

Asia Pacific M&A Bulletin

A tale of two recoveries

Advisory
Year-end 2010



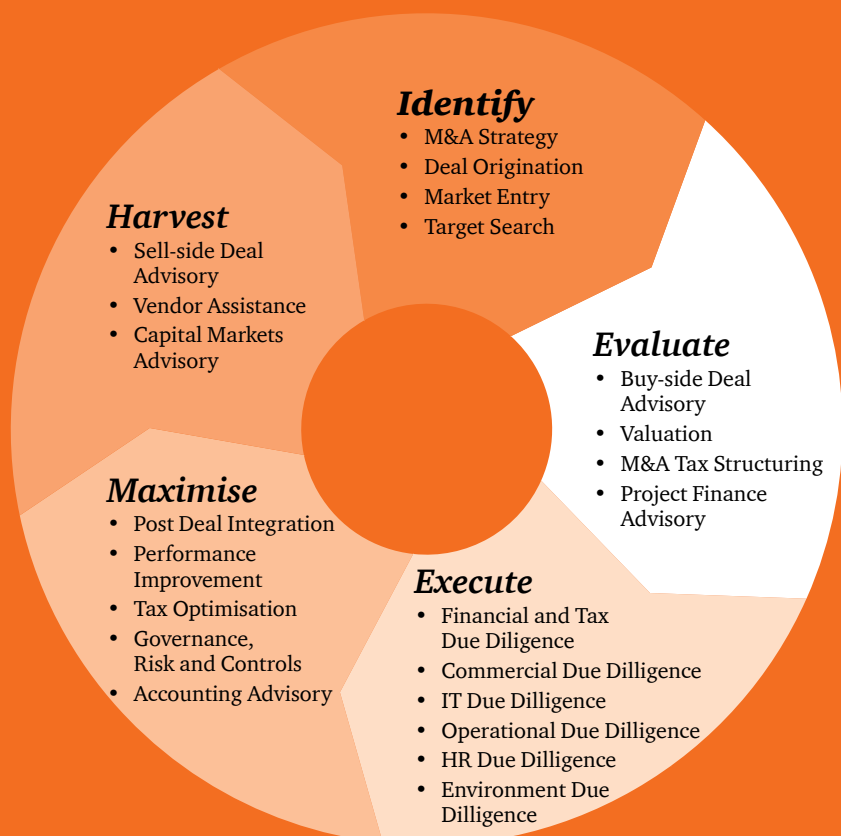
PwC Transactions

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 PwC 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

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

Alliance Cosmetics Sdn Bhd

Sale of majority interest to **Navis Capital** and **Ekuiti Nasional Berhad**

Financial Advisor:
PwC Corporate Finance
Malaysia 2010

Kowa Spinning Co., Ltd

Management buyout of **Kowa Spinning Co., Ltd** for JPY20.6 billion
(USD225 million)

Financial Advisor:
PwC Corporate Finance
Japan 2010

Green Infra Limited

Acquired 100MW of wind power assets in India from BP Plc through the acquisition of a 100% interest in **BP Energy India Private Limited** for about **USD100 million**

Financial Advisor:
PwC Corporate Finance
India 2009

Sanyo Electric Logistics Co Ltd

Sale of 99.5% interest to **LS Holdings Co Ltd** for **USD213.2 million**

Financial Advisor:
PwC Corporate Finance
Japan 2010

Oriental Yeast Co Ltd

Sale of 53.1% interest to **Nissin Seifun Group Inc** for **USD72.9 million**

Financial Advisor:
PwC Corporate Finance
Japan 2010

PT Krakatau Steel (Persero) Tbk

Equity fund raising through initial public offering for Rp2,681.8 billion
(USD301.2 million)

Financial Advisor:
PwC Corporate Finance
Indonesia 2010

Korea Asset Investment Trust Co Ltd

Sale of 50% plus 1 share interest to **Daishin MSB PEF** for KRW72.1 billion (**USD64 million**)

Financial Advisor:
Samil PwC Corporate Finance
Korea 2010

Actis Private Equity

Acquired 44.4% stake in KS Distribution Pte Ltd, the consolidated distribution businesses of **KS Energy Services Limited, Aqua-Terra Supply Co. Limited** and **SSH Corporation Ltd**. Total value of the distribution business is SGD320 million (**USD230 million**)

