

Advisory

Asia Pacific M&A Bulletin

Recovering to a new reality

Mid-year 2009





Best Financial Adviser

by Public Private Finance Awards 2008

2008 Market Leader in Project Finance & Privatisation – Global & Asia Pacific

by Project Finance Awards 2008 & Euromoney Awards 2008

1st globally by number
of closed mandates for 2008
36 mandates

2nd in Asia Pacific by number
of closed mandates for 2008
9 mandates

Asia Pacific PPP Deal of the Year 2008

by Project Finance International Awards 2008



“To PricewaterhouseCoopers we would like to extend our thanks and appreciation for their professionalism and effort & determination to work out a win-win partnership.

Together, we can make the new ITE College West a pulsating hub that will benefit ITE students, the industry and the community.”

Dr Benjamin Tan
Deputy CEO (Development)
Institute of Technical Education

Successful deals are Made, not Born

We view M&A as a coordinated process, not a series of separate steps. Acting as deal and due diligence advisors, we help our clients find the right deals, get them done faster, with less disruption and at a more attractive price.

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.**

Using cross-functional teams, we bring together all the relevant expertise from our PricewaterhouseCoopers global network to provide services across the whole deal continuum. Tapping into our network's vast industry sector knowledge, we deliver a fully connected solution to our corporate and financial investor clients.

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.



M&A advisor of choice

Number 1 Advisor by Volume in Asia Pacific ex. Japan for 2008 by Mergermarket

Number 2 Advisor by Volume in Asia Pacific ex. Japan for 2008 by Thomson Reuters

A selection of recent M&A transactions in Asia Pacific advised by PricewaterhouseCoopers

Meiji Dairies Corp

Merger with
Meiji Seika Kaisha
via a share swap
valued at
US\$2,543 million

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

Century Leasing

System Inc
Merger with
Tokyo Leasing Co Ltd
via a share swap
valued at
US\$491 million

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2009

Epson Toyocom Corp

Sale of additional 24.4%
interest to
Seiko Epson Corp for
JPY13 billion

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Japan

2009

Toshiba Elevator & Building Systems Corp

Acquisition of
51% stake in
Chevalier (HK) Ltd

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Japan

2009

Guan Sheng Yuan Group

Sale of 45% equity stake
to Citic Capital for
RMB510 million

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
China

2009

Epoch Material Co Ltd

Sale to
Cabot Microelectronics
Corp for
US\$66 million

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Taiwan

2009

SSangyong Slag & Materials Co

Acquisition of
Eugene Corp cement
business for
US\$53 million

Financial Advisor:
Samil PricewaterhouseCoopers
Corporate Finance
Korea

2009

Korea Express Co Ltd

Sale of 60% interest in
Korea Express Co Ltd to
an investor group for
US\$4,334 million

Financial Advisor:
Samil PricewaterhouseCoopers
Corporate Finance
Korea

2009

CVC Asia Pacific Ltd

Acquisition of 65%
interest in Stella
Hospitality Group for
US\$1,223 million

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Australia

2008

Industrial Bank of Taiwan

Acquisition of China Bills
Finance Corporation via
share swap valued at
US\$1,125 million

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
Taiwan

2008

SSI Ltd

Merger with
PVP Venture Pvt Ltd
via a share swap
valued at
US\$717 million

Financial Advisor:
 PricewaterhouseCoopers
Corporate Finance
India

2008

Nippei Toyama Corp

Sale of 66.27% to
Komatsu Ltd for
US\$555 million

Financial Advisor:
PwC Advisory Co Ltd
Corporate Finance
Japan

2008

Daehan Fire & Marine Insurance Co

Sale of 57% interest to Lotte Group for **US\$372 million**

Financial Advisor:
Samit PricewaterhouseCoopers
Corporate Finance
2009 Korea

Toppan Printing Co., Ltd

Acquisition of SNP Corporation Ltd through Voluntary Conditional Cash Offer for **S\$220million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 Singapore

KS Oils Limited

Raised **US\$100 million** of private equity funds from Citi Venture Capital International and Baring Private Equity Asia

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 India

Novo Group Ltd

Listing on the mainboard of SGX-ST via a reverse takeover valued at **S\$140 million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 Singapore

Dubai Drydocks LLC

Acquisition of Labroy Marine Ltd through voluntary conditional cash offer for **S\$2.37billion**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 Singapore

Xuejin Brewery

Sale of 100% interest to InBev for **€614 million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 China

Oiltanking GmbH

Divestment of a 45% stake in 3 oil storage companies in Singapore, Amsterdam and Malta to 3i Infrastructure Ltd for **€305million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 Singapore

ChemChina

Disposal of 20% interest in China National Bluestar (Group) to Blackstone for **US\$600million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2009 China

Investor Group

Acquisition of 29.76% stake in Shiin-Heung Securities Co Ltd for **US\$221 million**

Financial Advisor:
Samit PricewaterhouseCoopers
Corporate Finance
2008 Singapore

Standard Chartered Private Equity & CVC AsiaPacific

Leveraged buy-out of Amtek Engineering Ltd for **S\$534million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2008 Singapore

Axa Asia Pacific Holdings

Acquisition of Sterling Grace Portfolio Management Limited for **AU\$201 million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2008 Australia

Belfinger Berger

Takeover of Abigroup Limited for **AU\$186 million**

Financial Advisor:
PRICEWATERHOUSECOOPERS
Corporate Finance
2008 Australia



Chao Choon Ong
Transactions Leader
Asia Pacific

Recovering to a new reality

What a difference half a year makes. We started the year on a sombre note, staring into an economic abyss. Plunging stock markets, frozen credit and runs on banks threatened to bring about a global financial meltdown that would send the world into the Great Recession. Six months later, with the economies still on fiscal life support, major Asian bourses have recovered over a third of their losses from the 2007 peaks and there are growing concerns that we may be witnessing the start of another asset bubble – except that this time, it is built on the smouldering rubble of a still-tattered real economy.

All the signs are indicating that, as a result of massive support provided by governments, the global economy is finally beginning to creep out of a recession unprecedented since the Great Depression. Confidence is returning and fears of a global financial meltdown have abated. Asia, if its stock markets are any indication, is leading this return of exuberance. In the last six months, while the Dow Jones Industrial Index and FTSE 100 fell 4%, Asian bourses ex Japan gained over a third of their values, with the Shanghai Composite topping the charts at a whopping 61% rise, erasing its 64% loss in 2008. Similarly, real estate prices in parts of Asia are now near their pre-crisis levels. Property sales in China, according to its statistics bureau, rose 45% in the first five months to RMB1 trillion (US\$146billion), compared to a 20% drop in 2008.

Low interest rates, quantitative easing and the wealth effect have contributed to the recovery of Asian stock markets and real estate, which has raced ahead of the real improvement in economic fundamentals. In an effort to keep its economic engines humming at the magical 8% growth (which the Chinese government believes is the level needed to create sufficient jobs for its growing work force), China's central bank scrapped its loan quotas in November 2008. This led to an unprecedented increase in bank lending. In the first half of 2009, China banks extended RMB7.4 trillion (US\$1.1 trillion) worth of new loans, significantly more than the RMB4.9 trillion for all of 2008 when the economy grew at 9%. Unfortunately, 20% of these new loans were invested in the stock market, driving up stock and real estate prices.

Despite the positive signs and general acknowledgement that the worst of the recession is behind us, we may be looking at a long U-shaped or a bumpy W-shaped recovery. The world that will emerge at the end of this long tunnel is likely to be very different – both economically and geopolitically. Some of these changes will be immediately perceptible, others will bring forth or set the wheels in motion for strategic tectonic shifts. The brave new world that we are likely to recover into heralds uncertainty and risks, but also presents opportunities.

Pressure on government to increase tax revenue

The Great Recession was averted by extraordinary levels of government intervention and fiscal spending, funded by public debts. Public debts of OECD countries rose from 50% to 100% of GDP. In the US, the Obama administration expects its public debt to double by 2019 to three-quarters of its GDP. In the medium term, the colossal public debt overhang will exert upward pressure on bond yields and interest rates, dampening asset valuation and economic growth. Reducing this overhang is no mean feat. Budget deficits in the US alone will hit US\$1.58 trillion this year, and a further US\$7 to US\$9 trillion of deficit is expected over the next decade. The annual interest cost of US public debt may exceed US\$0.6 trillion in 2019.

The public debts and fiscal deficits have to be reduced over time. Given governments' limited ability to increase or levy new taxes during the long and slow economic recovery, there will be greater focus on plugging tax loopholes

and increasing fiscal revenue under existing legislation. China, for example, is undergoing a complete overhaul of its tax regime and constantly introducing legislation to plug existing policy and implementation loopholes. The US has taken action against UBS and tax advisors selling offshore tax shelters, and their clients. Revenue authorities of various countries have also taken great interest in transfer pricing arrangements and activities of foreign corporations operating within their sovereign boundaries, with a view to minimise tax revenue leakages. Many corporations with cross-border value chains are now playing catch-up to get their house and documentation in order, before being caught out at the next tax audit.

The upshot of these developments is that tax structuring, due diligence and securing water-tight tax indemnities are more critical than ever in M&A, especially for cross-border transactions or those involving targets with multinational operations.

Long bumpy W-shaped recovery?

The current level of global monetary and fiscal stimulus, which includes some US\$2 trillion of stimulus spending, is not sustainable. Exiting from these stimulus policies and spending entails significant risks. Left on for too long and the inherent inflationary pressures, currently kept under the lid by excess capacity, may boil over. On the other hand, lifting the measures too early may undermine the nascent recovery. Judging from past records, one has to be rather optimistic to believe that the governments will get the timing and balance right. The chance of a W-shaped recovery, or a double-dip recession if one sees the glass as half empty, is fairly real.

Against this backdrop, investors are likely to continue to focus on defensive sectors – such as pharmaceutical and healthcare, infrastructure and education – and businesses that possess the right fundamentals to ride out the long bumpy recovery.

Changing Asia's export-led growth model

For a few more years, US households will deleverage and rebuild their nest eggs with increased savings in the shadow of weak housing prices and a looming credit card debt burden. US consumer debt has declined, and its saving rate has risen to 6.9% in May due to unemployment. US household consumption is expected to shrink by 4% in 2009 and 2010, before returning to 2008 levels in 2011. The still-rising unemployment rate in the US, expected to hit 10% this year, does not help. It will be a long while before we see a return to the credit-fuelled consumption of the past decade.

Going forward, Asia's export-driven economic model, which has worked well so far and pulled hundreds of millions out

of poverty in the past decade, needs to be rebalanced with Asian consumption. This structural change has to be led by Asian countries with large populations – China, India and Indonesia – and can only be achieved in the medium to long term as it will require increase in household income and policy changes to improve social safety nets. With US consumption accounting for about 18% of global GDP and at 6.7 times that of China's, the fall in US and Europe consumption will leave a void that cannot be filled for the next few years.

Asian businesses dependant on exports to US and Europe will have to adjust to the lower export demand, or refocus their products and markets to Asia. As the economic model evolves, there will be casualties and opportunities for consolidation.

Window of opportunity for Asian banks

The bulk of the US and European banks are likely to remain capital impaired over the next couple of years, as they deleverage and de-risk under greater regulatory scrutiny. Bank lending conditions are expected to remain tight and credit constrained even as interest rates are kept low in the near term. Asian banks, with relatively unimpaired balance sheets, have a window of opportunity to step up their game and intermediate the massive capital needs of a growing Asia.

At the same time, capital-stretched Western banks have started disposing their Asian assets and operations to raise cash and consolidate their global businesses to conserve capital. We have seen Nomura acquiring Lehman Brothers' Asia investment banking business; Sumitomo Mitsui acquiring Citigroup's Nikko Cordial and Nikko Citigroup Ltd; ANZ taking over RBS' retail businesses in Asia; AIG selling Nan Shan Life, its Taiwan life insurance business; and ING considering the sale of its private banking operations in Asia. These present Asian banks with unique opportunities to pick up talent, know-how and scale.

Overlay these with the fact that Asian banking markets are fragmented with many small, unsophisticated domestic players, we expect that M&A and consolidation activities in this sector will remain in high gear for the foreseeable future.

Asia, growth engine of the brave new world

The International Monetary Fund does not expect the Advanced Economies of the US and Euro area to show sustained pickup in economic activity until the second half of 2010. Advanced Economies are expected to contract 3.8% in 2009. In 2010, they are projected to grow an average of only 0.6%, with US growing 0.8% and Euro area contracting 0.3%.

On the other hand, Developing Asia is expected to grow 5.5% in 2009 and 7% in 2010. China is projected to grow 7.5% and 8.5% over these two years, and India at 5.4% and 6.5% during the same period. While substantially more subdued than the 13% and 9.4% growth that China and India achieved respectively in 2007, they still make Asia the fastest growing and most economically attractive region in the world. At this rate, China will replace Japan as the world's second largest economy by 2010, less than two years after overtaking Germany's third place in 2008. The fundamental drivers for both inbound and intra-Asia M&A therefore remained strong despite the global recession.

Asia is also flushed with corporations with strong balance sheets and cash-rich sovereign wealth funds. In the past year, they have continued to flex their substantial financial muscle to make acquisitions both within Asia Pacific and outbound, across the globe. Much of these activities, led by Chinese buyers, have been focused on the resources and energy sectors. We expect these, and food, to remain Asia's key investment themes in the coming years as Developing Asia seeks resources, energy and food security in response to its fast-growing and urbanising economies and populations. Politically, this is top priority for emerging Asia as its low-income masses do not have the means to withstand sharp inflation on these necessities. One only needs to look back to 2008 and the potentially destabilising social unrests on the back of sky-rocketing oil, food and resource prices to understand why.

Finding a new geopolitical equilibrium

Since the 1980s, the economic centre of the world has been slowly shifting from the Atlantic Ocean to the Pacific Ocean – starting with the Japan miracle, followed by the Asian Tigers and the opening up of China. With the end of the Cold War and the growing economic might of China, the geopolitical centre has followed suit. The current recession is accelerating this shift.

Beyond economics and geopolitics, what is immensely more powerful is how this economic renaissance is shaping the Asian psyche and its confidence on the world stage. The reaction of ordinary Chinese citizens to protests in the West during the Beijing Olympic torch relay; the demonstration in India for the shoddy immigration treatment of their beloved Bollywood actor, Shah Rukh

Khan, in the US; or China voicing its concerns about the growing US deficit and its impact on their US\$776 billion chest of US Treasury securities, are but some recent examples of this new-found confidence. There are parallels to the post-World War II years, except that now, it is their geopolitical equality rather than independence that is being demanded by Asians.

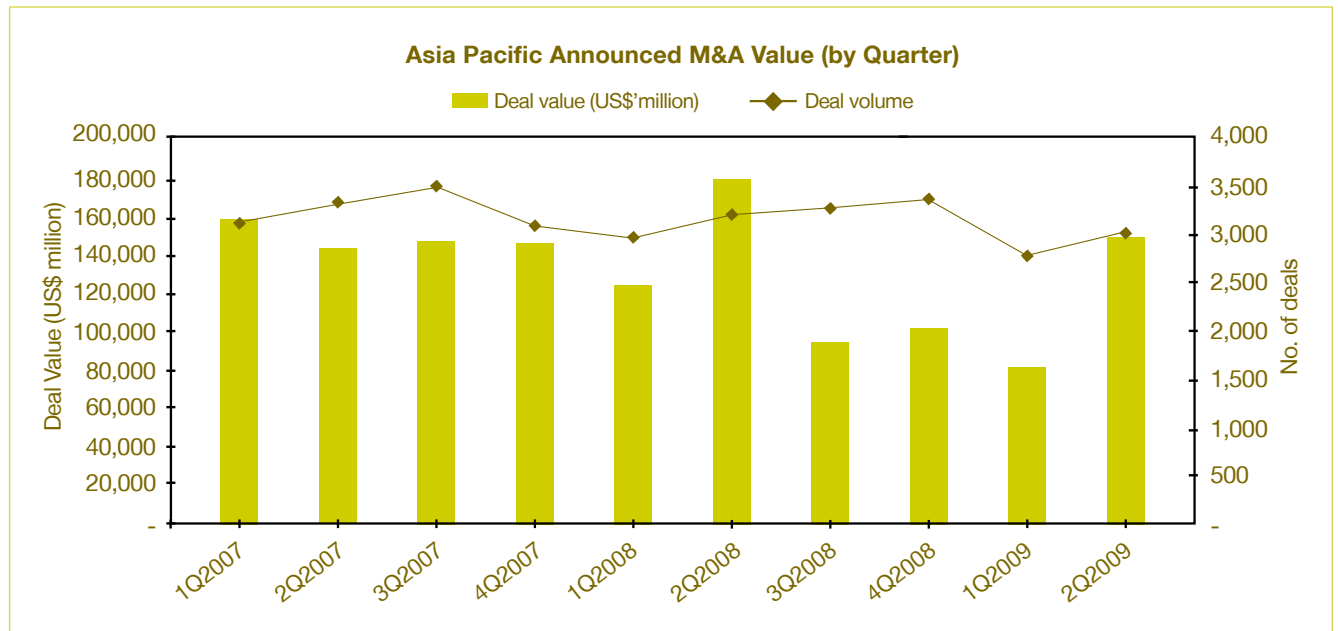
The world will continue to be in transition for many more years as it seeks out a new geopolitical and economic equilibrium. On the long road to recovery where high unemployment is expected to persist, this awkward transition may result in greater protectionism, nationalism and de-globalisation. We have already seen various signs of these over the past year, as politicians walk the fine line between populist measures and economic efficiencies. If these are not kept under control, they could dampen both the economy and M&A.

Recovering to a new reality

The concerted massive government interventions have averted a global financial meltdown. The world economy appears to have bottomed-out at the end of the first quarter of 2009. Confidence is returning, credit taps are unlocked and the stock market bulls are charging again – in an economy that resembles a china shop. Clearly, it is too early to pop the champagne. The road to recovery is likely to be slow, long and bumpy, and the world that awaits us at the end of the tunnel will operate on markedly different geopolitical dynamics and economic models.

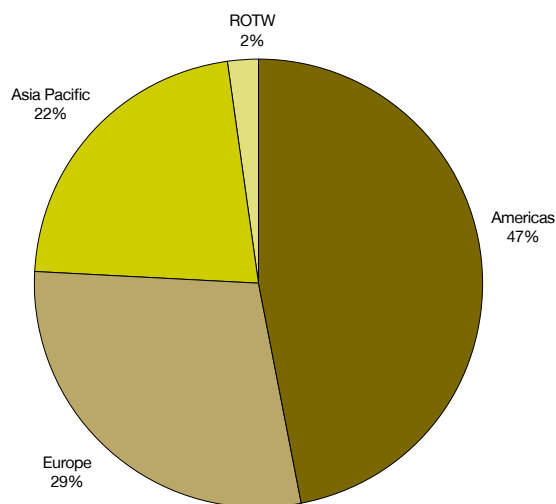
While the new reality is fraught with uncertainty and risk, it also presents significant opportunities for M&A. The slower growth and more subdued credit will result in more realistic valuations, which will be welcomed by corporate strategic investors. Private equity will find it challenging to realise desired returns from some of their pre-recession investments, and increasingly difficult to achieve those returns on new investments by financial engineering alone. They will have to focus on transforming businesses and creating value, or accept lower exit valuations. In this new reality, attention to value drivers and operational details of the business is the key to success. The market will reward those who can spot value enhancement opportunities pre-deal, and deliver on them post deal.

Overview of Asia Pacific M&A transactions in 1H2009



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

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

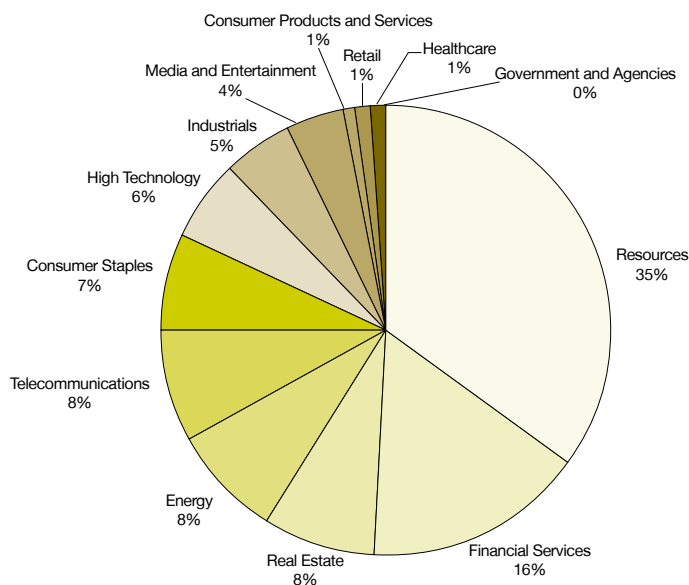


The value of announced Asia Pacific M&A fell 25% in the first half of 2009 from the same period last year to US\$229 billion, in line with the fall in value of global M&A. Asia Pacific accounts for 22% of global M&A in both first half periods. The proportion would have been greater if the massive government cash injections to recapitalise western financial institutions in first quarter of 2009 were to be excluded.

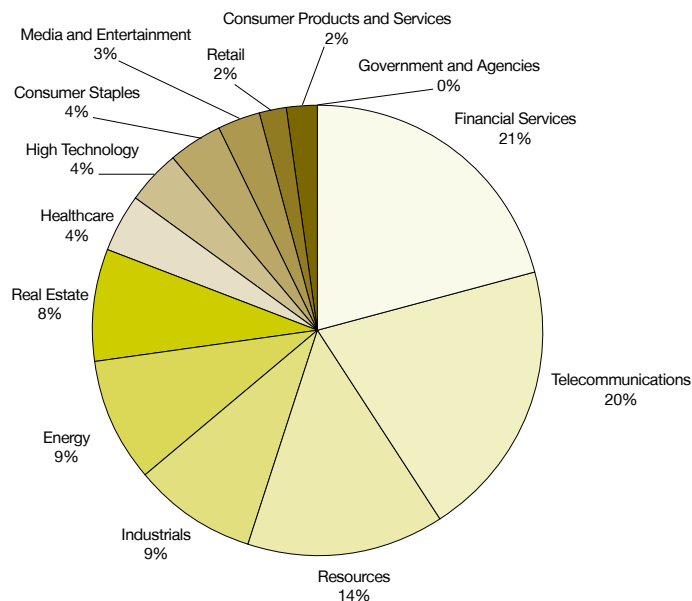
While M&A activity in the first half of 2009 increased by only 18% compared to preceding half year period, it is significant to note that within the half year of 2009, there was an 86% increase in M&A activity between the first and second quarters – in tandem with the stock market rally and signifying the thawing of the M&A winter after three consecutive quarters of decline. Anecdotally, we have seen significant pick-up in M&A execution activities since April 2009, albeit the deal sizes are substantially smaller and buyers are more cautious in both due diligence and valuation. Buyouts are still rare given the more conservative credit environment.

Asia Pacific Announced M&A Value by Industry

1H2009



1H2008



The primary themes of Asia Pacific M&A in 2009 continued to be Financial Services, Resources, Energy and Telecoms. Interests in the Industrial sector had waned following the onset of recession. The major transactions announced in the last six months were

Financial Services

- Sumitomo Mitsui's US\$5.8 billion acquisition of Nikko Cordial Securities and concurrently the domestic equity and debt underwriting business of Nikko Citigroup Ltd
- Ping An Insurance's US\$3.2 billion purchase of 30% interest in Shenzhen Development Bank
- Samruk-Kazyna Fond US\$2.1 billion acquisition of 78% interest in BTA Bank JSC

Resources

- Rio Tinto's US\$58 billion joint venture with BHP Billiton
- Minmetals Corp's US\$1.4 billion acquisition of certain assets of OZ Minerals Ltd, a copper, lead, zinc and gold mining company in Australia

Energy

- Sinopec's US\$8.9 billion acquisition of 100% interest in Addax Petroleum Corp
- Investor Group's US\$3.3 billion acquisition of 100% interest in OAO MangistauMunaiGaz

Telecoms

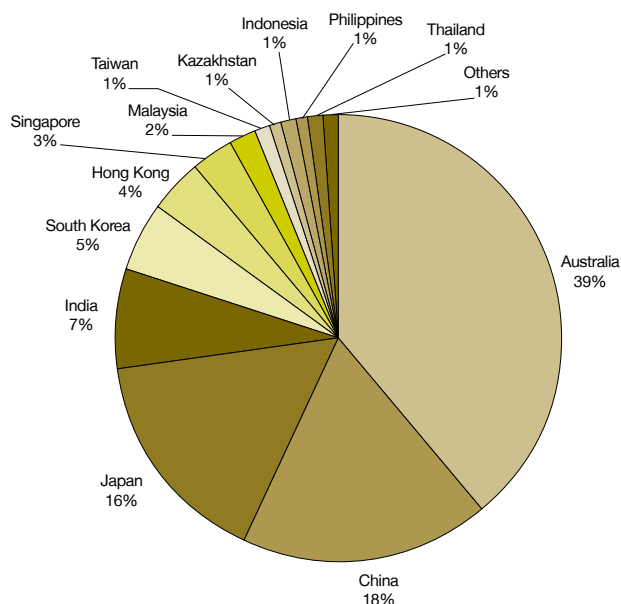
- Bharti Airtel's US\$11.4 billion acquisition of 36% interest in MTN Group
- Vodafone and Hutchison's US\$2.5 billion merger in Australia

Real Estate

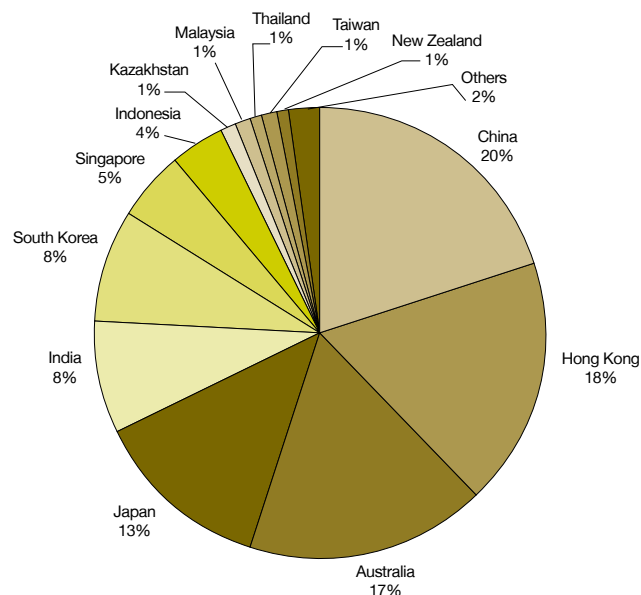
- Chongqing Dongyuan Industry Development Co Ltd US\$2 billion acquisition of real estate developer, Chongqing Jinke Industrial (Group) Co Ltd
- Nippon Life Insurance US\$1.2 billion acquisition of the Marunouchi AIG Building in Tokyo from American International

Asia Pacific Announced M&A Value by Country

1H2009



1H2008



Within Asia Pacific, Australia overtook China in value of deals announced during the first half of 2008. This is followed by Japan and India.

Australia's ascent is primarily attributed to the US\$58 billion Rio Tinto – BHP joint venture. Excluding that single deal, Australia's share of Asia Pacific M&A activity for the first six months of 2009 would have been 17% instead of 39%.

China and India's M&A activities were dominated by domestic deals. China's domestic deals accounted for 50% of deal activity in the first half of 2009 as a result of the Chinese government's stimulus measures and on-going government policy to support consolidation in cement,

steel and financial services. India's domestic transactions accounted for more than half the value of deals announced. These domestic transactions related mainly to consolidation and re-alignment of businesses.

On the other hand, more than half of the Japanese M&A activity in the first half of 2009 related to outbound investments by Japanese corporations, predominantly in the Financial Services, Energy, Resources and Food & Beverage sectors. These transactions were driven by the overall distressed state of the markets, the country's efforts to secure natural resources and expansion beyond the saturated domestic food and beverage markets. ■

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Regional Merger & Acquisition Contacts



The background of the entire page is an abstract composition of numerous dark blue diagonal lines that create a sense of depth and perspective, converging towards the bottom left. A bright, hazy light source, likely the sun, is visible in the upper left quadrant, casting a soft glow across the scene.

Industry Insights

Automotive

Financial Services

Entertainment & Media

Infocomm

Infrastructure

Insurance

Mining & Resources

Oil & Gas

Pharmaceutical & Healthcare

Private Equity

Retail & Consumer

Automotive



Jeff Herrmann
Asia Pacific
Automotive Deals
Leader

For automotive companies in Asia, 2009 represents the beginning of an expected shift in emerging countries, particularly China and India, as they begin to exert their respective influence by expanding overseas. This is in stark contrast to the more developed markets in North America, Western Europe and Japan which are deeply troubled with many of the OEMs and associated suppliers either in the process, or on the verge, of restructuring. We are currently at an inflection point in the history of the automotive space that will see a massive shift of ownership and focus from the West to Asia.

