately growing by 33.7% year-on-year in December, albeit from a much lower base. In particular, bellwether exports such as automobiles and IT products were down 20% and 8%, respectively; this fall in key exports was in spite of Korean auto and consumer electronics firms gaining substantial market share in western markets with aggressive pricing strategies. Although exports were sluggish, imports were hit harder as lower demand for intermediate goods and commodities resulted in a 26% decline for the year, resulting in an overall trade surplus of US\$41 billion for 2009.

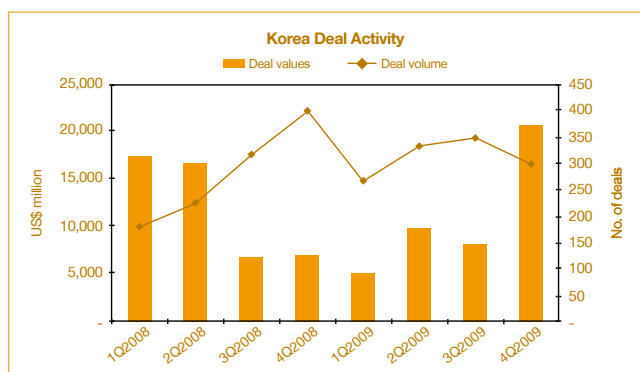
Domestic demand remained sluggish throughout 2009 as hesitant firms and consumers retrenched behind a feeling of economic uncertainty. Construction investment marginally ticked upward by 2% in 2009, as government stimulus boosted activity in the industry. However, as lower interest rates fed liquidity into the economy, the Bank of Korea (the central bank “BOK”) tightened loan

standards for property purchases, denting end user demand. Korean firms slashed capital expenditures roughly 6% in 2009 as flat revenues and concerns over ongoing viability focused efforts on restructuring and increasing efficiency in existing operations. Consumer sentiment, although depressed at the beginning of the year, spiked to a seven-year high in September. More optimistic sentiment coupled with greater certainty over a stable labour market and greater access to credit, led to a projected gain of 2% in personal consumption in 2009.

The BOK continued its loose monetary policy throughout 2009, leaving interest rates untouched at 2% in order to promote liquidity and increase credit allocation. An accommodating monetary policy, combined with positive sentiment over future economic prospects, spurred gains in the country’s equity markets. The Korean equity markets had robust gains with the KOSPI up 45% and the KOSDAQ rising nearly 64% for the year. The global economic crisis and lower commodity prices slowed Korea’s inflation rate to a 2.5% increase in 2009. Inflationary concerns came to the forefront at the end of the year, however, as the CPI gained 2.8% year-on-year in December of 2009.

The Korean won followed a highly volatile path in 2009, as overseas and changing economic dynamics influenced the exchange rate. The won started the year marginally below 1200 to US\$1 and spiked to nearly 1600 to US\$1 after the potential bankruptcy of Chrysler and GM roiled international markets in the first quarter of 2009. Ultimately, a stronger domestic economy and stable outlook for global markets led to a gradual appreciation with the won ending the year stronger at roughly 1150 to US\$1.

Deal Activity



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



M&A deal values decreased 8% year-on-year in 2009 to US\$43.5 billion while overall deal volumes gained 12% year-on-year to 1,250 transactions for the year. Cross-border M&A continued to remain strong in 2009 as both inbound and outbound deals registered positive growth (9% and 12% in deal value, respectively), with inbound value registering a robust 28% increase in deal transactions. While data for cross-border deals are impressive, they are somewhat skewed by the KKR-OB deal that concluded in the first half of 2009 for US\$1.8 billion. Overall, increases in deal volume were also bolstered by chaebols restructuring and spinning off underperforming units.

Some of the significant announced transactions of 2009 include:

- In July, GS, one of Korea's largest chaebols, purchased a controlling 69.6% stake in the Ssangyong Corporation for KRW130 billion (US\$103.1 million). GS purchased the stake from Morgan Stanley who initially purchased the stake in 2006. The purchase, among other things, will provide new synergies allowing GS to tap into Ssangyong's global distribution network, particularly in importing gas and crude oil.
- In September, Doosan Heavy Industries and Construction purchased 100% of Czech power plant equipment maker Skoda Power for US\$657 million. Through the acquisition, Doosan boosted its power plant equipment portfolio for boilers, turbines, and generators. The deal also boosted Doosan's presence abroad and its ability to compete in US and European markets.
- In October, Korean retailer Lotte won an auction to purchase a 72.3% stake in the Chinese retailer Times for US\$625 million. Lotte acquired the remaining outstanding shares in a tender offer to minority shareholders. The acquisition will greatly boost Lotte's presence in China adding 65 stores in the southern province of Jiangsu. The transaction is pending approval by Chinese antitrust authorities.
- In October, Korea National Corporation acquired Canada's Harvest Energy Trust for US\$4 billion. The transaction represented the largest acquisition by a Korean firm abroad to date, and indicated a more aggressive posture by Korean state-owned firms in acquiring assets overseas. KNOC offered to pay US\$1.7 billion in cash and take on US\$2.3 billion in debt in order to finance the deal. The deal was one in a long list of acquisitions by state-owned energy companies looking to purchase assets overseas.
- In December, LG Household and Health Care purchased a 90% stake in the country's third-largest cosmetic company The Face Shop, from Affinity Equity Partners for KRW420 billion (US\$363.1 million). LG is slated to acquire 100% of the company after a two-year time period. The acquisition is a move by LG to gain access to the profitable lower and middle segments of the domestic market, while bolstering its overall position in the sector.
- In December, KNOC purchased Kazakhstan's Sumbe (along with a Kazakh partner) for US\$335 million, acquiring 100% of the oil producer which owns the two main oilfields in the country. The acquisition will give KNOC access to the valuable oil sector in Central Asia.
- In December, SK Telecom, the country's top mobile carrier, entered the country's credit card market by purchasing a KRW400 billion stake in Hana Financial Group. SK Telecom is slated to receive 49% of Hana Card, providing the telecom company a platform for further expansion in the nation's profitable credit card industry. SK Telecom plans to use the venture to increase synergies between the mobile phone (smart phone) and credit card markets by cross-selling products to consumers.

Outlook

The Korean economy is expected to grow by 4% in 2010 driven by a rebound in exports, corporate investment, and personal consumption. Although a fairly robust recovery is projected, there are numerous headwinds that might adversely impact growth prospects such as a slower than expected recovery in western economies and China and a substantial increase in commodity prices.

Korea's exports are expected to grow 14% in 2010 on the back of an increase in IT, automobile and petrochemical exports. Although Korea has actively diversified into different export markets over the past several years, emerging markets were also negatively impacted by a general downturn in the world economy. With prospects for emerging markets expected to improve in 2010, the diversification strategy is expected to pay dividends. Imports are also expected to increase from 2009 levels as firms increase production and consumption of intermediate goods used in production. As a result, Korea's trade surplus is expected to decrease as the gap between exports and imports narrows.



Domestic demand is also forecasted to increase in 2010. Personal consumption is projected to increase 3.1% supported by a stronger labour market as firms start hiring workers and wage levels gradually recover. Domestic firms are also forecast to increase capital expenditure this year by roughly 8% as years of decreased spending coupled with an increasing need to replace inventory and innovate new products, drives greater investment. Finally, construction spending will marginally increase as the government continues to deregulate allowing for more flexibility in real estate transactions.

The major domestic issue will be the restarting of President Lee Myung Bak's ambitious economic reforms after a brief respite due to the global financial crisis and economic slowdown. A key aspect will be further reforms in the labour market that will focus on allowing greater flexibility in the hiring and firing of workers and greater competitiveness when hiring union workers.

From an M&A perspective, another priority in 2010 will be the restarted privatisation and government auction of a number of large firms including financial entities such as KEB and Woori Financial, as well as Hynix, Daewoo Shipping and Hyundai Engineering. On the back of these proposed sales, the outlook for M&A in 2010 is certainly more optimistic based on an established pipeline of blue-chip companies for investors. M&A deal value and volume will likely increase in 2010 driven by deals in the financial sector and increased privatisation and conglomerate restructuring.

Financial Services Sector

Korea's financial services sector will continue to undergo consolidation as a result of government deregulation and greater industry consolidations as valuations and liquidity recover after a prolonged economic slump. After the Capital Market Consolidation Act (CMCA) went into effect in 2009, consolidation efforts were slowed by increasingly cautious banks and regulators. As the economy gradually improved and equity market valuations recovered, banks are looking to increase their scope through acquisitions. Slated auction sales will likely serve as one catalyst, as two of the country's largest banks, KDB and Woori, will likely be sold off in the near-term. In addition, the sale of other assets such as the stalled sale of KEB, might also occur. A number of financial institutions in Korea have tapped capital markets in order to build war chests for acquisitions in the sector.

Corporate Restructuring

After the brunt of the global financial and economic crisis has assumedly passed, many domestic firms are still seeking ways to improve efficiency and spin off underperforming units which should drive M&A activity in the future. Kumho Asiana, one of the nation's largest conglomerates, announced a large restructuring that will likely include asset sales of their insurance arm (Kumho Insurance) as well as engineering and construction (Daewoo Engineering and Construction) in order to streamline operations. Other large restructuring deals are expected as the Korean government has established a private equity fund (via KDB) to help firms who need financing and restructuring expertise. ■



South and Southeast Asia India

India Inc back on track



Bharti Gupta Ramola
Transactions Leader
India

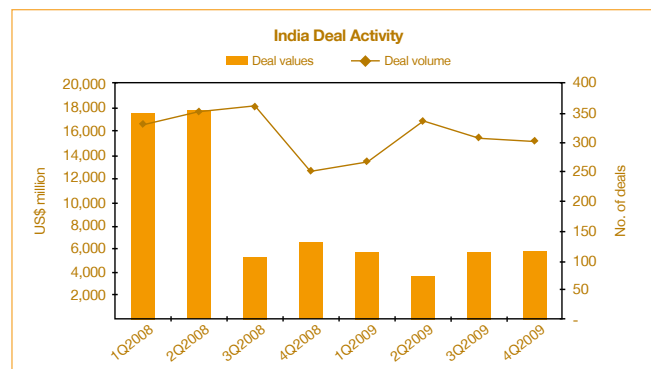
Current Environment

The Indian economy grew by an estimated 7% in the first half of fiscal 2009/10 (the fiscal year ends on 31 March). While this is slightly lower than the 7.8% growth registered for the same period in the prior year, the growth rate of 7% is higher than the predicted growth rate in the aftermath of the global financial crisis. The macroeconomic data from the first and second quarters of the current fiscal year confirmed signs of a turnaround for the economy. The key contributors to the economic growth were good performance by the industrial and services sector. Growth in the industrial sector was driven primarily by the manufacturing sector, which grew by 6.3% in first half of the current fiscal year compared to 5.3% growth during the same period in the prior year. The mining and quarrying sector showed 8.7% growth in the first half of the fiscal year, vis-à-vis 4.2% growth in the same period in the prior year. The services sector continued to be the main driver of GDP growth, with real estate, financing and business services recording 7.9% growth, while the trade, hotels, transport and communication sectors showed an 8.3% growth in the first half of the fiscal year. The agricultural sector continued to show a weak performance with a 1.7% growth rate.