Financial Advisor:
PwC Corporate Finance
Singapore 2009

Agria Corporation

Acquired a 19% interest in **PGG Wrightson Limited** for NZD69 million (**USD50 million**)

Financial Advisor:
PwC Corporate Finance
New Zealand 2009

Resource Holdings Limited

Acquired by **Keller Holdings Ltd** for a maximum consideration of SGD118 million (**USD85 million**)

Financial Advisor:
PwC Corporate Finance
Singapore 2009

Chinfon Commercial Bank Co Ltd

Sale of 18 Taiwan branches operations to **Yuanta Bank** for TWD19.3 billion (**USD602 million**)

Financial Advisor:
PwC Corporate Finance
Taiwan 2009

Chinfon Commercial Bank Co Ltd

Sale of 19 Taiwan branches operations to **Far Eastern International Bank** for NTD19.1 billion (**USD596 million**)

Financial Advisor:
PwC Corporate Finance
Taiwan 2009

KS Oils Limited

Equity fund-raising through private placement of equity shares, warrants & GDRs for **USD 90 million**

Financial Advisor:
PwC Corporate Finance
India 2009

Gwalior Chemical Industries Limited

Sale of chemical business to **Lanxess India Pvt Ltd** for INR5.4 billion (**USD113 million**)

Financial Advisor:
PwC Corporate Finance
India 2009

Foreword

A Tale of Two Recoveries



Chao Choon Ong
Transactions Leader
Asia Pacific

As the world economy recovers, what is becoming clear is that developed Western economies and developing economies are on two markedly different trajectories. While the US and Europe struggle to cope with a slow and jobless recovery, the developing economies have powered ahead with high single and even double-digit growth. It is therefore no surprise that M&A activities have shifted in favour of the developing economies.

Global M&A deals in 2010 closed at USD2.4 trillion, a 23% increase from 2009 after two consecutive years of 31% decline. Deal volume also increased, but only by 3%, suggesting that bigger deals were being concluded. Asia Pacific deal value jumped 31%, reflecting global interest in the fastest growing region in the world. What was even more significant was that, after an initial dip in the first half, activity level picked up very quickly. The last quarter of 2010, with USD202 billion in announced deals, eclipsed the USD189 billion of the second quarter of 2008 and set a new record as the busiest quarter based on deal value. Not surprisingly, China once again led Asia Pacific M&A with announced deal value of USD135 billion, followed by Australia and Japan.

After surging ahead in 2009, gaining 52% and recovering all ground lost in

2008, Asia Pacific bourses started their retreat in 2010. On a weighted average basis, they fell almost 13% in the first half, before recovering in the second half to close the year 2% lower. The year-on-year decline resulted from a 14% fall in the Shanghai Composite, 3% decline in the Nikkei and 1% drop in the Australia All-ordinaries. Despite the monetary tightening measures in China to curb asset bubbles, the Shanghai Composite grew 17% in the second half after a 27% fall in the first half. The US and European stock markets, however, continued to recover on a more consistent basis over the past two years. The NASDAQ composite, S&P500 and the Dow Jones Industrial all grew about 20–25% and edged closer towards pre-crisis highs in early 2008.

Besides the Asian recovery story, M&As in 2010 were also driven by the substantial stock pile of corporate cash, both in Asia and the West, and the massive liquidity swirling in global capital markets as a result of easy money policies in the past two years.

Does the stellar second half performance in 2010 confirm expectations of an M&A comeback in 2011? Will the few dark clouds lingering on the Western horizon or the emerging Asian asset bubbles derail the fragile recovery?

Lingering dark clouds in the West

Despite the massive fiscal support and quantitative easing in 2009, and the swift recovery of corporate profits, the US unemployment rate stayed stubbornly at 9.4%¹. This prompted the US Federal Reserve to introduce what is now referred to as Quantitative Easing Round 2 (QEII) on 3 Nov 2010, when it announced the purchase of USD600 billion long-term U.S. Treasury bonds. This stimulus however sparked criticisms from officials in Brazil, China, and Germany regarding the potential depreciation of the US dollar and its consequent inflationary pressures on emerging market economies.