The current industry is faced with both a structural and a market problem. With respect to the market problem, vehicle volumes in Western countries are at 30-year lows with a year-over-year decrease in sales of over 30% mainly due to the credit crisis which is preventing otherwise eligible consumers from financing vehicles. Structurally, the Western developed countries are burdened with excess capacity, a long-term inability to generate returns above their cost of capital, and a poor reaction to the realities of global competition and consumer demand. The end result is that a number of the Western OEMs, along with their associated supplier base, are available for purchase due to their necessity to survive or restructure through a formal bankruptcy process.

In Asia, the global downturn has had dramatically different effects on each country within the region. The more developed countries like Japan, Korea, Thailand, and to a lesser extent Australia, have followed Western trends with significant reductions in market demand. The companies present in these countries (like Toyota, Honda, Hyundai, etc. along with their Western transplants) are either taking a “wait-and-see” attitude, or in the case of some troubled Western OEMs, are actually shedding non-performing assets.

In other countries like Malaysia and India, reductions in demand have not been as severe, and both domestic and foreign MNCs are making very targeted investments, typically through facility expansion. If China's growth were excluded, India's growth in the auto sector would be viewed as outstanding. Over the past couple of years a number of Indian auto component manufacturers like Bharat Forge and Amtek Auto made overseas acquisitions to facilitate capacity expansion, access to technology and expanding their global footprint. However, most of these deals were done during peak valuation periods and the downturn has seen several overseas operations of Indian companies record losses. Although the global environment seems to be improving, Indian component manufacturers and OEMs will probably undertake only large strategic transactions of a game changing nature, or small deals that give them access to some new technology. The good news is that domestic sales of passenger cars and two-wheelers in India have picked up and the recently announced budget is likely to help buoy commercial vehicle sales.

China has defied the odds and posted growth in excess of 15%, and in the process has become the leading automotive market in the world by surpassing the US (estimated 2009 assembly volume for China of 10.4 million units versus 9.5 million units in the US). For China, the current global crisis has presented a tremendous opportunity to utilise its financial strength to buy up a number of assets. The Chinese government has articulated a policy calling for consolidation of the automotive industry. Many of the weaker players are in the process of being consolidated with their stronger counterparts. With respect to outbound expansion, the healthier and more capable Chinese companies are looking at purchasing technology, expanding global sales and distribution capabilities, and buying brands to expand their current vehicle portfolio. The China national policy is for Chinese automotive companies to acquire advanced technology from reasonably-sized (under \$500 million revenue) overseas entities rather than making large transactions. Although this is the official view, a number of Chinese companies are actively considering brands like Volvo, Saab, Opel and Hummer, while there are others that are looking at buying selected technology or expanding to countries or regions like Mexico, Brazil and Southeast Asia.

With the events in China and India driving much of the Asian automotive deal activity, some constraining factors exist that may temper with anticipated deals. Firstly, most companies in Asia are not sophisticated deal makers and in particular lack the expertise to buy assets out of a bankruptcy process, lacking the speed and flexibility required to be successful. This is particularly relevant for many Chinese companies looking to acquire overseas assets. Secondly, the entities typically do not have the talent to actively manage a complex global company and they will have to rely on the talent that is acquired in these transactions. One point that everyone agrees on is that the value of Western automotive assets have never been more attractive, and the industry's shift from the West to Asia will be a multi-year process. ■

Financial Services



Matthew Philips
Asia Pacific
Financial Services
Deals Leader

Announced deal activity in the financial services sector fell dramatically to US\$21.6 billion in the first half of 2009, compared with US\$99 billion for the full year last year (according to data from Thompson Financial). In the first quarter buyers all but disappeared and those sellers that could hold off did so in the hope of better prices later on. The most significant announced deal in the first quarter was Sumitomo Mitsui's US\$5.8-billion acquisition of Nikko Cordial Securities and concurrently the domestic equity and debt underwriting business of Nikko Citigroup Ltd Activity began to broaden in the second quarter with the announcement of Ping An's proposal to purchase 30% of the shares of Shenzhen Development Bank for US\$3.2 billion as well as other significant deals in Australia and Taiwan.

Perspective on current M&A activity

Recent deal activity in the financial services sector in Asia has benefitted from the strong second quarter capital markets rebound which has since encouraged a flurry of capital-raising and disposals by capital stretched western banks and insurers seeking to fulfill their promises of exiting businesses to repatriate capital. Amongst the major western institutions putting assets up for sale or concluding deals so far in the third quarter were: RBS which announced the sale of certain Asian retail businesses to ANZ; AIG which has sought to sell Nan Shan (its Taiwan life insurance business) and announced plans to spin off AIA and ALICO, two of its key Asian assets; and more recently ING which press reports indicate is considering disposing of certain of its private banking operations including certain Asian businesses.

These deals are characterised by the sellers' need to raise capital to redeploy at home. It is telling that many of the global financial services players that have announced disposals have done so as a result of a sectoral review of their core business and few have chosen to exit countries in the region in their entirety for fear they may not be welcomed back should they later choose to return. While there may be further such deals, I would expect that we have probably seen the largest of these.

Where will the buyers come from?

The buyers in the deals announced in the first half of 2009 include regional financial services players and local institutions looking to take advantage of a once-in-a-lifetime opportunity to add significant scale. However, Chinese buyers have been notably absent to-date. As the outlook improves, these buyers will probably emerge but there are perhaps now few bargains left to be had. As confidence returns, I would also expect to see global institutions resume M&A activity in the region, increasing competition for assets and pushing up prices.

Outlook

Focusing on the banking sector, Asian institutions have fared better than their western counterparts but they are benefitting from similar government stimulus both in terms of cheap liquidity, which is improving margins, and from measures to stimulate domestic demand which has the prospect of creating growth. These drivers are likely to have a more immediate and more powerful effect in Asia not least because of the reliance on banks as a conduit for the liquidity that is being injected by central banks. This adds to the prospect of a windfall for the banks in the short-term and if they can mitigate the risk of credit failures in the longer term it makes a compelling case for the region's larger players to move quickly to secure M&A opportunities.

In the insurance and asset management sectors, with the exception of the assets put up for sale by AIG, we have yet to see significant disposals. I would expect to see further opportunities coming to the market although the deal sizes are likely to be smaller.

Whilst uncertainty persists, we will be entering a period in the short-term where, more than ever, willing buyers and sellers are struggling to reach a consensus on value. Those that chose to grasp financial services opportunities in Asia in the throws of the crisis appear to have fared better than many of the deals in the west. The challenge now as we emerge from the crisis is to identify those Asian businesses that will continue to benefit from growth in an entirely new, more regulated environment. ■

Entertainment & Media



Marcel Fenez
Global Entertainment
& Media Leader

The recently published 10th edition of PricewaterhouseCoopers Global Entertainment & Media Outlook 2009-2013 highlights that there is now “nowhere to hide” from digital transformation and that the current downturn will indeed accelerate this, as consumers look for better value from their entertainment and media choices. This together with the forecast that aggregate global advertising spend in 2013 fails to reach 2007 levels will drive players within the sector to look for new revenue models as well as opportunities for cost and risk sharing. In either case we are expecting to see even more collaboration across the media value chain as well as with application providers in the technology sector and the telecom operators. Whether a company is seeking a collaboration with, for example an operator of micro payments or even with innovative branded content, deals are a must. However, these collaborations are often in the form of ventures or business relationships rather than outright M&A.

Despite some adjustment in valuations, M&A in itself within the entertainment and media sector may not be significant with the exception of the continued interest in some of the higher growth markets of India, Indonesia and Vietnam. Deals of a smaller nature relating to collaboration and new revenue models are however very likely. Furthermore, there is still a lot of interest in the acquisition of good digital talent – particularly in the advertising agency segment. As consumers migrate to digital platforms, we are experiencing the “changing face of advertising”. To exploit this change the major advertising groups are looking to acquire innovative digital agencies.

In short, anything with a digital component will be king. ■



Andrew Parker
Asia Pacific
Infocomm Leader

The first half of 2009 has continued to be a difficult environment for deals, with just 235¹ announced deals down from the 276 deals announced in the second half of 2008 and the 282 deals that were announced in the first half of 2008. However, deal values were higher with four deals greater than US\$1 billion announced compared to three in the second half of 2008 and just two in the first half of the 2008 period, one of which was the restructuring of the Chinese telecommunications sector.

Asia is home to three of the fastest growing telecom markets in the world with India, Indonesia and China all continuing to grow at high double digit rates. Empirical research has shown that the elasticity of demand for basic telecommunications services is low, or put another way, consumers sacrifice a lot in their budgets before they cut their phone bills. This point is evident in the asset betas of Asian telcos which have generally declined during a period when stock markets have experienced considerable turmoil.

Whilst the current economic environment is likely to persist for the next six to 12 months, we see some key themes for transactions:

Consolidation

Revenue growth and cost management continue to be key issues for telcos. Combined with difficult equity and debt markets, telcos are increasingly looking for opportunities to gather scale and find synergies to enhance their ability to compete. Where balance sheets permit, these opportunities may take the form of acquisitions. Increasingly likely is a trend to consolidate the number three and number four providers in the form of mergers or “joint ventures” like the US\$2.5 billion Vodafone/Hutchison merger announced in February 2009 in Australia.

Unlocking value in balance sheets

The need to reduce debt levels and realign focus on the core business means that telecom companies are looking at opportunities for segregation of their infrastructure assets, such as mobile towers, from other higher growth parts of the business. An example of this is Tata Tele Services Ltd's recent hive-off of the passive infrastructure business (comprising approximately 13,000 towers) to its wholly-owned subsidiary, Wireless TT Info Services Limited and subsequent sale of a 49% equity stake to Quippo Telecom Infrastructure India for around US\$800 million in January 2009.

Growth away from home

As domestic markets mature and growth opportunities at home become fewer, Asian telecom companies are looking outside their home markets for growth opportunities. In May 2009, Bharti Airtel of India and MTN of South Africa announced that their talks were back on track with a mutual acquisition of stakes in each other's company which could lead to a full-scale merger of the two businesses with a combined market capitalisation of as much as US\$60 billion. In a smaller but still significant deal in April 2009, China Mobile acquired a 12% stake in Taiwan's Far East Tone for US\$525 million.

Notes

1. Source: Thomson Financials, based on total infocomm deals announced as of 30 June 2009 for Asia Pacific.

Vietnam is set to become one of Asia's biggest mobile phone markets in the coming years with some analysts predicting 120 million subscribers by 2014. The much awaited privatisation of the four government-owned telcos continues to attract investor interest despite an unclear timetable. In April 2009, the Ministry of Information and Communications issued four 3G licences to Viettel, Vinphone, MobiFon and a consortium between EVN and Hanoi Telecom.

The National Telecommunications Commission of Thailand has also announced it will consider auctioning four 3G 2.1Ghz licenses in September 2009 providing further opportunities for operators to participate in the Thai markets.

Content and e-commerce

A combination of technology improvements and the seemingly unstoppable declines in traditional voice Average Revenue Per User (ARPU) are pushing telecom companies to look harder at their content offerings and online opportunities. More than one third of transactions in the first half of 2009 involved content, e-commerce or the acquisition of enabling technology. In June 2009, NTT DoCoMo acquired Oak Lawn Marketing, a provider of e-commerce information services, for US\$307 million. In February 2009, Telstra acquired two businesses in China for approximately US\$155 million: China M, a provider of consumer mobile content, and Sharp Point, a provider of technical services to China Mobile's rapidly growing central music mobile platform. KTF Music Corp. acquired the online music services business of Korea Telecom Freetel in January 2009 in a relatively small deal which is still indicative of the growing appetite of telcos for content.

We also see a strong mobile theme in Asia. For example, China's top three telecommunications operators, China Telecom, China Mobile and China Unicom are expected to invest US\$40 billion in 3G products and network construction from 2009 to 2010. According to the China Internet Network Information Centre, the country's internet users reached 338 million by the first half of this year. Mobile internet users rose 32% in the first half of this year to 155 million, boosted by the launch of 3G services.

Next Generation Networks (NGN)

Following close behind the announcements by the governments of Singapore and New Zealand of planned investments in NGNs, the Australian government surprised most commentators in April 2009 by announcing that it is going to form a new company to build and operate a National Broadband Network (NBN) delivering superfast broadband to Australian homes and businesses. The new company will invest up to US\$34 billion building a fibre-to-the-premises (FTTP) network reaching 90% of all Australian homes, schools and workplaces in one of Australia's largest ever infrastructure projects and one of the most ambitious FTTP projects in the world. At the same time the Australian government announced a wide ranging review of the regulatory environment leading to speculation that a more stringent separation of Telstra's wholesale and retail arms may be imposed along with restrictions on Telstra's ownership of cable TV assets, content and potentially wireless spectrum licenses.

The ramifications of the announcements are wide and far reaching for all industry participants, but especially Telstra. We expect that significant M&A opportunities will emerge as details of the NBN implementation plan and new regulatory settings become clearer. ■

Infrastructure



Clara Cutaja
Asia Pacific
Infrastructure Deals
Leader

The global financial crisis has continued to impact the infrastructure deal flow across the Asia Pacific region in the first and second quarters of 2009 as infrastructure funds grapple with how to close the gap between net asset values and market capitalisation. The level of gearing for a number of funds is high in the current market environment which has led to significant refinancing risks. This has forced a number of funds to put assets up for sale, especially in Australia. Deals actually completed in the period have been limited as it is a buyer's market and in certain cases seller value expectations have not yet been reset.

Since the last quarter of 2008, many countries have announced various fiscal stimulus plans with a substantial focus on infrastructure projects in order to boost their local economic growth to offset the decline in export trading. China is leading this initiative in the region with its US\$585 billion (RMB4 trillion) stimulus package which is heavily weighted towards infrastructure construction projects (railways, highways, airports, power grids) and projects elevating the living standards of rural and poor urban areas. In most cases, this spending will be biased towards domestic players in the market, although there are likely to be partnering opportunities for overseas players who can demonstrate more advanced knowledge, particularly in power, water and sanitation projects.

Major greenfield infrastructure projects in the region include:

- China/Hong Kong: US\$5.5 billion Hong Kong-Zhuhai-Macau Bridge connecting Hong Kong and mainland China to Macau (construction is expected to commence in late 2009); Sino-Singapore Tianjin Eco City Project; Pearl River Basin Development Project and light rail projects in a number of larger Chinese cities.
- Singapore: Jurong Rock Caverns is to increase underground oil storage capacity on Jurong Island and Sports Hub.
- Malaysia: The development of the Iskandar Free Economic Development Zone.
- Vietnam, Indonesia and the Philippines: Various infrastructure development projects focusing on power, ports and roads.
- Australia: In April 2009, the Rudd government announced a US\$30.6 billion project to create a nationwide high speed broadband network. There are also a number of road and rail projects, and to a lesser extent water, schools and hospital investments.

Major infrastructure deals announced in the period include:

- China/Hong Kong: Tianjin Port Development Holdings Ltd agreeing to buy a US\$1.4 billion controlling stake in Tianjin Port Holdings Co, a Shanghai-listed affiliate, as the Tianjin city government restructures its harbour assets to help raise funds overseas.
- Malaysia: SAJ Holdings Sdn Bhd, a water utility company operating in the state of Johor and wholly-owned by Rambahill Berhad, has agreed to sell its water assets to the federal government-owned Pengurusan Asset Air Bhd for US\$0.8 billion. Malaysia's water sector is undergoing a restructuring process to improve the service of the country's heavily indebted water utility companies.

- Australia: The majority of transactions are being driven by the leverage issues facing infrastructure funds. The only significant transaction announced during the period is the sale of Macquarie Communications Infrastructure Group to the Canadian Pension Plan Investment Board for US\$1.6 billion. There are a number of sale processes in progress but in two cases now the vendor has decided to take advantage of an opening up of equity markets by raising equity rather than divesting assets at depressed prices (e.g. Asciano and Hastings Diversified Utilities Fund).

The outlook for the infrastructure sector in the coming months appears mixed. Deal flow is expected to remain slow and some of the infrastructure funds or companies with high gearing positions, especially in Australia, will continue to restructure their businesses, i.e. negotiate with the banks for the renewal of facilities, sell assets, consider alternative capital raising exercises and potentially 'take private' strategies. On the other hand, we expect to see increasing greenfield investment opportunities in the region, especially in developing countries, mainly driven by the governments' stimulus packages which are heavily weighted towards infrastructure projects. ■

Stimulus packages > US\$20 billion

Country	Stimulus package	Description	Date Announced
China	US\$585 billion	Fiscal expenditure	Nov 08
		Expedited spending of planned projects	
	US\$88 billion		Jan 09
	US\$124 billion	Healthcare reform	Jan 09
Japan	US\$220 billion	Fiscal expenditure & tax cuts	Aug 08 - Apr 09
Australia	US\$29 billion	"Nation Building and Jobs Plan"	Feb 09
Thailand	US\$44 billion *	Infrastructure investment over 3 years (2010 - 2012)	Mar 09
Korea	US\$26 billion	Fiscal expenditure	Dec 08
	US\$27 billion	Fiscal expenditure	Jan 09
	US\$22 billion	Fiscal expenditure	Mar 09

Source: United Nations ESCAP

Insurance

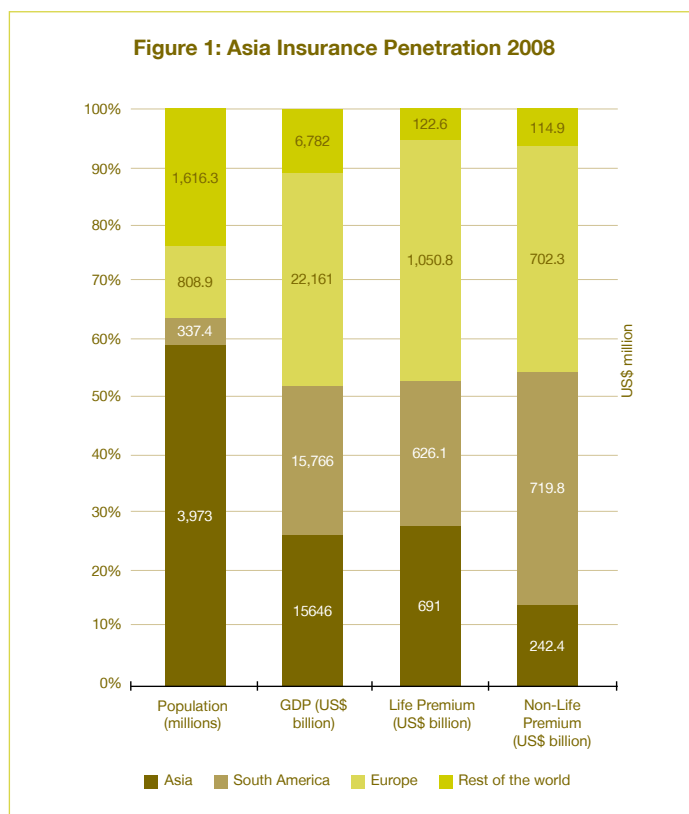


Sam Kok Weng
Asia Pacific
Insurance Deals
Leader

2009 started as an exciting year for Insurance M&A in Asia. As with 2008, we continued to see plenty of action in the first six months of the year, fanned in part by AIG's proposed divestment in certain of its Asian operations, ALICO being one of them.

Whilst interests and activity levels remain high, few deals were closed. Non-completion factors such as pricing gaps, fear of the extent of "toxic assets" and uncertainty in potential acquirers' own capital positions (as discussed in the previous issue of this bulletin) continue to feature in the first half of 2009.

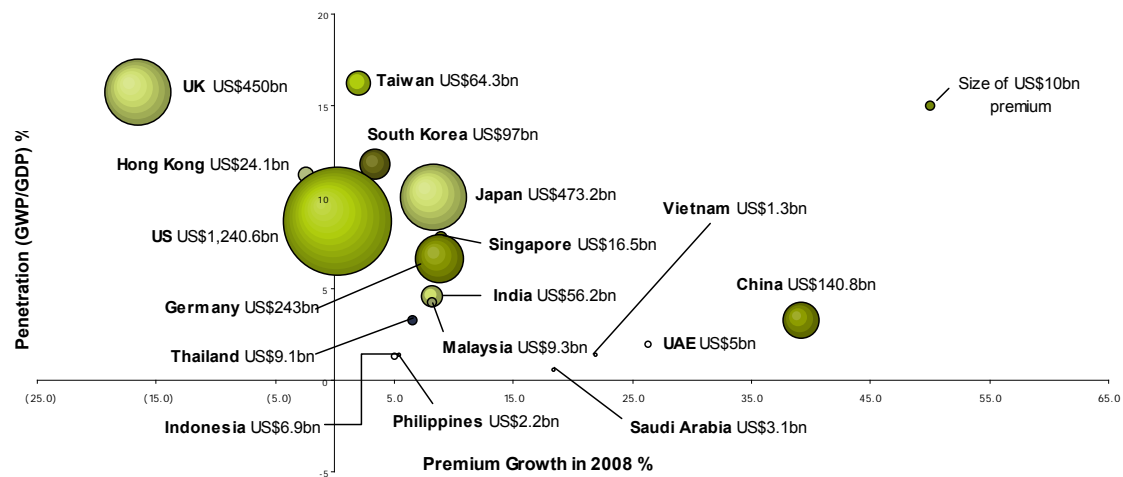
The interest shown by the large local and foreign buyers in the AIG assets reinforce our view that there is a strong M&A appetite for insurance assets in Asia. Strategically, for many global players, Asia remains a key market for growth given the low insurance penetration rate in many of the large and growing emerging Asian economies, particularly in comparison to home markets of the US and Europe (see figures 1 and 2). Many Asian insurers also continue to focus on Asia, either as part of their strategy to focus on a single market or to venture to nearby countries as they look to diversify revenue sources.



Source: SwissRe Sigma No 3/3009 World insurance in 2008 and PwC Analysis.

For the first half of 2009, 75% of total Insurance M&A deal activities were in Asia (see figure 3). In Asia, deals were driven by Chinese and Japanese insurers who are generally thought to have avoided major losses from the financial crisis and as a result, still have the required capital base to make acquisitions. Four of the seven insurance deals with a deal value in excess of US\$50 million involved Chinese and Japanese buyers.

Figure 2: Insurance Penetration 2008



The outlook for the next six months remains positive. We expect more Chinese and Japanese players, and potentially certain private equity houses, to be involved in large deals. Many global non-Japanese/Chinese players have to contend with the impact of capital requirements such as Solvency II and this may indirectly impact their bid prices. As capital is precious, whilst these insurers have trained teams looking at most opportunities, the reality is that they will ultimately focus on one or two large deals. An opportunity for large foreign insurers would be to partner local players that lack the manufacturing capability of complex insurance products. The other opportunity would be to seek out innovative distribution channels in each market place. Whilst joint ventures are not always the preferred route for market entry, this may be a more pragmatic way, especially if the capital needs can be shared.

We also expect more insurers, and the holding companies of insurers, to stay the course of divesting non-core insurance operations. With increased capital requirements, “staying in the game” only makes sense to those who are serious about this sector.

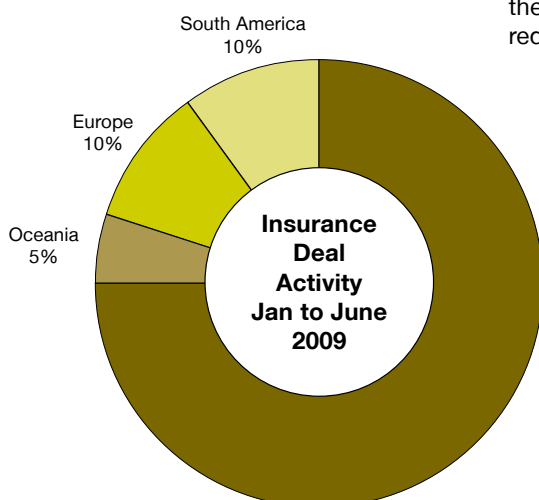


Figure 3

Liberalisation of the insurance sector in Asia is also expected to increase M&A activity. We are already seeing signs of this in Malaysia, with the recent announcement of allowing foreign players to take up to 70% equity stakes in insurance companies. Over the longer-term, we are also expecting other economies such as India and Indonesia to follow suit with their own insurance liberation measures, with the recent election success expected to translate to market reforms in the financial services sector. Other ASEAN economies are also expected to start opening up their insurance sector to prepare domestic players for competition as the region moves towards being compliant with the ASEAN Financial Liberalisation Goals by 2015.

Against this backdrop, the rumoured listing of AIA through an IPO could further accelerate competition in the region but this is unlikely to happen in the next six months.

While Takaful (insurance based on Islamic principles) was the buzzword in 2008, micro-insurance is an area of focus in 2009. Given Asia's large population (estimated at 3.9 billion people) and economies growing at an average rate of 6.3%, combined with low insurance penetration rates, we anticipate micro-insurance will make greater headway into China, India and Indonesia. It will be interesting to watch how this model develops into a sustainable and profitable business mode.

Finally, I would like to echo a statement in the PwC survey report, The Outlook for FS M&A in Asia. "Fortune favours the brave". The present environment is one of uncertain times and unprecedented opportunities. Those institutions that are able to manage the multiple demands of ensuring continued growth without taking on greater risks, in addition to capitalising on acquisition opportunities where they arise – at the right price – will be the ones who emerge stronger from this crisis. ■

Mining & Resources



Jock O' Callaghan
Asia Pacific Mining &
Resources Deals
Leader

In the latter part of 2008, the resources sector was in crisis. As commodity prices tumbled, a number of small companies collapsed, others were on the verge of bankruptcy and some large miners were under pressure to repay significant debts. Companies were forced to slash costs: Rio Tinto announced plans to cut its workforce by 14,000 and BHP closed its Ravensthorpe nickel plant. Large impairment charges were also recognised against various investments as market conditions deteriorated. However, just as many mining companies were experiencing their lowest juncture at the turn of the year, commodity prices began to rise again and the market started to turn. The rebound in the equities market opened up opportunities to raise much needed finance. Accordingly, we have seen a spate of capital raisings and rights issues as companies have looked to shore up their balance sheets and prepare for the next wave of M&A, largely through industry consolidation.

Recent surges in commodity and stock prices have not yet fully translated into a rush in M&A activity as uncertainty continues to pervade market sentiment: there was approximately a 10% decrease in the number of deals in the first half of 2009 compared with the second half of 2008. Despite the fall in volume, total deal value actually increased in the first half of 2009, primarily due to the significant contribution of the proposed Rio Tinto – BHP iron ore tie up, which was announced in June.

Most of the deal activity in the Asia Pacific region during 2009 has emanated from Australia and China (approximately 80%). Chinese buyers have continued to play an increasingly important role in transactions in the region and there has been a series of investments by state-owned Chinese firms. In June, the debt-laden Australian miner Oz Minerals agreed to sell most of its assets to Chinese Group Minmetals for US\$1.39 billion. In March, Chinese steelmaker Hunan Valin Iron and Steel Group also secured a 17% stake for US\$771 million in the Australian-based iron ore producer, Fortescue Metals.

In Singapore, PetroChem China took a 45% stake in refiner Singapore Petroleum in a deal worth approximately US\$1 billion, with expectations that PetroChem will move to full ownership in August 2009. In Indonesia, Pukuafu Indah PT acquired a further 7% stake (to increase its total stake to 27%) in Newmont Nusa Tenggara PT (NN), a gold and copper mining company, in a deal worth approximately US\$427 million.

The largest deal of 2009 was the alliance between the two mining giants Rio Tinto and BHP Billiton. Rio Tinto put aside a proposed US\$19.5 billion deal with Chinalco in favour of an alliance with BHP. The 50:50 production joint venture will cover the entirety of both companies' Western Australian iron ore assets. BHP will pay Rio Tinto US\$5.8 billion to buy into the joint venture. Now that the worst of the downturn appears to be over, this example of consolidation could reflect a broader trend towards industry consolidation as the big miners vie for the remaining quality assets and attempt to realise cost savings from combining with their rivals. Swiss-based Xstrata has also recently proposed a 'merger of equals' with London-listed rival Anglo American. Through consolidation, these established Western behemoths are trying to stay ahead of the rapidly growing miners from the world's emerging nations.

As we look forward to the remainder of 2009, there are signs of an upturn in deal activity following an anticipated relaxation of credit and lending terms, and a sustained upturn in commodity prices. There are also signs of life in the IPO market, further lifting the prospect of increased M&A activity in the second half of 2009. ■

Oil & Gas



Ken Su
Asia Pacific Oil & Gas
Deals Partner

There has been a steady level of reported deal activity in 2009 in the Oil and Gas sector including a few very significant transactions.

