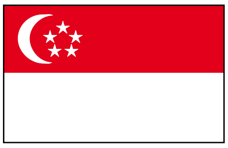


Singapore

Fundamentals strong for M&A in Singapore, but slowdown expected in the short term

Economic Environment

During the first half of 2008, Singapore's economy expanded at an estimated rate of 4.5%. This is a decline from the 7.7% growth registered in the same period in 2007 and is a result of the weakening global economic environment triggered by the sub-prime crisis in the US.

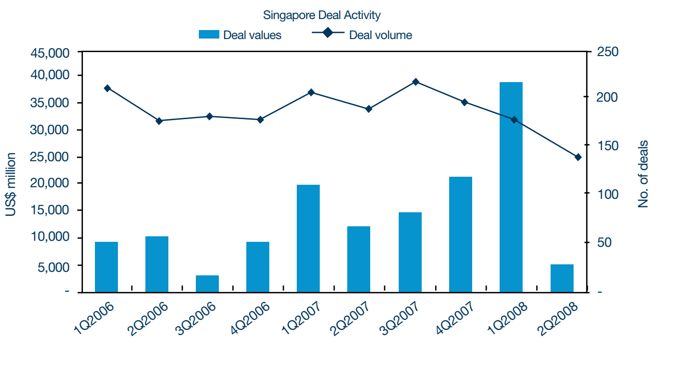
Overall employment continued to grow in 2008. Most (67%) of the new jobs created were in the services sector.

Growth in the first quarter was robust at 6.7% year-on-year. Manufacturing production rose by 12% in the first quarter of 2008 on the back of strong growth in the biomedical sector. The financial services sector registered gains of 13%. Growth in this sector was broad-based, underpinned by robust expansion in both the domestic and offshore banking segments. The construction sector continued to enjoy robust double-digit growth with demand coming from both the private and public sectors.

However, growth is expected to have slowed significantly in the second quarter with the manufacturing sector expected to have contracted. The Purchasing Managers' Index, a leading indicator for the industry stood at 49 points in May – a reading below 50 points indicates that the sector is generally shrinking. Concerns over the economic slowdown and uncertainty in global markets created volatility in the stock market. The benchmark STI Index reached a low of 2,948 points in June 2008, a fall of 24% from its peak last year in October 2007.

Consumer price inflation trended upwards to 6.6% in the first two quarters of 2008. The Monetary Authority of Singapore ("MAS") maintained its three-year-old policy of allowing a "modest and gradual" appreciation of the Singapore dollar against a trade-weighted basket of foreign currencies. The move was aimed at warding off excessive upward price pressures in an environment of high global commodity prices. The trend of tightening monetary policy is likely to continue at least till the end of 2008.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2008

Following the unprecedented level of M&A activity over the past two years, total announced deal value increased to US$17.4 billion in H1 2008, a 22% increase compared with the same period last year. M&A transactions in Q1 2008 soared to a record US$13.6 billion on the back of Huaneng's acquisition of Tuas Power, Tecity Group's acquisition of the Straits Trading Company and CapitaLand's acquisition of the Ascott Group Limited.

However, a significant slowdown of M&A deals was observed in the second quarter of 2008. The value of deals nosedived to US$3.8 billion, with average deal size of US$39 million. Meanwhile, many big deals were withdrawn or postponed. For example, SNF Corp Ltd terminated its worth of US$366 million acquisition of Healthway Medical Services. Auston International Group's acquisition (deal value of US$107 million) of Singapore-based M2b World Asia Pacific had lapsed as well.

So far, M&A activity this year has been dominated by the energy and power, industrial products and property sectors.

Property sector

Despite a softening property market during H1 2008, deals in this sector remained buoyant. A total of 19 deals were announced with a combined value of close to US$4.1 billion. CapitaLand, Southeast Asia's largest property firm, was behind a few major deals. Notable deals included the following:

- CapitaLand Ltd raised its interest in Ascott Group Ltd, the world's largest serviced apartment operator outside of the US, from 66.5% to 98% for US$623 million via a tender offer. CapitaLand took Ascott Group private after the completion of the transaction.
- CapitaMall Trust Ltd, the largest commercial REIT in the country, agreed to acquire Singapore state-owned Atrium@ Orchard, an office building owner and operator, for US$618 million. CapitaMall planned to integrate the development with the Plaza Singapura shopping mall next door which it also owns. The proposed merger of the two properties will create one of the largest integrated developments along Orchard Road.
- Commerzbank AG, the second largest bank in Germany, planned to acquire 71 Robinson Road, an office building owner and operator in Singapore, from Kajima-Lehman (Robinson) Development, a 50:50 joint venture between Kajima Corp and Lehman Brothers Holdings, for US$547 million.

Energy & Power sector

The energy and power sector was also active, with total deal value of US$4 billion. The largest deal was the acquisition of Tuas Power Ltd, a Singapore-based electric utility company by SinoSing Power Ltd, a wholly-owned unit of Chinese state-owned Huaneng Group. SinoSing Power acquired the entire share capital of Tuas Power from state-owned Temasek Holdings for US$3.1 billion in cash. The deal attracted considerable interest from major international power generators, including Marubeni Corporation of Japan, Hong Kong Electric Holdings, India's Reliance Energy, a joint venture between Macquarie Group of Australia and GMR Infrastructure of India, and Tanjong PLC of Malaysia. The acquisition of Tuas Power will enable China Huaneng to diversify its assets globally.