Another lingering concern is the European sovereign debt crisis, which had been rocking the 12 year old 17-nation single currency bloc. After the EUR110 billion bail-out of Greece in May, Ireland was next in line to be rescued in November to the tune of EUR85 billion. This was funded out of the EUR750 billion rescue mechanism set up by the European Union and International Monetary Fund (IMF) after the Greece bailout. There are now considerable doubts as to whether the rescue mechanism will be sufficient if more than one of the bigger economies like Portugal, Italy and Spain need help. Fortunately,



at least for the short term, all three managed to raise public debt in December 2010 and January 2011, albeit at yields of up to almost 100 basis points more. There are also concerns regarding the depth of the European pockets to fund further bailouts, given that the two largest Euro-zone economies, Germany and France, have substantial gross debts of their own – to the tune of 76% and 86% of their respective gross domestic products (GDPs). The bailouts have also been criticised as mere deferments rather than real solutions to the crises, as the debts will have to be repaid or refinanced a few years down the road. The elephant in the room remains – are these debt-ridden economies facing a liquidity or a solvency issue?

Of even greater concern is the fiscal and sovereign debt condition of the US, which accounts for a quarter of

the world's output. Its budget deficit has increased to 8.8% of its GDP, up from 1% in 2007. According to the latest IMF staff paper, the US federal debt could level up to its GDP as early as 2015. Up to the end of 1990s, other than the brief spike when the US borrowed to finance World War II in the 1940s, the long term historical average of the US national debt had hovered around 15% of its GDP. Moody's said in January 2011 that "although no rating action is contemplated at this time, the timeframe for possible future action appears to be shortening, and the possibility of assigning a negative outlook in the coming two years is rising". This came on the same day that S&P lowered Japan's sovereign rating from AA to AA-. To be sure, Moody's is not downgrading the US' Aaa sovereign rating. It is not even assigning a negative outlook, yet. But the mere possibility is certainly food for thought.

¹ US Bureau of Labor Statistics

Assets bubbling over in Asia

For the third year running, the world economy, which grew by 5% in 2010, was buoyed by the growth in developing economies. The US and European Union economies, which account for almost half of the world's output, grew by only 2.8% and 1.8% respectively. On the other hand, developing Asia², which accounts for 15% of world output, grew 9.2% whilst newly industrialised Asian economies³ grew 8.2%.

The IMF expects the US economy to grow by 3% and 2.7% over the next two years, and European Union economies by an anaemic 1.5% and 1.7%. Japan, now the world's third largest economy, reported a 4.3% GDP growth in 2010. However, this is primarily a rebound from its 6.3% decline in 2009. The IMF expects its growth over the next two years to be 1.6% and 1.8% respectively. With tighter monetary policies and continued rebalancing of its export-driven economies, growth in developing Asia is expected to moderate to 8.4% over the next two years. Underpinning this growth is China (10.3% in 2010, 9.6% in 2011 and 9.5% in 2012), which account for almost two-thirds of developing Asia's output. The other major developing Asia economies are India (9.7% in 2010, 8.4% and 8% thereafter) and Indonesia (6% in 2010, 6.2% and 6.5% for next two years), which together account for 20% of developing Asia's output.

The combination of the two-track recovery and easy monetary policies has led to massive capital flow from the developed West into the developing economies, bringing with it substantial

inflationary pressures, driving up asset and consumer prices. Property prices have risen across all of Asia and governments across the region have announced measures to rein in their property markets. Results have been mixed, at best.

Given the size of its economy and extent of the potential bubble, China poses the greatest concern. Property prices in China reached an all-time high in March 2010, having soared by double digits in recent years. For example, Shanghai property prices rose by 21% in 2010. According to a report released in December by the Chinese Academy of Social Sciences, property prices in about

35 large and medium Chinese cities are overpriced by an average of 29.5%. Various measures were introduced by the government to impede the rise – property taxes (in Shanghai and Chongqing), borrowing restrictions and restrictions on multiple property ownership. To manage its soaring property prices and inflationary pressures, China also tightened its monetary policies by increasing interest rates twice in the last quarter of 2010, raising its bank reserve ratios six times in 2010 (to a record high of 19.5% in January 2011), and instituting strict policy control over loan issuance. Despite these measures, property prices continue to climb during the rest of