China moved into the spotlight again this year as state-owned Oil and Gas companies announced major deals involving upstream and midstream operations. In particular, Sinopec's US\$7.2-billion takeover offer to acquire the shares of Canadian- and UK-listed and Swiss-headquartered Addax Petroleum (assets in West Africa and Iraq) and PetroChina's US\$2.3-billion acquisition of Singapore Petroleum Company. In addition, the status of CNPC's attempt to acquire the Verenex Energy assets is still outstanding pending a final decision regarding the potential to exercise pre-emptive rights in Libya.

Indonesia was an active market with some domestic deal activity including Pertamina's acquisition of BP North West Java and a number of inbound deals including China Sonangol's investment in PT Surya Energi Raya and United Energy's attempt to acquire PC (NAD) International which is still in progress.

Japan and South Korea reported significant deals with Sumitomo of Japan acquiring Oranje-Nassau Energie for US\$886 million in order to expand its North Sea oil assets, Korea National Oil Corporation of South Korea combining with Ecopetrol of Columbia to acquire US-based Offshore International Group for US\$900 million, and DSME E&R and PENCO Energy, both South Korean companies, investing in PT Syabas Usaha Migas.

With August 2009 benchmark crude levels up approximately 50% from 2008 year-end levels, activity in Asia should continue to remain strong for the remainder of the year with Asian companies continuing to look globally for assets to acquire interest from global companies looking to invest in Asia, and Asian players looking to consolidate within their own countries or within the region. ■

Pharmaceutical & Healthcare



Ruth Dobson
Asia Pacific Pharma
& Healthcare Deals
Leader

While overall M&A activities remain robust across the pharmaceutical and healthcare services sector in Asia Pacific¹, the first half of 2009 saw a modest decline in terms of both deal volume and deal value, reflecting the impact of the global economic crisis. There have been 282 deals in the first half of 2009 compared with 339 deals in the first half of 2008².

However, there are no significant changes to the market dynamics of M&A activities in this sector. The trend of market consolidation of pharmaceutical production and distribution, the competition for lower cost generics and the strengthening of product pipelines will probably continue to drive deal growth in the future.

China and India continue to consolidate their fragmented pharmaceutical markets with a large number of domestic deals. In the first half of 2009, domestic deals accounted for more than two-thirds of the total number of transactions in both of these countries². This reflects a key trend sweeping through these emerging markets where a great number of small and medium sized companies are struggling to survive with increasing competition, strengthened regulation and public pressure on the price of medicine. Meanwhile, several mergers in pharmaceutical distribution have also occurred since 2008. This trend may continue in the manufacturing and distribution sector where economics of scale are key.

Within the generics arena, Japan's Daiichi-Sankyo's US\$5-billion acquisition of Ranbaxy, an Indian generic producer, was the number one transaction in this sector in 2008. The generics sector has seen continued activity into 2009, reflecting the strong appetite of pharmaceutical giants for higher market growth and lower cost of manufacturing in emerging markets, such as India and China where valuations have become more attractive as result of the economic downturn.

As the top pharmaceutical country in the region, Japan saw several outbound deals during the first half of 2009, including the acquisition of IDM Pharma by Jade Subsidiary Corporation for JPY7 billion, and the acquisition of Victory Pharma by Sciele Pharma for JPY14.3 billion. Meanwhile, China also sought overseas opportunities to acquire new products and technology and access to the overseas consumer market. This move resulted in such deals as Wuxi Pharma Tech Inc's acquisition of US-based App Tec Laboratory Services for US\$163 million in the first half of 2009². Although the economic downturn may slow down the pace of investment by these countries, the trend will not change given the desire of the main companies to acquire new products and strengthen their R&D capabilities.

Compared to other territories in the main Asia Pacific region, the Taiwanese biotech market is relatively small but highly developed. With the implementation of several new policies announced by the government in 2009, including a promotion programme and increased cooperation with China, M&A activity in this sector is expected to increase. Also, as Taiwan has long developed its IT sector, the integration of IT technology with medical functions coincides with the increasing demand for telemedicine solutions, and this presents an area of great potential for future M&A deals. ■

Notes

- 1: The M&A activities of companies in Asia Pacific region as a result of their parent companies' global M&A transactions in other territories were not taken into account in this summary.
- 2: Source: Thomson Onebank

Private Equity



Charles Humphrey
Asia Pacific Private
Equity Leader

Tough market conditions and ongoing debt funding restrictions in 2009 have seen private equity M&A activity in the first half of 2009 (US\$32.9 billion in announced transactions globally) decline by 78.8% over the prior equivalent period - financial sponsors accounted for just 3.5% of announced transactions during the first half of 2009. PE returns struggled along with other asset classes, with the overall IRR (globally) for PE standing at negative 27%. Even though investors are still keen on this asset class, PE funds will take longer to raise new funds with most attention now being focused on refinancing or restructuring portfolio company bank debt and turning these investments around. Looking ahead, PE investments made over the next few years are likely to generate excellent returns, particularly those investments which incorporate operational improvement opportunities.

In the Asia Pacific region, Australia and New Zealand were the first territories to experience a downturn in PE deal activity some 15 months ago. In China, the market slowed into the fourth quarter of 2008 but is already showing early signs of recovery. In other territories, Japanese M&A has seen some uplift in the financial services space (rather than PE) whilst political instability in Thailand has affected M&A activity levels. Some liberalisation to the Malaysian regulatory environment may have a positive effect going forward as will the presence of new single purpose/focus funds (e.g. Distressed Debt funds and the Islamic Infrastructure Fund).

Deal activity is being hampered by vendors still having unreasonably high price expectations (notwithstanding economic conditions and poor financial performances) and lack of funding availability. Individual lenders' appetite of US\$25 million is limiting deal opportunities to US\$500 million in enterprise value and there is little evidence that the Corporate Bond Market or Mezzanine debt will rebound in the short-term. Equally, whilst there is talk of vendor finance becoming more readily available, this is not yet evident in the market place. On the positive side, there are a number of current deals which offer stapled finance packages, plus renewed interest in PIPE deals. In addition, global PE and sovereign wealth funds have taken cornerstone investments in several blue-chip corporates facing short-term liquidity rather than solvency issues.

Activity in the LBO sector will take a backseat for a while longer, with PE funds' focus remaining firmly on preserving and enhancing value in existing portfolios. Short-term strategic business reviews, cash optimisation initiatives, and strategic option scenario analyses are critical to portfolio companies implementing quick wins to stabilise their performance and restore stakeholder confidence. PE funds are being increasingly proactive in sharing strategic plans with financiers to support the stabilisation initiatives being implemented at their portfolio investments. Capital market valuation pressures and lower EBITDA performance reflecting tightened consumer spending as the global financial crisis continues to impact the real economy will inevitably result in holding periods extending into the 2010 calendar year and possibly 2011 on existing portfolio investments. Some PE funds will have to make difficult decisions around the ongoing support of distressed portfolio investments, with some recent examples of failure. On the plus side, there is renewed trade buyer interest in 2006 and 2007 vintage investments, particularly in the health sector, and a number of dual track sale/IPO processes are poised awaiting for the equity markets to re-open.

In terms of deal flow, PE funds are likely to invest greater equity cheques in deals and increasingly look to complete a higher proportion of non-controlling investments, particularly in small-and-medium sized listed companies which appear to be more realistically priced. The non-controlling investments will be regearing and PE funds will move to control when debt markets recover. In addition, we are likely to see more activity around bolt-ons and secondaries continuing into 2010. There are also some suggestions that larger PE funds could be run on lower percentage management fees in the future.

In 2008, PE funds across Asia were active in the consumer goods, services and manufacturing sectors. We are now seeing more interest in health, pharmaceuticals and infrastructure that offer stable, more resilient cash flows. Whilst we are expecting the next nine to 12 months will generally reflect a continuation of fewer deals, fewer exits, longer holding periods and lower deal sizes than recorded in the 2007 'purple patch' period, fit and agile PE funds will still be able to capitalise on some exceptional value situations – and even those in a weaker investing position will be able to create sustainable value in their portfolio companies.

For the remainder of 2009, PE funds will focus on stabilising their portfolio investments in order to be in a strong position when the market returns to more normal investments and funding patterns. Despite a slow first half in 2009, we expect the deal flow will start to bounce back by mid 2010. However, these deals may be fundamentally different with more minority stakes, more partnerships with incumbent owners, and more co-investments with sovereign wealth funds, other major limited partners and corporates. Those PE funds who adapt to the new investment paradigm will thrive in the new economy. ■

Retail & Consumer



Carrie Yu
Global Retail &
Consumer Leader

Overall, the entire retail and consumer sector is performing well compared to many other sectors. Its performance in the next six months will be dependent on the level of unemployment, consumer and business confidence and the ability to access financing.

Few transactions have occurred in the retail and consumer goods sector in Australia in financial year 2009 compared to levels seen at the height of the economic cycle. There has also been a considerable decline in private equity (PE) activity, predominantly due to banks limiting the ratio at which they lend to PE organisations. This decline has resulted in corporations finding themselves in a relatively more advantageous position to buy assets, particularly so for corporations with strong balance sheets. The market has seen an overall decline in valuations, resulting in fewer owners deciding to sell unless absolutely necessary. Assets are still being divested however. Most recent retail and consumer transactions have been relatively small in size. However, in the last six months two major transactions have occurred in the beverage sector, both involving major Japanese corporations. Asahi finalised its purchase of the Schweppes business from Cadbury Schweppes in April 2009. That same month, Australian brewer Lion Nathan was taken over by Japanese brewer Kirin.

Recent announcements in May 2009 include the proposed acquisition by Woolworths of up to nine store leases from Macro Life (a retailer of organic produce). June 2009 found Australian United Retailers Limited (FoodWorks) entering into a contract to purchase 45 supermarkets and eight associated Liquor Land stores from Coles Supermarket (a Wesfarmers-owned retailer). The acquisition, valued at AUD\$35 million, would deliver the most significant growth for the company since its internal capital raising in 2007. Additionally, in mid-April Coles agreed to sell its interest in online pharmacy business Pharmacy Direct to RX Direct Pty Ltd

As the global financial crisis continues, China's economy has slowed, mainly due to shrinking exports. However, the impact of the financial crisis is not as severe in China as in many other countries. China's Consumer Price Index fell 1.4% year-on-year in May, which was the fourth consecutive monthly decline. As a result of this, fewer deals were closed in the past six months. Both corporate and PE investors are still actively looking for investment opportunities in China. One interesting phenomenon this year is that of Chinese companies going abroad, taking the opportunity to hunt for cheap assets. For example, Suning recently acquired a minority interest in an electronic appliance chain in Japan. Although the investment size of this deal is small, the trend and the strategic moves of many other Chinese companies bear watching.

In India the retail and consumer goods sector has not been spared the impact of the global economic slowdown. The volume and value of M&A transactions and PE investments in the period January to June 2009 were relatively lower when compared to the deal activity in the corresponding period of 2008. In the current business environment, most retail and consumer goods companies have been focusing on meeting their current business challenges. Published data over the last six months suggest that approximately 6% of deals (i.e., M&A transactions and PE placements) that occurred in India from January 2009 till now were in the retail and consumer goods space. PE transactions are limited since fund houses are exercising caution.

Going forward, it is expected that most Indian retailers, which are currently cash-strapped, will explore opportunities for fresh funds infusion. Wellness, healthcare and jewellery are some of the areas that are seeing increased attention from PE players and strategic investors. These areas are expected to do well, considering the increasing role that lifestyle and wellness is playing in Indian consumers' lives, habits, activities and preferences.

A total of 140 M&A transactions were announced in the retail and consumer sector in Japan, 88 of which were completed during the first half of 2009. The Japanese retail and consumer goods sector continues to go through consolidation, horizontally and vertically. Several of the larger companies have remained active in pursuing outbound acquisitions. Mega mergers previously announced among a dozen department stores have taken effect during the first half of 2009, while more recently it has been rumoured that Takashimaya Department Store is in alliance discussions with H2O Retailing (which is itself the product of a merger between Hankyu and Hanshin Department Store). The consolidation means that the various historically symbolic stores are becoming four major department store groups, namely Mitsukoshi-Isetan Holdings, Millennium Retailing, J-Front Retailing, and H2O Retailing.

In specialist retailing, Fast Retailing Group launched a tender offer to acquire 100% of Link Theory Holdings for about US\$300 million and continues to express an appetite for further acquisitions, both domestically and internationally. Dai Nippon Printing, a major printing and semiconductor company, became the majority shareholder of two book retail chain stores: Junk Do Shoten and Book-Off Corporation. It has previously been common for publishers to operate retail book stores, but this move signifies an early shift towards the vertical integration of the book business across printers (physical creation), publishers (content creation) and retailers.

Within the food and beverage sector, the major beverage companies that undertook a number of major deals in Oceania and Asia last year have remained active. Kirin Holdings announced an intention to increase its stake in Philippines' San Miguel Beer to 48% through a JPY131.6 billion investment, while Asahi Breweries has acquired a minority stake in Tsingtao Brewery of China from Anheuser-Busch InBev of Belgium for JPY59.3 billion. Other outbound activity has involved a number of relatively smaller deals, such as the acquisition by Imuraya Seika, a Japanese snack maker, of 83% of LA/IC, a Los Angeles-based ice cream maker for JPY400 million. Domestic consolidation within the dairy sector has continued after the merger of Meiji Dairies and Meiji Seika last year, with Snow Brand and Nippon Milk Community announcing a merger through creation of a new holding company in a deal valued at JPY13 billion.

In compliance with WTO commitments, the Vietnamese government opened the door for foreign retailers in January 2009, allowing 100% foreign ownership of retail and distribution entities. In June, Unilever announced the acquisition of 33.33% in Unilever Vietnam Joint Venture Co. from its local partner Vietnam National Chemical Corporation (Vinachem). In March, SABMiller acquired a 50% interest in SABMiller Vietnam JV Co Ltd, a beer producer and wholesaler, from its joint venture partner Vietnam Dairy Products Joint Stock Co (Vinamilk), a manufacturer and distributor of dairy products.

There was also a notable deal between two domestic companies. International Consumer Products Corp. (ICP), one of the fastest growing privately-owned FMCG companies in Vietnam, took over a 51% stake in Thuan Phat Foodstuff Joint Stock Company. The deals made by Unilever and SABMiller have shown the commitment of major foreign multinationals to Vietnam. On the other hand, the ICP deal indicates a dual trend: some companies are taking advantage of the opportunities arising from the financial crisis to expand their business while others are increasingly willing to sell non-core parts of their businesses. Foreign companies already well established in Vietnam, such as Metro of Germany, Big C of France and Lotte Mart of Korea, also continue to expand. The expectation is for more consolidation and major new entrants as well.

There were no major acquisitions in Thailand in the last six months, just M&A movements resulting from business group restructuring. The largest transaction in terms of deal size was the acquisition of Minor Corporation PCL by Minor International PCL. Recently, S&P Syndicate PCL acquired 90% of Patra International Restaurant and Thai Beverage PCL acquired Chang Beer International and Mae Khong Distillery Co., Ltd. There are several investors expressing interest in entering the market through acquisitions and partnerships. These M&A transactions are expected to take place once investors have a clearer view of market growth and political stability.

There have also been some strategic movements by foreign investors in Malee Sampran, the market leader in fruit juice, canned fruit and cereal beverages. In addition, major players like Nestlé still look to expand their presence in Thailand. Political turmoil and other factors such as the global financial crisis have had a negative impact on consumer confidence. Nevertheless, a few strong players such as CP group, SCG and Minor Group are still very opportunistically acquisitive throughout the region. ■

Regional Economic Indicators

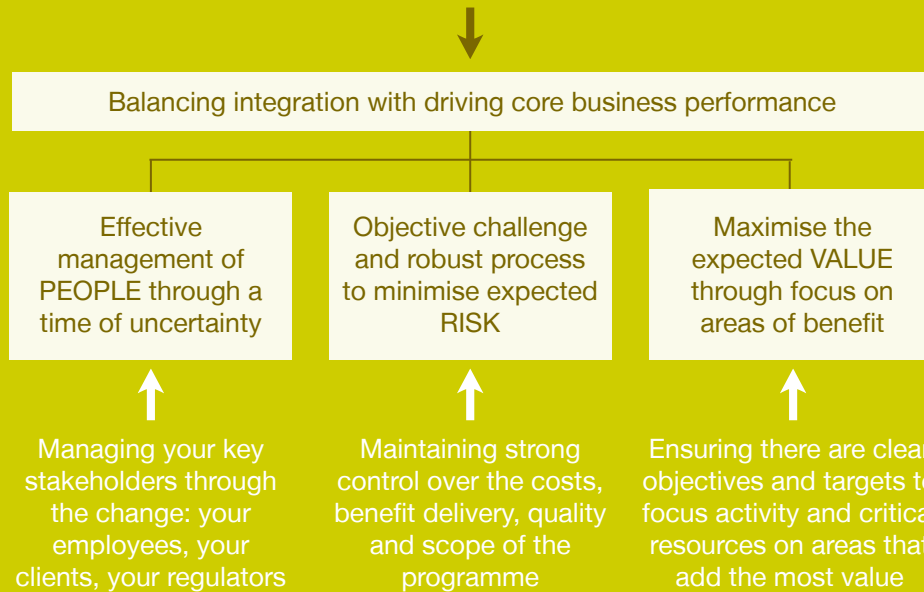
Asia Pacific Macroeconomic Indicators – Mid-Year 2009

	Nominal GDP US\$'billion		Population (million)	Consumer Prices % Chg YOY	Industrial Production % Chg YOY	Real GDP Growth Chg YOY
	Market Exchange	PPP				
Australia	786.90	785.00	20.82	1.40	-5.80	-1.60
China	4,680.50	8,729.00	1,333.50	-0.50	6.00	6.50
Hong Kong	211.30	291.00	7.06	1.10	-0.40	-5.80
India	1,121.40	3,545.00	1,166.08	5.00	1.00	5.00
Indonesia	463.90	904.00	240.27	3.90	-3.70	2.40
Japan	4,966.00	4,054.00	127.08	-1.80	-28.00	-6.40
Malaysia	195.30	375.00	28.26	-0.50	-10.90	-3.00
New Zealand	87.60	113.00	4.33	1.40	-2.00	-2.90
Philippines	153.20	317.00	94.28	2.70	-11.50	-1.90
Singapore	148.30	179.00	4.84	-0.20	-18.70	-8.80
South Korea	603.60	1,286.00	49.39	0.10	-16.90	-10.10
Taiwan	342.50	734.00	22.80	-1.30	-22.70	-6.50
Thailand	242.70	525.00	67.50	-1.10	-8.00	-4.40
Vietnam	94.40	246.00	86.97	5.40	5.00	1.60

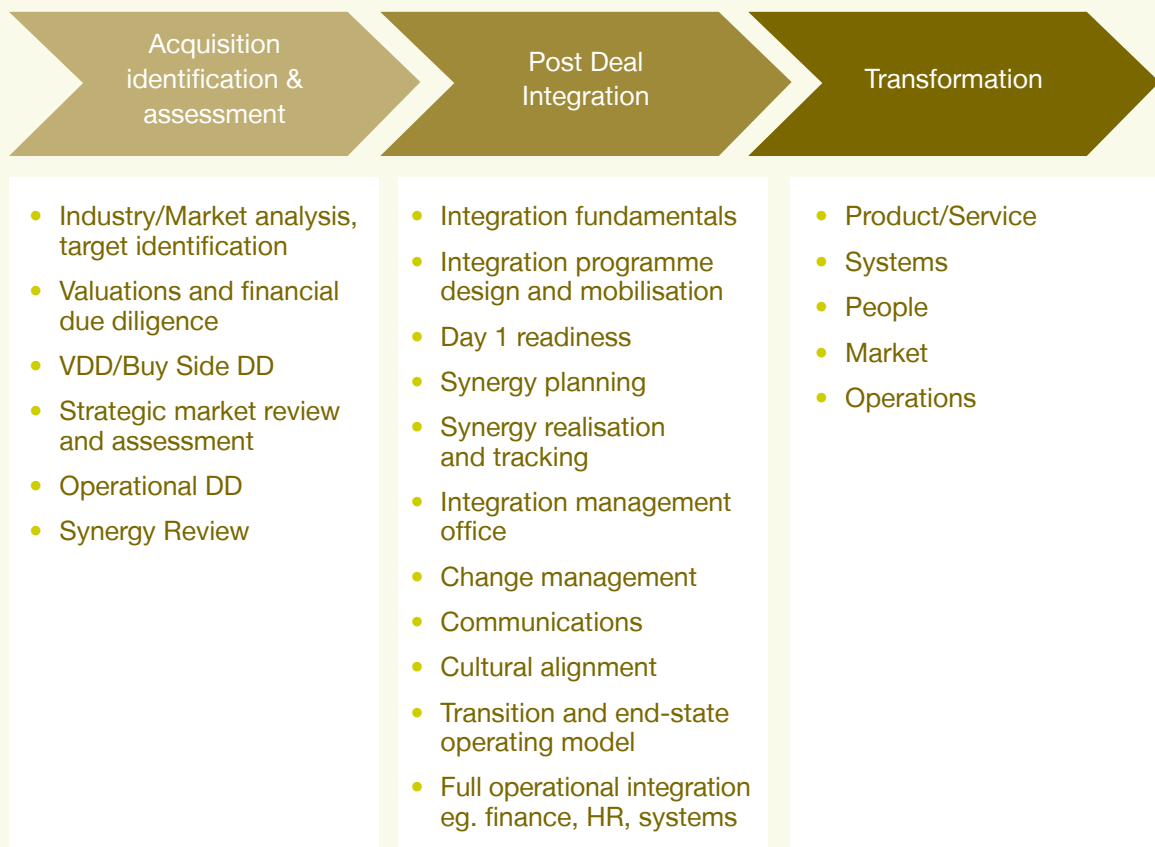
Source: The Economist Intelligence Unit

Our unique approach to Post Deal Integration

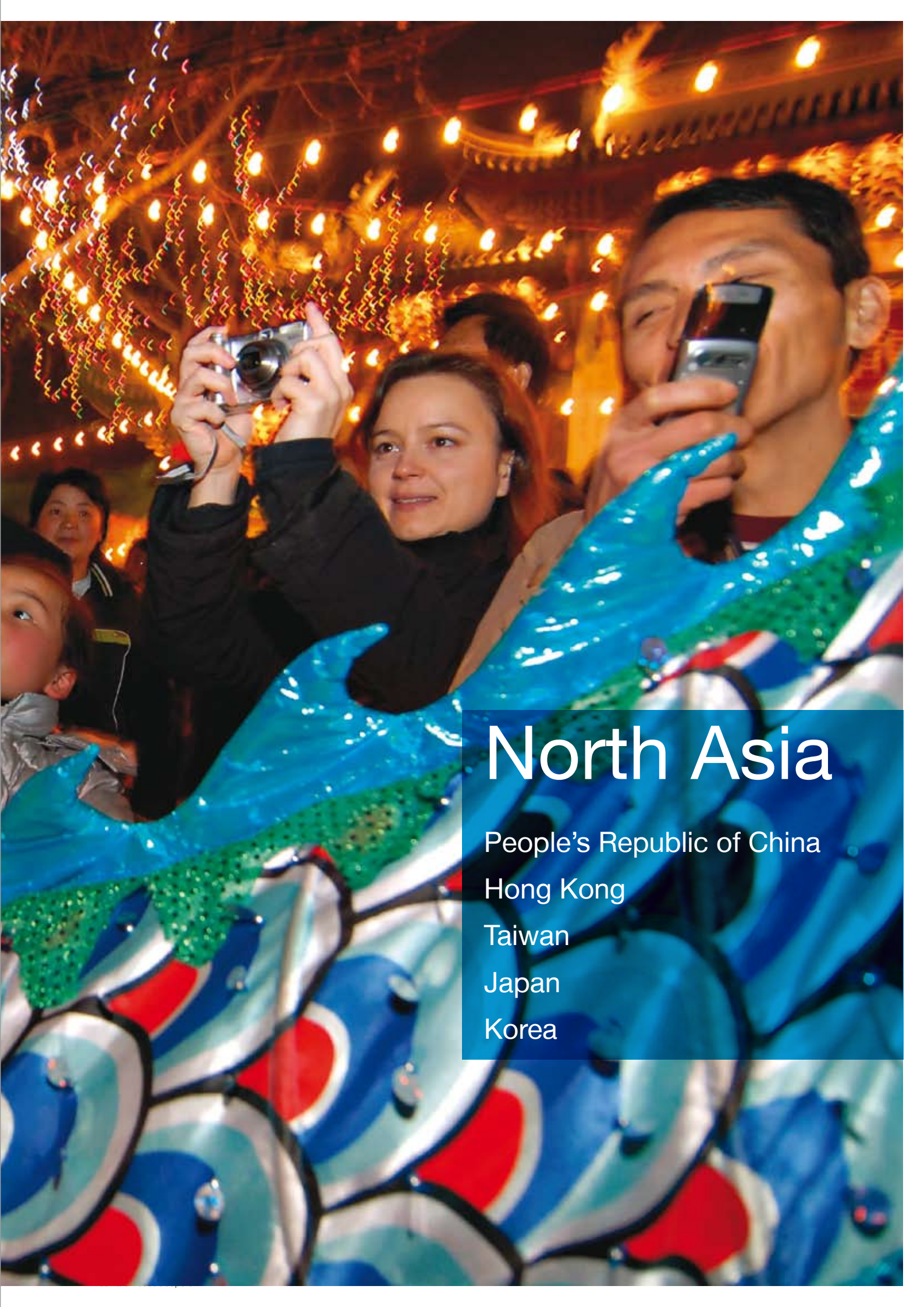
Delivering the benefits whilst ensuring that focus is maintained on your core business growth opportunities, business as usual, activity and other change programmes



What is Post Deal Integration?







North Asia

People's Republic of China

Hong Kong

Taiwan

Japan

Korea



People's Republic of China

China's economy and M&A activity are picking up from Q1 lows as stimulus measures begin to have an impact



Matthew Phillips
Transactions Leader
China

Current Environment

Declining exports, which started in the fourth quarter of 2008, continued in the first half of 2009 with June being the eighth consecutive month of decreased year-on-year exports. With a 21.8% decrease in exports, the first half of 2009 showed the sharpest decline in exports in a decade. This contraction in trade was matched by a decline in imports during the same period. As a result, China's foreign exchange reserves continued to grow to US\$2.13 trillion, a 17.8% increase at the end of June 2009 compared to June 2008. Over US\$800 billion of these foreign exchange reserves were held in US Treasury bonds, the highest level ever.

Since the beginning of the financial crisis, US Treasury bonds were issued to fund the US government's stimulus expenditures. The Chinese government has been a significant purchaser of these Treasury bonds. The strong demand for US government paper has so far helped to maintain the value of the US dollar. Although the US dollar to RMB peg was lifted in 2005, the RMB has remained relatively stable at about US\$1 to RMB6.83 for the last 12 months. During the G20 summit at the end of March 2009, Russia and China mentioned their desire to become less dependent on the US dollar as a reserve and trade settlement currency. Despite some relatively minor steps, including the memorandum of cooperation with Hong Kong on RMB-trade settlement, the process of liberalising China's foreign exchange regime looks set to be a long-term process.

While many countries around the world suffered from the global recession, China's economy showed remarkably strong growth with a GDP increase of 7.1% in the first half of 2009, which surprised markets. After a GDP growth of 6.1% in the first quarter of 2009, China's GDP grew by 7.9% in the following quarter.

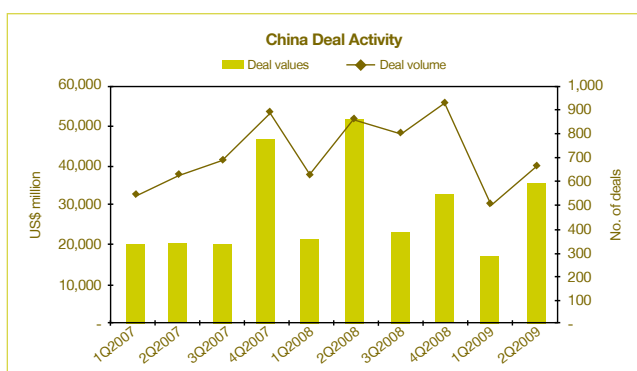
In the past, inflation has spiked to over 8% when the Chinese economy experienced double digit economic growth. However, the Chinese Consumer Price Index was down 1.1% in the first half of 2009 from the same period in 2008. Time will tell if the stimulus measures lead to significant inflationary pressures.

The main drivers of China's economic growth were the recently introduced stimulus measures, such as government spending and eased monetary policies. Under the relaxed credit policies,

RMB7.37 trillion of new bank loans were extended in the first half of 2009, which was approximately 50% more than in the same period of 2008.

It seems that the stimulus money is not only being spent on fixed asset investments and domestic consumption, which are the other main drivers of the Chinese economy besides exports. There are reported concerns that some stimulus money may be indirectly invested in the stock market. The Shanghai Composite Index rose from 1,821 at the beginning of the year to 2,959 at the end of June 2009.