Inflation which has risen from a negative 1% in August 2009 to 4.8% in November 2009, is expected to be a key concern in 2010. With a revival in the global economy and the expected rise in international crude oil prices, inflation is expected to increase by the end of the current fiscal year. The Indian stock markets have been volatile over the last year and a half, after enjoying an average annual gain in excess of 40% for the last three years. The markets lost over 60% of their value by March 2009, however, they have rebounded by 50%, exhibiting improving investor confidence, narrowing spreads and reduced volatility. Initial Public Offers (IPOs) are also back in favour after a wash out for most of 2008 and the first quarter of 2009.

India's economic turnaround has not gone unnoticed by global investors. As soon as the global markets started rallying earlier this year, strong foreign institutional investor (FII) inflows returned to the Indian markets. The FIIs, who had turned net sellers in 2008, appear to have regained their confidence on account of healthier macroeconomic indicators and improving stock markets. During a year when the value of the stock market increased by over 70%, FIIs made a net investment of over US\$16.8 billion in the Indian stock market by the end of 2009. This is the highest ever inflow in the country in a single year and comes a year after the FIIs pulled out over US\$10 billion. The surge in FIIs investments helped the Indian rupee strengthen vis-à-vis the dollar by approximately 5% in 2009. While the Foreign Direct Investment (FDI) inflows in India dipped marginally in the first nine months of the current fiscal, by approximately 11% to US\$15.3 billion, the total FDI inflow into India surpassed US\$100 billion for the first time since 2001.

Deal Activity



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

Amidst economic uncertainties and the global financial crisis, 2009 has been a year of introspection for Indian deal makers. 2009 witnessed a significant fall in deal activity, primarily in terms of value, despite a slight revival in the second half of the year. While the total number of transactions fell marginally from 1,284 deals in 2008 to 1,201 deals in 2009, aggregate deal value declined by over 50% from US\$46.2 billion in 2008 to US\$20.4 billion in 2009. Oil and gas, real estate, telecom, pharmaceutical, healthcare and biotech sectors were the leaders as far as deal values were concerned, accounting for over 50% of the total M&A deal value during 2009.



The fall in deal activity is attributed to a decline in both inbound and outbound transactions. The year has also seen significant domestic consolidation deals with domestic deal makers outperforming their cross-border counterparts in M&A deal activity. After a gap of three years, the Indian M&A space saw domestic M&A being higher than both inbound and outbound deals put together. While the credit squeeze made outbound acquisitions tougher, India Inc. also adopted a cautious approach, focusing on synergies and cutting costs where possible in order to emerge from the downturn. In 2009, domestic deals stood at approximately US\$12.5 billion which accounted for approximately 60% of the total deal activity. Some of the key domestic deals during this period include:

- Reliance Industries Ltd. acquired the remaining 24.6% stake in Reliance Petroleum Ltd., a petroleum product manufacturer and wholesaler, in a stock swap transaction valued at approximately US\$1.7 billion.
- Quippo Telecom Infrastructure Ltd.'s acquisition of a 49% stake in Wireless TT Info Services Ltd., a telecommunication services provider and part of the Tata Group, for a consideration of US\$1.3 billion.
- AAA Project Ventures Pvt Ltd. (AAA) acquired warrants convertible into a 15.93% stake in Reliance Infrastructure Ltd., a Mumbai-based electric utility company, for US\$820 million.
- Jaiprakash Hydro-Power Ltd. (JHPL), a 63.3% owned unit of Jaiprakash Associates Ltd. (Associates), merged with Jaiprakash Power Ventures Ltd. (Ventures), an electric utility company and an 80.2% owned unit of Associates, in exchange for a prorated 317.7 million new JHPL shares valued at approximately US\$556 million, in a reverse takeover transaction.

2009 had three major themes in the Indian corporations' outbound acquisitions: distressed assets, niche technology in IT/ITeS and emerging economies. The cross-border deals could have been a lot larger, had the US\$12 billion takeover of the major global petrochemicals company Lyondell Basell by Reliance Industries Ltd. happened in 2009, and Indian telecom leader Bharti Airtel's much anticipated US\$23 billion deal with South Africa's MTN not faltered on regulatory issues. Outbound investments accounted for a mere US\$1.2 billion of M&A activity in 2009 spread over 114 deals, representing a fall of almost 90% in terms of value. Due to liquidity issues and lack of financing, corporations cut down on expansion both organically and inorganically. Their focus was on first completing the projects in progress and then looking at other opportunities. The few significant outbound deals announced during the year include:

- In the first acquisition of a foreign sugar and ethanol unit by an Indian company, Shree Renuka Sugars Ltd., one of the largest producers in the country, announced their acquisition of Brazil's Vale Do Ivaí SA Açúcar e Álcool (VDI) for US\$240 million.
- Aegis BPO Services Ltd., announced the acquisition of US-based ICT Group Inc., a provider of information technology services for a consideration of approximately US\$127 million.
- GMR Infrastructure Ltd. (GI), a unit of GMR Holdings Ltd., acquired Barasentosa Lestari PT (BL), a coal mining company, for US\$80 million.
- Infosys BPO Ltd. of India, a unit of Infosys Technologies Ltd., acquired McCamish Systems LLC, a provider of business process outsourcing services, for US\$58 million.
- An example of a distressed assets deal is the Motherhood Sumi Systems Ltd.'s acquisition of VisiCorp PLC (VP), the world's largest automotive rear view mirror company based in the UK, for an estimated US\$31.8 million.

With acquirers in the US and Europe being in weaker positions than they were in 2008, inbound deal value in India declined by 67%, with only 244 deals worth approximately US\$6.6 billion in 2009, vis-à-vis 334 inbound deals worth US\$20.4 billion in 2008. However, early 2009 saw a different type of inbound transaction as stake enhancements were common, whereby multinationals were pouring more into companies they already had investments in. Companies like Pfizer and Novartis took this approach in the pharmaceutical sector. Novartis AG of Switzerland raised its interest to 79.42% from 50.93% in Novartis India Ltd., a pharmaceutical products manufacturer, for a total value of US\$77 million. Presence in the Indian pharmaceutical market is also a way to hedge risk for the multinational organisations as there is opportunity to prolong the product life of products that have matured in developed economies. Going forward the key inbound interest is expected to be in pharmaceuticals, healthcare, financial services, ITeS, engineering services and the consumer sector.

Some of the other notable inbound deals in India during 2009 include:

- In one of the largest deals in 2009, the Federal Agency for State Property of Russian Federation acquired a 20% stake in telecom service provider Sistema-Shyam for US\$680 million.



- Sanofi Pasteur SA of France acquired Shantha Biotechnics Pvt Ltd. (Shantha), a biotechnology company, from Merieux International SA (Merieux) for a consideration of US\$780 million.
- An investor group comprising state-owned Bahrain Telecommunications Co. and Millennium Private Equity, a wholly-owned unit of Millennium Finance Corp. Ltd. acquired a 49% stake in S Tel Ltd. (STL), a telecommunication services provider for US\$225 million.
- An investor group comprising of Technology Infrastructure Ltd. of Mauritius and Global Holding Corp Pvt. Ltd. planned to acquire a 14.76% stake in GTL Infrastructure Ltd., a Mumbai-based provider of wireless telecommunications services, for a total value of US\$101 million.

The two years leading into the financial crisis witnessed a slow down in private equity (PE) investment activities with several deals being called off due to a mismatch in valuation expectations. There has been a decline in the volume of PE deals in 2009 as investors continue to focus on existing portfolios and apply greater caution while selecting new targets for investment. PE transactions declined from US\$11 billion in 2008 to US\$4 billion in 2009. The average PE deal size was US\$20 million in 2009, lower than the US\$35 million seen in 2008. According to investors, the average deal size is expected to continue to decrease. With respect to high value deals there were 14 deals over US\$50 million and 9 deals over US\$100 million in 2009 as compared to 30 deals over US\$50 million and 25 deals over US\$100 million in 2008. Real estate, IT and IT services and energy were the most targeted sectors for PE investment, accounting for more than 40% of the total private equity deal value during 2009. Some notable PE transactions during 2009 include:

- An investor group comprising of FIM Ltd. of Mauritius (23.4%) and LNM India Internet Ventures Ltd. (14.1%) agreed to acquire a 37.5% stake in Sophia Power Co. Ltd., an electric utility company for an estimated consideration of US\$325 million.
- Omani state-owned Oman Investment Fund planned to acquire a 50% interest in the Mohtisham Estates project, from Mohtisham Complexes, a Mangalore-based real estate development firm, for an estimated US\$128 million.
- An investor group comprising Court Square Capital Partners, Sequoia Capital and Bessemer Venture Partners LP, acquired an 18% stake in Ind-Bharat Power Infra Pvt Ltd., an investment company, for US\$100 million.

2009 saw some significant exits by PE funds, primarily through the open market route. Funds utilised the sharp rise in stock markets to cash out and return some money to the LPs. This included Warburg Pincus selling part of its holding in healthcare firm, Max India for US\$50 million, enabling the PE firm to make a multiple of nearly five times on their initial investment. Another noteworthy exit is ChrysCapital netting a multiple of around 11 to 12 times on its exit from Shriram Transport Finance Company (STFC), a commercial vehicle financier. In one of the fastest exits for a PE firm in India, Sequoia Capital invested about US\$25 to US\$30 million in Nasdaq-listed Cognizant Technology Solutions and exited the investment at 2.1 times within a period of eight months.

Outlook

The Indian economy is expected to register a growth rate of over 8% for the fiscal year 2009/10 (ending 31 March 2010) on account of a revival in domestic demand, especially due to an increase in private consumption resulting from stimulus measures adopted by the government. With the Indian economy on the road to recovery, the deal activity next year is expected to rebound significantly as long as the economy continues to recover in 2010. There will be an increase in value and volume of Indian M&A activity as investors' confidence and liquidity return to the market, but it will take time for the deal values to return to 2007 levels.

Corporations and investors will return to profit from growth in the recovering markets. The coming year is expected to witness better PE investment activity fuelled by limited IPO successes in the past. However, there will be a flight to quality as competition to invest in high quality portfolio companies increases. Funds are likely to enhance diligence of proposed investments and also encourage deal making within existing portfolios to improve competitive dynamics.

The relatively healthy macroeconomic indicators in India and other emerging markets are anticipated to create greater inbound M&A in 2010. Telecom, oil and gas and banking sectors appear to be key sectors of interest, with healthcare, education and mid-market IT service segments also attracting deal interest.