Economic Growth from 2008 to 2012		Actual		Forecast	
(Percentage)	2008	2009	2010	2011	2012
World Output	3.0	(0.6)	5.0	4.4	4.5
United States	0.4	(2.6)	2.8	3.0	2.7
European Union	0.6	(4.1)	1.8	1.7	2.0
Germany	1.2	(4.7)	3.6	2.2	2.0
France	0.1	(2.5)	1.6	1.6	1.8
Italy	(1.3)	(5.0)	1.0	1.0	1.3
Spain	0.9	(3.7)	(0.2)	0.6	1.5
United Kingdom	0.5	(4.9)	1.7	2.0	2.3
Japan	(1.2)	(6.3)	4.3	1.6	1.8
Australia	2.2	1.2	3.0	3.5	3.5
New Zealand	(0.1)	(1.6)	3.0	3.2	3.1
Newly Industrialized Asian Economies	1.8	(0.9)	8.2	4.7	4.3
Hong Kong	2.2	(2.8)	6.0	4.7	4.3
Korea	2.3	0.2	6.1	4.5	4.2
Singapore	1.8	(0.8)	14.5	4.5	4.4
Taiwan	0.7	(1.9)	9.3	4.4	4.7
Developing Asia	7.0	9.3	8.4	8.4	8.4
China	9.6	9.2	10.3	9.6	9.5
India	6.4	5.7	9.7	8.4	8.0
ASEAN-5	4.7	1.7	6.7	5.5	5.7
Indonesia	6.0	4.5	6.0	6.2	6.5
Malaysia	4.7	(1.7)	6.7	5.3	5.2
Philippines	3.7	1.1	7.0	4.5	4.5
Thailand	2.5	(2.2)	7.5	4.0	4.3
Vietnam	6.3	5.3	6.5	6.8	7.0

Source:
IMF World Economic Outlook Update, 25 January 2011
IMF World Economic Outlook Database, October 2010

² China, India and ASEAN 5 (Indonesia, Malaysia, Thailand, Vietnam and Philippines)

³ Hong Kong, Singapore, Korea, Taiwan



Domestic private equity redefining China's M&A landscape

After a record breaking USD22 billion initial public offering (IPO) listings by the Agricultural Bank of China in July, the fourth quarter saw the third largest listing in Hong Kong – the USD21 billion IPO by AIA Group, the Asian life-insurance business spin-off from AIG. For the second consecutive year, the Hong Kong Exchange, with USD57 billion, ranked number one globally in terms of total funds raised, followed closely by the Shenzhen Stock Exchange at USD45 billion and Shanghai Stock Exchange at USD29 billion⁵. Total funds raised by IPOs in these three bourses in 2010 more than doubled the amount raised in 2009. According to Reuters, about 30% of Asia (ex Japan) IPOs in 2010 were private equity backed. Of the 347 A-share IPOs on Shenzhen and Shanghai bourses, a record 160 IPOs were private equity linked, compared to 95 IPOs during the pre-global financial crisis bull market in 2007.

The buoyant IPO market and China's policy changes to promote private sector investments to sustain economic growth had given a fillip to private equity in China. The Chinese government recently relaxed its rules to allow foreign private equity fund managers such as Blackstone, TPG and Carlyle to launch yuan-denominated funds in partnership with local governments or companies. Large private equity firms have also been lured by Chinese cities' tax breaks, financial aid and policy support as these cities compete to be crowned the private equity capital of China.

2010, albeit at a slower rate. China had failed to sufficiently cool the property bubble due to the lack of alternative investments for its increasing pool of cash rich investors and corporations. Mortgage debt remained substantially lower than Japan and US during their respective property bubbles. Moving forward, both Nomura and S&P predict that housing prices will decline by 10% to 20% over the next 6 to 18 months. China's determination in reining in its property prices is evident in Premier Wen Jiabao's Chinese New Year speech, where he said that China needed to "resolutely control the property market" and "maintain stable housing prices". He also pledged to counter "abnormal" credit growth and "ensure overall price levels are basically stable".

The biggest socio-economic issue facing Asian governments

An inflation "epidemic" is sweeping across Asia. The consumer price index in China rose by 5% towards the end of 2010, India recorded 9.5% and in Indonesia it was 7%. Raw material, oil and commodity prices all increased. More worrying for many Asian economies with masses living at or below poverty line are food prices. After falling 6% in the first half of

2010, the United Nations Food & Agriculture Organisation's Food Price Index rose 33% in the second half, ending the year 3% ahead of the last recorded high in mid-2008. Increased speculation and hoarding due to easy money were blamed, however, the longer term issues of oil price increases, growing demand and falling supply due to more frequent inclement weather cannot be ignored. If not controlled, this may very quickly lead to potentially destabilising food riots, as we had witnessed in 2008.