Deal Activity



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

There has been a modest recovery in M&A activity in China in the second quarter of 2009 from the lows of the first quarter. Although foreign-backed activity remains depressed, announced domestic transaction volumes increased to 618 deals in the second quarter compared to 473 deals for the first quarter of this year. Domestic deal activity levels increased mainly as a result of confidence in the stimulus measures and ongoing government policy to support consolidation in industries such as cement, steel and financial services.

Overall activity in the first half of 2009 was lower than in the same period in 2008 as the global economic crisis continued. Announced deal volumes in China decreased by 22% to 1,091 deals in the first six months of 2009, down from 1,399 deals in the same period last year and 1,632 deals in the second half of 2008. Activity levels were down for both domestic and foreign-backed transactions.

Foreign corporate and financial investors saw the sharpest decline in activity. For many foreign corporations, visibility surrounding their global earnings potential was so low at the beginning of the year that deal activity was put on hold. As a result, the number of transactions announced involving foreign buyers declined by 35% from 344 announced deals in the second half of 2008 to 225 deals in the first half of 2009.

To a lesser extent, domestic investment levels are still down. Total domestic-to-domestic deal volumes fell from 703 deals in



the last quarter of 2008 to 368 deals in the first quarter of 2009, and up to 498 deals in the second quarter of 2009.

The largest announced domestic transaction was Ping An's acquisition of 30% of the shares of Shenzhen Development Bank for US\$3.2 billion, while the largest announced inbound acquisition was Hong Kong-listed GCL-Poly Energy Holdings Ltd's acquisition of Jiangsu Zhongheng Polysilicon Technology Development Holding Co. Ltd for US\$3.4 billion. This solar power transaction is in line with the Chinese government's strategy to encourage investments in carbon emission reduction as outlined in the stimulus plan.

Japan's Asahi's acquisition of 19.98% of Tsingtao Brewery from Anheuser-Busch-InBev, valued at approximately US\$670 million, is the largest inbound acquisition not involving a Hong Kong-based acquirer.

Financial Buyers

For foreign financial investors, the combination of the credit crisis reducing available funding (with many funds returning capital to stretched investors), an uncertain valuation outlook and problems in existing portfolio companies has led them to put new investments on hold.

Domestic financial investor activity held up better and has now overtaken foreign financial investor-backed activity as an increasing number of Renminbi-denominated funds were launched and rushed to make their initial investments.

The increased interest and appetite for domestic financial buyer transactions is also illustrated by the 16 new domestic Chinese industry funds that were launched in the first half of 2009. This brings the country's total to 41 industry funds. These funds, which are mainly sponsored by local governments or provinces, have an aggregated target fund pool of approximately RMB400 billion. So far, only RMB13.7 billion is known to have been committed.

In the first six months of 2009, Chinese domestic financial buyers have announced two transactions valued at over US\$250 million – Bohai Fund and CDH Management's acquisition of a 20% stake in Chery Automobile Company Ltd, and Zhonghai Trust's 5% investment in Panzhihua Steel. This clearly shows that the local funds that entered the private equity arena first, such as the Bohai Fund, have matured rapidly and are able to compete with foreign funds on more sizable transactions.

As in prior years, the financial buyer transactions are dominated by growth capital deals for minority stakes rather than leveraged buy-outs.

Outbound

The volume of announced outbound acquisitions (excluding mainland Chinese companies acquiring Hong Kong- or Macau-based companies) increased from 59 in the first half of 2008 to 65 in the first half of 2009. At US\$14.7 billion, deal value was more than three times as high as in the first six

months of 2008 mainly due to the US\$8.9 billion offer by Sinopec for Addax Petroleum.

Outbound investments from mainland China were around US\$10.8 billion in the second quarter of 2009 (compared to US\$3.9 billion in the first quarter of 2009). Deal volumes increased by 17% in the second quarter of 2009, compared to the first quarter. 40% of the announced transactions related to acquisitions in Australia, as Chinese metals companies secured iron ore to protect themselves from further price hikes.

Most outbound investments were related to acquisitions in the traditional sectors such as oil and gas, mining and metals. Besides these traditional industries, transactions have also been announced in the industrial manufacturing sectors for Chinese companies to achieve economies of scale, access to foreign markets, capture technology or expertise, obtain ownership of certain foreign brands, gain control over a supply chain or increase market share. For example, Shanghai Electric's printing and packaging division announced acquisitions in the United States and Japan, and Haier Group announced a strategic investment in Fisher & Paykel Appliances Holdings Ltd of New Zealand.

Outlook

After having downgraded their GDP growth forecast to 6.5% from 7.5% in March 2009, the World Bank revised their full year 2009 growth forecast for China upwards to 7.2% in June. The main reasons for this revision were the signs of stabilisation in global economies and financial markets, the strong government-influenced investment and resilient domestic consumption.

Looking forward to the rest of 2009, overall M&A activity levels are expected to remain at or slightly above second quarter levels, with domestic deal makers taking the lead as foreign corporates and financial investors remain cautious.

As confidence seeps back into the domestic economy with better-than-expected GDP figures being announced, stock market gains, and the IPO window being re-opened in China, domestic buyers will gain confidence as time passes, but we expect activity levels will remain below those of 2008, only recovering to this level in 2010.

Foreign buyers will remain more cautious, although there are already signs of a recovery in deal activity as the focus shifts from survival to growth. The pipelines are now at a low and even as the market returns, there will be a delay while deals are put together. For these reasons, we do not see a return to 2008 levels of activity until 2011 for foreign buyers.

Outbound investment is expected to remain a bright spot, but as the global economy stabilises there may be fewer distressed opportunities available. Chinese outbound investment still faces resistance in host countries as shown by the aborted Rio Tinto – Chinalco deal, but China's leadership seems determined to pursue the 'go global' strategy which should support outbound activity into the foreseeable future. ■

China: Promulgation of New Tax Implementation Rules for Corporate Restructuring



Danny Po
M&A Tax Leader
China

The PRC Ministry of Finance (“MoF”) and State Administration of Taxation (“SAT”) jointly released the rules for corporate restructuring (“Restructuring Rules”) under the Notice entitled “Several Questions about Corporate Income Tax (“CIT”) Treatments for Corporate Restructuring” on 30 April 2009. These Restructuring Rules will affect foreign investors when carrying out any merger, acquisition or corporate restructuring activity in China.

We have summarised the salient points of the Restructuring Rules, and highlighted several key features:

Salient Points of Restructuring Rules

- Forms of restructuring covered

The Restructuring Rules cover and define each of the following forms of restructuring which will be subject to the tax treatments set forth in the Rules:

- Changes in legal form
- Debt restructuring
- Equity acquisition
- Asset acquisition
- Merger
- Spin-off

- General tax treatments

The general principle is that enterprises undergoing corporate restructuring should recognise the gain and loss from the transfer of the relevant assets and/or equity at fair value when the transaction takes place, and the tax basis of the relevant assets in the hands of the transferee should be revised according to the transaction price. The Restructuring Rules, based on this general principle, provide the detailed tax treatments for each of the above types of designated corporate restructuring.

In summary, the tax consequences to the parties involved in the corporate restructuring are instantly recognised.

- Special tax treatments

However, if some prescribed conditions are satisfied, the Restructuring Rules allow the parties involved in the corporate restructuring to opt for special tax treatments.

• Prescribed conditions

The Restructuring Rules allow special tax treatments for corporate restructuring that fulfill all of the following five conditions:

1. The corporate restructuring has to have reasonable commercial reasons and the main purpose of the corporate restructuring is not for tax reduction, avoidance or postponement of tax payment;
2. The equity or assets being acquired, merged or spun-off have to reach a certain prescribed ratio to reflect the significance of the corporate restructuring. In an equity acquisition deal, the equity



1. acquired should not be less than 75% of the total equity of the enterprise being acquired; whereas in an asset acquisition deal, the assets acquired should not be less than 75% of the total assets of the enterprise that disposes of the assets;
2. No change in the original actual business activities within 12 consecutive months after the restructuring (“compulsory operating period”);
3. The deal consideration should mainly be comprised of equity (or shares) and the portion of equity-payment has to exceed 85% of the total consideration. In other words, the non-share equity (commonly known as “Boot”; which includes cash, bank deposits, receivables, tradable securities, inventories, fixed assets, other assets and undertaking of liabilities, etc.) cannot exceed 15% of the total consideration; and
4. The original shareholder who received the equity payment from the corporate restructuring has to commit not to transfer the equity received within 12 consecutive months after the corporate restructuring (“compulsory holding period”).

- **Special tax treatments – tax deferral**

For a corporate restructuring that satisfies all of the above mentioned conditions, the parties involved may elect for special tax treatments which are essentially a tax deferral treatment. It is important to note that it is not compulsory for the parties involved to elect for special tax treatments – it is a choice.

The general principle is that the recognition of a gain or loss by the transferor on the transfer of assets or equity (shares) can be deferred with respect to the equity-payment portion; and the transferee shall take over the transferor’s tax basis for the transferred assets or equity (shares).

However, the transferor still has to recognise any taxable gain or loss with respect to the Boot portion, where relevant, which is calculated as follows (the tax basis of the relevant assets are adjusted accordingly):

$$\left(\begin{array}{c} \text{Fair value of} \\ \text{transferred} \\ \text{assets} \end{array} - \begin{array}{c} \text{Tax basis of} \\ \text{transferred} \\ \text{assets} \end{array} \right) \times \frac{\text{The amount of Boot}}{\text{Fair value of transferred assets}}$$

- **Cross-border corporate restructuring**

It is good news to taxpayers that special tax treatments are also included in the Restructuring Rules for cross-border corporate restructuring. However, eligibility is specifically limited to the following types of cross-border corporate restructurings:

Type 1: A non-tax resident enterprise (“non-TRE transferor”) transferring the equity interest in a tax resident enterprise (“TRE”) to another non-TRE (“non-TRE transferee”) in which it has a 100% direct ownership. Moreover, such transfer must not result in changes in the withholding tax burden on the capital gains arising from the subsequent transfer of the equity interest of the TRE in the hands of the non-TRE transferee; and the non-TRE transferor undertakes not to transfer the equity of the non-TRE transferee within three years after the transfer of the TRE.



Type 2: A non-TRE transferring the equity interest in a TRE to another TRE in which it has a 100% direct ownership.

Type 3: A TRE using its assets or equity investment to invest in a non-TRE in which it has a 100% direct ownership. The special tax treatment available includes the ability to spread the gain on the transfer of assets or equity investment to taxable income over a 10-year period, i.e. a tax deferral. However, for this type of transaction, the Rules require the gain to be recognised upon execution of the deal but provide a concession for the gain to be subject to tax on a prescribed deferral basis.

Type 4: Other circumstances that are approved by MoF and SAT.

It is obvious that Types 1 and 2 are for inbound-China investments, whereas Type 3 is for outbound-China investments. Type 4 is simply a “window” allowing flexibility to the authorities to address any special situations which are not considered under the current Rules. It is noteworthy that even if a cross-border corporate restructuring falls into one of the above specific types, it still has to fulfill the five prescribed general conditions mentioned above (the prescribed conditions for special tax treatments) before the parties involved in the corporate restructuring can elect for special tax treatments.

- **Effective date of the Restructuring Rules**

The Restructuring Rules have been applied retrospectively to 1 January 2008, same as the effective date of the CIT Law and its Detailed Implementation Regulations (“DIR”). This is a sensible approach because if the Restructuring Rules were only effective from the date on which they were promulgated, there would be a “legislative vacuum” and all corporate restructuring in that interim period would be taxable under the general principle (in accordance with Article 75 of the DIR), regardless of whether or not the restructuring qualifies for special tax treatments under the Restructuring Rules.

Conclusion

The new Restructuring Rules represent a milestone in the development of the Chinese tax system. It is important for all companies who have either undergone corporate restructuring after 1 January 2008 but before the promulgation of the Restructuring Rules, or are planning to go through a corporate restructuring, to observe these new Restructuring Rules and take the required action to ensure both tax compliance and appropriate tax planning.

The rules to qualify for such tax deferred reorganisations for a foreign shareholder appear to be unambiguous to a foreign or non-TRE shareholder undertaking this. However, it remains to be seen whether there remain opportunities for effective tax planning for any future exits at holding company levels above this and outside China.

For example, where a sale is undertaken within the three-year moratorium of a holding company that is two-tiers or more above the non-TRE shareholder, would this run afoul of the provisions? Or would it in any case run into other exit risks as recently evidenced in a China tax case that seeks to bring any extra-territorial gains outside China into her tax net? We believe time will tell for those who choose to venture but it is likely that China will introduce tax rules to address that. ■



Hong Kong

Economy is unlikely to rebound significantly before the end of 2009. However, with its status as an international finance centre and its close ties to mainland China, Hong Kong is well placed for a solid recovery and will benefit from the continuing economic growth and development in the Chinese economy.



David Brown
Transactions Leader
Hong Kong

Current Environment

The global financial crisis in 2008 carried over to 2009 and continued to weigh heavily on the Hong Kong economy. In the first quarter of 2009, GDP declined by 7.8% in real terms from a year earlier, compared with the 2.6% decrease in the fourth quarter of 2008. This marked the largest decline since the third quarter of 1998 when the Hong Kong economy was hit by the Asian financial crisis.

Total exports of goods decreased markedly by 22.7% in real terms (compared with the 4.9% decrease in the fourth quarter of 2008), reflecting a sharp decrease in global demand. This was the largest decline since the second quarter of 1954. Exports of services also decreased by 8.2% in real terms in the first quarter of 2009 from a year earlier, similarly hit by the drop in global and regional demand. Inbound tourism nevertheless experienced solid growth with the continued influx of mainland Chinese visitors, partly aided by the further relaxation of the Individual Visit Scheme by the Chinese government.

The labour market continued to adjust to the economic downturn through downsizing and wage cuts. The unemployment rate rose to 5.2% in the first quarter of 2009.

Private consumption expenditure contracted by 5.5% in real terms in the first quarter of 2009 from a year earlier, following the 4.1% decline in the fourth quarter of 2008 on higher unemployment and lower income. The decline is likely to have been higher were it not for the various stimulus packages announced by the Hong Kong government.

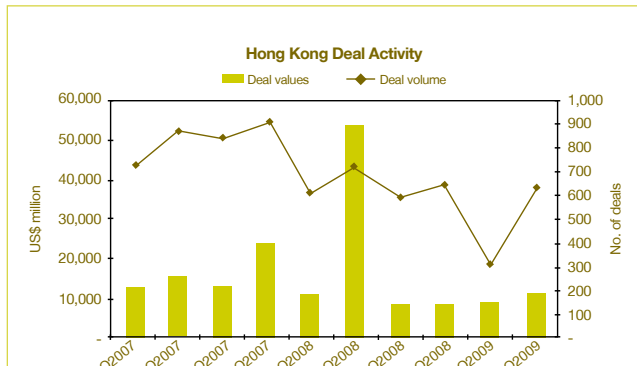
Given the global recession and the first quarter 2009 GDP data being worse than expected, the Hong Kong government revised its GDP forecasts for 2009 to contract by 5.5% to 6.5% in real terms, down from the original forecast decline of 2% to 3%.

Driven by more attractive valuations, foreign capital has however been flowing into Hong Kong stock markets. The Hang Seng Index recovered from its lowest point of 11,849 in March 2009 to a high of 19,162 in June 2009, a 62% increase for that period. However, the average daily turnover for the first half of 2009 was HK\$58.3 billion, a decrease of 33% over the same period in the prior year.

The number of IPOs dropped from 21 in the first half of 2008, to 18 in the first half of 2009. More significantly, the amount of funds raised through these IPOs fell from HK\$50 billion to HK\$17 billion in the respective periods.

Lower interest rates, market liquidity and the Chinese government's stimulus measures have seen a rebound in the prices of the Hong Kong property market in the second quarter of 2009 and a gradual increase in sales volume since March 2009.

Deal Activity



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

In value terms, deal activity in the first half of 2009 (US\$20 billion) improved 17.6% as compared to the second half of 2008 (US\$17 billion). However, this is still significantly down when compared with the first half of 2008, both in number of deals (decreased from 602 deals in the first half of 2008 to 422 deals in the first half of 2009) and by deal value (US\$44.8 billion). Some of the major deals during the first half of 2009 in each industry sector include:

Telecommunications

Hutchison Telecommunication International Ltd (HTIL) completed the spin-off of its wholly-owned subsidiary, Hutchison Telecommunication Hong Kong Holdings Limited (HTHKH) in May 2009 which was listed on the



Hong Kong Stock Exchange. HTIL's holding company, Hutchison Whampoa Limited held a 60.4% stake in HTHKH after the spin-off. The total transaction value was US\$1.3 billion.

China Mobile Limited, a Hong Kong-listed company, acquired a 12% stake in Far Eastone Telecommunications Company Ltd, a Taiwan-based listed telecommunications company that provides mobile and internet services, for a consideration of US\$526 million in cash. The offer price represents a premium of 15.3% over Far Eastone's closing price per share as of the deal announcement date. Along with the same acquisition, China Mobile also entered into a strategic cooperation agreement with Far Eastone with the purpose of a long-term mutual strategic development in several business areas including joint purchases, roaming, data and value-added businesses, and network and technology advancement.

Energy

GCL- Poly Energy Holdings Limited (GCL Poly), a Hong Kong-based supplier of polysilicon and wafers to companies operating in the solar energy industry, has signed two acquisition agreements in the first half of 2009.

The first deal was for the US\$2.6-billion acquisition of GCL Solar Energy Technology Holdings Inc. from four Chinese-based investment holding companies (Happy Genius Holdings Limited, Mandra Silicon Limited, Mandra Materials Limited, and Mandra Esop) in June 2009. The acquisition will allow GCL Poly to diversify its current utility business portfolio, bring in expertise and reduce production cost as well as expand its upstream business operations.

GCL Poly also signed an agreement to acquire Greatest Joy International Limited and Sun Wave Group Limited from Happy Genius Holdings Limited for a consideration of US\$831 million. This deal was also announced in June 2009 and it is expected to be completed by October this year.

Mining

Nubrand Group Holdings Limited (formerly known as Wanji Pharmaceutical Holdings Ltd), a Hong Kong-based listed investment holding company with businesses in health, beauty products and medical equipment, announced in May 2009 that it was to acquire Seawise Group Limited from Wonder Champion Investment Limited for US\$197 million. The acquisition will bring the long-term prospects of the coal and energy segment to Nubrand and complement its recent acquisition in the coal mining sector, helping it to expand its geographical coverage into China. The transaction is currently subject to shareholders' and regulatory approval.

As announced in April 2009, North Mining Shares Company Ltd (formerly known as Sun Man Tai Holdings Co. Ltd), a listed company in Hong Kong engaged in property investment and securities trading, has agreed to acquire Qinghai Province Qilianshan Copper Co Ltd, Qinghai Zhenguan Mining Co. Ltd, and Boertala Mongolian Autonomous Prefecture Lamasu Copper Mine from four private individual investors for a consideration of US\$193 million. The consideration for the transaction is to comprise cash and equity.

Industrial

Kai Yuan Holdings Limited, a listed Hong Kong-based company trading in consumer goods including sports merchandise, photographic equipment and brand name audio-visual products, announced the acquisition of Fame Risen Development Ltd, a company that has three steel manufacturing businesses in China for a consideration of US\$671 million. The deal was completed in May 2009.

Entertainment

Sociedade de Turismo e Diversões de Macau S.A., a Macau-based holding company engaged in the leisure sector, acquired Mandarin Oriental Macau from Mandarin Oriental Holding Company Ltd and Hong Kong-listed Shun Tak Holdings, which each held 50% of the target, for a cash consideration of US\$206 million. The deal was completed in May 2009.

Financial Services

Bank of America (BOA) sold a 5.78% stake in China Construction Bank (CCB) to a group of investors, including BOCI Asia Limited, Temasek Holdings Pte Ltd, China Life Insurance (Group) Company, along with its two insurance subsidiaries and Hopu Investment Management Co. Ltd (a Chinese private equity firm managed by Fang Fenglei) for a total consideration of US\$7.3 billion. The transaction was completed in May 2009. BOA decided to sell the bank shares after the lockup period expired on 7 May 2009. It still owns an 11% stake in CCB, which it can sell by 29 August 2011.

China CITIC Bank Corporation (CITIC Bank), a commercial bank and a 62.3% subsidiary of CITIC Group, has agreed to acquire a 70.32% stake in CITIC International Financial Holdings Limited (CIFH) from Gloryshare Investments Limited for a cash consideration of US\$1.75 billion. This transaction is in line with CITIC Group's previously announced intention of merging CIFH with CITIC Bank. After the acquisition, CITIC Bank will benefit from CIFH's presence in Hong Kong, which will enable the former to expand its operations to international financial centres and solidify its position in Hong Kong. The deal is expected to close in October 2009.



Real Estate

China Central Properties Limited (CCP) has received an offer from Shui On Construction and Materials Ltd to acquire the remaining stake of CCP. The deal was announced in May 2009 with a value of approximately US\$40 million. The transaction is subject to Hong Kong Stock Exchange's and shareholders' approval.

Private Equity

GS Holdings Corp., a listed South Korea-based company engaged in the provision of consumer petrochemical products and electricity, has agreed to acquire from Morgan Stanley Private Equity Asia, the Hong Kong-based private equity firm, a 69.53% stake in Ssangyoung Corporation, another listed South Korea based company engaged in the import and export of steel and metal products. The deal was valued at US\$96 million and announced in May 2009. The completion of the transaction is still pending as of July 2009.

Bain Capital Glory Ltd agreed to acquire 5% convertible bonds of GOME Electrical Appliances Holding Ltd, a Hong Kong-listed China-based retailer of household appliances and electronics, which could convert into an 11.32% equity stake, or 1.628 billion new ordinary shares for a total consideration of US\$233 million. The acquisition was announced on 22 June 2009.

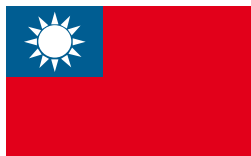
Outlook

The Hong Kong economy is unlikely to rebound significantly before the end of 2009 as it is significantly impacted by the global economy. However, with its status as an international finance centre and its close ties to the mainland China, Hong Kong is well placed for a solid recovery and will benefit from the economic growth and development in the Chinese economy especially when the US and Europe begin to show signs of recovery

Domestically, consumer spending may remain moderate going forward, but the recent rebound in the local stock and housing markets, and low interest rates should provide support to a relatively stable local environment.

Unlike mature markets, emerging markets like China have a greater potential to recover from the current downturn as they have more fiscal flexibility to stimulate the economy. With China's recent signs of recovery, Hong Kong's external trade should see relative improvements later in the year.

With respect to Hong Kong's M&A market, the start of 2009 has seen little activity with many buyers uncertain about the global economy and many adopting a "wait-and-see" approach to investing. However, in recent months we have seen increased activity particularly from corporate buyers looking for opportunities to expand or invest in attractively priced assets. We believe this trend will continue in the second half of 2009 and possibly increase as valuation gaps between buyers and sellers reduce. Many private equity firms that have raised funds in the past will no doubt continue to source new investment opportunities which will add to M&A activity in the second half of 2009. The increasing number of companies in distress looking to restructure their debt financing will also lead to more distressed M&A activity in Hong Kong. ■



Taiwan

Turning a new page in the global financial crisis and repositioning global strategies likely to enhance deal activities in the second half of the year.



Peter Yu
Corporate Finance Leader
Taiwan

Current Environment

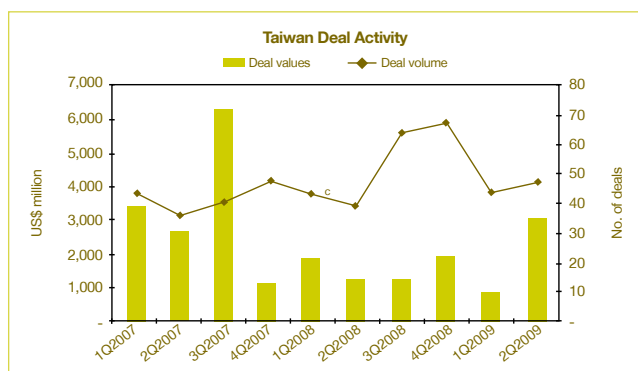
The global financial crisis has dealt a heavy blow to Taiwan's export-oriented economy. According to the Bureau of Statistics, Taiwan's GDP shrank by an unprecedented 10.24% in the first quarter of 2009, driven by a 32.3% year-on-year decline in exports. To boost consumer spending and pull its economy out of the recession, the Taiwanese government distributed US\$2.5 billion worth of consumer vouchers to its citizens. This programme is expected to boost GDP growth by 0.64% for 2009. Meanwhile, on the encouragement of the Chinese government, Chinese companies have been purchasing products from Taiwanese companies. These purchases totalled over US\$2.2 billion in June, which helped to mitigate losses caused by the decrease in exports.

Based on an estimate from the Council of Labor Affairs, the unemployment rate reached a historical high of 5.82% in May 2009, with 90,000 full-time jobs being eliminated during the first six months of this year. The unemployment rate is expected to climb to over 6% in the next few months due to the influx of newly graduated students.

The Consumer Price Index decreased for the fourth consecutive month in May 2009, but the deterioration in the index has been slowing.

The Taiwanese government made cuts in gift and inheritance tax rates, from 50% to 10%, and along with expectations of warming economic relations with China and relaxed investment regulations on China-based companies, this has led to a capital influx in the Taiwanese stock market, boosting the Taiwan Stock Exchange index (TAIEX) by more than 30% since January 2009.

Deal Activity



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

Compared to the first half of 2008, announced M&A transaction volume in the first half of 2009 fell from 84 to 75 deals, while deal value decreased from US\$3.3 billion to US\$2.8 billion. Although the overall M&A market appeared cautious, outbound deals showed an upward trend in the first half of 2009. Domestic manufacturing companies with relatively steady cash flows seeking to get out in front of an economic recovery have behaved more aggressively, by acquiring relatively cheap targets with advanced techniques or distribution channels.

Several representative deals for the first half of 2009 include:

Financial Services

KGI Securities paid NT\$28 billion in cash and NT\$1 billion in stocks to acquire Taishin Securities. This deal will help KGI increase its market share from 3.7% to 8.3%, making it the second largest participant in the market, and will also help improve Taishin's capital adequacy ratio from 113% to 150%.

To raise cash, Jih Sun FHC sold 1.387 billion new common shares to Capital Target Ltd, a subsidiary of Best Fortune Investments Ltd, at NT\$4 per share. After this deal, Capital Target owned 28% of the company and became the second largest foreign investor after Shinsei Bank, which took a controlling stake of 38%.

Following Aegon's strategic goal of optimising capital allocation, the Dutch insurer divested its Taiwanese life insurance business to a local consortium.



Telecommunications

Far Eastone Telecommunications and China Mobile entered into a share subscription agreement in April 2009. Pursuant to this agreement, China Mobile will acquire over 444 million shares in Far Eastone, with total value estimated at over US\$500 million. Upon the completion of this share subscription, China Mobile will hold 12% of the issued capital of Far Eastone. On the same day, both companies also entered into a strategic cooperation agreement to pursue long-term broad-based cooperation for their mobile telecommunications business.

Taiwan-based telecom equipment maker Microelectronics Technology acquired assets, the R&D team and patents for remote radio head products from TelASIC, a California-based company, to enhance its own R&D capability and fast track its entry into the 4G segment.

Technology

Unimicron Technology, a Taiwan-based maker of circuit boards, announced a plan to acquire its major competitor Phoenix Precision, a Taiwanese chip packaging substrate maker in an all-stock transaction.

Outlook

The global recession has provided opportunities for companies with core competitive manufacturing advantages to invest in expanding distribution channels or obtain technology skills and patents. On the other hand, financial investors, facing uncertainty in the market, are postponing investments due to the lack of funding and recovering valuation multiples.

The Taiwanese government intends to broaden strict investment conditions for Chinese companies interested in expanding into the Taiwanese market. Various economic plans and an Act listing 192 types of investments permitted by Chinese businesses have been introduced since July. In addition, the Memorandum of Understanding on financial supervisory cooperation and the Economic Cooperation Framework Agreement, scheduled to be signed in first half of 2010, are expected to induce reciprocal investment.

Financial Services

The Taiwanese government's tight regulatory initiatives on the Risk Based Capital ratio may squeeze local life insurers with weaker financial structures. Also, with the implementation of IFRS 4, European life insurers will face increasing capital requirements, prompting them to reassess global business strategies. Both developments may potentially provide more M&A opportunities in the market.

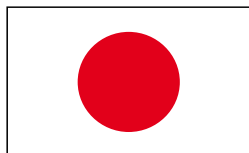
Following the signing of a financial cooperation agreement with China in April, Taiwanese authorities have turned their focus to inking a Memorandum of Understanding (MOU) to allow two-way collaboration with other nations for the supervision and regulation of the banking, securities, futures and insurance sectors. In June, Japan expressed a willingness to sign a financial MOU to open up their financial market through collaboration with local banks.