Indian outbound M&A in 2010 is likely to include acquisitions of distressed assets, strategic energy sources and acquisitions in newer emerging economies. It is anticipated that 2010 will see further consolidation in the US and Europe, and this is likely to result in a number of overseas opportunities being available to Indian corporations. The key challenge to being able to avail of these opportunities is the availability and cost of debt which is 200 to 400 basis points more expensive now than in 2007. The increased cost of debt needs to be considered when justifying valuations and will be a key factor for Indian companies looking to acquire overseas assets. ■



South and Southeast Asia

Indonesia

Indonesia's economic performance during the global economic crisis has been relatively strong with M&A activity expected to continue to grow in 2010.



Mirza Diran
Transactions Leader
Indonesia

Current environment

The Indonesian economy maintained its resilience in enduring the global economic crisis during 2009. This resilience was largely a result of the economy's lack of export exposure. Year-over-year real GDP growth was 4.3%, which is relatively stable compared to the GDP growth of 4.1% achieved in the first half of 2009. During the second half of 2009, the Indonesian exchange rate appreciated against the US dollar from Rp10,225 to US\$1 at the end of June 2009 to Rp9,400 to US\$1 at the end of December 2009.

Indonesia also recorded inflation below 3%, the lowest rate in the past nine years. This allowed the Indonesian central bank to keep its benchmark interest rate at 6.5%. Both the low inflation rate and the low interest rate have worked well in stimulating household consumption, which is the largest contributor to Indonesian GDP.

2009 closed with an outstanding performance in the Indonesian stock market. The index increased by 87% during the year to close at 2,534 points at the end of December 2009. The increase was mainly supported by domestic investors since net investment by foreign investors decreased by approximately 29% in 2009.

The incumbent President Yudhoyono was re-elected in 2009 and appointed a former governor of the Central Bank of Indonesia, Boediono, as his Vice-President. In his second term as President, Yudhoyono's anti-corruption campaign appears to remain one of his priorities.

The President's popularity is not unanimous, as was illustrated by recent street protests in the capital, Jakarta, where he was criticised for his handling of the suspected framing of the Corruption Eradication Commission (KPK) and the potential role of his party and cabinet members in the bailout of Bank Century. Up to now, the protests have been peaceful, however, there may be further challenges to his cabinet.

Deal activity



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

During the second half of 2009, there were 248 deals announced with a total estimated value of US\$5.7 billion. A selection of the key deals completed in the second half of 2009 is summarised below:

Energy and Mining

State miner PT Aneka Tambang Tbk. (Antam) signed an agreement with ANZ Bank and Australian-listed gold mining firm, Arc Exploration Ltd. (Arc) to acquire full ownership of PT Cibaliung Sumber Daya (CSD), a mining company. Prior to this transaction, Arc was the majority shareholder of CSD with a 95% share and Antam held the remaining 5%. CSD operates the Cibaliung Gold mine at Pandeglang, Banten. The deal value was not announced but is believed to be approximately US\$8 million.

PT Indika Energy Tbk., a 70%-owned unit of PT Indika Mitra Energi, raised its interest to 98.6% from 82% by acquiring a further 16.6% stake in PT Petrosea Tbk. (Petrosea), a Jakarta-based provider of engineering services, for US\$16.5 million via a tender offer. The tender offer was a follow-up to the acquisition of an 82% stake in Petrosea from Clough International Singapore in July 2009 for US\$83.8 million.

Consumer and Industrial Products

Taisho Pharmaceutical successfully acquired Bristol-Myers Squibb's (BMS) Over The Counter (OTC) drugs trademarks for JPY14.6 billion (US\$160 million), and a 98% share in PT Bristol-Myers Squibb Indonesia Tbk. for JPY13.7 billion (US\$150 million), or an aggregate value of JPY28.2 billion (US\$310 million).

Nippon Steel Consortium, a consortium of several large Japanese steel manufacturers, signed an agreement to buy a 55% stake in PT Pelat Timah Nusantara, a tinplate



manufacturer, for US\$60 million from unlisted state-owned steel maker, PT Krakatau Steel.

PT Bentoel Internasional Investama Tbk. (Bentoel) plans to merge with sister company PT BAT Indonesia Tbk. (BAT), a Jakarta-based manufacturer and wholesaler of tobacco, in a stock swap transaction valued at Rp700.5 billion (US\$74.2 million). Bentoel offered 7.68 ordinary shares per BAT ordinary share. The combined market share of the two companies is expected to be around 8%.

Telecommunications

PT Global Mediacom Tbk divested its 19% ownership in PT Mobile-8 Telecom Tbk, a fixed wireless company under the brand “Fren”, to a group of investors including PT Gerbangmas Tunggal Sejahtera, a Sinarmas business group unit, for approximately Rp211.5 billion (US\$22 million).

Financial Services

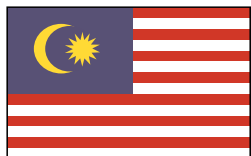
PT Parahiyangan Griyanusa, a 99%-owned unit of the Sun Life Financial Inc. acquired a 49% stake in insurance provider PT Commerce International (“CI”) from Bumiputra-Commerce Holding Bhd. through a joint venture structure, for an estimated value of Rp273.5 billion (US\$22.7 million). Upon completion, CI was renamed PT CIMB Sun Life.

Outlook

The Indonesian government has forecasted economic growth of 5% to 6% for 2010. Inflation in 2010 is also expected to be higher than in 2009, and is targeted to be between 4% to 6%. Achieving this targeted range is largely dependent on fluctuations in world oil prices. Any increase in oil prices will raise the price of other commodities, weaken consumer spending and increase interest rates, which will in turn challenge the government’s ability to achieve their targeted rate of economic growth.

In addition, with the enactment of the Asean-China Free Trade Association (ACFTA) starting in January 2010, the domestic industry faces the threat of being unable to compete with Chinese manufacturers. Affected industries include petrochemicals, textiles, footwear, electronics, ceramics and food and beverages. On the other hand, ACFTA will benefit the domestic construction business since it will drive down material prices of commodities such as steel and cement.

The mining sector is forecasted to be the sector with the most M&A activity, as the recovery of the global economy will drive up fuel and energy consumption. The plantation sector is also expected to be a driver of M&A activity as crude palm oil continues to be used as a bio-fuel. All of these potential M&A drivers aside, political stability will be key in maintaining the stability of the M&A climate in Indonesia in 2010. ■



South and Southeast Asia Malaysia

M&A activity continues to rise with improving economic sentiment



Paran Puvanesan
Corporate Finance Leader
Malaysia

Current Environment

Despite challenging global economic conditions, Malaysia's economic performance is showing signs of recovery with the economy projected to turn around in the fourth quarter of 2009, with 1.5% growth after contracting 3.9% in the second quarter and 1.2% in the third quarter. This upturn is supported by the gradual recovery in the global economy, stronger rebound in emerging markets and strengthening domestic demand, spurred by expansion in private consumption and the government's stimulus package, which will benefit the services and construction sectors.

Overall, the economy is estimated to contract by 3.0% in 2009, with an expected growth of 2% to 3% for 2010, supported by stronger external and domestic demand.

Domestic inflation continued to ease due to the effects of a cumulative downward adjustment of retail fuel prices, slower food price increases as well as a moderate increase in demand. The Consumer Price Index is expected to increase by just 1.3% for the year.

This has allowed the central bank, Bank Negara Malaysia (BNM), to continue to maintain its Overnight Policy Rate unchanged at 2% and monetary policy easing to provide support for economic growth over the medium term.

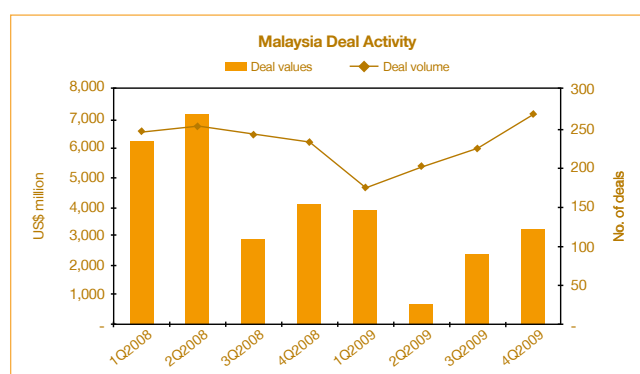
Investors in general were cautious to make new investments in 2009 with the uncertain economic and financial climate. In the first three quarters of 2009, approved foreign investments dropped to US\$3.6 billion, one-third of the amount invested during the same period in 2008 (US\$11.3 billion). Apart from risk averse investors, Malaysia also faces intense competition for foreign direct investment from other emerging economies such as China, India, Indonesia and Vietnam.

The local stock market, Bursa Malaysia, started weak in early 2009 due to the global impact of the financial crisis. The key KLCI Index closed at a low of 838 points in March 2009, before recovering and rallying to the pre-crisis levels; reaching a peak of 1,280 points in November 2009, mirroring the restoration of investor confidence across global markets.

In 2009, Malaysia had a total of 13 new IPOs and most of them were concluded in the fourth quarter of 2009. Among the new issues, was the relisting of Maxis Bhd in November 2009, raising over US\$3.3 billion in the IPO. It was the largest IPO in Southeast Asia in 2009.

In the first half of 2009, the Malaysian ringgit depreciated against major and regional currencies on account of its export contraction and capital outflow, slipping 8% against the US dollar to a low of RM3.73. However, towards year-end, the local currency recovered from its early losses as further signs of global and regional economic recovery contributed to favourable investor sentiment. The ringgit at 2009 year-end closed at RM3.44 against the US dollar, a similar rate to a year ago.

Deal Activity



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

Malaysia's M&A market is showing signs of improvement, driven by the improving consumer sentiment and investor confidence, after slipping to a low of US\$633 million in deal value in the second quarter of 2009.

M&A transactions have slightly recovered in the second half of 2009 with deals worth US\$5.6 billion being announced, compared to US\$4.5 billion in the first half.



However, this is still significantly below pre-crisis levels in 2008. For the whole of 2009, total value of announced M&A deals halved with a 56% year-on-year decline to US\$10.1 billion.

Sectors that featured heavily in the second half of 2009 were the telecommunications, petrochemicals, power, financial services and property-related sectors. M&A in these sectors were spread across both domestic and outbound deals.

The bulk of the decrease in M&A in 2009 is attributed to the sharp decline in cross-border deals. Outbound M&A plunged 88% to US\$1.7 billion from US\$13.8 billion in 2008 as companies turned cautious and waited for the global economy to stabilise.

Despite the global economic downturn, domestic M&A activities increased by 41% year-on-year in 2009, and accounted for 74% of total M&A value.

Leading domestic deals in the second half of the year include:

- Petroliam Nasional Bhd's (Petronas) acquisition of Dow Chemical Co.'s joint venture stake in Optimal Group of companies, a Malaysia-based petrochemical products manufacturer, for US\$600 million.
- The Sarawak state government via Delegates Sdn Bhd offered to take Sarawak Energy Bhd, an electricity company, private in a deal worth US\$407 million to restructure its capital structure to fund future capital expenditure of around US\$4.4 billion over the next 10 years.
- TIME dotCom Bhd continues to pare down its stake in local mobile phone operator DiGi.Com Bhd for US\$176 million to fund its debt and working capital requirements, the company also disposed DiGi shares worth US\$135 million earlier this year.
- Hap Seng Consolidated Bhd purchased a 50% stake in Menara Citibank in Kuala Lumpur for about US\$90 million.
- Multi-Purpose Holdings Bhd took a put option on a 42% stake in local mobile operator, U Mobile Sdn Bhd, for US\$81 million.