China had announced a slew of supply-side measures in November to cool rising food prices. In a bid to rebalance its economy away from exports, and to minimise social issues brought about by the yawning income and wealth gaps, every province and municipality in China had pushed up their minimum wages in 2010 by 12% to 20%. More double digit pay hikes are expected in 2011. Beijing, for example, raised the city's minimum wage by 21% for 2011, after a 20% rise in June 2010. This will impact even those businesses which are already paying their workers above the stipulated minimum wages, as there will be knock-on effects especially in view of rising inflation.

⁵ IPO Watch Europe Survey Q4 2009 (October – December): Full Analysis, PricewaterhouseCoopers



At the same time, to help accelerate China's economic restructuring and strengthen Shanghai's role as an international financial centre, Shanghai recently launched a USD3 billion pilot Qualifying Foreign Limited Partner (QFLP) scheme. The QFLP scheme will allow qualifying foreign investors, including pension and endowment funds, to convert foreign currencies into yuan for investment in China.

Given the dearth of alternate investment channels in China, private equity is an increasingly popular investment class with both private and corporate investors. The opening up of the sector to foreign competition has further spurred its growth. China-focused funds accounted for more than 9% of global fund raising efforts, up from just 1% in 2007, reported Thomson Reuters. In 2010, 82 China-focused private equity funds were set up, raising USD28 billion. That was more than double the USD13 billion raised by 30 funds during the previous year. What is also interesting is that, of the 82 new China-focused private equity funds in 2010, over 85% were yuan-denominated but they accounted for only 40% of

funds raised, suggesting that most of these yuan-denominated funds are small. According to Asia Pacific Private Equity Research, there are 167 registered foreign managers of private equity funds in China, and 265 domestic ones. Estimates for unregistered managers ranged between 2,000 and 10,000. Many of these domestic fund managers are set up by individuals who are relatively new to the fund management industry but are well connected and know the market. Free from many of the global fund managers' internal constraints, they are able to make swift investment decisions.

The China M&A market is being redefined by the proliferation of domestic funds, and by all accounts, is getting crowded with many firms chasing the few good deals. The odds will be increasingly stacked against private equity players that do not have their investment teams based in China. More private equity firms with an Asian focus will shift their resources into Chinese cities, while keeping a Singapore or Hong Kong office to focus on Southeast Asia.

2011 M&A outlook

The Asia growth story will continue to drive investment themes in 2011 and beyond. Whilst asset bubbles and inflation are potential threats, Asian government are very cognizant of their destabilising danger and have already started to take steps to contain the potential fallout. Growth will moderate as a result, but set against a backdrop of a developed West plagued by slow growth and fiscal woes, Asia is still the market to be in. M&A in Asia will be driven by Western corporations with strong balance sheets seeking market access, and also private equity jostling for a share of the growth capital market. Asian corporations and sovereigns, bolstered by strong home markets and stronger currencies, will seek out resources and Western brands and know-how.

The fundamentals underlying 2010 have not changed very much from 2009 – growing Asia battling asset bubbles, lacklustre West fighting fiscal crisis, two-speed recovery, cheap money generating destabilising flows and a financial services sector in need of serious regulatory reforms. What set 2010 apart from 2009 was the return of confidence, and in 2011, investors will still pin their hopes and dreams on Asia's seemingly unstoppable rise.