Non-financial Services

Outbound acquisition activities are expected to continue during the global downturn. Companies in both high-tech and traditional industries will continue to seek advanced technologies from developed countries as well as global channels to expand their market share.

The Taiwanese government has signed a series of business agreements with China over the past few months, mainly to open up tourism and transportation activities, expanding both the frequency of direct flights and quota of Chinese tourists per day. We foresee these agreements stimulating M&A activity in the near future, particularly in consumer sectors such as entertainment and hospitality, food and beverage, and healthcare. Closer business ties with China will also encourage experienced Taiwanese manufacturers in industries such as food and beverage, to expand market share through cooperation with Chinese companies.

Furthermore, with government support and the global environmental protection movement, we foresee an increase in demand for capital injection or vertical integration in the green energy sector, including such industries as solar power and LED. The Taiwanese government approved the Dawning Green Energy Industry Program in April to boost the overall production of the green energy industry from 1.2% of overall manufacturing value in 2008 to 6.6% by 2015, with a total investment of over US\$1.4 billion. ■



Japan

The economy found the bottom, and Japanese companies with strong balance sheets have started to move outbound again.



Matthew Wyborn
Corporate Finance Leader
Japan

Current Environment

Real GDP declined by 3.8% in the first quarter of 2009, the third consecutive quarter of negative growth and the worst quarterly rate ever. The overall level of real GDP for 2009 is forecast to decline by around 3.3%. Capital expenditure at corporations has decreased drastically under conditions of worsening profitability, whilst individual consumption and residential investment are both still weakening.

However, the decline in economic conditions appears to be slowing in the second quarter, with both exports and productivity showing some increases as well as signs of growth in public investments.

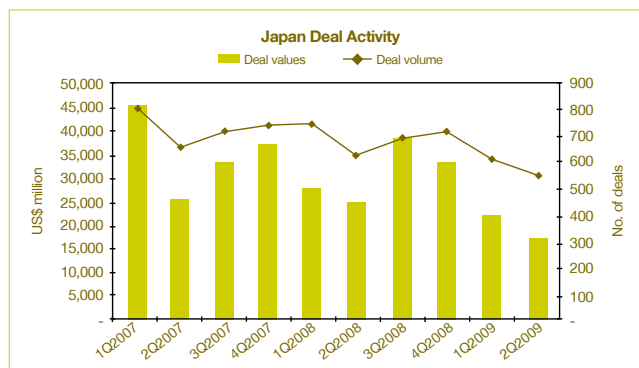
Looking at the financial markets, the overnight call rate remains around 0.1% and other term rates have also held stable. The long-term government bond rate (JGB) and stock market have both moved upwards while the Japanese yen has depreciated slightly against the US dollar. At the end of June, the JGB was trading at around 1.5% with the anticipation of a new issuance for the new fiscal year. The Nikkei Index was trading just below JPY 10,000 with the currency valued in the range JPY96 to 98 per US dollar at the end of June 2009.

With an outlook whereby the long-term government bond coupon rate is forecast to move upwards, we are seeing companies with higher credit ratings starting to issue long-term corporate bonds in order to secure funding at current lower interest rates. A total of JPY6 trillion in new funds has been raised through corporate bond issues in the first half of 2009. As examples, Toyota issued JPY200 billion in five-year bonds at 1.34% and a further JPY130 billion at 1.07%, whilst other corporates raising funds at below the current JGB rate included Denso (JPY100 billion), Panasonic (JPY400 billion), Japan Tobacco (JPY100 billion), NTT (JPY170 billion) and Sony (JPY220 billion).

The period from January to April 2009 saw some JPY3.9 trillion of investment in Outbound Foreign Direct Investment (FDI), although there was JPY6.4 trillion of prior investment withdrawn from overseas during the same period. The largest net decrease in overseas investment was from China (JPY159 billion), followed by the UK (JPY 129 billion), the Netherlands (JPY98 billion) and Australia (JPY95 billion). There was also a net decline of investment of JPY70 billion within the USA, the largest cumulative market for overseas investment by Japanese companies.

Looking to invest in Japan, there was inbound FDI of some JPY1.2 trillion in the first four months of 2009, with JPY891 billion withdrawn by overseas investors during the same period. The largest net contributor of inbound FDI was Germany (JPY18 billion), followed by the USA and the Netherlands (both with JPY17.9 billion) and France (JPY16 billion).

Deal Activity



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

Data from MARR (The M&A Research Report and Japan's primary source of deal-related information) indicated a total of 1,512 deals (reflecting 972 M&A deals and 540 group reorganisations) for Japan for the period from January to June 2009. Deal values were announced for 564 of these deals, totalling JPY2.22 trillion.

Of the published information, some 86% of total deal volume and 32.4% of estimated deal value related to domestic deals. Outbound deals comprised 8.9% of total volume and 55% of estimated deal value, and inbound deals provided 5.0% of volume and 12.6% of total deal value.



Outbound activity took place predominantly in the financial services, energy and mining, and food and beverage sectors. Financial sector transactions have been triggered primarily by the overall distressed state of the markets, whilst energy and mining activity reflects an uptick in efforts to secure scarce natural resources for energy-challenged Japan. Deals in the food and beverage arena have been motivated by players keen to expand beyond their saturated domestic market. At the time of writing, Kirin and Suntory had just announced discussions around a possible merger which would create a giant global player in the food and beverage sector.

Financial Services

- The largest deal announced during the first half of 2009 was the acquisition of the securities business of Nikko Citi (including Nikko Cordial Securities and Nikko Citigroup Securities) by Sumitomo Mitsui Bank Corporation for JPY573.5 billion. Nikko Securities was one of the big four securities firms in Japan and had previously become a wholly-owned subsidiary of US-based Citigroup in 2008.
- Mitsubishi UFJ Securities (part of the MUFG group) announced its intention to merge with the Japanese operations of Morgan Stanley Securities, and has also increased its equity investment in Kim Eng Holdings of Singapore to over 20%.

Energy & Mining

- Sumitomo Corp acquired 100% of Oranje-Nassau Energie, a crude oil developer based in the Netherlands for a total of JPY80 billion.
- Toshiba, Tokyo Power and JBIC jointly acquired a 19.9% stake in Uranium 1 of Canada for JPY20 billion.

Food & Beverage

- The announcement of discussions between Kirin and Suntory in early July is potentially the standout M&A transaction of the year. Both players have, alongside Asahi Breweries, continued to remain active in exploring international M&A opportunities and their coming together would create the potential for even larger transactions in the international market.
- Kirin Holdings acquired a majority stake in San Miguel Beer of the Philippines for JPY131.6 billion.
- Asahi Breweries acquired a minority stake in Tsingtao Brewery of China from Anheuser-Busch InBev of Belgium for JPY59.3 billion.

In other areas, we would also make mention of the acquisition by PricewaterhouseCoopers Japan of the Japanese business of BearingPoint, a transaction which greatly strengthens our consulting capability in the Japanese market.

In the domestic M&A market, a large number of deals occurred in non-manufacturing sectors such as services, information and software, amusement, real estate and hotels. Two of the largest deals in this sector include the acquisition by Yahoo Japan of 100% of Softbank IDC Solutions for JPY45 billion and Culture Convenience Club's acquisition of 20% of Kakaku Dot Com for JPY18 billion.

Another significant trend in the first half of 2009 in Japan was the delisting of some 38 companies from the Tokyo Stock Exchange (TSE), the highest level since records began back in 1961. Of these, 12 companies were delisted on grounds of financial distress (against a total of 16 companies for the entire year in 2008) whilst a further 14 companies were delisted to eliminate a double listing alongside a parent company. The listing of both parent and subsidiaries has been a subject of public debate in recent years in Japan. A total of 2,364 companies currently remain listed on the TSE.

In the area of private equity, the difficult funding market has seen a number of players seeking to reduce their holdings in Japanese stocks. For example, Steel Partners, one of the most prominent activist funds in Japan which previously held stakes in more than 30 Japanese companies now holds stakes in only 14. In addition, certain international private equity players have elected to exit Japan in early 2009.

Recent months have seen some developments in the impact of activist international private equity shareholders at general shareholders' meetings in Japan. The direct focus on business performance, which historically has not ordinarily been well-received, saw some changes at the recent general shareholders' meeting for Aderans, a major producer of wigs. Steel Partners, a 28% shareholder of Aderans, requested changes in the composition of the board and submitted seven nominees for approval in the shareholders' meeting, which in an unusual move were voted on one-by-one alongside a counterproposal by the current board in conjunction with Unison Capital. All seven nominees submitted by Steel Partners were approved by a majority of shareholders, whilst the three nominees submitted by the current board were rejected.



Outlook

On 16 June 2009, three discussion papers were issued by various bodies:

- The Finance Council of the Financial Service Agency issued a report on “Corporate Governance for Listed Companies”
- The Corporate Value Study Group of the Ministry of Economy, Trade and Industry issued a “Corporate Governance Study Report”
- The Japan Securities Dealers Association issued a discussion paper “Regarding Policies on Finance and Capital Market”

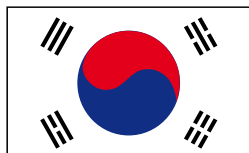
Whilst the reports differ in terms of their emphasis and proposals, all reports focus on ways of achieving better regulation over a range of corporate governance issues including:

- The dual listing of parent and subsidiary companies
- Disclosure of proxy results in a shareholders’ meeting
- Private placement of equity stocks issued to a third party that results in a change of control

Debate on each of these reports will continue, although it is reasonable to expect that additional regulations / rules will be issued in Japan within the current year. As such, we expect to see corporate activity continue to accelerate in response to the anticipated regulatory changes. This will play through with further delisting of subsidiaries and with more disclosure of proxy results within the shareholders’ meeting (which is already mandatory in the UK, and where the European Union is expected to follow) with a move towards making such disclosure obligatory. Currently, only a few companies such as Sony Corporation disclose the detailed proxy results within a shareholders’ meeting, although situations such as the Aderans case can be expected to become more common.

In a move intended to provide support to distressed companies, the Japanese government has enacted a new law to establish oversight of the investment banking branch of the Development Bank of Japan (DBJ), which was privatised in October 2008. The oversight body will scrutinise the financial standing of subject companies and, upon approval of a revitalisation plan, will inject funds into the companies. To date, both Elpida Memory Inc., a semiconductor company and Japan Airlines (JAL) have been granted funds through the DBJ, in the amount of JPY140 billion and JPY100 billion respectively. JAL has continued to suffer financial distress for more than a decade and has previously issued preferred shares on a couple of occasions. Set against this, All Nippon Airways (ANA) recovered from its own financial difficulties relatively quickly through implementation of an innovative management framework built around EVA. On 16 June, the same day the government announced that it would guarantee 80% of loans provided to JAL by DBJ, ANA announced its own plans to raise funding of JPY150 billion through a new equity share issue.

The public debate continues around the appropriateness of providing funding to distressed companies, using the nation’s financial resources, in a manner that may prolong the life of such companies but may cause market inefficiencies. However, we can expect there to be further developments in this area, as well as continued consolidation of domestic players and moves to further the international expansion by Japan’s strongest corporates over the months ahead as the global economic outlook starts to become clearer. ■



Korea

Gradually emerging from the economic downturn but still faces numerous challenges. M&A activity likely to rebound as government workout and corporate restructuring efforts intensify in the second half of the year.



Sang-Tai Choi
Transactions Managing Partner
Korea

Current Environment

After the Korean economy contracted by 5.1% quarter-on-quarter in the fourth quarter of 2008, the country narrowly avoided a technical recession in the first half of 2009 by registering positive quarter-on-quarter growth of 0.1% and 2.3% in the first and second quarters respectively. The growth was attributed to aggressive fiscal and monetary government measures, a relatively weaker Korean won, and a decline in oil prices. While sequential growth showed an improvement, year-on-year growth figures experienced a 4.3% contraction.

While exports have traditionally served as a key driver of Korea's economy, plummeting global demand severely dented volumes. To pick up the fall-off in exports, the Korean government had (and likely will continue) to play a more critical role in facilitating growth. Specifically, as of June 2009, the government had reportedly injected, or committed to, 67 trillion won (5% of GDP, US\$52.6 billion) in fiscal stimulus measures:

- On 3 November 2008, the Korean government announced a 14 trillion won (approximately 1% of GDP, US\$11 billion) fiscal stimulus package that included added government spending and tax cuts.
- On 13 December 2008, the National Assembly passed the 2009 budget, which featured fiscal stimulus and tax cuts amounting to 33 trillion won (approximately 3% of GDP, US\$25.9 billion). As indicated above, in November 2008 the government revised its original 2009 budget by increasing expenditures by 10 trillion won.
- On 24 March 2009, an extra budget of approximately 28.9 trillion won (approximately 2% of GDP, US\$22.7 billion) aimed at extra spending (social infrastructure investment, supporting small-to-mid sized enterprises and entrepreneurs, job creation efforts, welfare spending for low-income families) and to offset tax cuts was announced.

Also, the Korean government aggressively injected substantial funds into the economy including a 40 trillion won fund to buy corporate bonds and distressed assets, and established a 20 trillion won fund to buy non-performing loans (NPLs).

In January 2009, the Korean government released its "Green New Deal" package of 50 trillion won (roughly 4% of GDP, US\$38 billion), which it plans to invest in environmental restoration projects and development of domestic clean-tech firms over the next four years (2009 to 2012).

Finally, the Bank of Korea (BOK) supported the stimulus effort by keeping interest rates at a near-term low of 2% for most of the first half of 2009, aiding lending and spending in the domestic economy.

Exports fell 22.3% year-on-year through June 2009 due to a dramatic decrease in global demand. The reduction, although substantive, was comparatively less than that experienced by its manufacturing neighbours like Taiwan and Japan. Korea's export performance was largely driven by a diversified export product and customer base, and a weaker won which helped Korean firms gain market share abroad. In addition, the inventory restocking effect in 2009 (precipitated by significant inventory cuts at the end of 2008) helped mitigate downward price pressures on key IT exports. Despite a significant decline in export growth, imports fell at an even greater pace, 34.6% year-on-year through June, helping push Korea's trade and current account surpluses into the black after posting deficits in 2008. The drop in imports was on the back of a drastic fall in the price of energy and natural resources; offset somewhat by a weaker won which made imports more expensive. Due to a squeeze in US dollar funding, the won substantially weakened in late 2008 and deteriorated further in 2009 (the won traded at 1,597 won against the US dollar in early March 2009). Although the Korean won strengthened from the first quarter of 2009 lows, at the end of the second quarter of 2009, the won is still marginally weaker than its closing rate at the end of 2008.

Domestic demand remained weak in the first half of 2009 as consumers and companies retrenched in the face of economic uncertainty. Consumer spending was projected to decline 2% to 3% year-on-year in the first half of 2009, after private consumption dropped 4.4% year-on-year in the first quarter of 2009. A large reason for tepid consumption was the weak labour market. Korean unemployment rose to a near-time high of 3.9% (seasonally adjusted) in May 2009, when 219,000 jobs were lost, the worst in 10 years. Unemployment increased despite measures by a number of large Korean firms and the government to prevent job cuts via numerous schemes



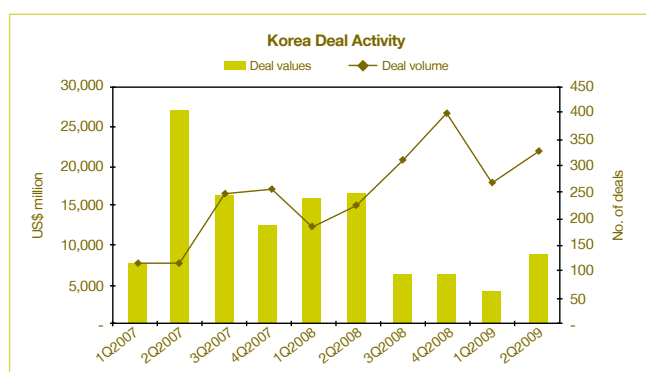
including lowering the wages of newly hired graduates and the mass hiring of 'interns'. Fixed investment fared slightly better as the government stimulus helped pump up spending, but fixed investment was to remain flat or marginally increase on a year-on-year basis largely due to construction spending, which rose 1.7% in the first quarter of 2009.

Korean equity markets benefitted from improved foreign and domestic investor sentiment in the first half of 2009. The KOSPI grew 23% in the first half of 2009, while KOSDAQ grew 46%; two of the best performing equity markets in the Asia-Pacific region. In addition, the Korean government announced two initiatives that served to increase confidence in capital market reforms: 1) The abolition of the tax paid by foreigners on bonds which will likely serve to boost sovereign bond sales; and 2) the removal of the short selling ban on stocks which was previously implemented to prevent excessive volatility. This will likely increase market activity.

The first half of 2009 also saw a number of other notable developments. First, the Korean government continued to push an aggressive trade liberalisation agenda that included trade deals with the European Union and US, and a focus on signing trade deals with emerging economies in order to boost exports. The Korean government's focus on trade issues was largely due to the need to secure future economic growth opportunities, as well as part of the country's larger platform of issues it will push as head of the G20 starting in 2010.

Finally, North Korean provocations notably increased as relations between the North and South deteriorated to a new post-war low. North Korea drew international censure after testing a satellite in April, and subsequently conducting a subterranean nuclear test and missile test in late May 2009.

Deal Activity



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

Overall, deal activity in Korea had somewhat mixed results in the first half of 2009 when compared on a quarter-on-quarter and year-on-year basis. Total deal value and volume in the first half of 2009 decreased by 1% and 16% respectively, when compared to the second half of 2008. On a year-on-year basis, total deal value in the first half of 2009 decreased by 60%, while total deal volume increased by 47.4%. An important point to note here is that while total deal value and volume in the first half of 2009 was sequentially down from the second half of 2008, there was a 122% and 25% increase in total deal value and volume in the second quarter of 2009 from the first quarter of 2009. The sequential decrease in total deal value in the first half of 2009 was the net effect of an increase in inbound and outbound deals, and a decrease in domestic deals. The decrease in total deal volume was reflected across the deal spectrum including cross-border, inbound and outbound.

Inbound

Private equity house KKR agreed to purchase Oriental Beer ("OB") for US\$1.8 billion in May. KKR outbid four other competitors to acquire OB which was being sold by AB InBev, the Dutch beverage giant. The deal marked the return of the LBO as KKR purchased OB with a large portion of the purchase price financed through senior syndicated loans (US\$760 million) and vendor financing (US\$300 million).

Outbound

An investment consortium, including Korea National Oil Corp (KNOC) and Columbia oil firm Empresa Columbia de Petroleos SA, acquired Petro-Tech Peruana SA, an oil E&P gas firm for US\$900 million in February. The transaction is expected to give KNOC increased access to oil deposits in the region.

In May, Korea Gas Corporation (Kogas) agreed to acquire a 10% stake in Blue Energy, an Australian oil and gas E&P firm. In addition, Kogas was granted an option to acquire an undisclosed minority stake in a number of existing LNG projects off the coast of Australia.

In July, KEPCO purchased 17% of Canadian uranium mining company Denison for US\$68 million. KEPCO has taken an aggressive stance in acquiring uranium contracts globally over the past six months in anticipation of increased demand for nuclear power. The transaction will give KEPCO access to 20% of Denison's uranium output per year between 2010 and 2015, and the ability to join the management team at Denison.



Outlook

After escaping a technical recession in the first quarter of 2009, and due to expectations of better-than-anticipated results in the second quarter of 2009, the Korean government raised their 2009 full year forecast from a contraction of 2.0% to 1.5%. Korea is expected to continue its gradual economic recovery by the end of 2009 or early 2010 on the back of improving global demand.

As a small open economy, Korea is likely to leverage its exports which are forecast to grow moderately in the second half of 2009. IT and other bellwether exports have picked up momentum with other industrial and durable exports expected to increase when global demand picks up. The won is expected to stay weak (on a relative basis) and this should also help to boost exports.

Domestic demand, on the other hand, is expected to remain tepid as consumers continue to decrease their spending in the face of relatively high unemployment and sluggish wage growth. Personal consumption is slated to contract 2% to 3% in the second half of 2009, while fixed investment will likely grow 1% to 2% with growth centered in the construction industry.

M&A activity will likely improve in the second half of 2009, particularly on the back of government efforts to restructure corporations. With some observers suggesting that the worst of the economic decline has past and corporate valuations steadily recovering, the Korean government will restart its corporate restructuring and privatisation programme that will result in increased activity of SMEs and divestments by chaebols (or large business conglomerates) of non-performing business units. Doosan and Kumho, two of Korea's largest chaebols, have announced the sale of business units to increase liquidity. There will also likely be a small uptick in outward bound acquisitions as cash-rich chaebols seek to purchase strategically compelling assets still well below valuations established during the previous business cycle.

Increased market volatility, lower valuations, and the economic crisis led the government to promote government restructuring initiatives as both SMEs and larger chaebols faced tighter liquidity and difficulty in raising funds. The main mechanism to catalyse restructuring will be the establishment of a group of private equity funds run by KDB that will restructure existing debts and inject capital into a selected group of firms over a three to five year investment period. While the current owners will have a call option to purchase assets at the end of the time period, assets will also be sold off. In addition to corporate restructuring efforts, the Korean government will also restart privatisation efforts for state-owned firms and take equity stakes in such firms as Hynix, Hyundai Engineering, and Daewoo Shipbuilding.

Energy and finance will be the sectors with the most opportunities. Korean energy and natural resource firms continued strong outbound activity during the global economic downturn as cash-strapped governments and firms sought capital investment. State-owned firms were the main focus of transactions, and are part of a larger Korean government initiative to promote national energy security. Korean Gas (Kogas) has sought to increase investment in LNG, taking a 10% stake in Australian LNG producer Blue Energy in May with a farm-in option to participate in two existing LNG projects off the coast of Australia. In addition, Korean Resources Corporation (KOREC) struck a deal with the Nigerian government in March to import 400 metric tons of uranium annually, as well as to take a 5% stake in a local uranium mine run by Chinese producer Trendfield. Private firms have also sought access to natural resources as a way to diversify revenues; the trading arm of the LG Group entered into a JV with Canada's Compliance Energy and Comox Joint Ventures to purchase 20% of the Raven Coal Project. Korean firms (both private and state-owned) are expected to continue their acquisition of natural resources with opportunities arising from a strengthening won and continued sales by distressed companies and governments looking to raise capital.

The financial sector will continue to offer opportunities as industry consolidation continues. The Korean government implemented the Capital Markets Consolidation Act (CMCA) in February which has already led to greater diversity in financial products and firms entering the market. While the implementation of the CMCA shows a potential trend toward deliberalisation, earlier plans to create a Western-style investment bank through the integration of different state-owned financial institutions have died. Instead, the Korean government has tentatively announced plans to privatise KDB by 2014 by splitting it into two parts: 1) A commercial unit that will essentially function as an investment bank, and 2) a government-sponsored policy bank that will take over the government-related functions of KDB. In the insurance and brokerage sectors, players continue to raise capital in anticipation of further consolidation. Finally, Korean banks continued their tentative moves abroad with Kookmin bank acquiring a majority stake in a Cambodian bank (Khmer Union Bank) and in February, Woori Securities acquired a 12.7% stake in Biet Viet Securities. ■





South and Southeast Asia

India

Indonesia

Malaysia

Philippines

Singapore

Thailand

Vietnam



India

Optimism takes root



Bharti Gupta Ramola
Transactions Leader
India

Current Environment

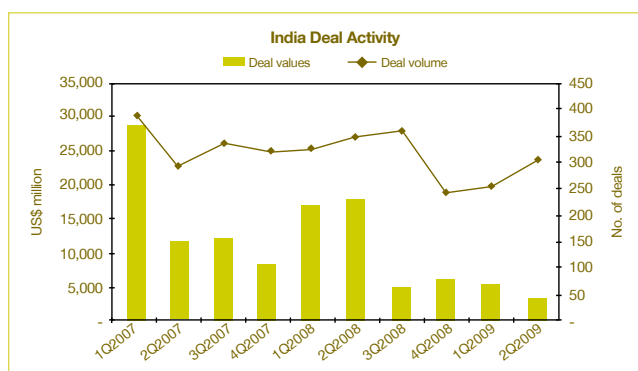
The Indian economy grew by an estimated 6.7% during the fiscal year ending March 2009. While this is significantly lower than the 9% growth achieved in 2007 and 2008, the growth was broadly in line with projections made by the Reserve Bank of India. The slowdown in economic growth was primarily attributable to the lower growth in the agricultural and industrial sectors, which grew by 1.6% and 3.9% respectively, compared with the 2.4% and 8.1% growth achieved in the fiscal year 2008. Manufacturing was the key disappointment and grew a mere 2.4% during fiscal year 2009 compared with 8.2% in fiscal year 2008. Services showed a growth of approximately 8.5%, with the global downturn significantly impacting growth in the hotel, transport and communications segments, with cumulative growth of 9% in these segments versus the 12.4% growth achieved in fiscal year 2008. Growth in financing, insurance and other services also fell from 11.7% in fiscal year 2008 to 7.8% in fiscal year 2009.

The Wholesale Price Index showed a steady decline and turned negative for the first time in 30 years in June 2009. This was primarily attributed to the fall in the price of oil and commodities. However, the Consumer Price Index ("CPI"), which is more representative of household consumption, continues to be in the range of 9% to 10% as prices of food products remain firm. The CPI is expected to start declining gradually in the next six months, though it is unlikely to fall below 5% to 6% levels.

The Indian stock markets were in a state of steady decline for most of 2008, but have been on recovery mode since the beginning of 2009 and reacted in a very positive manner to the results of the general elections where the Congress-led United Progressive Alliance government came to power. The Sensex fell to a low of 8,500 in November 2008 and touched 15,000 in June 2009. With the stock markets improving, the foreign institutional investors who had turned net sellers in 2008 appear to have regained confidence and have been in a buying

mode, albeit in moderate quantities. The election results and the anticipation of continued reforms have raised confidence of the domestic investors too, and a number of companies have used the opportunity to raise funds by way of the Qualified Institutional Placement route. On hopes of persistent capital inflows from foreign investors, the Indian rupee has strengthened vis-à-vis the US dollar by 3% in the first half of 2009. On an overall basis, it appears that investors believe that the Indian economy is much more resilient; growth in Foreign Direct Investment has risen from US\$24.5 billion to US\$27.3 billion in 2008 to 2009 which appears to support this opinion.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009. Data for 2Q2009 has been adjusted to exclude the deal between Bharti Airtel Limited and MTN Group Ltd which was not completed at time of writing.

The global downturn has had a significant impact on M&A activity in India with a fall in both outbound and private equity deal activity being the most obvious impact. Both M&A deal volumes and values fell in the first half of the year in comparison to corresponding periods in 2007 and 2008. The total number of M&A deals in this period stood at 565 deals, down from 677 deals in the first half of 2008. Deal values fell 65% during the same period, from US\$32.5 billion to US\$11.5 billion.

While lack of financing was one of the key reasons for the fall in deal activity, the conservative approach to growth adopted by Indian companies also made a significant contribution. In general, companies appear to have made a perceptible shift in their thought process about the pace at which they want to grow and how they would achieve that growth. For the most part, they adopted a wait-and-watch approach, focusing only on deals which had a compelling investment and pricing rationale. The focus was on conserving resources, both cash and management bandwidth, and consolidating existing operations; this has already resulted in divestiture of non-core businesses and more divestitures are likely in the near future.



Outbound investments accounted for a mere approximately US\$0.4 billion of M&A activity in the first half of 2009, spread over 47 deals, representing a fall of over 97% in terms of value compared with the first half of 2008. Indian companies focused primarily on distressed asset transactions during the period, and the prevailing economic conditions in the West provided such opportunities, owing to lower demand and volumes, eroding customer confidence, overcapacity and volatile cost base. Two deals stand out in this regard:

- Motherson's acquisition of Visiocrp, a company in administration in the UK, for US\$31.6 million. The new entity to emerge will be one of the world's largest manufacturers of automotive rearview mirrors.
- Apollo Tyres' acquisition of Vredestein Banden of the Netherlands, a company that was also in administration.

Other significant outbound deals announced during the period include:

- Lupin Ltd's acquisition of a 51% stake in Multicare Pharmaceuticals Philippines Inc.
- 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 Energy Ltd acquired over 50% of Homeland Energy Group Ltd, a coal mining company. It also acquired Barasentosa Lestari PT, an Indonesian coal mining company for US\$80 million.