Despite the drop in outbound deals during the year, there were a couple of major overseas acquisitions in the second half of 2009, including:

- Local tycoon, Tan Sri Syed Mokhtar Al-Bukhary and India-based Vavasi Group are buying a majority stake in Zain, Kuwait's biggest telecommunication company in a deal worth around US\$13.7 billion.
- RHB Capital Bhd is to buy 80% of PT Bank Mestika Dharma, a mid-sized Indonesian lender, for US\$349 million following the footsteps of CIMB and Maybank's entry into Southeast Asia's most sought after banking market.
- TA Enterprise Bhd plans to acquire a 31% stake in Singapore-based Quayside Gem Ltd, which owns a four-star hotel, Swissotel Merchant Court, for US\$185 million.
- Khazanah Nasional Bhd purchased a 25% stake in the Dubai-based Islamic investment firm for US\$150 million, with the aim of developing cross-linkages between Malaysia and key Muslim markets in the Gulf region.
- Carlsberg Brewery Malaysia Bhd acquired the entire stake in Carlsberg Singapore Pte Ltd for US\$108 million.

Apart from acquisitions, there were a couple of large restructuring deals involving major companies like Genting, YTL, Berjaya and Media Prima in an effort to streamline their operations. They include:

- Berjaya Corporation Bhd's subsidiaries, Cosway Corporation Bhd and Biofield Sdn Bhd, to sell their combined stake in Cosway (M) Sdn Bhd, a direct-marketing company, to Berjaya Holdings (HK) Ltd, a company listed in Hong Kong for US\$262 million.
- Starhill Global Real Estate Investment Trust (REIT) Singapore which is controlled by YTL Corp Bhd is to acquire a shopping centre in Kuala Lumpur from Malaysia-based, Starhill REIT for US\$187 million.
- Media Prima Bhd's privatisation of listed unit, The New Straits Times Press (M) Bhd, worth more than US\$70 million.
- Genting Bhd to sell the 25-storey Wisma Genting and two parcels of land in Kuala Lumpur to its 48.7% owned unit, Genting Malaysia Bhd, for US\$67 million.



Outlook

Malaysia's M&A market is expected to be more active in 2010 supported by improving fundamentals such as a recovering economy and financial markets, bringing much needed confidence to the investment community.

In addition, the government has taken several measures that may stimulate the M&A market in 2010, including:

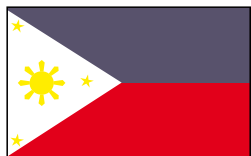
- Embarking on a second wave of privatisation. The government has identified 17 companies owned by the Finance Ministry Inc. to be listed on Bursa Malaysia or privatised with the aim of increasing liquidity and velocity in the local stock market;
- Encouraging mergers between domestic companies to stir foreign investor interest in Malaysia's capital market, by providing a larger capital base for them to invest in;
- Liberalising of the financial sector to foreign players through issuance of new banking and insurance licences and increasing foreign investment limits, which will move local players to expand abroad or consolidate in the face of stiffer domestic competition.

Among possible banking transactions on the horizon is the merger of Hong Leong Bank and EON Bank. If the deal is completed, it will create Malaysia's fourth-largest domestic bank with a combined market value of around US\$5 billion.

Apart from financial services, other potential sectors for M&A include plantation and property, which are expected to benefit from the economic upturn.

The outbound M&A segment may start to gain momentum in the short to medium-term arising from greater economic integration among the Association of South East Asian Nations (Asean) in preparation for setting-up of an Asean free-trade zone (Asean Economic Community) by 2015. This could encourage companies to expand to attractive markets such as Indonesia, Thailand and Vietnam, which is what leading local banks are currently doing.

Overall, Malaysia's M&A market in 2010 is expected to be challenging as there are still uncertainties over the strength of the global economic recovery. Nonetheless, there are signs that the pick-up in M&A deals in the second half of 2009 will carry into 2010 with companies reporting better results, better business conditions and better consumer sentiment as well as having ample liquidity in the credit market. ■



South and Southeast Asia

Philippines

The economy remains resilient; increased deal activity in the second half of 2010 is contingent on the results of the May 2010 national elections



Mary Jade T. Roxas-Divinagracia
Transactions Leader
Philippines

Current Environment

The Philippines' GDP growth for 2009 is forecast at 1.6%, slower than the economic expansion of previous years but nevertheless a marked improvement from the 0.4% growth reported in the first quarter of the year. The improvement is supported by the continued raised level of government spending, a slight growth in consumer spending, and overseas remittances projected to hit a record US\$17.1 billion in 2009.

Increased spending has led the government to expect a deficit of Php300 billion or approximately 3.84% of GDP. The government-determined ceiling of Php250 billion was exceeded due to the delay in privatising government assets, such as Food Terminal Inc. (one of the largest industrial complexes in Metro Manila), and ownership stakes in Philippine National Oil Co. Exploration Corporation. The Arroyo administration has recently asked congress to prioritise the passing of revenue measures before its adjournment in the first week of February 2010. Two of the measures include a bill rationalising the granting of fiscal incentives to investors and a bill that seeks to limit the expenses that may be deducted from an individual's taxable net income.

Exports and manufacturing continue to be weak points in the economy. Exports declined 15.5% in the first nine months of 2009 compared to the same period in 2008. The decline in exports was caused particularly by weakness in semiconductor exports. Imports, after falling by 20% in the first quarter, have managed to produce 0.2% growth for the first nine months. Historically, the stabilisation and growth of import expenditures heralded a recovery in export earnings. Industrial production is forecast to contract by 17% for the whole of 2009.

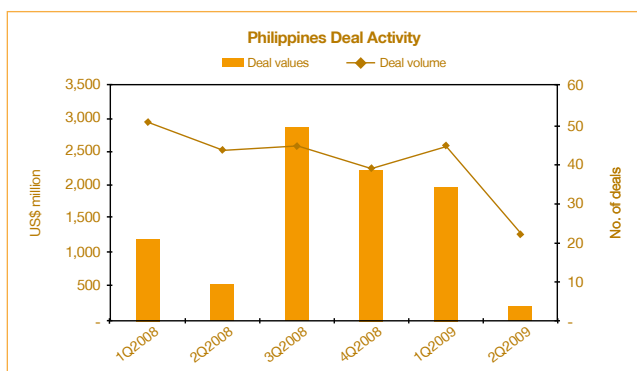
The bright spot in the economy continues to be the business process outsourcing (BPO) industry. In the

contact center industry, the largest subset of the BPO industry, the forecast employment numbers are 300,000 workers, generating US\$5 billion in revenue. The Philippines was recognised as the best outsourcing destination globally for 2009 at the National Outsourcing Association (NOA) Sourcing Summit, the UK's largest outsourcing conference. Based on government data, the other industries that have recently experienced improving growth figures are trade, finance, mining, and the services industries.

Consumer prices for 2009 were forecast to grow 3.1%. Prices towards the latter half of the year were particularly volatile due to massive flooding and natural calamities, which disrupted supply chains and affected agricultural production.

The composite index of the Philippine Stock Exchange (PSE) has improved to 3,053 as of 29 December 2009, an increase of 63% from the 29 December 2008 closing of 1,873. The Philippine peso appreciated 4.6% against the US dollar at Php46.1 to US\$1 by the end of 2009 from Php48.371 to US\$1 at the end of 2008.

Deal Activity



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

Deal values shrank 5% in 2009 to US\$6.6 billion from US\$6.9 billion in 2008. Domestic deals drove the market for 2009, as deal value increased 87% to US\$6.1 billion. Inbound transactions, on the other hand, had a mirror-image performance and shrank 89% to US\$398 million. The value of outbound transactions was stronger for the second half of the year, but nevertheless shrank 24% to US\$130 million. The number of deals in 2009 shrank 9% to 162 deals from 179 deals in 2008.



Energy and Power

The largest deals in 2009 involved the government sale of the contracted capacities of major power plants:

- San Miguel Energy Corporation, a wholly-owned unit of San Miguel Corporation, acquired the contracted capacity of the 1000 MW coal-fired Sual Power Plant via an auction bid of US\$1.07 billion;
- Strategic Power Development Corporation, a majority-owned unit of San Miguel Corporation, acquired the contracted capacity of the 345 MW San Roque Multipurpose Hydroelectric Power Plant via an auction bid of US\$450 million; and
- Thermal Luzon, Inc., a wholly-owned unit of Aboitiz Power Corporation, acquired the contracted capacity of the 700 MW coal-fired Pagbilao Power Plant via an auction bid of US\$691 million.

The privatisation of power-generation assets also led to deal activity in 2009:

- DMCI Holdings, Inc. acquired the 600 MW thermal coal-fired Calaca Power Plant with a winning bid price of US\$362 million.
- Green Core Geothermal, Inc., a wholly-owned unit of First Luzon Geothermal Energy Corporation, acquired the combined 305 MW Palinpinon and Tongonan Geothermal Power Plants for US\$220 million.

Ownership changes took place in the country's largest electricity distributor, Manila Electric Company (MERALCO):

- In July, Pilipino Telephone Corporation, a subsidiary of Smart Communications, Inc. acquired a 20% stake in MERALCO from First Philippine Holdings for US\$415 million.
- Metro Pacific Investments Corp acquired a 12.95% stake in MERALCO from the PLDT Beneficial Trust Fund (10.17%) and Crogan, Ltd. (2.78%) for US\$380 million.

Consumer staples

Most major transactions in the consumer staples sector involved the participation of beverage giant San Miguel Corporation (SMC).

- Q-Tech Alliance Holdings Inc. acquired a 19.91% stake in SMC from Kirin Holdings Co. Ltd. for US\$823.4 million.
- An investor group led by Kirin Holdings Co. Ltd. and SMC, through their joint venture San Miguel Brewery Inc., agreed to acquire San Miguel Brewery International Ltd. for US\$300 million.
- Coca-Cola Bottlers Philippines Inc. acquired a city-based beverage plant for approximately US\$100 million.

Other major transactions include:

- Smart Communications Inc., a wholly-owned unit of Philippine Long Distance Telephone Company, acquired a 6.67% stake in Philippine Telephone Corp. for US\$137 million via its tender offer to acquire the remaining 7.19% stake, which it did not already own.
- Two Rivers Pacific Holdings Corp. agreed to acquire a 9.23% stake in Philex Mining Corp. from Boerstar Corp. (3.57%), Goldenmedia Corp. (2.52%), Elkbound Resources Inc. (1.35%), state-owned Development Bank of the Philippines (1.21%), Walter W. Brown (0.51%), and Roberto V. Ongpin (0.07%), for US\$206 million.