Overview of Asia Pacific M&A Transactions in 2010

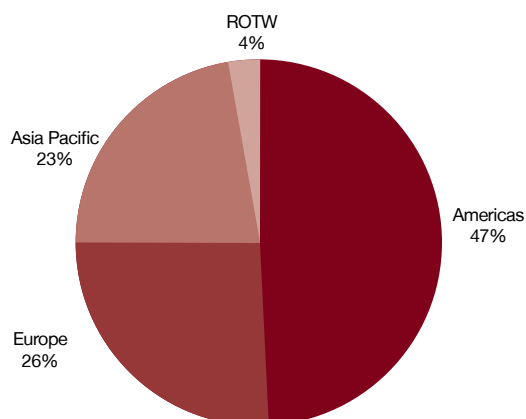
By Target Nation	Deal Value				Deal Volume			
12 months ended 31 December	2010 USD'Million	2009 USD'Million	2008 USD'Million	2007 USD'Million	2010 No.of Deals	2009 No.of Deals	2008 No.of Deals	2007 No.of Deals
Americas	1,136,282.80	921,679.9	1,156,363.7	1,890,442.1	12,013	11,776	13,169	15,286
Europe	641,020.6	580,985.4	1,168,696.3	1,592,572.7	14,779	13,825	13,863	14,603
Asia Pacific	573,807.9	438,776.1	512,190.0	596,582.2	12,777	12,949	12,987	13,157
Australasia	143,447.3	56,647.8	95,064.3	142,067.2	2,057	1,986	2,148	2,798
South East Asia	85,849.2	44,098.6	73,670.4	75,675.0	2,486	2,318	2,115	2,001
North Asia	214,503.2	202,836.6	221,007.4	189,847.8	4,866	4,848	4,973	4,438
South Asia	38,208.9	19,919.6	38,412.0	48,783.0	1,155	1,234	1,125	1,144
Central Asia	7,918.2	10,383.0	7,067.0	3,782.4	52	79	78	79
Japan	83,881.1	104,890.5	76,968.9	136,426.8	2,161	2,484	2,548	2,697
ROTW	83,092.3	38,905.8	49,721.9	89,689.9	1,091	1,291	1,026	771
World-wide	2,434,203.6	1,980,347	2,886,971.9	4,169,286.9	40,660	39,841	41,045	43,817

Source: Thomson Reuters M&A Review, Financial Advisor, Full Year 2010, Full Year 2009 & Full Year 2008

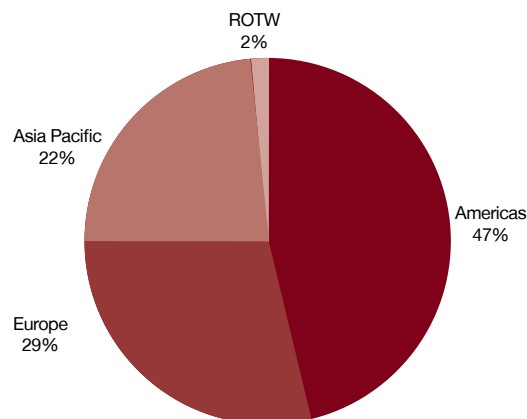
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12 months ended 31 December	2010 USD'Million	2009 USD'Million	2008 USD'Million	2007 USD'Million	2010 No.of Deals	2009 No.of Deals	2008 No.of Deals	2007 No.of Deals
Developing Asia	220,833.7	153,066.9	175,200.3	161,440.8	5,896	5,463	5,639	5,163
China	134,528.1	108,746.3	111,187.6	75,675.5	3,124	2,710	3,010	2,626
India	36,146.6	19,468.0	32,869.4	45,222.5	1,047	1,132	1,120	1,237
Indonesia	13,305.3	7,998.0	16,812.3	7,200.7	555	423	332	182
Malaysia	29,373.3	6,257.3	6,493.9	21,145.7	681	751	822	833
Philippines	6,090.2	9,614.9	6,747.3	10,582.4	147	157	172	174
Vietnam	1,390.1	982.4	1,089.9	1,613.9	342	290	183	111
Newly Industrialised Asia	99,181.5	107,913.7	136,624.0	133,734.7	2,178	2,495	2,426	2,383
Hong Kong	36,992.7	34,398.7	67,615.4	43,711.5	679	799	789	1,035
South Korea	36,558.8	37,388.4	35,229.5	55,296.8	893	1,153	1,050	706
Singapore	16,370.1	14,659.9	27,157.7	22,493.9	436	381	406	488
Taiwan	9,260.0	21,466.7	6,621.4	12,232.6	170	162	181	154