Inbound deal volume and value fell by 35% and 80% respectively. However, much higher inbound deal activity is expected in the second half of 2009. One of the sectors which continue to interest overseas investors in spite of the overall economic slowdown is the Indian telecommunications sector. In 2008, Norway's Telenor bought a 60% stake in Unitech Wireless while Japan's NTT DoCoMo invested US\$2.7 billion in Tata Teleservices for a 26% stake. In 2009, Bahrain Telecom invested US\$225 million in Chennai's S Tel, a new player yet to start operations, and talks are currently underway for an approximate US\$25 billion transaction between MTN and Bharti Airtel Limited, which will involve both companies taking stakes in one another.

Other significant inbound deals during the period include:

- BIC acquired a 40% stake in Cello Pens for US\$160 million.
- Sodexo SA acquired Radhakrishna Hospitality Services Pty Ltd, a catering and food support services provider for US\$100 million.

Domestic transactions contributed 55% of the deal activity in the first half of 2009. Most of these transactions resulted from domestic consolidation and re-alignment of businesses by the key business groups in the country. This included Godrej Consumer Products Ltd's acquisition of Godrej Consumer Business Private Limited, a wholly-owned unit of Godrej & Boyce Manufacturing Co Ltd in exchange for 30.29 million ordinary shares of Godrej Consumer Products Ltd, valued at approximately US\$106 million.

Other key domestic deals during this period include:

- 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 approximately US\$1.3 billion.
- Sesa Goa Ltd's acquisition of VS Dempo & Co Pvt Ltd, an iron ore mining company, for approximately US\$370 million.
- Indian Hotel Company Limited's acquisition of an undisclosed minority stake in Ellel Hotels & Investments Ltd, from Claridges Hotels Private Ltd for a consideration of approximately US\$143 million.

Private equity transactions also declined during the first half of 2009, with only 96 deals worth approximately US\$1.9 billion reported during the period. Private equity investors continue to be cautious of investing, given the continuing high value expectations, further fuelled by the stock market rally after the announcement of the results of the general elections. Certain private equity firms are carrying significant mark-to-market losses on their books, and have focused on ensuring there is no further value depletion in their existing portfolio. Some of the notable private equity deals during the first half of 2009 include:

- FIM Ltd and LNM India Internet Ventures Ltd's 37.5% acquisition in Sophia Power Co Ltd, an electric utility company for a consideration of US\$325 million.
- Vernon & Park Capital LLP and Dunbay Co Ltd announced the acquisition of a 5% stake in Delhi Stock Exchange.
- KS Oils, a producer of edible oils, raised US\$90 million from an investor group comprising New Silk Route Partners, Citigroup Venture Capital International Growth Partnership Mauritius Limited and Baring Private Equity Asia III Mauritius.



Outlook

The new Finance Minister has indicated that the Indian government is aiming to achieve GDP growth of 9% for the financial year 2009/2010. To counter the negative fallout of the global slowdown on the Indian economy, the government has responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand, and has also increased expenditure on public projects to create employment and public assets. Some of the key measures taken in this direction include:

- Reduction of customs duty on consumer durables such as LCD televisions, mobile phones and commercial vehicles.
- Increased allocation under the National Rural Employment Guarantee Scheme by 144% to approximately US\$8.2 billion in 2009 to 2010.
- Implementation of social security schemes for workers in unorganised sectors such as weavers, fishermen, leather and handicraft workers, plantation labour, construction labour, etc.
- Launch of a new project for modernisation of the Employment Exchange through a public private partnership.
- Debt relief to farmers by extending the Debt Waiver and Debt Relief Scheme from 30 June 2009 to 31 December 2009. The target for agriculture credit flow has been set at US\$65 billion for the year 2009 to 2010.
- Allocation towards Urban Infrastructure under Jawaharlal Nehru National Urban Renewal Mission stepped up by 87% to US\$3 billion in 2009 to 2010. Allocation towards Infrastructure development of highways and railways increased by 25% and 45% respectively.

Additionally, the Reserve Bank of India has taken a number of liquidity enhancing measures to facilitate and ease financing options for Indian corporates. These include:

- FII regulations have been amended to enable Sovereign Wealth Funds to register as FIIs.
- Indian companies in the energy and natural resources sectors such as oil, gas, coal and mineral ores have been permitted to invest in excess of 400% of their net worth with prior approval of the RBI.
- Registered Trusts and Societies engaged in the manufacturing or educational sector and those that have set up hospital(s) in India are now permitted to make investment in the same sector(s) in a JV or WoS outside India, with the prior approval of the RBI subject to satisfaction of certain eligibility criteria.
- ECB (External Commercial Borrowings) guidelines have been revised to allow ECB up to US\$500 million per borrower per financial year for rupee expenditure and/or foreign currency expenditure for permissible activities under the Automatic Route for infrastructure and industrial sector.

A combination of the stimulus package and enhancement of liquidity in the system is expected to set the pace for better investment activity in the second half of 2009. There is a lot of optimism that the education, healthcare, agricultural, FMCG and infrastructure sectors will see a lot of activity, since most of these sectors are driven by domestic demand. With the increase in financing options, including private equity and debt financing, outbound acquisition activity is also expected to pick up. ■



Indonesia

Indonesia's economy has shown resilience in weathering the financial crisis with the economy growing 4.1% in the first half of 2009, aided by robust domestic consumption.



Mirza Diran
Transactions Leader
Indonesia

Current Environment

Global economic developments in the second quarter of 2009 showed some signs of recovery. The improving trend has had a positive impact on Indonesia's economic performance, one of the few countries in Asia to avoid recession due to its lack of dependence on exports.

Indonesia entered the financial crisis in a strong position and the economy has shown resilience. The economy grew 4.1% in the first half of 2009 supported by healthy domestic household consumption, which is the largest contributor to GDP. There was still weakness in external demand and low levels of capacity utilisation, as such investment activity remained limited.

The Indonesian rupiah, one of the best performing currencies in the region, appreciated 9% against the US dollar during the first half of 2009. The Central Bank has cut the benchmark interest rate, currently at 6.75%, by 275 basis points since December 2008 in response to weaker inflation. The lower rate is aimed at boosting credit expansion and supporting recovery in the domestic market.

The improvement in economic fundamentals and positive sentiment in the global economy saw a reversal of capital outflows that were witnessed in the second half of 2008, which led to the recovery of the Jakarta Composite Index ("JCI"). The JCI increased around 50% from the December 2008 level, up to approximately 2,000 in June 2009. Capital inflows have led to a 13% increase in foreign exchange reserves, up to US\$57.59 billion.

The positive economic climate and the increase in transaction activity on the Indonesian stock market were underpinned by peaceful political conditions throughout the recent presidential election in which the incumbent President Susilo Bambang Yudhoyono secured his second term in office.

Deal Activity



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

During the first half of 2009, 143 deals were announced with a total estimated value of US\$3.2 billion compared to the 169 deals announced with a total value of US\$4.1 billion in the second half of 2008, a decline in deal value of around 20%.

A selection of key deals completed in the first half of 2009 are summarised below.

Financial Services

The Hongkong and Shanghai Banking Corporation Limited, through its wholly-owned subsidiary HSBC Asia Pacific Holdings (UK) Limited, completed its acquisition of 88.89% of PT Bank Ekonomi Raharja Tbk for US\$607.5 million in cash. The acquisition has almost doubled HSBC's presence in Indonesia to 207 outlets in 26 cities.

PT Bank Danamon Tbk, a unit of the Asia Financial Holding (Indonesia) Pte Ltd, which is a subsidiary of Singapore state-owned Temasek Holdings Pte Ltd, agreed to raise its interest in PT Adira Dinamika Multi Finance Tbk, a financing service provider, to 95% by acquiring a further 20% stake through a privately negotiated transaction. The estimated total deal value was US\$150 million.

Australia & New Zealand Banking Group Ltd raised its stake in PT Pan Indonesia Bank Tbk to 38.3% by acquiring a further 8.4% share for Rp1.267 trillion (US\$114 million) in a privately negotiated transaction.



Consumer and Industrial Products

British American Tobacco PLC (“BAT”) acquired a 85.13% stake in a national cigarette company, PT Bentoel Internasional Investama Tbk for Rp5 trillion (US\$494 million). BAT is now seeking to take full control.

Tenaris Global Services Far East Pte Ltd acquired a 77.62% interest in PT Seamless Pipe Indonesia Jaya, a steel pipe manufacturer, from Green Pipe International Ltd (50.05%), PT Bakrie & Brothers Tbk (24.54%), and PT Cakrawala Baru (3.03%).

PT Plaza Indonesia Realty Tbk agreed to acquire a 80.57% interest in PT Sarana Mitra Investama, a Jakarta-based general trading company, for Rp141 billion (US\$13.1 million) in cash.

PT Rekso Nasional Food acquired 97 McDonald’s franchise stores from PT Bina Nusa Rama, an owner and operator of the restaurants. The transaction value has not been disclosed.

Telecommunications

Following the Qatar Telecom Q.S.C. (“Qtel”) acquisition of a 40.81% stake in PT Indosat Tbk (“Indosat”) in 2008, the United Arab Emirate telecommunications company held a mandatory tender offer in Indonesia and the United States in early 2009 for a further 24.19% stake, priced at Rp7,388 (US\$0.715) per share. The tender offer resulted in Qtel becoming the majority shareholder of Indosat, the second largest (by subscribers) telecommunication company in Indonesia.

PT Solusi Tunas Pratama acquired the telecommunication towers of PT Bakrie Telecom Tbk, a majority-owned unit of PT Bakrie & Brothers Tbk, for Rp450 billion (US\$41.4 million). The transaction included 543 base transceiver stations.

Energy

PT Bumi Resources Tbk (“Bumi”), one of the largest coal mining companies in Indonesia, acquired PT Darma Henwa (“Dewa”), a mining contractor, PT Fajar Bumi Sakti (“Fajar”), and PT Pendopo Energi Batubara (“Pendopo”) for a total value of Rp5.11 trillion (US\$503.8 million) in January 2009. As a result of the deal, Bumi owns a 44% stake in Dewa, a 50% stake in Fajar and a 84.5% stake in Pendopo.

China Sonangol International (S) Pte Ltd, a Singapore-based oil and gas exploration company and a subsidiary of China Sonangol International Holding Limited, has acquired an undisclosed stake in PT Surya Energi Raya, the Indonesia-based oil and gas field, for a consideration of US\$200 million. PT Surya Energi Raya is located in Cepu and is operated by Pertamina and ExxonMobil Corporation, the listed US-based energy company engaged in the exploration, production and distribution of crude oil and natural gas.

Mitsubishi Corporation has agreed to acquire a 33.4% stake in Strand Minerals (Indonesia) Pte Ltd, a mining company, from Eramet SA, the French mining and metallurgical company, for a total consideration of US\$145 million. Strand Minerals owns 90% of PT Weda Bay Nickel which manages the Weba Bay Nickel Cobalt Project located on the Indonesian island of Halmahera.

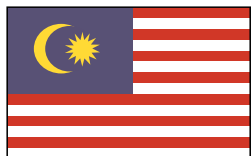
GMR Infrastructure Ltd acquired PT Barasentosa Lestari, a coal mining company, for Rp952.381 billion (US\$80 million).

Outlook

The Indonesian government has forecast economic growth of 4.3% for 2009, which is above the Central Bank’s forecast of 3.5% to 4% growth. Regardless, Indonesia looks set to outperform most of its Asian peers, in particular Singapore, Malaysia and Thailand. Growth will continue to be driven by domestic demand, mainly led by household consumption which is expected to rise by 5%. Export and import growth will continue to remain negative but levels will be better than the first half of 2009.

Fiscal and monetary policy will continue to be used to stimulate domestic demand in the remainder of 2009 and in 2010. The rupiah looks likely to strengthen further in the second half of the year. Inflationary pressure is expected to continue to ease with inflation predicted to fall to around 5% by year’s end. The authorities have made moves towards financial and trade protectionism and may look to go further down this path.

The government expects foreign direct investment to fall from US\$4.5 billion for the first half of 2009 to US\$1.7 billion in the second half of the year. Many investment plans in Indonesia have been postponed due to the scarcity of investment funds that were previously provided by Western investors who are dealing with the difficulties brought on by the financial crisis. ■



Malaysia

While overall M&A activity has declined sharply with slower cross-border deals, domestic M&A continues at a moderate pace.



Paran Puvanesan
Corporate Finance Leader
Malaysia

Current Environment

Malaysia's economy softened in the first half of 2009 as the full effect of the global economic downturn took its toll on employment, income and consumption around the world.

GDP growth in the first quarter of 2009 shrank 6.2% compared to 0.1% growth in the fourth quarter of 2008. Growth in the services sector was flat with a marginal decline of 0.1% in the first quarter of 2009. Manufacturing contraction was much steeper with a drop of 17.6% led by contraction in the export-oriented industries, in particular electrical and electronics.

With mixed signals on global economic recovery and weaker external demand, the Malaysian government has revised down this year's economic performance to a contraction of 4% to 5%.

In an effort to spur domestic demand and private consumption, the government announced a second stimulus package amounting to US\$16.4 billion in March 2009 on top of the US\$2 billion fiscal stimulus announced in November last year.

The central bank, Bank Negara Malaysia, continues to maintain a loose monetary policy, holding the overnight policy rate at 2% to support domestic demand and investments. Inflation risk remains low with the Consumer Price Index decreasing for the eighth consecutive month in April to 3%.

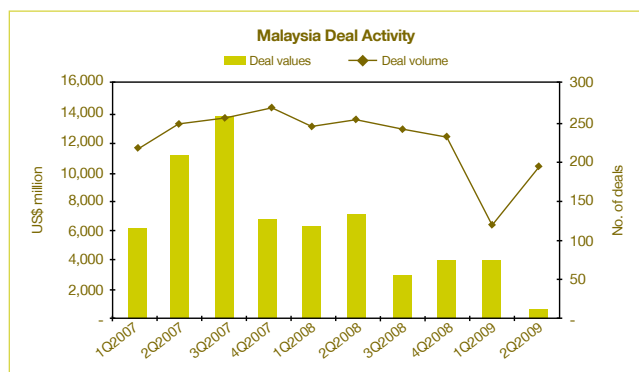
The performance of the Malaysian ringgit in the first half of the year was weighed down by a strong US dollar, weak quarterly economic results and a concern over the high public finance deficit as the government boosted spending. The ringgit started the year at RM3.45 against the US dollar but fell to a low of RM3.73 in March. It has since recovered to RM3.51 in June 2009.

The performance of the local stock exchange, Bursa Malaysia, trails regional bourses. The leading KLCI Index for the first quarter was comparatively weak, dropping to a low of 838 points in March from 894 points at the beginning of the year. The market began to rebound in the second quarter reaching a high of 1,091 points in June in anticipation that the US and local economy had bottomed out due to the moderating pace of declines in production and exports in April and May 2009.

Approved investments in the first quarter of 2009 were just RM7.5 billion, which is one eighth of the approved investments in 2008 (RM62.8 billion). Out of the RM7.5 billion, 56% came from domestic investments and the remaining 44% from foreign investments.

In the political arena, in April 2009 Malaysia swore in its sixth Prime Minister, Datuk Seri Najib Tun Razak, who took over from Tun Abdullah Ahmad Badawi.

Deal activity



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

Malaysia's M&A market weakened in the first half of 2009 compared to the same period in 2008.

Total value of announced M&A deals dropped 65% year-over-year to US\$4.7 billion, with bulk of the decrease attributed to lower cross-border transactions. Domestic deal activity, however, increased significantly in the first half of 2009, growing 74% year-on-year owing to the privatisation of water assets.

Over the first six months in 2009, the decline in M&A volume is less steep (37% year-on-year) compared to the decline in M&A value, reflecting the underlying market which mainly comprised small and medium-sized deals.



There was no specific sector that was active, other than water privatisation related transactions. The first half of 2009 saw three multi-billion water privatisation deals:

- The Selangor state government's takeover of the water assets and operations of Puncak Niaga Holdings Bhd and Syarikat Pengeluar Air Sungai Selangor Sdn Bhd (Splash) for US\$1.5 billion. Negotiations for this transaction are still ongoing, as both parties are assessing alternative plans.
- The federal government's acquisition of Johor state water assets from concessionaire SAJ Holdings Bhd (a subsidiary of Ranhill Utilities Bhd) for US\$1.1 billion. The deal involves the federal government assuming the concessionaire's liabilities of US\$0.9 billion.
- The federal government's acquisition of Negri Sembilan state water assets for US\$344 million from the state government.

The government was also involved in other acquisitions besides water, including:

- The federal government acquiring Sabah Medical Centre for US\$70 million.
- The Ministry of Finance (MOF) Inc.'s acquisition of Malaysia Airport Holdings Bhd's convention centre and F1 racing circuit units (NECC Sdn Bhd and Sepang International Circuit Sdn Bhd) for US\$45 million.

There were also a number of notable cross-border M&A transactions, involving Malaysian companies acquiring overseas assets. The leisure and casino group Genting, for example, was featured in a number of M&A deals. They include:

- The Lim family, which owns Genting Bhd, sold about 9% of shares in its Singapore unit, Genting Singapore Ltd, to institutional investors for US\$421 million.
- Genting Bhd paid US\$100 million for a 3.2% stake in US casino operator MGM Mirage.
- Genting Bhd and its subsidiary Resorts World Bhd also subscribed to a combined US\$100 million worth of notes issued by MGM Mirage.

Both Genting and MGM Mirage have started talks to consider possible marketing relationships, strategic ventures and partnerships globally. An alliance may provide Genting access to Macau, the world's largest gambling hub, and offer MGM Mirage openings in other parts of Asia.

Besides Genting-related transactions, other significant cross-border deals include:

- Retail group, Parkson Holdings Bhd (via its Hong Kong-listed subsidiary), has acquired the Suntrans Building, a shopping complex in Beijing, China for US\$169 million.
- KT Freetel Co, the South Korean wireless service provider is to sell a 16.5% stake in local budget mobile operator U Mobile Sdn Bhd for at least US\$100 million.
- Malaysian tycoon Quek Leng Chan (via Hong Leong Group Malaysia) took a 3% stake in InterContinental Hotels Group Plc for US\$74 million.

In the domestic M&A market, there were a number of privatisations of listed companies during the period that resulted from companies taking advantage of their surplus cash flow, cheap funding and attractive market valuations. Two prominent deals include:

- IOI Corporation Bhd privatised its property development arm, IOI Property Bhd in a deal worth US\$148 million.
- Pahang Agriculture Development Board has offered to make private the plantation operator, Kurnia Setia Bhd, for about US\$77 million.

Besides privatisation, there were some outright acquisitions and disposals:

- To reduce its debts, Time dotCom Bhd sold a stake in the country's third largest telecommunications company DiGi.Com Bhd for US\$132 million.
- Ramunia Holdings Bhd is to sell its oil and gas fabrication business to Sime Darby Bhd for US\$66 million.



Outlook

Despite the global financial crisis, Malaysia's economic fundamentals remain sound with a strong and highly capitalised banking sector, a liquid financial market, a low loan default and a stable property sector, all of which provide a firm base for investments. Further, the softening pace of the global crisis in the second half of 2009 is expected to stabilise the Malaysian economy and encourage businesses to make strategic and value investments.

The Malaysian government is also looking to encourage investments in Malaysia through a number of new and bold measures, which present significant M&A opportunities. They include:

- The deregulation of FIC Guidelines such that the Foreign Investment Committee will no longer fundamentally review any transactions or impose equity conditions on transactions covering acquisition of equity stakes, mergers and takeovers. An exception is being made for strategic sectors such as power, telecommunications, water and transport.
- The liberalisation of 27 services sub-sectors, whereby no equity condition will be imposed. This covered sub-sectors such as health and social services, tourism services, transport services, business services and computer and related technology services.
- The liberalisation of financial services whereby from now through 2012, seven new banking licenses will be issued to foreign participants (five conventional and two Islamic licenses) together with two family Takaful (insurance based on Islamic principles) licenses. Foreigners will also be allowed to acquire up to 70% or more in the equity of investment banks, insurance companies, Takaful operators, stockbroking and fund management companies.

Going forward, Malaysia's M&A market is expected to see a return to fundamental sectors such as consumer products which include fast moving consumer goods, healthcare and pharmaceuticals. Commodity sectors such as palm oil, and oil and gas support services will also feature strongly due to firm underlying demand.

Demand for outbound deals still remains, as Malaysian companies continue to seek attractive investments abroad, building on the recent trend for Malaysian corporates to invest overseas.

The ongoing economic slowdown will also bring about corporate restructuring deals as companies dispose of non-core and non-performing assets. This is especially prevalent for government-linked companies, where they are required to focus more on core activities and divest non-core operations.

We anticipate a number of M&A opportunities in Malaysia due to newly implemented market liberalisation measures, continued strong global demand for its commodity sectors, combined with a demand for both domestic and overseas synergistic investments. ■

Malaysia: Market liberalisation measures introduced



Datuk Anwar Yahya
Deals Leader
Malaysia

The second quarter of 2009 represented a significant milestone in Malaysia's economic landscape. It was during this period that Malaysia's Prime Minister, Datuk Seri Najib Tun Razak, announced a slew of bold market liberalisation measures to help further develop the country's economy and capital markets. Having become a successful middle-income economy with an average annual GDP growth rate of 6.4% and with the poverty rate decreasing from 49% in 1970 to a present rate of below 4%, the government has recognised the need to shift to a high-income economy to maintain the country's growth momentum and market vibrancy.

The government's commitment to make this transition to a high-income economy is part of its efforts towards developing a new economic model based on innovation, creativity and high value to lift the country to the ranks of a high-income nation by 2020. The new economic model is intended to shift Malaysia's reliance on a manufacturing base to a high technology services sector dependent upon skilled and knowledge workers.

Under this new economic model, Malaysia will encourage competition in all sectors of the economy and create a conducive investor-friendly environment that will promote inbound foreign direct investment (FDI). The government intends to systematically foster innovation as a key driver of high value sources of growth such as private education, health tourism, Islamic finance, ICT, creative industries and biotechnology.

In light of Malaysia's shift to its new economic model, significant liberalisation measures in three key areas were announced by the Prime Minister during the second quarter of 2009.

1. Deregulation of Foreign Investment Committee (FIC) Guidelines

Malaysia's existing investment guidelines, administered by the Foreign Investment Committee (FIC), were designed to ensure that foreign investment would fulfill the objectives of Malaysia's New Economic Policy (NEP). The NEP was launched in 1971 and was part of a social engineering programme to raise the Bumiputra's (ethnic Malays and other indigenous people) share of national equity to 30% of the economy from the 2.4% share that existed in 1970. To accomplish this objective, the FIC developed existing guidelines to govern acquisition of assets, mergers and takeovers of firms and businesses in Malaysia.

Acquisition of equity stakes, mergers and takeovers

Under the previous regime, foreign acquirers were restricted in the amount of equity in a company that they could acquire and were required to comply with a minimum Bumiputra shareholding threshold of 30% in a company. With the deregulation, the equity conditions for such transactions will no longer be imposed.

Selected strategic sectors (e.g. power, telecommunications, water and transport, and financial services) will, however, continue to have foreign ownership restrictions. National interest in these strategic sectors will continue to be regulated through the respective industry regulators such as the Energy Commission, Malaysian Communications and Multimedia Commission, National Water Services Commission and the Commercial Vehicles Licensing Board.



Fund-raising by listed companies

Previously, companies seeking to list on the Malaysian stock exchange, Bursa Malaysia, were subjected to a rule whereby a minimum 30% of the shares being placed/issued had to go to Bumiputra shareholders. Following the Prime Minister's announcement, this requirement has been lifted for future initial public offerings, with the exception of initial public offerings in select strategic sectors.

However, in place of the 30% minimum Bumiputra shareholding requirement, 50% of the existing public shareholding spread must be offered to Bumiputra investors. As listed companies are still required to sell at least 25% of their shares to the public, this implies that at least 12.5% of their shares must be offered to Bumiputra investors.

In addition, post-listing fund-raising exercises will no longer be subject to any equity conditions except in the case of reverse takeovers and 'backdoor' listings.

Acquisition of properties

Apart from easing regulatory restrictions pertaining to equity ownership in local enterprises, the government also introduced legislation to eliminate approval relating to any property transactions involving the sale by non-Bumiputra investors or foreign majority interest investors, and transactions between non-Bumiputras and foreign entities. This also applies to a Bumiputra-owned company acquiring property from another Bumiputra-owned company. FIC approval for property transactions will only be required where it involves a dilution of Bumiputra or government interests for property transactions valued at more than RM20 million (US\$5.7 million).

Establishment of a government-backed private equity fund, Ekuinas

In line with the new economic model, a new investment institution, Ekuiti Nasional Berhad (Ekuinas) will be established. Ekuinas will be set up as a private equity fund to further promote Bumiputra involvement in the economy, with an initial capital base of RM500 million. The Ekuinas's ultimate fund size is targeted at RM10 billion.

Ekuinas will focus its investments in sectors with high growth potential, in order to support the new economic model. At the same time, Ekuinas will invest jointly with private sector funds to promote genuine partnerships with a commercial focus.

2. Liberalisation of Financial Services Sector

To ensure healthy competition in the domestic financial services sector, the country's central bank, Bank Negara Malaysia proposed issuing seven new banking licences and two new insurance licences to selected foreign participants that can bring a combination of capital and skills to the domestic market in the following areas:

- Two licences for mega Islamic banks with paid-up capital of at least US\$1 billion to be issued this year.



- Two commercial banking licences to bring in specialised expertise are to be issued this year. Licences will be issued to banks that bring in the requisite expertise, knowledge and technology to develop business areas that are currently underserved in the financial sector, and which are earmarked to be the new growth areas.
- Up to three commercial banking licences will be offered to world-class banks that can offer a significant value proposition to Malaysia in 2011, i.e. contribute towards enhancing global relationships and facilitate international trade and investment flows between Malaysia and the rest of the world in areas such as international Islamic finance, shared services and outsourcing centres.

In addition to the banking licences, two family Takaful (insurance based on Islamic principles) licences will be offered this year to foreign players. With the liberalisation of the banking and insurance sector in Malaysia, foreign investors will also be allowed to take up to 70% equity in Islamic banks, investment banks, insurance companies, Takaful firms, stockbrokers and unit trust management companies. In addition, fund management companies will be allowed 100% foreign ownership. However, foreign ownership of domestic commercial banks will remain capped at 30%.

These liberalisation measures are accompanied by the removal of several operational restrictions and tax incentives to further spur development in the financial services sector.

3. Liberalisation of 27 Services Sub-Sectors

The services sector contributed 55% to Malaysia's GDP in 2008, of which 48% came from non-government services. This sector also accounts for 57% of total employment in Malaysia. Recognising the growth potential in this sector and with the aim of increasing its GDP contribution to 60%, the government has decided to immediately liberalise 27 services sub-sectors, with no equity conditions imposed, i.e. 100% foreign equity ownership will be allowed. These sub-sectors were previously subject to a 30% Bumiputra equity requirement.

The 27 sub-sectors are broadly grouped into the following:

- Computer and related services
- Health and social services
- Tourism services
- Transport services
- Sporting and other recreational services
- Business services
- Rental / leasing service without operators
- Supporting and other auxiliary services

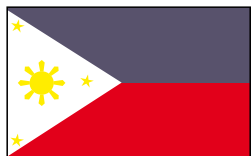


The overall impact of the liberalisation measures will ensure that Malaysia is well-positioned to receive an inflow of foreign investment capital. Corporates and investors may shift their strategic focus towards Malaysia as a springboard for regional expansion into Association of South East Asian Nations (ASEAN) as well as to capitalise on domestic investment opportunities in the Malaysian economy.

The new legislation will also encourage the entry of foreign players, including those with intentions to set up a regional base in ASEAN, due to Malaysia's strong international links in trade and emerging areas such as Islamic finance. Acquirers and investors can look at investing in export-oriented Malaysian corporates and develop them as regional providers of products and services into ASEAN, as well as Asia at large.

The deregulation of equity rules removes restrictive barriers on ownership and this will attract foreign corporate and private equity investors into the Malaysian capital markets. Private equity players will find that Malaysia's liberalised environment provides additional exit options if they decide to list their investments. Furthermore, the removal of restrictions on ownership will also see increased domestic transactions as locals can now acquire Bumiputra interests.

Despite challenging global economic conditions, Malaysia's bold and significant market liberalisation measures are expected to boost the inflow of foreign capital and help revitalise its economy and capital markets. ■



Philippines

The economy avoided recession owing to resilient domestic industries and stable overseas remittances which continue to fuel domestic demand; deal values managed a slight increase in the first half of 2009 as a result of domestic transactions. Deal activity in 2010 is expected from delayed IPOs and possible consolidation in the business process outsourcing industry.



Mary Jade T. Roxas-Divinagracia
Transactions Leader
Philippines

Current Environment

GDP growth slowed to 0.4% in the first quarter of 2009 as the Philippines felt the impact of the global financial crisis. The industrial and manufacturing sector contracted by 6.6%, exports contracted sharply by 18.2% and investments in durable equipment declined by 17.9%. In response, the Philippine government increased spending on infrastructure projects from 2.6% of GDP to 3.8%.