Temasek is also expected to divest its two remaining energy subsidiaries, Power Seraya Ltd and Senoko Power Ltd, by the first half of 2009.

In another privately negotiated deal, United Arab Emirates state-owned Mubadala Development Co acquired the entire share capital of Pearl Energy Ltd, an independent oil and gas exploration and production company in Singapore. The vendor, Aabar Petroleum Investments Co, a listed UAE-based oil and gas exploration and production company, received a total cash consideration of US$878 million.

Industrial Products sector

A total of 29 deals were announced or completed in the industrial products sector, with combined indicative value of US$3.7 billion, 41% higher than the same period in the last year.

- The biggest buyer was Russia-based Evraz Group SA, one of the largest steel and mining businesses in the world. It acquired a 32% stake in Delong Holdings Ltd, a Singapore-listed steel products manufacturer and wholesaler, for a total value of US$480 million. Subsequently, Evraz launched a mandatory tender offer to acquire the remaining 49% of Delong Holdings, for a total value of US$732 million.
- In another headline deal, Tecity Group, owned by the family of the late Tan Sri Tan Chin Tuan, acquired a further 67% interest in Straits Trading for a total value of US$1 billion, thereby raising its interest to 89%. Straits Trading is a Singapore based tin metal and tin-based products manufacturer with hotel and property operations. It is partially owned by OCBC Bank. The deal had earlier attracted a competing bid from the Lee family, a significant shareholder in OCBC Bank.
- Penton International Ltd signed a Memorandum of Understanding to acquire the entire share capital of Inhwa Enterprise, a bathroom fixtures wholesaler, in exchange for the issuance of 6.5 billion new ordinary shares valued at US$486 million, in a reverse takeover transaction.

The remaining deals were spread out over the construction, engineering, materials and machinery sectors.

Government-linked M&A activities

Following a series of high-profile acquisitions in 2007, the Government of Singapore Investment Corporation ("GIC") made nine deals overseas with a combined value of US$9.9 billion. Some of the notable deals included:

- Planned acquisition of preferred shares convertible into an estimated 4% stake in Citigroup for US$6.9 billion in a privately negotiated transaction.
- Planned acquisition of a 14% stake in Sintonia, a Luxembourg-based company investing in the infrastructure sector, with total consideration of US$1.5 billion. Under the terms of the agreement, GIC will also subscribe to a capital increase in Sintonia in order to increase its stake to the target ratio.
- Acquisition of an 11% stake in AEI Services, an owner and operator of energy infrastructure in the US, for US$400 million.

On the other hand, the other government-owned investment vehicle Temasek Holdings was engaged in a series of divestments, including the long-expected sale of Tuas Power (see previous page) and Sorak Financial Holdings to Maybank, totalling US$4.3 billion.

Taking advantage of the financial difficulties faced by troubled western banks and corporates seeking to attract capital following losses in sub-prime mortgage market, GIC, Temasek and other government-linked companies have made some significant acquisitions over the last year. Specifically, GIC paid US$9.8 billion for a 9% stake in sub-prime battered UBS in December 2007, and US$6.9 billion for a 4% stake in troubled Citigroup in January 2008. Temasek injected US$4.4 billion into Merrill Lynch with a 9.4% stake in December 2007. Subsequently, Temasek pumped an additional US$3.4 billion into Merrill Lynch in July 2008, bringing its stake up to 14% and becoming the single largest investor in Merrill Lynch.

Private Equity

Private equity sponsored deals in H12008 were relatively stable when compared to H2 2007, with a slight decrease in deal value from US$1.5 billion to US$1.4 billion (Number of deals dropped from seven to five). However, when compared to H1 2007, there was a decrease of 48% in deal value and the number of deals dropped from eight to five. Nevertheless, a few big private equity players still made some headline deals:

- Kohlberg Kravis Roberts ("KKR") has made an offer to acquire Unisteel Technology, the Singapore-listed engineering solutions company, with total deal value of US$575 million. KKR beat Bain Capital, Carlyle Group and TPG Capital in a competitive auction dominated by US private equity firms. Unisteel Technology will be delisted upon completion.
- HSBC Private Equity agreed to acquire Sing Lun Holdings, the listed Singapore-based textiles and apparel company, for a consideration of US$87 million. Post acquisition, HSBC will privatise and delist Sing Lun.
- In a privately negotiated transaction, Dubai International Capital acquired 45% of True Group, the Singapore-based wellness centre operator, for US$68 million. With this investment, True Group aims at expanding its chain of wellness centres and penetrating into India and UAE in the next three years.

Outlook

A cyclical slowdown is expected in H2 2008 due to weaker external demand, rising commodity and energy prices, as well as further potential losses from the sub-prime crisis.

However, healthy domestic demand is still providing some support to the local economy. Deferred public construction projects, positive effects from the Integrated Resorts developments and other investments will generate further economic activity. Full-year economic growth is forecasted to grow at a slower, but healthy rate of between 4%–6% in 2008.

Despite the challenges facing M&A in the near term, Singapore's deal fundamentals remain strong. With strong medium term economic fundamentals, there is reason to believe that Singapore will continue to be one of the "hot spots" for investment over the next few years.