Source: Thomson Reuters

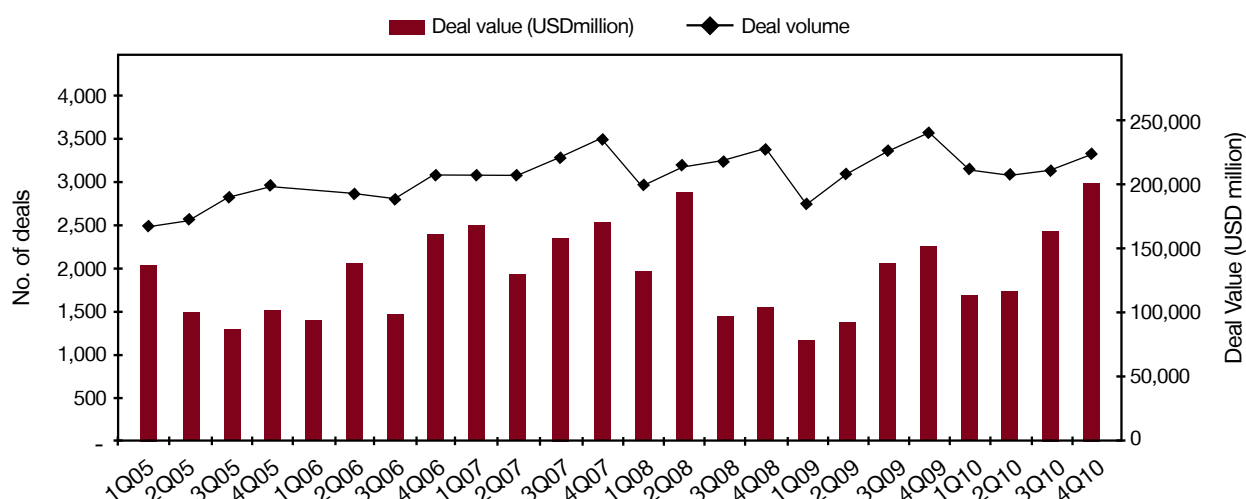
**Global M&A By Target Region
Full Year 2010**



**Global M&A By Target Region
Full Year 2009**



Asia Pacific M&A Value by Quarter – 2005 to 2010



Source: Thomson Reuters

Global M&A deals in 2010 closed at USD2.4 trillion, a 23% increase from 2009. Deal volume increased by only 2% to just over 40,000 deals. Average deal size increased by 20%, but is still some 37% below the 2007 average and 15% below 2008. The mega deals in the pre-global financial crisis days, seen mainly in the US and European markets, have yet to return.

Asia Pacific M&A deals (by target nations) closed 2010 at USD574 billion. They grew by 33%, faster than the rest of the world and accounted for 23% of global M&A deals, up from 22% a year ago. Asia Pacific deal volume fell 1% year on year to 12,777 deals. The average Asia Pacific deal size increased 33% year on year to within 1% of the 2007 average and higher than 2008.

After ending 2009 with two strong quarters, Asia Pacific M&A started 2010 with announced deals dipping in the first two quarters. However,

deal activities picked up quickly in the last two quarters. Deal value in the last quarter of 2010 was USD202 billion, which surged past the USD189 billion in the second quarter of 2008 to become the record quarter for highest deal value.

The boom in Asia Pacific deals (by target nations) were driven primarily by developing Asia, which increased by 44% to account for 38% of Asia Pacific deal value in 2010; and Australasia, which grew 2.5 times to 25% of Asia Pacific deal value. Underlying the spectacular jump in developing Asia's M&A are China and Malaysia. China, which made up almost 61% of developing Asia and 23% of Asia Pacific M&A deal value, grew 24% in 2010 and accounted for one-third of developing Asia's increase. Malaysia surprised by jumping almost 4.7 times and accounted for over one-third of the developing Asia's increase. On the other hand, Japan and newly industrialised Asia deal value

shrunk slightly in 2010, the latter due to Taiwan which saw an exceptional 2009 due to Innolux Display acquiring TPO Display Corporation and Chimei Optoelectronics for USD13.8 billion.

Starting from a very low base, the values of outbound deals from Asia Pacific (excluding intra-Asia Pacific deals) almost quadrupled, rising from mere 8% of domestic and inbound deals in 2009 to 22% in 2010. Deal volume increased by only 30% as average deal size almost tripled. The key cross-regional deals were Bharti Airtel Ltd's USD10.7 billion acquisition of Zain Africa Limited; Li Ka Shing related Hong Kong consortium's USD9 billion acquisition of UK power distribution business of EDF Energy Plc; and various Chinese Energy sector acquisitions in the Americas. Much of the targets of cross border deals with Asia Pacific buyers were traditionally within the region. Even if we include intra-regional deals, outbound deal

values of Asia Pacific countries still shot up by an impressive 1.5 times in 2010. China, Hong Kong and Japan had the highest outbound deal values in 2010, increasing by 95%, 92% and 121% respectively.