The country's fiscal position however is in a delicate situation as revenue-generating agencies have showed declining performance in the first five months of the year. Collections from the Bureau of Internal Revenue and Bureau of Customs have declined by 6.6% and 7.4% respectively. The government has continuously raised the budget deficit ceiling for 2009, and now it is at Php250 billion or approximately 3.2% of GDP. Prior ceilings were 2.5% and 1.2%. Before the onset of the global downturn, the 2009 estimate was 0.5%.

The slump in the country's top export, electronics, is believed to have bottomed out after a 33.2% slump in April. Despite the big drop from the prior year, month-on-month figures show a 3.9% growth in April to US\$1.62 billion, indicating some recovery in the sector. Industry organisation officials from Semiconductor and Electronics Industries in the Philippines, Inc., believe that the second quarter of 2009 will be stronger than the first quarter.

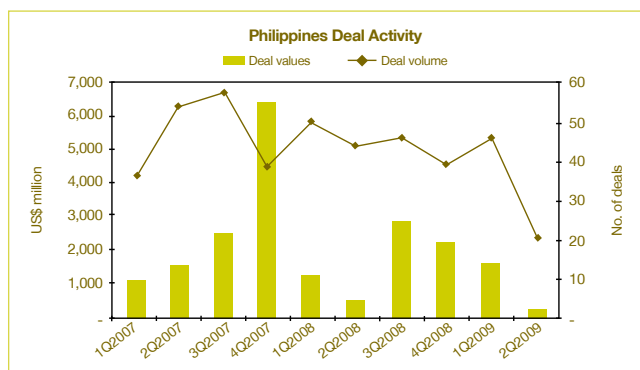
Despite the slowdown, the Philippines has been identified as one of the few countries to have not been severely impacted by the global financial crisis. Sectors that have continued to be resilient and contribute to growing the economy include construction, agriculture, transportation, communications and storage, mining, and business process outsourcing.

Inflation levels have come down significantly from the multi-year high that was reached in 2008. The Central Bank expects June inflation levels at 1.2% to 2.1%. This is a significant decrease from 3.3% recorded in May, and the 12.5% peak in August of last year. Inflation levels are targeted to fall within 2.5% to 4.5% for 2009, and are expected to remain subdued into 2010. Once a global economic recovery begins, stronger inflation is expected to return.

Inward remittances grew 2.6% to US\$5.5 billion for the first four months of the year as there was continued demand for Filipino workers in the global market. Remittances from abroad supported domestic consumption and kept the economy buoyant.

The composite index of the PSE has improved to 2,431.4 points as of 3 July 2009, an increase of 30% from the 31 December 2008 closing of 1,872.85 points. The Philippine peso to US dollar exchange rate remained stable with the rate ranging between Php47.390 to Php48.371 per US dollar.

Deal Activity



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

Deal values in the first half of 2009 increased by 5% to US\$1.81 billion, compared to the same period in 2008. This came on the back of a 144% increase in domestic deal value (US\$1.57 billion), largely related to deals in the banking and telecommunications sectors.

Total value for inbound deals shrank 78% to US\$211 million, while total value for outbound deals shrank 80% to US\$26.5 million.

The number of deals in the first half of 2009 shrank 30% to 66 deals, compared to 94 deals in the first half of 2008.



San Miguel Corporation

As indicated in prior issues of this bulletin, San Miguel Corporation (SMC) continues to be an active participant in the Philippine deal landscape, as it disposes of its holdings in the food and beverage industry and explores opportunities in other industries.

Most significantly, Q-Tech Alliance Holdings Inc. acquired a 19.91% stake in SMC from Kirin Holdings Co Ltd, for Php39.6 billion (US\$823.4 million), which was the biggest transaction in the Philippines during the first half of 2009.

Telecommunications, Real Estate, Packaging

- SMC plans to acquire Express Telecommunications Inc., a mobile cellular phones wholesaler.
- In July 2009, SMC signed a subscription agreement with Liberty Telecoms Holdings Inc. to increase subscription from 20% to 53% in Liberty Telecoms for Php1.8 billion.
- San Miguel Properties Inc., a majority-owned unit of SMC, acquired Maison 17 Properties Inc., a real estate development firm, from Wallmasters Inc. for Php300 million (US\$6.38 million).

SMC plans to acquire the remaining 30% stake in San Miguel Rengo Packaging Corp. from Rengo Co. Ltd for Php250 million (US\$5.20 million). SMC also plans to raise its stake by a further 6.7% in Mindanao Corrugated Fibreboard, Inc.

Food and Beverage Disposals

- SMC will be disposing its international beer operations and domestic beer brands to San Miguel Brewery, Inc., a 94.25%-owned unit of SMC.

Banking

- East West Banking Corp fully acquired AIG Philam Savings Bank, as well as Primus Finance & Leasing Inc. These two transactions were estimated to have a total value of Php2 billion (US\$42.3 million). East West Banking Corp. also agreed to acquire Philam Auto Finance & Leasing Inc. from American International Group Inc.
- In April, GT Capital Holdings Inc. acquired a 25.01% stake in Metropolitan Bank & Trust Co. from Grand Titan Capital Holdings Inc.

- In May, Banco de Oro Universal Bank Inc. and GE Capital signed a definitive agreement to transfer GE Money Bank into Banco de Oro. GE Capital will also acquire a 1.5% stake in Banco de Oro with an option to increase its stake up to 10%.

Other significant transactions include:

- In July, Pilipino Telephone Corp., a subsidiary of Smart Communications, Inc., completed the acquisition of 223 million common shares of Manila Electric Co (MERALCO) from First Philippine Utilities Corporation, formerly known as First Philippine Union Fenosa, Inc., for Php20.07 billion.
- Metro Pacific Investments Corp. agreed to acquire a 10.17% stake in MERALCO from PLDT Beneficial Trust Fund.
- Abacus Securities Corp. was granted an option to acquire a 4.82% stake in Atlas Consolidated Mining & Development Corp. for Php500 million (US\$10.6 million).
- In March, state-owned Development Bank of the Philippines and Land Bank of the Philippines jointly acquired a 56% interest in Metro Rail Transit Corp. (MRT). Both banks are planning to raise their interest in MRT from 56% to 76%.

Outlook

IPO Activity and Elections

IPO activity remained absent in the market during the first six months of the year, which is similar to the second half of 2008. We expect that activity will pick up towards the second half of 2010 at the earliest, when the economy is estimated to have recovered and the political and regulatory uncertainty that will come prior to the June 2010 national elections will have dissipated.

The sole exception to the expected postponement of IPOs could be the Pilipinas Shell Petroleum Corp.'s IPO, which is due to occur in the third quarter of this year. Shell has long been asked by the Energy Department to list at least one tenth of their shares, in compliance with the 1998 Oil Deregulation Act.



Energy Privatisation

The state-owned Power Sector Assets and Liabilities Management Corporation (PSALM) had scheduled the bidding of two large power assets, the coal-fired Sual (1000 MW) and Pagbilao (700 MW) in May and June this year. The offers from the participating bidders, San Miguel Energy Corporation and Therma Luzon Inc., did not meet PSALM's reserve price for the assets. A new round of bidding will take place later this year.

Contact Center Companies

Despite the global downturn, the business process outsourcing industry continues to do well in the Philippines. A recent PwC survey of major players in the contact center industry showed that in 2008, industry revenues grew by more than 20% and agent headcount by 13%. However, the survey also showed that operating margins have weakened, especially among companies with less than US\$10 million in annual revenue or those with under 600 agents. The industry may be ripe for consolidation among smaller players, who need scale to better manage their operating expenses.

Growth in bank lending

Bank lending in the Philippines continued to grow with the support of the Bangko Sentral ng Pilipinas (BSP). Loans of commercial banks for use in economic activity grew by 3.1% to Php1.78 trillion (US\$37.5 billion) in May 2009 from Php1.748 trillion (US\$36.3 billion) in December 2008. The key sectors of the economy where there was growth in lending include fishing, electricity, gas and water, transportation, storage and communication, financial intermediation, public administration and defense, health and social work, and other community, social and personal services.

Further, the BSP has reduced key policy interest rates by 200 basis points since December 2008 to spur economic activity. ■



Singapore

In line with the recovering global economic sentiments, M&A jump-started in late April, after two quarters of slump. Deal activity will continue to grow, albeit deal sizes for the rest of this year will be smaller, given the more cautious sentiment and muted credit environment.



Chao Choon Ong
Transactions Leader
Singapore

Current Environment

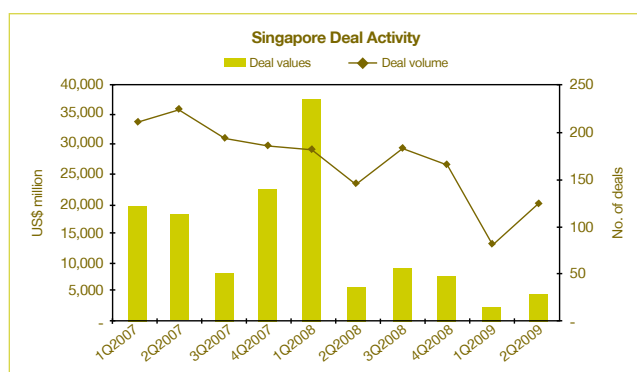
Singapore's heavy reliance on the export markets of the US and Europe made it one of the first Asian economies to slide into the recession in the third quarter of 2008. Year-on-year, Singapore's GDP fell by 9.5% and 3.5% in the first and second quarters of 2009 respectively. Quarter-on-quarter, GDP in the first quarter of 2009 contracted by 12.2%, the fourth consecutive quarter of decline, while a growth of 20.7% was reported in the second quarter.

While acknowledging that the worst of the recession is probably over, the Singapore government was quick to temper any optimism of a sharp V-shaped recovery. The improvement in GDP was largely driven by the manufacturing sector, which grew by 49.5% in the second quarter of 2009 (compared to an 18.5% contraction in the previous quarter) on the back of inventory replenishment and a spike in biomedical output. All sectors registered an improvement in the second quarter over the first, with the exception of the hotels and restaurants sector which experienced a slight decline.

On a seasonally adjusted basis, inflation in June 2009 was 0.2% while the CPI for the first six months of 2009 was 0.8% higher than the same period in the previous year. The Monetary Authority of Singapore forecasts that full-year inflation will be between -0.5% and 0.5%, which is higher than the previous forecast due to the recent hike in global oil prices.

The Singapore dollar declined steadily against the US dollar since July 2008 barring a short-lived recovery in November 2008. By March 2009, the Singapore dollar reached its lowest point of S\$1.55 against the US dollar. Since then, the Singapore dollar has appreciated gradually and has since stabilised at around S\$1.45 against the greenback in June.

Deal Activity



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

As with the other markets, M&A in Singapore was severely impacted by the global financial crisis. Total value of inbound, outbound and domestic deals for the first half of 2009 was US\$6.4 billion, representing a 61% decline from the second half of 2008 and an 85% drop from the same period last year. The number of deals announced shrank from 350 in the second half of 2008 to 248 in the first half of 2009. On average the deals in 2009 were smaller than those in 2008. In the first half of 2009, the top three deals contributed to over 60% of the total deal value, the most notable of which was PetroChina's acquisition of Singapore Petroleum Company.

There was a pick-up in M&A activities in the second quarter of 2009 which witnessed a 75% increase in deal value from the first quarter. Number of deals announced also increased by 5% in the second quarter to 127.

Domestic

Domestic M&A during this period totalled US\$2.6 billion, which was 20% lower than the second half of 2008. Out of a total of 100 deals, the largest deal contributed almost a third of the total deal value:

- Singapore Airline's plan to pay out as dividends to its shareholders its 81% interest in Singapore Airport Terminal Services (valued at US\$0.9 billion)



Inbound

Total inbound deal value was US\$3.3 billion in the first half of 2009 representing a decrease of 70% from the second half of 2008. A total of sixty deals were recorded and the major ones included:

- PetroChina's purchase of a 45% stake in Singapore Petroleum Co. Ltd for US\$1 billion, and its announced intention to purchase the remaining 54% of the company for US\$1.2 billion
- Chinese state-owned company Aluminium Corp of China's (CHINALCO's) acquisition of a 5% stake in Shining Prospect Pte. Ltd for US\$1 billion
- The acquisition of a 53% stake in Straits Asia Resource by Lint Ltd (a wholly-owned unit of Thailand's PTT International) for US\$309 million
- The acquisition of a 51% stake in Airfoil Technologies International Singapore Pte. Ltd by General Electric Aircraft Engines for US\$300 million

Outbound

The value of outbound deals was a mere US\$0.5 billion in the first half of 2009, down by 89% compared with the same period in 2008. The larger outbound deals out of a total of 88 were:

- The acquisition of ProLogis Park Misato II, a Japanese-based owner and operator of a warehouse facility, by GIC Real Estate Pte. Ltd for US\$140 million
- The acquisition by CapitaLand Ltd of an additional 60% interest in a real estate investment and development company in Vietnam, CapitaLand-Hoang Thanh Co. Ltd for US\$32.5 million
- The acquisition of a 25% interest in Sunny Energy Ltd in Hong Kong by Abterra Ltd for US\$27.6 million

Private Equity and Sovereign Wealth Funds

The value of private equity (PE) and Sovereign Wealth Fund (SWF) deals in the first six months of 2009 amounted to US\$0.5 billion, with a total of eight deals recorded in the period. PE investment activity nosedived since October 2008 as a result of the credit freeze, but showed signs of picking up in the second quarter of 2009 especially in smaller growth-capital deals. PE investors are now more cautious with industries such as IT and Business Process Outsourcing, and are instead looking increasingly at

defensive sectors such as healthcare and pharmaceutical, education, professional services and renewable energy. In addition to fewer deals being completed and smaller average deal size, fund-raising activity slowed down throughout the world, with the total amount raised at its lowest since 2004.

The most significant PE and SWF transaction came in June, with the announcement of Temasek Holdings' offer to acquire a 13.8% stake in Singapore-based agricultural and food ingredients supply-chain management company, Olam International, for US\$303 million. In addition, Temasek Holdings reinvested US\$671 million¹ into one of its existing portfolio companies, Neptune Orient Lines, and also raised its stake from 6% to 6.5% in China Construction Bank through an investment of US\$600 million¹.

Besides the US\$140m ProLogis Park Misato II deal by GIC Real Estate, GIC Special Investments acquired a 7.7% stake in UK-based PE firm, Apax Partners, along with Australia's Future Fund and Management Agency, for an undisclosed sum.

Outlook

Based on the better-than-expected performance of the economy in the first half of 2009, the Ministry of Trade and Industry revised its estimates for the contraction of the Singapore economy to 4.0% - 6.0%, an improvement from its original estimated contraction of 6.0% - 9.0% made in April 2009.

Since the beginning of the year, the private residential market has picked up noticeably with improved sentiments and the stock market rally that started in March. Analysis has shown that prices of mass-market homes, or low-end private properties, are now at peak October 2007 levels. Property developers sold more than 7,000 private homes in the first half of this year, double what they sold in the same period last year, and on an annualised basis, only 2% less than the record 14,811 homes sold in the 2007 boom year. The Singapore government has since indicated its intentions to monitor the property market situation closely amid concerns that signs of speculation are re-emerging.

No companies were listed on the SGX mainboard in the first half of this year while there were only three IPOs on the secondary Catalist board with total proceeds of US\$12.5 million. Although there was a dearth of IPOs, many companies raised capital through rights issues to improve their balance sheets in anticipation of a long

Notes

1. Source: These two deals are not included by Thomson Financials in the value of announced deals.



recession or to build up their war chest for acquisitions. In the first half of 2009, Singapore companies raised a total of US\$6.3 billion through rights issues, significantly more than the US\$2.4 billion raised in the whole of 2008, and accounted for 65% of total proceeds raised in Asia. Companies that raised capital in the first half of 2009 included DBS Group Holdings, CapitaLand Limited and Neptune Orient Lines.

In January 2009, the Singapore government announced a S\$20.5 billion economic stimulus package, of which S\$4.5 billion was devoted to the Job Credit Scheme. By giving employers a 12% cash grant on the first S\$2,500 of each employee's wages, the Jobs Credit Scheme was intended to cut the cost of employment and save jobs - this was deemed to be more effective at cushioning the impact of the economic recession than any fiscal pump-priming measures due to the open nature of Singapore's economy. Preliminary estimates in July showed that the overall unemployment rate stabilised at a seasonally adjusted 3.3% in June 2009, unchanged from March 2009 but higher than the 2.2% in June 2008. Moving forward, unemployment is expected to level off as no large retrenchment exercise is expected in the third quarter of the year and there are signs that companies are starting to hire in small numbers again.

Given the recent signs of recovery, the Singapore government indicated that there is thus far no need for additional stimulus measures, but will review its position at the end of the year. Furthermore, Singapore's economic recovery is expected to be aided by the opening of the two Integrated Resorts in early 2010, which will lead to the creation of new jobs and is expected to stimulate both onshore consumption and inbound tourist spending.

The Economic Strategies Committee, made up of both public and private sector representatives, was set up in May 2009 to study the long-term economic transformation of Singapore. Specifically, the Committee will review sector-specific strategies, look at possible overseas growth for local companies and continue to attract more global companies, including the tier below the Fortune 500 companies. The Committee will make their recommendations in time for the next Budget.

The M&A environment for the rest of 2009 is expected to continue to improve as the economy recovers and confidence in the global banking system is gradually restored. We expect investors to remain cautious while they continue to hunt for bargains. Deal sizes are likely to remain substantially smaller than in the past two years and cash-rich Singapore corporations, who have been outbid by PE firms in many deals previously, will find the conditions more favourable given the subdued credit and valuation levels. We also expect PE M&A activity to pick up for the rest of the year. ■



Thailand

Tourism and manufacturing sectors hit hard



Gary Murphy
Deals Leader
PwC SEAPEN Region*

Current Environment

The downturn in the global economy has inevitably impacted Thailand's economy. Contracting consumer demand in major trading partners has resulted in decreased production and increased levels of unemployment in the manufacturing sector. Also impacted by global conditions was the Thai tourism sector which has additionally been affected by the concern generated by the growing Influenza A (H1N1) pandemic, with Thailand itself reporting 9,000 cases to-date.

In addition to the global challenges that Thailand faces, it has a number of homegrown issues. Thailand's 27th Prime Minister, Mr Abhisit Vejjajiva, was voted in by members of parliament in December 2008. In addition to steering the Thai economy through the global financial crisis he also faces the challenge of tackling the ongoing domestic political unrest. Demonstrations by the pro-Thaksin opposition turned violent on 13 April, during the Thai New Year celebrations. Two were killed and 113, including police officers, were injured by the clashes. This impacted the prospects for Thai tourism, which was only just beginning to recover from the occupation of Bangkok's Suvarnabhumi airport in November 2008.

GDP declined to an annualised negative 7% in the first quarter of 2009 compared with positive GDP of 6% in the equivalent period in 2008. Although private investment and consumption have declined for much of the first half of 2009 there are signs that the pace is slackening. A good indicator of private consumption is the VAT collection levels. May 2009 VAT collection declined by an annualised 17% but this was an improvement on the previous month's decline of 22%.

The Thai government has attempted to stimulate domestic consumption through a number of initiatives as public expenditure increased by an annualised 27% by May 2009: a THB2,000 handout to low income earners, support to families through free primary and secondary education and free utilities, a moratorium on certain property transfer fees and reductions in others, and additional national holidays which together with tourism campaigns aimed at the domestic audience have attempted to encourage Thais to get out and spend.

The baht has performed strongly against the majority of regional currencies, appreciating against the US dollar over the period by some 2.3% compared to a basket of regional currencies which appreciated by only 0.2%. The comparative strength of the baht was primarily because of continued trade surpluses with the first five months of the year amounting to a cumulative US\$10 billion. The Bank of Thailand has aimed during this period to actively intervene to prevent any major volatility.

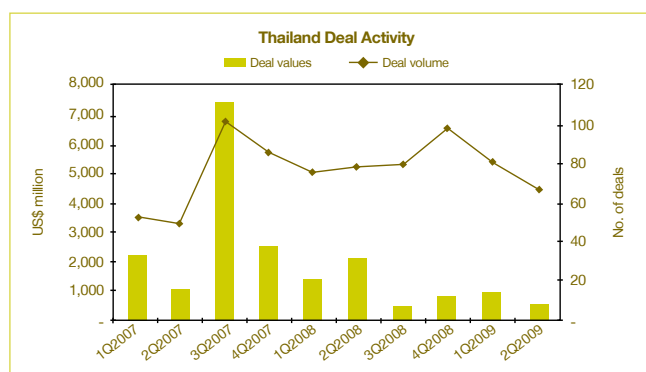
The SET over the first six months of 2009 rose by some 33% following a fall of 4% in January and February. This was despite a fall in the consumer confidence index by May 2009 to 64.3 down from 70.7 in December 2008. Net cash inflows from foreign investors of some THB20 billion for the first six months of 2009 following net outflows in January and February helped support the market whilst providing additional impetus to the appreciation of the baht.

Although foreign direct investment in the first half of 2009 was down to THB50 billion, a 33% drop in terms of number of projects or a 54% decline in terms of project value from the same period of the previous year, this represented an improvement on the preceding few months. There were 13 large projects approved which included a THB5,245-million seasonings manufacturing facility by Ajinomoto (Thailand), a THB944-million animal feed manufacturing plant by Nestle (Thailand) and a THB913-million haircare product manufacturing plant by P&G. Other projects were mainly in respect of industrial machinery and parts manufacturing.

* 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.



Deal Activity



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

M&A activity in Thailand has remained sluggish in the first half of 2009 picking up from US\$1,254 million to US\$1,453 million, a 16% change, in deal value from the second half of 2008. Domestic transactions dominated M&A activities and were primarily the consequence of the restructuring of domestic business groups or their related parties. True Corporation bought back its telecom-related subsidiary from Charoen Pokphand Group, while Minor International acquired Minor Corp. The founding shareholders of Thai Beverage and Bangkok Mass Transit System increased their stakes in the companies.

In terms of private equity M&A, activity was distinctly low with only H&Q's exit after 10 years from its initial investment in electronic equipment manufacturer, SVI being reported.

In respect of outbound M&A activity, real estate companies are taking advantage of the global economic downturn to invest in undervalued projects. Among others, TCC acquired Hyatt Regency Adelaide in Australia while Minor International raised its stake in its hotel investment in Vietnam, Habour View Co., Ltd. Other large corporates, for instance, SCG, Dusit, PTT and Charoen Pokphand Group, are thought to be actively seeking overseas opportunities.

Important deals in the financial services sector include:

- Bank of Ayudhya PCL acquired the entire share capital of AIG Card (Thailand) Co. Ltd, a credit card services provider, from AIG Consumer Finance Group, a unit of American International Group Inc. Concurrently, Ayudha acquired a 99.5% interest in AIG Retail Bank PCL. The two transactions have a combined value of THB2,055 million.
- Engine Holding Asia Pte Ltd acquired a 48.63% stake in Group Lease PCL, a Bangkok-based provider of motorcycle financing services, from Engine Inc. for a total value of THB521 million.
- Nipponkoa Insurance Co. Ltd acquired a 10% stake in Navakij Insurance PCL, a non-life insurance services provider, from a group of shareholders for THB210 million.

Other notable deals include:

- MFG Solution raised its interest in SVI PCL, a Nonthaburi-based manufacturer of electronic equipment, to 69.45% from 9.08%, by acquiring a further 58.48% from Asia Pacific Electronics (BVI) Ltd, for THB1,228 million. MFG Solution is owned by SVI's management team.
- Pacific Harbor Advisors Pte Ltd acquired a 14.97% stake in Tanayong PCL, a real estate development firm, from Dubai Investment Group, for a total value of THB209 million.
- SMK Asia Ltd acquired a 6.96% stake in Rojana Industrial Park PCL, a real estate development firm, for a total value of THB183 million.
- Knight Pacific Fund Ltd and Somers (UK) each acquired a 7.86% stake in Malee Sampran PLC, a canned fruits producer and wholesaler from shareholders for an undisclosed amount.
- Energy Co. Ltd of Thailand acquired a 50.3% interest in the PRL 5 of Santos Ltd, an Adelaide-based oil and gas exploration and production company, for US\$20 million.



Outlook

Expectations for the remainder of 2009 are muted with the decline in GDP anticipated to slow or for slight growth to return leaving a full year forecast of an annual contraction in GDP in the range of -3.5% to -2.5%. Both exports and imports in goods and services will continue to shrink and private investment is anticipated to contract by around 12% as investment decisions are delayed. Headline inflation is likely to be around zero given falling crude oil prices and the continued appreciation of the baht.

It is anticipated that the government will continue to stimulate demand through income support measures for low income earners and continued tax concessions (for example, an extension on low property transfer fees for a further year). The government is however considering raising revenues through imposing taxes on alcohol and tobacco and through annual property taxes.

Despite the impact of external economic shocks and internal political conflict, many investors remain of the view that Thailand has long-term investment potential. Concessions granted by the Board of Investment and other investment-

related government agencies, coupled with a reasonably competitive infrastructure and efficient logistics systems still make Thailand attractive in many sectors. Consumer and retail, healthcare, energy, environmental projects, insurance/consumer financing and distressed assets are all potential areas that might drive M&A transactions.

However the political situation is one of the major risk factors that is giving many investors pause for thought at present. The last election was on 23 December 2007 which in theory means that the next election would not be required until December 2011. Many commentators are of the view that it is probable that the next election is likely to be called much earlier than this; possibly by the end of this year. A strong showing by Pheu Thai, the current successor to Thai Rak Thai is likely with the consequent potential for further conflict with the political elite. The tourism sector is thought to be particularly at risk given the effectiveness of previous disruptions in putting the authorities under both fiscal and political pressure. When combined with concerns over the depth of the global downturn and the impact of Influenza A (H1N1), it is likely that M&A activity will remain limited, with most deals being local and at lower values over the next few months. ■



Vietnam

Number of total deals more than double but value falls by half compared to the first half of the previous year. Activity driven by domestic deals.



Stephen Gaskill
Transactions Leader
Vietnam

Current Environment

During the first half of 2009, the Vietnamese economy has been able to maintain positive growth and in fact growth appears to be accelerating as indicated by the more positive second quarter GDP numbers. The rate of growth was 3.1% during the first quarter whilst in the second quarter it reached 4.5%. The combined first half growth of 3.9% compares to a rate of 6.5% growth achieved during the first half of 2008. Acknowledging the impact of the global financial crisis, the National Assembly has recently revised the 2009 GDP growth rate target downwards from 6.5% to 5%. Confidence in the long term potential of Vietnam remains very strong and despite the impact of the global financial crisis, the country is expected to gradually return to growth rates consistent with its pre-crisis historical figures in two to three years' time.

Inflation decreased significantly during the first half of 2009 to as low as 3.9% by June 2009 compared to a peak of 28.3% measured in August 2008; however, it is expected to start rising again in the second half of 2009 and may reach 6% to 8% by the end of the year.

Vietnam continues to experience a trade deficit despite some months of surplus during the first quarter of the year which mainly came about as a result of high levels of gold exports. This, combined with lower remittances received from overseas Vietnamese, lower rates of disbursement for FDI commitments as well as falling revenues from tourism, puts the Vietnamese dong under some pressure prompting various administrative actions from the government to fight "dollarisation" of the economy.

There has been a sharp slowdown with respect to newly licensed FDI projects following last year's record commitments. Total new investment commitments licensed in the first half of the year were down to US\$4.7 billion compared with US\$30.9 billion in the first half of 2008. However, the Ministry of Planning and Investment, which controls the authorisation process, remains confident that the 2009 target of US\$20 billion is achievable. Actual FDI disbursements totalled US\$4 billion in the first half of the year, or 18% lower than during the same period in 2008.

The benchmark stock exchange indicator, the VN-Index has recovered from the 2008 close of 315.6 points finishing the first half of 2009 at 448.3 points, having reached as high as 512 points on 9 June.

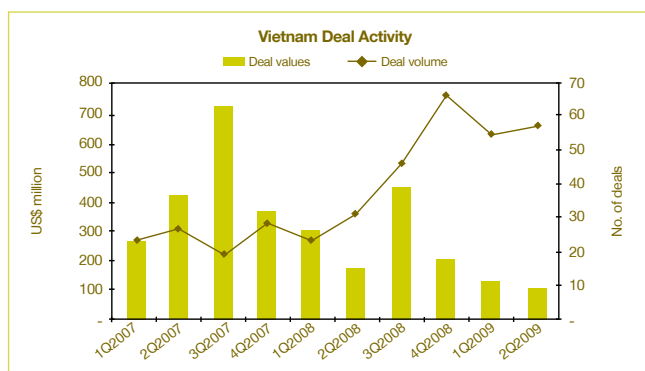
IPOs picked up as the market recovered including such notable listings as that of the Bank for Foreign Trade of Vietnam (Vietcombank) and Bao Viet Holdings, the largest insurer of the country and 10%-owned by HSBC Holdings Plc. Both took place at the end of June. Unfortunately, whilst the longer-term policy of further transfer of state assets to private ownership remains in place, progress on equitisation of State Owned Enterprises has been slower than hoped for by foreign investors. This is in part due to the poor performance of the stock markets during 2008 and early 2009 and it is possible that recent stock market gains may inspire a heightened urgency amongst government agencies with respect to privatisation. The listing of Vietnamese companies on overseas stock exchanges continues to be a hot topic with regular announcements of listing intentions but no actual listings to-date. Awareness regarding the importance of closing the gap between Vietnam and more developed markets with respect to disclosure, corporate governance and investor relations standards is also increasing.

