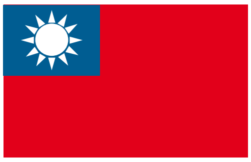

Taiwan

Improving cross-straits relationship with mainland China likely to enhance outlook for the economy and deal activity going into 2009

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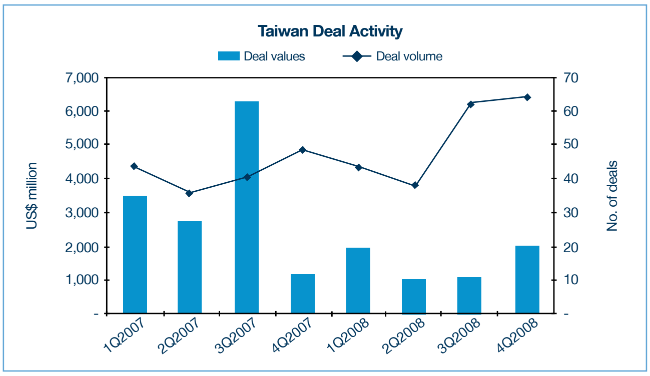
Current Environment

Taiwan's GDP growth contracted sharply at an annualised rate of 1% in the third quarter of 2008, compared to 4.3% growth in the first half of the year. The CPI also registered a decline, by 1.3% p.a. in December. With consumer prices falling and the economy sliding rapidly, the government has launched a series of fiscal stimulus efforts, including consumption voucher distribution, a range of tax cuts, and injections of government funds into capital markets, all designed to bring Taiwan out of recession.

The global economic downturn has hit both Taiwan's financial and non-financial industries. Taiwan's moderately capitalised banking sector will be hard pressed to deal with the twin challenges of an imminent increase in provisions and government pressure to support distressed corporations. Meanwhile, Taiwan's important semiconductor sector is expected to see a 4% reduction in revenue, according to the Industrial Economics and Knowledge Centre (IEK).

The Taiwan Stock Exchange Index (TAIEX) has declined 46% to the end of December, making its 2008 performance one of the worst in the past 30 years. The TAIEX currently trades at 1.3x PBR and 8.0x P/E, on a trailing basis. Given that stock valuations have fallen to an unprecedented level, this may prove a good time to look for M&A opportunities.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2008

The value of announced deals declined 56% in 2008 compared to 2007, with a total deal value of US$6.1 billion, comprising 210 deals. Following the global economic downturn and the credit crisis, the market has cooled, with buyers remaining wary of risk, and limiting investments and acquisitions, while optimistic sellers hold out for higher prices.

Here are some of the important deals in the second half of 2008:

Outbound activity

- Magellan Navigation, Inc. announced it has entered into a definitive agreement to sell its Magellan consumer products division to MiTAC International Corp. The transaction is expected to close in January 2009. The acquisition will give MiTAC a boost in market share and brand recognition in key markets like the US.
- HTC has acquired the San Francisco-based firm One & Company Design. The two have collaborated since 2006, jointly creating HTC Touch Diamond. One & Co will maintain its name and client base while it joins forces with HTC to create a significant player in global mobile design.

Inbound activity

- Micron Technology, Inc. announced that it is expanding its partnership with Nanya Technology Corporation, and signing a definitive agreement to acquire Qimonda AG's 35.6% stake in Inotera Memories, Inc., a leading Taiwanese DRAM memory manufacturer, for US$400 million in cash. To help fund the purchase, Micron has obtained US$285 million in term loan financing commitments from strategic sources at favourable terms.
- Marubeni Corporation, a listed Japan-based trading conglomerate, acquired a 21.4% stake in Hsin Tao Power Corporation, from China Development Industrial Bank (CDIB), Fubon Insurance, Fubon Life Insurance Co and TSRC Corporation (TSRC), for a total consideration of US$77 million. Hsin Tao Power Corporation is a Taiwan-based electricity utility company. China Development Industrial Bank (CDIB) is a Taiwan-based investment company. Fubon Insurance is a Taiwan-based provider of a range of insurance services.
- Shin Kong announced it had signed a memorandum of understanding with Japan's second largest life insurer, Dai-ichi Life Insurance Company, regarding its planned TW$8 billion fund raising. The Japan-based life insurer will invest in Shin Kong FHC common shares, up to 14.9% of the outstanding shares (including its existing shareholding of about 6%).