Outlook

Political landscape

The political landscape in 2010 will be dominated by the May presidential elections. The official campaign period for national candidates begins on 9 February and will last until 8 May. The elections are particularly significant as it has been nine years since the country has had a new president. We expect some deal activity to be front-loaded into the first quarter, and for the second quarter to be slow as market players await the election results.

The Secretary of the Department of Trade and Industry (DTI) has revealed that investors are expected to take into consideration the outcome and conduct of the elections before making a final decision on whether to infuse new investments into the country. Depending on the outcome of the elections, activity should once more pick up in the third quarter.

Expansionary liquidity measures

As a result of the election-related spending and some signs of a global economic recovery, market analysts expect the central bank or the Bangko Sentral ng Pilipinas (BSP) to review the necessity of keeping in place expansionary liquidity measures that were introduced to combat the effects of the global economic downturn. Key interest rates are anticipated to be adjusted, following the presidential elections, in order to head off inflationary pressure.

China-Asean Free Trade Agreement (CAFTA)

CAFTA took effect on 1 January 2010. Trade levels are expected to increase significantly between the Philippines and China as a result of the reduction of duties to zero for more than 7,000 trading items. Prior to the economic downturn in 2009, trade values had been rising 30% annually between the two countries. China is expected in the succeeding years to become the Philippines' second largest trading partner. ■



South and Southeast Asia Singapore

A dramatic rebound in the Singapore M&A market in the second half of 2009 was driven by the recovery in the broader economy. M&A activity is likely to rise in 2010 should markets stay robust



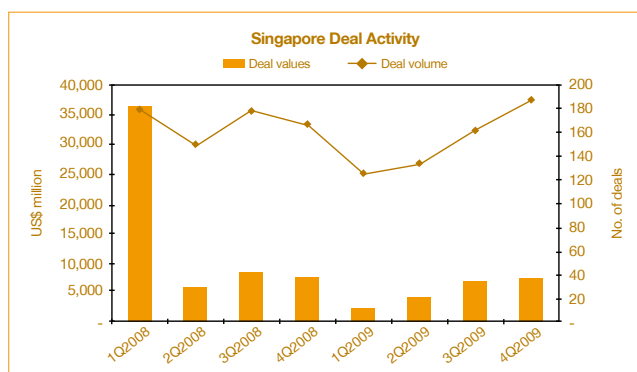
Chao Choon Ong
Transactions Leader
Singapore

Current Environment

Experiencing its worst recession since independence in 1965, the Singapore economy contracted by 2% in 2009, down from an expansion of 1.1% in 2008. After a difficult first quarter, Singapore recovered strongly with two consecutive quarters of double-digit growth on a seasonally adjusted quarter-on-quarter annualised (“QoQ”) basis. Several sectors of the economy registered growth, resulting from the restocking of inventory and stabilisation of the global financial landscape. However, the pace of recovery diminished in the fourth quarter of 2009 as Singapore’s GDP contracted 2.8% QoQ. The manufacturing sector’s 29% QoQ contraction in the fourth quarter, a reversal of the double-digit expansion in the earlier quarters, was driven by reversion of output in the biomedical manufacturing and transport engineering clusters. For the services sector, growth eased to 6.6% QoQ in the fourth quarter, compared to 8.2% in the previous quarter. The construction sector continued to grow strongly in the fourth quarter, expanding by 16.4% QoQ on the back of 3.8% QoQ growth in the third quarter.

Consumer prices picked up again from July 2009 following two consecutive quarters of decline, driven in part by the recovery in global oil prices. In the meantime, domestic cost pressures such as rentals and wages declined in response to the economic downturn. Overall for 2009, consumer price inflation was 0.5%.

Deal Activity



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

Against this mixed economic backdrop, the M&A market in Singapore slumped in the first half of 2009 due to the impact of the global financial crisis, but deal activity gradually picked up in the second half of the year. The total value of inbound, outbound and domestic deals for the second half of 2009 was US\$14.1 billion, representing a 117% increase from the first half of 2009. The number of deals announced rose sharply from 258 in the first half of 2009 to 350 in the second half. The recovery started with a pick-up in M&A activities in the third quarter of 2009 which witnessed a 61% increase in deal value from the second quarter, from US\$4.2 billion to US\$6.7 billion. The number of deals announced also increased by 22% from 133 in the second quarter to 162 in the third quarter, and by another 16% in the fourth quarter to 188.

The total value of announced M&A deals in 2009 dropped by 65% to US\$20.7 billion from US\$58.6 billion in 2008, with performance being dragged down by the significantly lower deal value, especially in the first half of the year. The number of deals announced decreased by 10% from 673 in 2008 to 608 in 2009.

Inbound

The total inbound deal value of US\$5.1 billion in the second half of 2009 represented an increase of 25% over the first half. A total of 76 deals were recorded in the second half of 2009 and the major ones included:



- UAE state-owned Advanced Technology Investment Co LLC's acquisition of the entire share capital of Chartered Semiconductor Manufacturing Ltd from Temasek Holdings Pte Ltd and other undisclosed sellers, for S\$5.6 billion (US\$3.9 billion), including the assumption of an estimated S\$3.1 billion (US\$2.2 billion) in liabilities.
- US-based First Reserve Corp's acquisition of a 99% interest in KrisEnergy Holdings Ltd, a Singapore-based oil and gas exploration and production company, for S\$711.6 million (US\$500 million), in a leveraged buyout transaction.
- China International Marine Containers Group Co Ltd's ("CIMC") acquisition, through its wholly-owned subsidiary Bright Day Ltd, of a further 36.91% stake in Yantai Raffles Shipyard Ltd, an owner and operator of shipyards, for S\$197.2 million (US\$142.5 million) to bring its equity interest to 55.21%. Concurrently, CIMC Group planned to launch a tender offer for the remaining 44.79% stake for S\$239 million (US\$172.8 million).
- KS Energy Services, the maker of drilling equipment for explorers, teamed up with Actis Capital LLP in a S\$320 million (US\$230 million) cash and stock purchase of five related companies, with KS Energy consolidating its units Global Tech, KS Projects Division, KS Flow Control and Aqua-Terra Supply Co and a related venture SSH Corp into a new joint venture, KS Distribution. Actis would pay \$142 million (US\$102 million) in cash for a 44.38% stake in KS Distribution.

Outbound

The value of outbound deals was US\$5.5 billion in the second half of 2009, a 10-fold increase over a very quiet first half. The larger outbound deals out of a total of 142 in the second half of 2009 were:

- Government of Singapore Investment Corporation's acquisition of units of Fondo Omicron Plus Immobiliare, an Italy-based real estate fund, from Fondi Immobiliari Italiani SGR SpA, for US\$351.2 million.
- An investor group's (comprising Ningbo Electric Power Development Co Ltd, Oversea-Chinese Banking Corp Ltd, Youngor Group Co Ltd, Fubang

Holdings Ltd, and Anhui Huamao Group Co Ltd) acquisition of a 15.25% stake in Bank of Ningbo Co Ltd, for US\$766.7 million, in a privately negotiated transaction.

- Singapore Telecommunications Ltd's acquisition, through its wholly-owned subsidiary Pastel Limited, of an additional 3.35% stake in Bharti Telecom Ltd, a New Delhi-based provider of telecommunication services, for an estimated US\$641.5 million in cash to bring its equity interest to 36.16%.
- Glencore International AG's acquisition, through its wholly-owned subsidiary Singfuel Investment Pte Ltd, of a 50.81% interest in Chemoil Energy Ltd, a wholesaler of marine fuel, from Chandran Family Trust, for US\$233.3 million. The Glencore unit will make a mandatory unconditional cash offer for all the remaining shares at US\$0.3552, valuing Chemoil at US\$459 million.

Domestic

The domestic M&A scene generated a total deal value of US\$3.6 billion, which is 80% higher than the first half. Out of a total of 132 deals in the second half of 2009, the largest deal contributed more than 40% of the total deal value:

- Oversea-Chinese Banking Corp Ltd's acquisition of ING Asia Private Bank Ltd from ING for S\$2 billion (US\$1.5 billion) in cash. Launched as Bank of Singapore, the entity is positioned as the leading Asian private bank with more than 7,000 customers and total private client assets of approximately US\$23 billion.

Private Equity

The total value of private equity ("PE") deals in 2009 was adversely affected by the global financial crisis and credit freeze. Twelve PE deals were recorded for Singapore in 2009 amounting to US\$927.2 million, compared to a total of 10 deals worth US\$1.9 billion last year. Significant deals in 2009 included First Reserve Corp's US\$500 million acquisition of KrisEnergy Holdings Ltd, AIF Capital III Shipping & Logistics' US\$45.4 million acquisition of preference shares convertible into an 11.4% stake in Tat Hong Holdings Ltd, and Templeton Strategic Emerging Markets Fund III's US\$13.5 million acquisition of a 19.2% stake in HALCYON Energy Corp.



Outlook

Major economies around the world are emerging from the downturn following the stabilisation of financial markets. The risk of a double-dip recession has abated. The recovery in the first half of 2010 is expected to be stronger than the second half due to restocking of inventory. Poised for a strong rebound, Asia is expected to lead the global recovery in 2010. However, the weak private final demand in the G3 economies cannot be replaced by domestic consumption of emerging economies. The gap, while partly mitigated by government spending, will remain. Other potential risks include sovereign debt (e.g. Greece) and asset price inflation in Asia. Taking these factors into account, Singapore expects its economic growth in 2010 to be between 4.5% and 6.5%.

Consumer price inflation in 2010 will continue to be driven by external factors, especially higher oil and food commodity prices in world markets. On the other hand, domestic sources of inflationary pressures will be restrained, reflecting muted factor costs caused by the recessionary slack in the labour market and upcoming supply of commercial space. However, these costs are expected to pick up in the latter half of 2010 as the economic recovery gains momentum. Underlying consumer price inflation is expected to rise to 1% to 2%

in 2010, excluding the cost of accommodation and private road transport.

Singapore's M&A outlook for 2010 will be closely linked to regional and global economic and credit conditions. Capital idling on the sidelines during 2009 has started to return to the market. M&A activity is likely to rise in 2010, with an increasing number of buyout transactions. This is likely to be encouraged by various upcoming government initiatives to support business restructuring through M&A, including a tax allowance to defray M&A transaction costs and the waiver of stamp duty on the transfer of unlisted shares, as announced in the 2010 Singapore Budget in February.