The OTC market continues to be larger in value than the two official stock exchanges in Hanoi and Ho Chi Minh City combined. In a very important development, on 24 June 2009 UPCOM, a new market for OTC companies, opened in Hanoi.

Overall, Vietnam remains on an undisputed growth path driven by its favourable demographic profile, its social development, political stability and other fundamentals and there is a clear recognition by the government of the positive contribution to the ongoing growth of the economy attributable to foreign investors. Challenges to economic growth and to doing business in Vietnam that may currently exist are not dissimilar to those of other, similar emerging markets around the world.



Deal Activity



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

Interest in M&A remained at a high level during the first half of year. The Vietnamese business community as well as many of the Vietnamese government ministries and other official agencies with a stake in managing the economy have been actively investing time and energy in learning more about M&A and promoting the potential benefits of M&A as a possible solution to the difficulties arising in Vietnam brought on by the global economic slowdown. In previous years, the scheduled equitisations of State Owned Enterprises, in addition to major inbound M&A deals, was expected to drive deal activity levels in Vietnam. However, to date in 2009, deal making between domestic companies has been the most prevalent feature of the trend noted from the M&A statistics compiled.

The decline in the value of M&A deals has, however, been beneficial in terms of stimulating discussions on the difficulties of deal making in Vietnam. Domestic and foreign businesses alike continue to have many opportunities to raise their issues with the authorities via various consultative channels. Whilst conducting transactions in Vietnam continues to require much more patience and determination than in more developed markets, the level of understanding and acceptance of international deal processes continues to increase. Foreign buyers are also benefiting from the fact that valuation expectations have declined and the flexibility of sellers when negotiating deals has improved, reflecting the difficulties of accessing funds from other sources at this time. There remains a strong appreciation of the employment and other benefits foreign deal makers can bring via M&A transactions and this should bring further positive, if gradual, changes to the regulations in the near and medium term.

Notable deals announced during the first half of the year include:

In June, Unilever announced the acquisition of 33.33% of the shares in Unilever Vietnam Joint Venture Co. from its local partner Vietnam National Chemical Corporation (Vinachem). The value of the deal was not announced. Unilever and Vinachem agreed to end their joint venture partnership for the sake of being able to expand the business further. Vinachem is a state-owned enterprise with 42 subsidiaries and 12 foreign joint ventures in conjunction with companies from China, US, Japan, Netherlands, Korea and ASEAN countries in the fields of fertiliser, pesticide, detergent, rubber products, paint and petrochemicals.

In June, International Consumer Products Corp. (ICP) officially became the majority owner of Thuan Phat Foodstuff Joint Stock Co. after taking a 51% stake in the company. Terms of the acquisition were not disclosed. Established 27 years ago, Thuan Phat specialises in fish sauce, hot spices and pickles for domestic and export markets. It runs three factories and 3,000 outlets nationwide, achieving revenue of VND75 billion in 2008. Established in 2001, International Consumer Products (ICP) is one of the fastest growing privately-owned FMCG companies in Vietnam.

In March, SABMiller Asia BV (SA), a wholly-owned unit of SABMiller PLC, acquired the remaining 50% interest in SABMiller Vietnam JV Co Ltd, a beer producer and wholesaler, from its joint venture partner Vietnam Dairy Products Joint Stock Co (Vinamilk), a publicly traded manufacturer and distributor of dairy products. SABMiller stated that the acquisition allowed it to expand and grow in the Vietnamese beer market, and complemented its existing beer businesses in Asia. In turn, Vinamilk highlighted in its press release that "in the current economic environment Vinamilk would like to focus more on the dairy and healthy beverage businesses to enhance its position of strength and maximise interests of Vinamilk's shareholders." Terms of the acquisition were not disclosed; however it is known that assets of the target totalled US\$31.8 million at the end of the fiscal year, 31 December 2008.

In March, HSBC Insurance (Asia-Pacific) Holdings Ltd, a wholly-owned unit of HSBC Insurance Holdings Ltd (which is a wholly-owned subsidiary of HSBC Holdings PLC), announced its interest in raising its stake in BaoViet, the largest insurance company in Vietnam to 18% from 10%. Subsequently, in June HSBC announced its interest in eventually increasing its stake to a 25% shareholding, the maximum stake it can hold under current Vietnamese regulations.



Private Equity

Notable private equity activity announced during the first half of 2009 include:

In June, International Finance Corp (IFC) acquired a 20% stake in Vina Payment Network Joint Stock Company (PayNet), a leading payment processor and distributor of electronic payment products in Vietnam, for an estimated VND21.429 billion (US\$1.2 million). Under the agreement, IFC's investment will be used primarily to strengthen PayNet's back-office infrastructure by improving back-up and redundancy systems.

In March, VinaCapital Vietnam Opportunity Fund Limited ('VOF'), an AIM-quoted investment vehicle focused on Vietnam, announced the sale of its entire equity stake in Masan, one of Vietnam's leading food and beverage companies. Vietnam Opportunity Fund Ltd divested an undisclosed minority stake in Masan Trading Corp to an undisclosed acquirer, for an estimated VND333.3 billion (US\$20 million).

Subsequently in late May, Vietnam Azalea Fund (VAF) invested US\$9.4 million in Masan Food Corporation. The Vietnam Azalea Fund Limited is a US\$100-million fund managed by Mekong capital and it focuses primarily on making investments in Vietnamese companies at the pre-listing stage.

Outlook

As mentioned, in June the National Assembly officially revised the Vietnam's annual GDP target growth rate to 5% from the original 6.5%. Based on the first half of this year's macroeconomic results, and according to press reports, Credit Suisse has doubled its predicted Vietnam 2009 GDP growth rate to 4% whilst HSBC has increased its forecast rate of growth from 4.5% to 4.7%. According to HSBC, Vietnam is at the beginning of the upturn in a "V-shaped recovery" and expects GDP growth to reach 6.8% in 2010. It appears that confidence in the growth potential of Vietnam remains strong.

Despite the improving macroeconomic situation, the ongoing market difficulties will create further opportunities in the coming months for foreign investors and domestic companies to enter new sectors of the economy or to make opportunistic acquisitions of distressed assets. Domestic activity is likely to continue to outpace that of foreign players due to global economic difficulties and the improving profitability of major Vietnamese corporations, which is providing them with the funds required to conduct strategic M&A. M&A is an increasingly common part of the expansion strategies for domestic players and should stimulate the volume, if not necessarily the value, of deal flows in the second half of 2009.

Private Equity

Private equity activity levels in the second half of 2009 are unlikely to see a major upturn since the larger, more established fund managers have found it difficult to raise new funds over the past 12 to 18 months in view of the current economic climate both globally and in Vietnam. Previously raised funds have largely been invested and the focus is likely to remain on managing the investments made between 2006 and 2008, and on making profitable exits from those investments. However, larger numbers of exits by private equity houses will stimulate M&A activity and will provide opportunities for strategic investors. In addition, certain funds which were raised more recently still have capacity for new private equity deals and we would expect some deals to occur in the US\$3 to US\$10 million range with a focus on domestic companies.

Retail

Although Vietnam slipped down the rankings for most attractive retail markets in the 2009 AT Kearney Global Retail Development IndexTM, interest in the sector remains high among both funds and strategic investors. The sector continues to have huge potential for further growth due to the increasing spending power of the population and the limited number of major chains of stores and other organised retail formats in existence at present.



Fast Moving Consumer Goods

As with retail, this is a sector which is benefiting from rapid growth rates as the purchasing power of the population increases and people become more brand conscious. A number of the most significant deals in the first half of the year were in this sector and demonstrate the confidence of both foreign investors and local brand owners in the ongoing market opportunities in Vietnam. We therefore expect to see more significant activity in this sector in the near term.

Financial Services

According to the fourth annual Asia Financial Services M&A Survey conducted for PwC by The Economist Intelligence Unit (EIU) in January and February of this year, based on the answers of executives from 215 institutions across the region, 63% of the Vietnam-based respondents indicated that they are likely to pursue M&A activity in the country within a year. 83% of the Vietnam-based respondents cited increasing domestic competition as the key driver behind their M&A intent. The summary of the regional results indicated that 14% of all respondents were considering a transaction in Vietnam in 2009, indicating the second highest expectations of deal activity in the region after Indonesia (18%). Actual deal activity was far below these indications in the first half of 2009, whilst the expected consolidation of local banks has not yet been materialised despite the mounting pressure arising from increased capitalisation requirements.

Pharmaceuticals

We have seen increasing interest from foreign companies looking to enter the market, or expand their operations, in Vietnam both organically as well as via M&A. Vietnam is currently a net importer of pharmaceutical products, and foreign companies able to contribute to lowering the trade deficit are likely to receive a positive reception. We believe that M&A activities targeting Vietnamese companies that facilitate the local manufacturing and distribution of generic products are particularly likely to succeed. It is worth noting that the head of the Drug Administration of Vietnam has said that foreign investment in the sector should be highly encouraged in order to meet local demand.

Entertainment and Media

According to the 10th annual PwC Global Entertainment & Media (E&M) Outlook (which covers 2009 to 2013), in Vietnam the value of the E&M market approximately tripled in the five-year period from 2004 to 2009. During the forecast period, the overall E&M compound annual growth rate (CAGR) of Vietnam is projected to be the fastest growth rate in the world at 16.7%. We expect more deals in this sector including market entry deals by foreigners, private equity funds buying stakes in upcoming Vietnamese enterprises as well as deals driven by local companies consolidating their positions in their respective fields.

In addition to the sectors highlighted above, we expect deals to occur in many other sectors which are growing rapidly and which are either particularly attractive to foreign investors or which may undergo domestic consolidation or reorganisation. Telecommunications, real estate and the energy sector are good examples. As is always the case in Vietnam, further changes in the regulatory environment, be they formal or procedural, and progress in the equitisation process may also have major impact on the shape, volume and value of future deal activity. ■





Australasia

Australia

New Zealand



Australia

Significant stimulus packages have underpinned the resilience of the economy which has filtered through to M&A volumes in Q2. The remainder of 2009 is expected to continue on this track with financial services, resources and government infrastructure sales driving deal volumes.



Tom Fenton
Corporate Finance Leader
Australia

Current Environment

The Australian economy has shown resilience during the first half of 2009, which is partially attributable to the responsive fiscal and monetary measures implemented by the Australian government during this period. The combination of consumer expenditure, export growth and increased public spending has helped to expand GDP by 0.4% in the first quarter to an annual rate of 0.4%. Rising unemployment rates, lower household incomes and global uncertainty in the financial markets are expected to cause the economy to contract in the remainder of 2009.

The Australian government has implemented spending initiatives specifically aimed at boosting economic activity. The first (AUD\$8.7 billion) and second (AUD\$12.7 billion) stimulus packages have shown their effect in the second quarter results through an increase in consumer spending. The 2009-2010 Commonwealth budget has commitments for several capital spending projects, such as the National Building Infrastructure project (AUD\$22 billion) and partnering with the private sector to build the National Broadband Network (AUD\$43 billion). However, these policies are forecast to put Australia into a budget deficit.

The Consumer Price Index rose by 0.1% in the first quarter to an annual rate of 2.5% compared to a fall of 0.3% in the final quarter of 2008. The first quarter current account deficit fell to AUD\$4.6 billion from AUD\$6.4 billion. Non-rural goods drove the majority of the decline, falling 15.3% in value for the quarter; this was offset by rural volumes which performed strongly due to this sector's recovery from periods of drought.

The Australian dollar appreciated significantly against the US dollar through May and early June to the mid 70c range, with a surge to 82c later in June. Interest rate spreads, stronger equity markets, a growing appetite for commodity exposure, relative growth and external financing were factors specific to Australia that drove this appreciation.

In calendar year 2008, the Reserve Bank of Australia ("RBA") cut the overnight cash rate by a total of 300 basis points. In the first quarter of calendar year 2009, the RBA has cut interest rates twice by a total of 125 basis points to 3.00%.

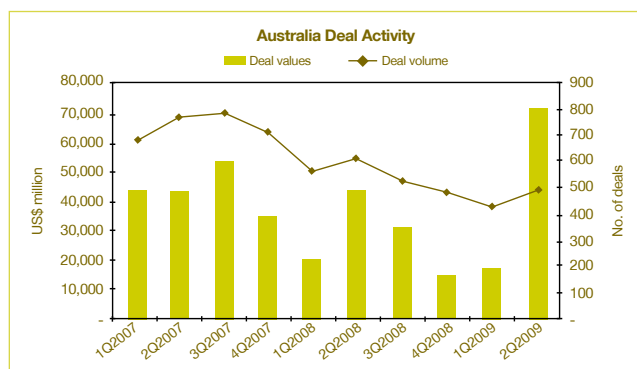
Business investments appear to have been delayed or reduced during the first quarter. Additionally, difficult economic times, a rise in uncertainty, risk aversion and poor trading results impacted the capacity for businesses to continue their historic levels of discretionary spending.

The unemployment rate has increased to 5.8% at the end of June while incomes contracted by 1.1% in the first quarter of 2009. Forward-looking indicators such as job advertisements remain at levels which indicate further deterioration over the second half of the year which points towards a rise in unemployment to an estimated 8% by the end of 2009.

A rebound in the global stock markets began in early March, with the ASX S&P200 rebounding 26% from its low on 6 March 2009 of 3,145 points to close the first half of 2009 at 3,954 points.

During the first half of 2009, there has been a significant amount of equity raised in the Australian stock market, with AUD\$17 billion alone raised in the first quarter of 2009. With companies seeking to bolster their balance sheets and pay down debt, these new issues have typically been placed at a heavy discount to the prevailing share price.

Deal Activity



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

Deal volumes have increased slightly from the previous quarter, with 422 and 492 transactions completed in the first and second quarters respectively.



The key private equity transactions during the first half of 2009 were:

- The Cayman Islands-based private equity firm Harmony Capital purchased Western Australia's largest abattoir, Harvey Beef for an undisclosed sum.
- Waste management group Transpacific announced an AUD\$800-million cornerstone investment from Warburg Pincus through an equity placement.
- Consortia including Carlyle Group and TPG were bidders for Asciano during its sale process, until Asciano decided to go to market and raise equity capital of AUD\$2.35 billion.
- Australian Discount Retail Group owned by Catalyst and CHAMP was placed into receivership in January and subsequently sold to Retail Adventures, a privately owned Australian company.
- Archer Capital is reported to be seeking to acquire a clean energy company, Energy Developments, which owns and operates power generation facilities in Australia, US, UK and Europe.
- Vodafone group merged its Australian telecommunications businesses with Hutchison Telecommunications with a deal value of AUD\$3.62 billion. The merged entity will operate as a 50:50 joint venture.
- Canada Pension Plan Investment Board acquired the entire ordinary share capital of Macquarie Communications Infrastructure Group for AUD\$1.6 billion.
- Kirin Holdings Co Ltd of Japan acquired the remaining 53.87% interest in Lion Nathan Ltd for AUD\$3.31 billion.
- Viterro Inc of Canada acquired the entire share capital of ABB Grain Ltd, an Adelaide-based wholesaler of agricultural products, for AUD\$1.64 billion.

Other key transactions include:

- Nippon Paper purchased a significant portion of Australia's third largest paper company, Paperlinx for AUD\$375 million.
- OZMinerals completed an assets deal with China Minmetals with total proceeds of US\$1.35 billion.

- BG Group acquired the entire ordinary share capital of Pure Energy Resources Ltd, a coal seam methane mining company from Arrow Energy. The transaction value was AUD\$1.03 billion.
- Chinese state-owned China Metallurgical Construction Corp. acquired a 10% stake in Waratah Coal Inc., a Brisbane-based coal mining company for an estimated AUD\$664 million.
- Red Back Mining Inc. of Canada acquired the entire share capital of Moto Goldmines Ltd in a stock swap transaction valued at AUD\$562 million.
- Chinese state-owned Hunan Hualing Iron & Steel Group Co Ltd acquired a 16.38% stake in Fortescue Metals Group Ltd, an iron ore mining company for AUD\$1.1 billion.
- China's Guangdong Foreign Trade Group purchased a stake of up to 19.9% in Australian copper and zinc miner Kagara for AUD\$63 million.

Outlook

Financial Services

The Australian banking sector is considered one of the strongest in the world as its four main banks still carry an AA-credit rating. These banks are expected to capitalise on this relative strength with potential offshore acquisitions and domestic tie-ups taking place during 2009.

The potential offshore activity for Australian banks include Commonwealth Bank considering a bid for the fund management arm of Lloyds Banking Group in the UK for a transaction value of GBP£200 to GBP£300 million and ANZ's interest in RBS's Asian assets.

On the domestic front, there is an opportunity for the main banks to take strategic stakes in smaller banks and regional operators, with BOQ and Suncorp touted as potential targets. In funds management and life insurance, NAB recently agreed (in June 2009) to acquire the Australian operations of UK insurance giant Aviva for AUD\$825 million.

Resources

The stabilisation of the Chinese economy and the scale of urbanisation and industrialisation are fundamental factors underpinning the demand for Australian resources. The apparent success of the Chinese government's stimulus package (US\$590 billion), the World Bank's forecast for Chinese GDP growth of 7.2% in 2009 and a recovery in commodity prices are all encouraging signs.



Rio Tinto rejected a proposed US\$19.5-billion investment from Chinalco in favour of contributing US\$ 58 billion in assets to a Western Australian iron ore 50:50 joint venture with BHP Billiton and undertook a US\$ 15 billion rights issue to strengthen its balance sheet. The strength of this combined business has raised tensions with the Chinese steel industry, culminating with Chinese government sources flagging potential conflicts with Chinese anti-monopoly laws as both Rio and BHP have significant operations within China and potentially are under the scope of such regulatory reviews.

Property

Asset valuations during the year for REITs have fallen up to 20% and continue to threaten loan-to-value ratio covenants. This has placed lenders in a position to demand asset sales, as reflected in ING Office Fund and Charter Hall Groups' disposal programme and the continued 'for sale' status of GPT's non-core assets (primarily hotels), and may drive further movements in this sector.

A desire to strengthen balance sheets has led to a continuation of discounted placements and rights issues from the likes of GPT, Mirvac, Stockland and Dexus.

The Goodman Group has suffered two downgrades to its issuer rating and has highlighted the continued weakness and strain on their liquidity. It is anticipated that the group will conduct an equity raising to meet its rising interest obligations.

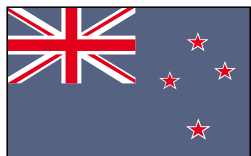
Infrastructure

Potential activity in this sector includes the privatisation of NSW Electricity, and in the longer term, infrastructure asset sales announced by the Queensland government. Furthermore, there is activity generated by a number of listed infrastructure funds that are facing a closing gap between net asset value and share price. A number of sale processes are in place, including Babcock and Brown Power, EPIC and Dalrymple Bay Coal Terminal.

The government's proposed carbon emissions scheme has been postponed as its implications may further weaken the economy. However, interest in renewable energy projects is accelerating in the lead up to the implementation of the Renewable Energy Targets and Carbon Pollution Reduction Scheme.

Private Equity

Investment opportunities for private equity funds have changed in response to the deteriorating economic conditions. Unreasonable price expectations from vendors and a lack of funding availability are hampering deal activity. We expect a continued low level of LBO activity in the near future, with private equity funds focusing on enhancing value in existing portfolios including divestments of underperforming assets, strategic reviews and cash optimisation. Opportunities for investments in companies at "bottomed out values" as well as the investment in cornerstone equity stakes are expected to drive deal flow. ■



New Zealand

Deal activity fell significantly in the first half of 2009 as global economic conditions continued to deteriorate.



Mark Averill
Corporate Finance Leader
New Zealand

Current Environment

Annual GDP declined 1% in the year to March 2009, the first annual decline in New Zealand economic activity since 1992. Having now experienced five consecutive quarters of negative growth, the New Zealand economy is in its longest recession since the mid-1970s. While a sharp decrease in the Official Cash Rate (from 8.75% to 2.5% over the past 12 months) has thus far failed to stimulate growth, economists generally expect recovery to commence in 2010/2011. The manufacturing sector has been particularly weak, declining 7.2% in the first quarter of 2009, even though primary sectors have been comparatively flat. The New Zealand dollar has fallen against international currencies, although the upside for exporters has been partly offset by weak domestic and global demand.

Imports fell by NZ\$809 million to NZ\$3.1 billion in May 2009 compared to May 2008, a decrease of 20.7%. Although imports were lower across all sectors, over 60% of the decrease resulted from reduced imports of petroleum and motor vehicles. Exports increased 5.8% to NZ\$4 billion, driven primarily by an increase in dairy and forestry exports, largely to China. The net result was a trade surplus of NZ\$858 million (21.7% of exports), the fourth consecutive monthly surplus, and the first time that four consecutive surpluses have been recorded since 2002. However, economists remain cautious on the outlook for the trade balance, with agricultural exports typically weaker over the second half of the year.

Residential building consents were down 31% for the year to April 2009, although non-residential building consents were up by 3.2%, reflecting the impact of the Christchurch International Airport development. The non-residential sector is expected to remain relatively stable, underpinned by development of stadia and facilities for the 2011 Rugby World Cup.

After decreasing to a low of US\$0.489 on 4 March 2009, the New Zealand dollar has trended steadily upwards to reach US\$0.6451 on 30 June 2009, slightly below a high of US\$0.6595 for the six-month period ended 2 June 2009. The trade-weighted index increased by 4.1% in June 2009, but overall is down 11.4% over the past 12 months, with the decrease largely resulting from an international sell-down in the New Zealand dollar following sharp decreases in domestic interest rates.

Retail spending has fallen by 3.5% since January 2008, although monthly decreases of 0.1% since January 2009 suggest a flattening out when compared to an average monthly decrease of 0.4% over the four months prior. While there has been an overall downward trend in spending in the North Island, spending in the South Island has remained comparatively flat. Spending in the fast food, café and restaurant and fresh produce sectors have trended upwards since January 2009, while spending in the motor vehicle and department store sectors are showing signs of recovery.

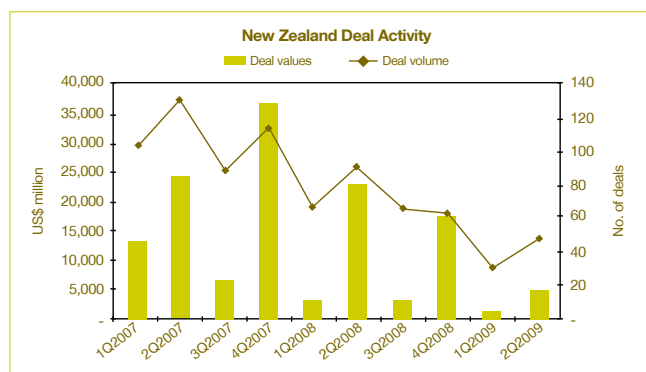
The Reserve Bank has committed to keeping interest rates low until at least late 2010, consolidating the recent cycle of decreases in the Official Cash Rate which have resulted in a historical low of 2.5%. Concerns have been expressed by the government and Reserve Bank Governor at the apparent reluctance of the financial sector to pass interest rate reductions on to borrowers.

Inflation of 1.6% is forecast for the year to March 2010. Wage inflation is expected to decrease to 2.6% over the same period, constrained by weakness in the labour market where unemployment is expected to reach 7.2% in March 2010.

The NZX50 dipped to a five-year low in March 2009, but has since recovered slightly, exhibiting early signs of recovery with an overall increase of 1.9% in the six months to 30 June 2009. After poor performances in the previous six months, the retail sector enjoyed positive performances in the six months to June 2009; Michael Hill being the star performer with a share price increase of 33%. Although some industries showed signs of recovery, others are clearly still languishing from the effects of the global downturn, most noticeably the leisure and tourism, as well as transport sectors, with stocks in these industries all experiencing declines in the six months to 30 June 2009. During this period, Tourism Holdings fell 31% (reaching its 1986 IPO price in March 2009) and both Mainfreight and Freightways fell approximately 12%.



Deal Activity



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

Deal activity fell significantly in the first half of 2009, with only 79 deals recorded compared to 157 deals in the first half of 2008. Domestic deal volumes fell the most, down 66% on prior year, while inbound deal volumes were down just 13%.

During the period, Australian private equity firm Quadrant Private Equity acquired a 49% stake in retirement village operator Summerset Group from AMP Capital. AMP Capital decided to sell down its interest in Summerset following the cancellation of a planned listing in 2007. Details of the deal were not disclosed, however at the time of the transaction Summerset's net assets were NZ\$170 million. One of the conditions of the deal was that further equity would be available to fund growth, with the company targeting 20 villages by 2012, up from the current 13 villages.

The retirement village sector in general has been under some pressure due to the depressed property market. Listed operator Metlifecare undertook a NZ\$38 million rights issue in order to pay down debt following discussions with its banks.

Funding pressures also led to Fisher and Paykel Appliances undertaking a rights issue combined with an NZ\$80 million strategic investment by Chinese whiteware firm Haier. Haier's investment secured a 20% shareholding, and also saw the two companies signing a cooperation agreement to market and distribute each other's products in their home territories.

During the first half of 2009, total capital of NZ\$4.6 billion was raised on the New Zealand Exchange (NZX), including NZ\$1.7 billion of equity and NZ\$2.9 billion of debt, with funds largely used to improve corporate balance sheets. This was over double the NZ\$2.1 billion raised in the first half of 2008.

NZX itself was relatively active during the period. The company undertook a NZ\$21-million rights issue to fund acquisitions including rural publisher Country-wide Publications and energy marketer M-Co. NZX had intentions to acquire Australian second-tier market operator NSX, but later withdrew its offer due to muted support from NSX shareholders. During the period NZX also sold its environmental registry business TZ1 Registry to Markit Group, a British data and financial information firm, in return for shares valued at approximately US\$37 million, and its stake in Bond Exchange of South Africa for NZ\$10 million.

Senior employees at New Zealand investment firm ABN AMRO Craigs acquired the remaining 50% of the business from the Royal Bank of Scotland (RBS). RBS inherited the stake when it led an acquisition of ABN AMRO in 2007. ABN AMRO Craigs will subsequently change its name to Craigs Investment Partners.

NZ Bus sold its ferry operator business, Fullers Group, to Souter Holdings Limited for NZ\$40 million. NZ Bus, which is owned by listed New Zealand investment company Infratil, sold the business in order to focus on its core land-based public transport business.

Over the last six months, PwC New Zealand has advised on the sale of Tiger Turf to Royal TenCate; the sale of ETEL to Unison Networks; the sale of Tritec (Mountain Buggy) to Phil & Teds; the sale of Hell Pizza to the original founders of the business; the sale of Vantex Technology Distribution to Ingram Micro; and the sale of Canterbury Seeds to Winslow.



Outlook

The outlook for transactions is uncertain and will depend on the timing and strength of the economic recovery. Consensus forecasts suggest the New Zealand economy will shrink by 1.6% in the year to March 2010, returning to growth of 2.8% for the year to March 2011, however commentators remain divided on the expected form and strength of the recovery. The Reserve Bank of New Zealand and the Treasury are projecting an export-led recovery while other commentators, such as BERL, are more optimistic on domestic consumer spending growth.

Shell New Zealand, a unit of Royal Dutch Shell Group, should provide deal flow in the second half of 2009 having recently launched a process to sell the bulk of its downstream assets in New Zealand. The downstream assets include 230 fuel stations, a marine business, commercial fuel and aviation operations, a 17% stake in New Zealand Refining Co. and a 25% stake in Loyalty NZ.

Having seen a significant growth in both the number of wineries and vineyards planted over the past several years, the New Zealand wine industry remains highly fragmented despite the consolidation that took place between 2000 and 2005. A second wave of consolidation is pending, driven by factors including the rationalisation of non-core assets from global alcoholic beverage companies, the maturity of the larger Tier II players who have experienced significant volume and revenue growth since 2004, and the level of distress within some areas of the industry.

Private equity activity has been muted in the first half of 2009 as tight credit conditions and volatile markets led most firms to hold back investment. However funds continue to raise money, with New Zealand-based private equity firm Direct Capital recently raising NZ\$200 million for its new fund Direct Capital IV fund, showing that investors remain committed to the investment class. ■

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