Domestic deals

- Fubon Financial Holding Co., Taiwan's second-largest financial services firm, agreed to pay US$600 million for ING Group NV's Taiwan unit to boost its customer base by around a third. The acquisition will add TW$612 billion (US$19 billion) of assets, propelling Fubon to number four from number six, in Taiwan's insurance market. Fubon will almost double its life insurance business, and ING's customers are also potential customers to Fubon's other financial service products, such as banking and stock transactions. ING will hold a 5% stake in Fubon and the company's bonds after the transaction is completed.
- China Times Group (CTG) entered into an agreement to be acquired by Tsai Eng-Meng and his family. Tsai is the Chairman and an Executive Director of Want Want China Holdings, which is listed in Hong Kong and is the largest baked-rice foods firm in China. CTG operates various media businesses in Taiwan, including TV stations, newspapers, internet, and magazines. The US$475 million acquisition is a personal investment by the Tsai Family and is financed entirely by the Tsai Family's own sources of funds.
- WPG, the world's third largest and Asia's number one integrated circuit ("IC") distributor, announced its second transaction this year. Following the acquisition of Pernase Enterprise in the first half, WPG announced the acquisition of Asian Information Technology for US$199 million in October 2008. In recent years, WPG has actively merged with the other IC distributors through share swaps to quickly expand its scale and network.

Outlook

M&A activity is expected to become moderately stronger in 2009, compared to the second half of 2008. Some cancelled or delayed deals from 2008 may re-emerge in 2009, particularly if there is a narrowing of valuation expectations between buyers and sellers. Asset deals, such as business diversification and subsidiary disposal, are likely to be more common than share deals in the coming year. In particular, overcapacity in the technology industry may lead to asset deals to solve this problem. Capital raisings are likely to remain problematic.

Financial sector

In the financial sector, there are likely to be three main drivers of increased M&A activity in 2009. Firstly, investment losses mean that some institutions now breach capital adequacy ratios, which will compel both capital raisings and the disposal of assets. This has already been seen in 2008 in the cases of Fubon Financial Holdings' acquisition of ING Insurance Taiwan and the Japanese Dai-Ichi Mutual Life Insurance investment in Shin Kong Holding.

Though not necessarily M&A transactions, investment deals in the financial sector are expected to continue, and put investors in significant minority positions post-transaction. Secondly, Taiwan has historically been over-banked. The ongoing process of consolidation, both by local and international players, is likely to resume, with smaller institutions being absorbed by larger companies.

Additional opportunities should arise from the easing of cross-strait investment restrictions which may facilitate the pursuit of investment targets in Taiwan by China-based financial institutions. With the recent signing of a memorandum of understanding on financial cooperation, alliance-building share swaps between cross-strait financial institutions could occur in the new year.

Finally, independent investment trust companies may attract the interest of foreign firms planning to enter the Taiwan and China asset management markets. Since the Taiwan government has stopped licensing new investment trust companies, the only way to enter the Taiwan market is through acquisition of existing local investment trust companies.

Non-Financial sectors

The downturn has severely impacted several sectors in Taiwan, especially semiconductors. Overcapacity and over-investment, combined with falling demand, have turned most DRAM and thin film transistor ("TFT") makers into money losers in 2008. The Ministry of Economic Affairs has approved a rescue package for local Taiwanese DRAM companies. The government is also encouraging integration among domestic manufacturers, and facilitating cooperation among domestic makers and their US and Japanese counterparts. Flat screen TV panel makers are also facing difficulties with panels approaching cash cost, and prices continuing to fall. Panel makers are reducing production, and this is putting pressure on TFT component companies, increasing the likelihood of consolidation in the future. We expect that Taiwan's DRAM and TFT sectors will be able to develop in a positive direction in the long run, as a result of this consolidation opportunity.

As the downturn continues, cheaper stock valuation may entice cash-rich corporations in Taiwan to seek outbound opportunities. Taiwan's MiTAC, which acquired the consumer products division of Magellan to expand its market, serves as a typical example. Recent outbound deals have also stemmed from Taiwan corporations wanting to move up the value chain or expand into international markets. In other cases, Taiwanese corporations have made outbound acquisitions in order to enhance their own operations, such as HTC acquiring One & Company Design.

M&A activity may also be driven by a number of companies, across a range of sectors, which issued convertible bonds during the boom years. These bonds often had put options attached which are now being exercised, since conversion to equity is unattractive at current prices. Companies having to redeem bonds are likely to have to raise funds from a number of sources and this is likely to drive deal activity. ■