The Budget also endorsed the key recommendations of the Economic Strategies Committee (ESC). The ESC was set up in May 2009 with high-level representatives from both the public and private sectors and was tasked to study the long-term economic transformation of Singapore. In particular, the recommendations of the ESC to grow a larger pool of globally-competitive local companies capable of expanding into international markets will create the impetus for companies to grow via M&A. This development will have a significant effect in catalysing the M&A and IPO markets in the medium to long term. ■



South and Southeast Asia

Thailand

Court ruling on environmental issues in industrial projects might hinder improving investment climate



Gary Murphy
Deals Leader
PwC SEAPEN Region*

Current Environment

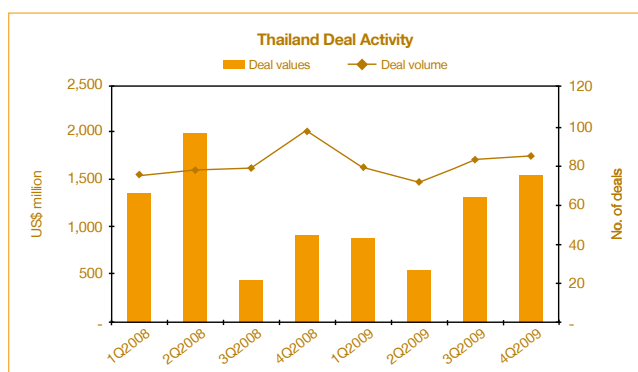
The Thai economy has begun to improve with positive signs being detected in the level of both exports and domestic consumption. The manufacturing sector expanded strongly as the number of sales orders increased in line with the improvement in the global and domestic economies. Similarly the tourism sector rebounded as the number of inbound tourists reached 1.2 million in December 2009, a 10.5% increase from December 2008. This improvement happened despite fears of an influenza epidemic in the first half of the year. Partly as a consequence of this turnaround in the tourism industry, Thailand's unemployment rate declined to 1.1% by the end of 2009 with international reserves being maintained at a high level of US\$154.1 billion, reflecting an increasingly stable economy by the fourth quarter of 2009.

Government spending, under its "Thai Khem Kaeng (Strong Thailand) 2012" scheme – a TH200 billion budget allocation for investment in public service projects covering 14 infrastructure areas, increased during the last quarter of the year. Private consumption continued to show signs of improvement reflected in inflation-adjusted value added tax (VAT) collections in October that contracted at a slower rate of -7.4% year-on-year compared to the contraction of -9.6% seen in September. The Thai baht has generally traded in line with other major Asian currencies, strengthening in the second half of 2009 as a recovery in the industrial sector in the US and Europe improved risk appetite. Given its small size, the Thai Stock Exchange (SET) remained quite volatile over the year although broadly following the improved trend in global stock markets. The SET index increased by 63.1% from 450.0 points to 773.7 points during the course of 2009. The consumer confidence index as at the end of December 2009 had risen to 70.4 from 69.1 in November 2009.

Foreign direct investment in the second half of 2009 was THB36 billion, down by 7.3% compared to the same period in the previous year. Foreign direct investment was primarily in the industrial sector particularly in respect of electronic appliances, with the largest investors being Japan, Switzerland and the US. In addition, government agencies have approved 264 projects, a 9.1% increase year-on-year. The approved projects were mainly in the Infrastructure (THB30.3 billion) and Agriculture sectors (THB8.2 billion).

Investor confidence was knocked back recently by an interim ruling by the Central Administrative Court instructing government agencies to suspend 76 industrial projects in the Map Ta Phut industrial zone and nearby areas. As a consequence, some investment plans have been suspended. Although the immediate short-term impact on the economy is likely to be limited within a small group of investors, there is, however, a wider concern regarding the potential longer term impact arising from the damage done to the overall investment climate and the uncertainty arising from the wait for a final ruling.

Deal Activity



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

M&A activity in Thailand in the second half of 2009 picked up from US\$1,471 million in the first half of 2009 to US\$2,463 million in the last six months, a 67% increase in deal value from the first half of 2009.

Transactions involving private equity houses remain low. The only announced deal was in respect of Navis Capital Partners acquiring Grampian Foods Siam Ltd., a producer and wholesaler of poultry products, from Grampian Country Food Group Ltd. through an LBO.

* PwC SEAPEN Region comprises Malaysia, Thailand, Vietnam, Cambodia and Laos. Over 3,000 people across these five countries share knowledge, resources and experience to best serve clients' needs across the region.



In the energy sector, major players are exploring cross border acquisition opportunities to diversify their investment portfolios both in respect of geography and products. In particular, there is a trend away from conventional energy to alternative and renewable energy. In the hospitality sector, standalone hotels are seeking branding from chain hotel operators to expand their customer base. Large Thai-based multinational corporations continue to seek investments in the region.

Important deals in the financial services sector include:

Bank of Ayudhya Plc. (BAY) acquired the subsidiary assets of General Electric Capital International Holding Corp., a provider of financial services. The transaction included the entire share capital in each of General Card Services and Total Services Solutions. Concurrently, BAY planned to acquire the Thailand subsidiary assets of General Electric Capital Corp. and the subsidiary assets of Tesco Card Services Ltd. The three transactions had a combined value of THB13.7 billion (US\$403.8 million). Subsequently, BAY planned to acquire the entire share capital of CFG Services Co. Ltd. and the Thailand commercial loan portfolio of General Electric Co. (GE).

ACL Bank Plc. acquired a 24.7% stake in Finansya Syrus Plc., a Bangkok-based securities brokerage firm, for a total consideration of THB255.2 million (US\$7.5 million), in a privately negotiated transaction.

Other deals worth mentioning include:

The largest transaction for the second half of 2009 took place in October when Siritwana Co., Ltd. raised its stake to 34.9% from 18.5%, by acquiring a further 16.3% stake in Thai Beverage Plc., a Bangkok-based producer of alcoholic beverages, from Golden Capital (Singapore) Ltd., for a total consideration of THB25.1 billion (US\$754.1 million).

Tarnin Holding Co., Ltd. raised its stake to 29.1% from 0.03% by acquiring a further 29.1% stake in Don Muang Tollway Co., Ltd., a Bangkok-based owner and operator of tollway, for THB3.6 billion (US\$106.98 million).

UBG Energy Ltd of Malaysia, a wholly-owned unit of UBG Bhd., acquired the entire share capital of Pearl Thailand (Holdings) Ltd., an oil and gas exploration and production company, from Pearl Energy Ltd., a unit of United Arab Emirates state-owned Mubadala Development Co., for THB653.8 million (US\$19.2 million).

Mitsui Oil Exploration Co., Ltd. of Japan, a unit of Mitsui & Co. Ltd., and PTT Exploration and Production Plc., a 65.6%-owned unit of PTT Plc., acquired a 28.8% stake

in an oil and gas exploration and production project, Block G4/48 located in the Gulf of Thailand, wholly-owned by Chevron Corp.

Chaleo Yoovidhya, Thailand's richest person with a US\$4 billion net worth largely from his 49% stake in Red Bull energy drink, acquired a 40% stake in Piyavate Hospital Public Co., Ltd., a Bangkok-based owner and operator of hospitals, from Thonburi Hospital Plc.

Siam Piwat Co., Ltd., a wholly-owned unit of MBK Plc., raised its interest to 50% from 15.4%, by acquiring a further 34.6% stake in Paradise Park Co., Ltd., the owner and operator of a shopping center.

Outlook

The Thai economy performed better than expected in 2009. The overall contraction of GDP for the year was 2.8%, better than the previous estimate of 3.5% which was made in October 2008. This was mainly due to the 3.5% growth of GDP in the fourth quarter, which was a significant improvement on the contraction rates of 7.1%, 4.9% and 2.9% recorded earlier for the first, second and third quarters of 2009 respectively.

According to the Finance Ministry's latest forecast, growth is anticipated to continue. The Thai economy is forecast to grow 3% to 4% in 2010, with an inflation rate in the region of 2.5% to 3.5%. Total investment is projected to grow by 3.8%. The export sector is forecast to expand by 10%, following the recovery of Thailand's trading partners and rising product prices in the global market. Imports are anticipated to jump by 18.5% as spending within the country is likely to increase.

The key economic driving force for growth in 2010 is likely to be the government's spending through a number of stimulus packages, such as the Thai Khem Kaeng (with total investment budget of THB1.43 trillion), progress in infrastructure and the mass transit development project (i.e. recent invitation by Mass Rapid Transit Authority of Thailand to tender for the Mass Rapid Transit Blue line extension with a project value over THB52 billion), and other measures introduced to encourage consumer spending and stimulate demand. Other factors include private sector expenditure, rising prices for agricultural goods and higher employment. Greater liberalisation within AFTA, effective from 1 January 2010, is also anticipated to contribute to the growth of the economy.



Looking at the investment environment in 2010, certain positive trends are noted. Although inconsistency and lack of transparency characterised public policies and government procedures in 2009, lowering foreign investors' confidence levels and delaying certain investment decisions, most foreign investors still perceive Thailand as an interesting investment destination. Some evidence supporting this view can be found in the surge in investment value (by about 17.9% from 2008) of applications submitted to the Board of Investment Privileges in 2009. In addition, the results of 2009 Foreign Investor Confidence Survey Report by the Office of the Board of Investment were broadly positive, despite the unfavourable global economic climate and the political turmoil in Thailand. About 58.8% of investors would maintain their level of their investment in Thailand, whilst about 29.9% have plans to expand their business. These sentiments could also stimulate greater M&A activity in 2010.

Despite the positive outlook for GDP growth and high levels of Foreign Investor Confidence, the Thai economy

is still vulnerable to a number of risk factors including political uncertainty and government instability, unclear government policy, consistency and effectiveness of government economic stimulation, foreign exchange fluctuation, and the magnitude of the world economic recovery. The recent Map Ta Phut Industrial Estate episode, where the Administrative Court suspended permits for 76 projects on environmental grounds, has added to the concerns of foreign investors who are considering making investments in Thailand. The Director of the Fiscal Policy Office believes that this decision has the potential to reduce the level of GDP growth by approximately 0.5%.

Although M&A activity is showing signs of growth, it seems likely that activity will remain limited particularly for the first half of the first quarter in 2010. Building up foreign investor confidence level is one of the key challenges for the Thai government in attracting increased investment levels and consequently higher volumes of deals in the country. Investors are weighing up the implications and "awaiting the final ruling". ■



South and Southeast Asia Vietnam

Slow start but a strong finish for the year. Overall M&A values and volumes appear to have returned to a path of growth in the fourth quarter of 2009, giving grounds for optimism for 2010.



Stephen Gaskill
Transactions Leader
Vietnam

Current Environment

The overall annual rate of GDP growth in 2009 reached 5.3%, compared to 6.2% in 2008. The inflation rate for the year was 6.9%, the lowest rate in the last six years. Inflation began to accelerate again towards the end of the year and consensus amongst analysts is that the annual inflation rate in 2010 will rise to between 8% to 10%.

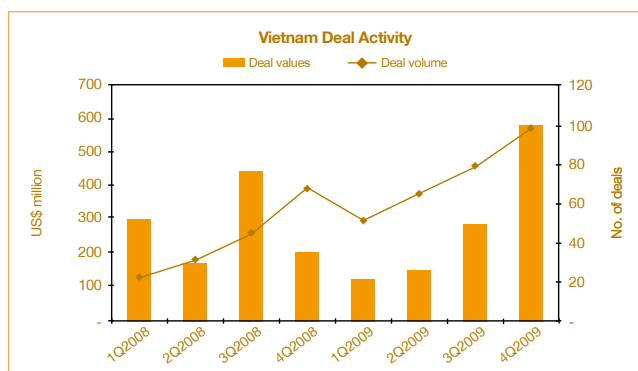
Exports and imports declined by 9.7% and 14.7% respectively, compared to 2008. The ongoing trade deficit and other factors put the Vietnamese dong under some pressure during the year. In November, the government responded by raising the base rate from 7% to 8%, whilst the Vietnamese dong trading band was narrowed to 3% from 5% and the dong midpoint rate weakened by 5.4%. The US dollar selling reference rate of the State Bank of Vietnam was VND18,479 on 31 December 2009 compared to VND17,489 at the end of the prior year.

The total value of foreign direct investment (FDI) commitments licensed in 2009 reached US\$21.5 billion. Whilst this compares very poorly to the record levels of 2008, it still equals the investment commitments received in 2007 and is almost double the level of FDI commitments in 2006.

The benchmark stock exchange indicator, the VN-Index increased from 448.3 points at the end of June to 494 points at the end of December.

IPO activity, which had already picked up in the first half of the year, continued to show growth in the second half of 2009. Despite some high profile listings on both the Hanoi and Ho Chi Minh official stock exchanges, the OTC market continues to be the dominant market in Vietnam.

Deal Activity



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

The strong pick up in deal volumes in the second half of 2009 was driven by domestic deals, although the average deal size for domestic M&A was very low. Significantly, fourth quarter deal activity saw higher numbers of inbound deals and much higher average deal sizes indicating growing confidence amongst international companies and especially from Asian companies.

Another notable trend is the increase in deals conducted by private equity firms, including a small number of larger deals that appear to reflect more favourable valuation multiples and the ongoing need amongst some of the larger private Vietnamese companies for capital expansion.

Notable deals announced during the year include:

In October, HSBC Insurance (Asia Pacific) Holdings Limited (HSBC) signed an agreement to increase its stake in Bao Viet Holdings, Vietnam's leading insurance and financial services group, to 18% from the current level of 10% for a consideration of VND1.88 trillion (approximately US\$105.3 million).

In October, Taipei Fubon Commercial Bank Co. Ltd., a Taiwan-based provider of commercial banking services and a subsidiary of Fubon Financial Holding Company Ltd., a listed Taiwan-based financial services company, acquired the Vietnamese branches of Chinfon Commercial Bank Co. Ltd., for a consideration of NT\$2.53 billion (US\$78.1 million).

In November, a leading Japanese food and beverage company, House Foods Corporation, signed an agreement to make an investment of approximately



US\$20 million in Masan Group Corporation. Masan Group owns one of Vietnam's largest food and beverage companies, Masan Food Corporation.

In December, Ha Tien 2 Cement Joint Stock Company agreed to merge with Ha Tien 1 Cement Joint Stock Company. Both companies are majority-owned by Vietnam National Cement Corporation, a Vietnam-based state-owned cement producing company. The deal value is estimated at US\$133 million.

In July, Vincom JSC, a listed Vietnam-based real estate company, agreed to acquire a 44.25% stake in Hoang Gia Real Estate Investment and Development JSC (Hoang Gia), another Vietnam-based real estate company, for VND885 billion (US\$50.5 million). In a related transaction, Vinpearl Land Tourism JSC, a listed Vietnam-based company involved in real estate development and tourism, acquired a 28.75% stake in Hoang Gia for VND575 billion (US\$37.6 million).

In July, POSCO, a listed South Korea based steel manufacturer, agreed to acquire a 90% stake in Asia Stainless Corporation, a Vietnam-based manufacturer of stainless steel, for an estimated consideration of US\$50 million.

In December, Jardine Cycle & Carriage Ltd. of Singapore raised its stake in Truong Hai Automobile Co. Ltd. (THACO), a Ho Chi Minh-based manufacturer, wholesaler and retailer of motor vehicles, from 23.4% to 29.2% for an estimated VND537 billion (US\$29 million).

In July, ANZ announced the purchase of several Asian businesses belonging to the Royal Bank of Scotland, including its institutional business in Vietnam.

Other deals or intended deals announced in the second half of the year involved well-known international companies like Google, CapGemini, Gazprom, Ogilvy & Mather, Carlsberg Sapporo holdings, BNP and Total SA.

Private Equity

Notable private equity deals announced during the second half of 2009 include:

In October, TPG Capital LP (TPG) of the US and BankInvest Group (BankInvest) of Denmark announced investments in Masan Group Corporation for an estimated US\$35 million and US\$22 million respectively. Later in December 2009, BankInvest increased its ownership of Masan Group from 10.15% to 11.48% for an approximate consideration of US\$12 million.

In September, VinaCapital's Vietnam Opportunity Fund Limited (VOF) announced the sale of its entire equity stake in the Hilton Hanoi Opera Hotel. The exit value represented an IRR of 23% over the three-year period since the stake was acquired.

In August, Mekong Capital announced the sale of Mekong Enterprise Fund's investment in Duc Thanh Wood Processing Joint Stock Company, a Ho Chi Minh-based manufacturer and wholesaler of wood products, to Vietnam Rubber Corporation. Concurrently, Mekong Capital announced the completion of Mekong Enterprise Fund's sale of its holding in Tan Dai Hung Plastic Joint Stock Company, a leading manufacturer of polypropylene and polyethylene woven bags for packaging rice, fertiliser, animal food and other agricultural products.

Outbound activity

During the year there were more indications that the larger private companies as well as certain State Owned Enterprises are looking into regional expansion projects, including acquisitions. Information regarding executed deals is currently limited but it is worthwhile paying attention to developments in this area since it is likely to be a developing trend over the coming years.

Outlook

There is a strong feeling in the Vietnamese business circles, within the government and amongst international economic analysts that the worst of the challenges brought about by the global economic crisis and local economic overheating is behind the country. However, some concerns persist in relation to the stability of the dong due to balance of payments deficit issues and in relation to inflation. Independent analysts expect that GDP growth in 2010 will reach approximately 6%. Fundamental factors facilitating macroeconomic growth have not been unduly affected by the current crisis.

We expect continued growth in deal activity in all categories with deals between domestic companies continuing to accelerate as growing Vietnamese corporations look for M&A targets in which to invest their cash surpluses and to facilitate further growth. Inbound strategic acquisitions as well as private equity deals are also expected to grow in 2010. In addition, it is particularly important to highlight that the government specifically indicated in the first week of January its intention to resume the equitisation process during 2010, which may lead to some larger deals occurring during the current year.



Another important government initiative that may have considerable impact on the deal environment in 2010 is the expected consolidation of various State Owned Enterprises due to the need to rationalise operations and improve exporting competitiveness to help decrease the trade deficit.

Private Equity

Several important developments that were significant to the private equity sector in Vietnam occurred in 2009. Firstly, we saw acceleration in the number of divestments by the more mature funds, which was a very positive indication that profitable exits can be achieved through a variety of routes. Secondly, we observed an increase in the rate of new investments by private equity funds. Lastly, 2009 saw the demise of Indochina's private equity fund which is now in the process of being liquidated; an event that may affect fund raising efforts and encourage a more cautious future approach to investing in private equity amongst fund managers. 2010 is likely to see a continuation of these trends.

Prospects for deal activity appear positive. While the fund raising environment remains challenging in 2010, most regional and global fund managers still have cash available to invest and will be attracted to Vietnam due to its economic performance. In addition, certain fund managers are looking to raise new funds in 2010 but admit that the environment is still very challenging; however, most still have cash available to invest. Regional and global fund managers will be focusing greater attention on Vietnam due to its economic performance and prospects, so the prospects for deal activity appears positive. Pricing for private equity investments, whilst still expensive relative to other countries in the region, remain below the levels seen in 2007 and to some extent reflect the rapid rates of growth being achieved by many private companies.

The combination of these factors leads us to expect an increase in divestments from the established funds and an increase in new investments by Vietnam-focused and regionally-focused funds during 2010. Increasing interest rates may also encourage cash hungry Vietnamese private companies to turn to private equity for expansion capital, creating more opportunities for fund managers.

FMCG

Domestic demand-oriented companies in the FMCG sector will continue to attract the most attention from private equity funds that are not infrastructure/real estate focused and from strategic investors interested in accessing sectors likely to see ongoing rapid rates of growth. We therefore expect a significant number of M&A deals in this sector in 2010.

Entertainment and Media

The growth in the FMCG sector in Vietnam had a knock-on effect on media spending and is encouraging greater investment. We are certain to see further acquisitions by global players in this sector in 2010 as well as a consolidation amongst the smaller local companies.

Financial Services

After a quiet two years, 2010 may well see a rise in M&A. Certain of the larger private joint stock banks without a strategic investor will be looking to bring in the expertise of a major international bank whilst smaller joint stock banks are looking for fresh capital injections in order to meet government capitalisation requirements. Consolidation in the banking sector has been anticipated but has yet to materialise, but may happen soon if smaller banks are going to be able to compete.

The insurance sector continues to attract overseas interest and a number of the smaller life and non-life companies are likely to be targets for strategic buyers in 2010. Another financial services sector likely to see activity is the securities trading and brokerage sector since the argument for consolidation amongst the smaller firms seems to be compelling.

Real Estate

Whilst the office, serviced apartment and hotel sector returns appear, for the time being, to be less attractive, the condominium/villa sector and the second home market is still attracting strong interest. Many private Vietnamese companies are likely to look to raise new funds in 2010 to take advantage of such opportunities, stimulating M&A in the process.

Other Sectors

Industries that supply the FMCG and other sectors linked to domestic demand are also likely to see significant levels of M&A, particularly deals with a logistics focus. In addition, the ongoing need for massive capital injections into infrastructure in Vietnam is likely stimulate M&A in this area, in particular for the power industry where the government is calling for increased levels of foreign investment.

The retail sector continues to attract a great deal of attention despite ongoing concerns over legal restrictions.

Lastly, the education sector continues to attract significant attention from international companies and private equity alike. It is a field in which there are already a number of significant private Vietnamese companies and privately-owned foreign businesses with critical mass which would be attractive M&A targets. ■



Australasia Australia

The return of consumer confidence has led to increased M&A volumes and the re-opening of the IPO market. This upswing is expected to continue in 2010.



Tom Fenton
Corporate Finance Leader
Australia

Current Environment

In the second half of 2009, the Australian economy has shown several encouraging signs that it has weathered the worst of the global financial crisis. Several key economic indicators announced over the past six months exceeded market expectations, suggesting that the economy is now well into a recovery phase, driven in part by the government's stimulus packages implemented in the past six months.

At the forefront of this positive information was the release of the National Accounts in September, which indicated 0.6% GDP growth in the second quarter of 2009. This was greater than the figures posted by all other developed nations' economies with the exception of Japan. This growth was largely driven by household consumption and new machinery and equipment, offset by contractions in new building construction and imports. The economy continued to expand in the third quarter of the year, with GDP growth of 0.2%. Whilst the headline rate of growth was below that of the previous quarter, this was largely due to the drop off of the effects of the government's stimulus packages implemented in the first half of the year while the National Accounts still show a healthy set of numbers which would indicate a positive outlook for 2010.

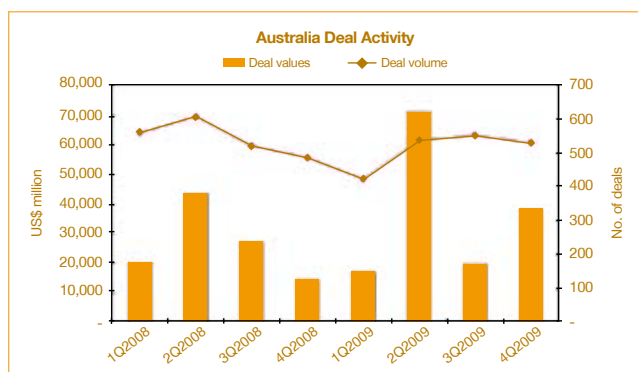
Unemployment remained at 5.75% at the end of December 2009. Many businesses still appear to recall the tight labour market conditions and skill shortage faced during the last economic growth period. As such, several businesses looked to increase part-time and flexible working arrangements in order to reduce costs in the short term while keeping their workforce intact, and considered this a more attractive alternative to making redundancies. However, continued growth in the population and participation levels is likely to result in some level of growth in the unemployment rate in 2010.

The underlying Consumer Price Index rose 1% in the third quarter to an annual rate of 3%, which was above most market forecasts. The most significant price rises came from electricity (11.4%), petrol (4%), and house purchases (1.1%).

As a result of the positive GDP growth and employment indicators noted above, combined with strong retail sales data and a continued rise in inflation, interest rates have now begun to rise. The Reserve Bank of Australia (RBA) decided to implement three consecutive monthly rate increases from October, with the base rate ending 2009 at 3.75%. In the early months of the second half of the year, the RBA made it clear that the previous 3% rate was considered an emergency rate that would not be sustained going forward, and further increases are expected in early 2010.

The Australian dollar has performed spectacularly in the last six months against most major currencies. In the second half of 2009, the Australian dollar was mostly trading in the 90 to 95 cents range against the US dollar, and was even stronger than the first half of the year at 80 to 85 cents. This performance is attributed to global confidence in the Australian economy stemming from the economic indicators noted above, Australia's relationship with China, and the carried trade in the Australian dollar as a high yield currency relative to other major currencies. In addition to these factors, unfavorable data coming from the US economy over the last six months have also strengthened the Australian dollar's position.

Deal Activity



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

Deal volumes increased from 961 deals in the first half of 2009 to 1,084 deals in the second half. Total deal value dropped from US\$88.1 billion to US\$57.6 billion over the



same period, although the figure from the first half of 2009 is somewhat inflated by the US\$58 billion joint venture between BHP Billiton and Rio Tinto which was announced in May 2009. The two mining giants looked to merge their iron ore operations in Western Australia. Binding agreements for the joint venture were signed on 5 December 2009, and submissions to the European and Australian Competition commissions are currently under review. Both parties expect the completion of the joint venture in the second half of 2010.

The key feature of the transactions landscape in Australia for the past six months has been the reopening of the IPO market, following a break of around 18 months during the global financial crisis. Key listings on the ASX during the second half of 2009 are:

- Online automotive sales business carsales.com.au listed in September in an IPO valued at US\$148 million;
- Department store giant Myer followed suit in November in an IPO valuing the business at US\$2 billion, with private equity group TPG exiting the investment they made in March 2006;
- Outdoor supplies retailer Kathmandu was dual listed on both the Australian and New Zealand stock exchanges in November, valuing the business at US\$300m after three years of private equity ownership;
- Property group Investa also looked to raise US\$900 million, however, the float of their office trust was subsequently aborted due to expectation gaps in the valuations between investors and Investa's advisors. Despite this setback, there are several other IPOs in the pipeline for 2010;
- In addition to IPOs, a number of companies undertook capital raisings during the second half of 2009 including SIMS Metal, Macquarie Media Group, GrainCorp Ltd. and Sigma Pharmaceuticals.

Other key Australian M&A transactions during the second half of 2009 included:

- AMP Limited and the National Australia Bank (NAB) battled for control of the Australian and New Zealand businesses of AXA Asia Pacific (AXA AP), with the remainder of the Asia Pacific business to be bought by AXA AP's 51% shareholder, AXA SA. Although the board of AXA AP has recommended NAB's offer of US\$5.5 billion to shareholders, the deal is yet to be concluded and AMP is thought to be considering a revised offer;

- Yanzhou Coal Mining Co. Ltd., a 53%-owned unit of Chinese state-owned Yan Kuang Group Co. Ltd., acquired the entire share capital of Felix Resources Ltd., a Queensland-based coal, gold and silver mining company, for US\$2.8 billion in the biggest investment by a Chinese company in Australian assets since Chinalco's failed attempt to take over Rio Tinto earlier in the year;
- Macarthur Coal Ltd. (Macarthur) planned to launch a tender offer to acquire the entire share capital of Gloucester Coal Ltd. (Gloucester), a New South Wales-based coal mining company, from Noble Group Ltd. (a 87.7% shareholder) and other undisclosed sellers, for US\$588 million;
- An investor group comprising the Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan of Canada launched an unsolicited tender offer to acquire the remaining 74.5% interest which they did not already own, in Transurban Group, a Melbourne-based owner and operator of toll roads, for a total value of US\$4.6 billion. Price negotiations are ongoing at the time of writing;
- Private equity group Pacific Equity Partners launched a tender offer (which subsequently became unconditional and subject to a 50% minimum acceptance condition which was recently reached) to acquire the entire share capital of Energy Developments Limited, a Brisbane-based owner and operator of power assets in a deal valuing the company at US\$396 million;
- The receivers of ABC Learning Limited, the failed Brisbane-based provider of childcare and education services, agreed to sell the remaining profitable centres to the not-for-profit Goodstart syndicate for US\$141 million;
- Australia & New Zealand Banking Group Ltd. (ANZ) acquired the remaining 51% of its wealth management and life insurance joint venture in Australia and New Zealand from its partner ING Groep NV. The transaction had a value of US\$1.5 billion;
- In line with its previously announced strategy to become a leading super regional bank by 2012, ANZ also announced an agreement with the Royal Bank of Scotland (RBS) to acquire selected RBS businesses in Asia for around US\$550 million. These businesses included RBS' retail, wealth management and commercial operations in Singapore, Taiwan, Indonesia and Hong Kong;



- As a result of a prolonged period of financial stress, the Canadian media conglomerate Canwest Global Communications Corp. was forced by its lenders to dispose of its majority stake in the Australian media group Ten Network Holdings Limited by the means of a block trade for approximately US\$630 million, using Macquarie Capital Advisors Limited as brokers, with the majority of shares acquired by institutional investors.

Outlook

From an economic perspective, the Australian economy's comparatively strong performance over the past six months gives rise to the distinct possibility of further interest rate rises in the coming year, as the RBA looks to adopt a more aggressive monetary policy following the "emergency" settings of the past 18 months. The prospect of further rate rises is not expected to harm the strength of the Australian dollar, although the announcement of positive data from the US economy at the end of the second half of 2009 suggests the performance against the US dollar may not exceed the heights reached in the last six months.

In terms of transactions, we believe the following areas will provide significant activity in the coming months:

IPOs

With the IPO window once again open, there has been much speculation that a number of companies will look to follow the lead of Myer and Kathmandu. In particular, Queensland Rail's freight assets, Ascendia Retail (operator of the Rebel Sports chain), the Australian arm of the German construction group Bilfinger Berger, and pallet manufacturer Loscam are all expected to seek listings on the ASX in the first half of 2010. As is the case with Ascendia and Loscam, a number of IPOs in 2010 are likely to be driven by private equity funds looking to exit portfolio company investments made prior to the global financial crisis.

Resources and Mining

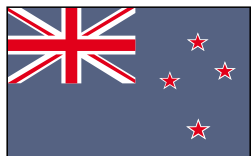
With demand for Australia's resources from China and other Asian economies once again increasing, and the recommencement of several capital projects previously postponed in the wake of the global financial crisis, the resources and mining sector is likely to prosper. In addition to the core mining companies, the growth in demand for resources is also likely to benefit those companies on the periphery of the mining industry including asset hire, logistics, engineering, consultancy and equipment providers, and as a result may make them attractive takeover targets in the coming months.

Financial Services

Although the financial services sector in Australia has undergone a significant period of consolidation over the past 18 months, current activity and speculation around both the Big Four banks of Australia, and industries within the sector (such as financial planning, life insurance and funds management) suggests further transactions are likely. In particular, the battle for control of AXA AP is still to be played out, whilst regulatory developments are likely to result in changes to the wealth management landscape.

Infrastructure

The governments of both New South Wales and Queensland are currently going through a privatisation process for several state assets. In particular, the Queensland government has made significant progress in their plans to sell off various assets including Abbot Point Coal Terminal and Queensland Motorways, whilst the Port of Brisbane has already been sold. Further activity in this sector may be generated as the Rudd Government's US\$38 billion National Broadband Network project gathers momentum. Renewable energy assets are also believed to be attractive targets as the introduction of formal climate change legislation appears to move closer to reality. In addition, many observers are keen to see the final outcome of the Transurban transaction detailed previously. In 2009, many disposal processes were started, however, in the uncertain economic environment very few resulted in a sale. If the Transurban deal completes, this may signal a return of investor confidence in this sector and prompt further activity. ■



Australasia

New Zealand

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



Mark Averill
Corporate Finance Leader
New Zealand

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.

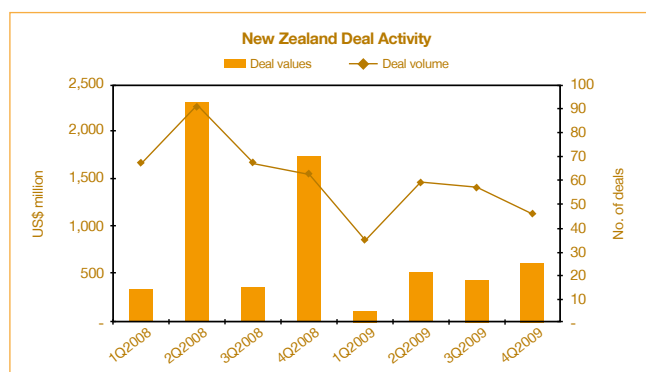
Non-residential building consents were up 1% for the year ended October 2009 compared to the prior year, reflecting the relatively stable growth of the non-residential sector, which is underpinned by development of stadia and facilities for the 2011 Rugby World Cup and other infrastructure projects. 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. ■

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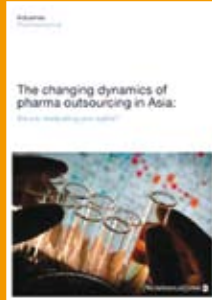
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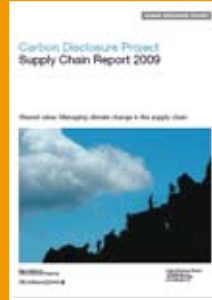
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M&A Insights Media Sector



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