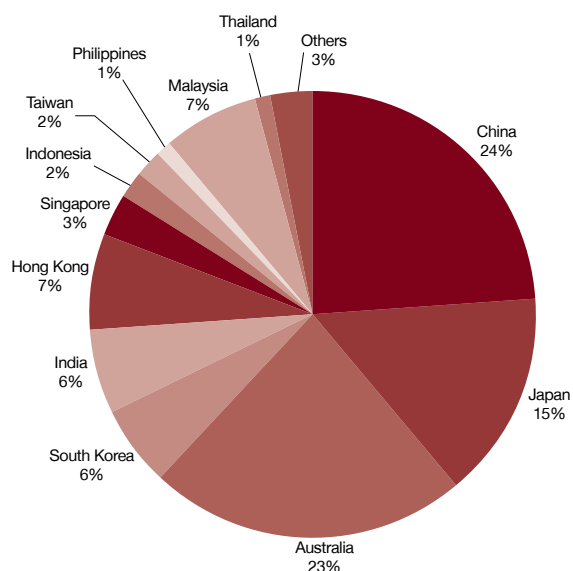
Sovereign wealth funds (SWFs) M&A activities increased in 2010, with Asia Pacific accounting for the largest number of deals. Of the 15 acquisitions with total deal value of USD9 billion that SWFs participated in 2010, eight were in Asia, four in the US and one each in Canada, Latin America and the UK. Most of the acquisitions were in the energy and financial services sectors. Key deals were GIC's USD290 million investment into China International Capital Corporation Limited; Temasek's USD200 million investment into India's GMR Energy; and joint investment by TPG and GIC into PT Delta Dunia Makur Tbk, an Indonesian coal firm for USD331 million.

China, once again, led Asia Pacific deal activities, whether measured "by target nations" or by "any involvement". This is followed by Australia, Japan, Hong Kong and India.

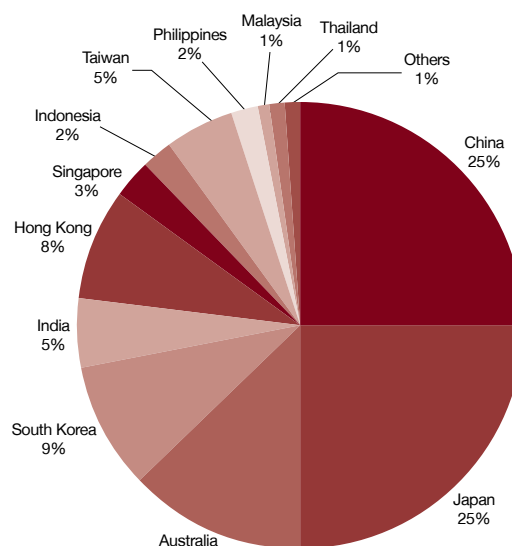
China M&A deals were mainly transacted in materials, industrials, and real estate sectors. The largest China deal was inked in the first half of 2010 by China Mobile Group Guangdong Co when it acquired 13% of Shanghai Pudong Development Bank for USD5.8 billion. This was followed by Henan Shuanghui Investment & Development's assets acquisition of Henan Luohe Shuanghui Industrial for USD5 billion, and Ping An Insurance Co's 31.9% acquisition of Shenzhen Development Bank Co Ltd for USD4.3 billion.

Asia Pacific M&A Value by Target Nation

Full Year 2010



Full Year 2009





China's outbound M&A grew 95% in 2010. This is mainly driven by China's search for resource security as seven out of its top ten outbound deals were in the energy sector. Key outbound deals of 2010 included Sinopec's acquisition of 40% in Repsol YPF Brasil SA for USD7.1 billion and 9% in Syncrude Canada Limited for USD4.7 billion; CNNOC's USD3.1 billion acquisition of 50% in Bridas Corp in Argentina; Sinochem's USD3 billion bid for 40% of Peregrinao project in Brazil's Campos Basin; China Petroluem's USD2.5 billion bid for Occidental Argentina Exploration & Production Inc; and Tianjin Xinmao Science & Tech's acquisition of Draka Holding NV for USD1.7 billion.

Most of Australia's M&A activities had come from the last quarter of

2010, which accounted for 51% of the year's total deal value. Domestic deals increased by almost three-folds, while outbound deals registered strong 215% growth. Major deals were AMP and AXA SA's USD13 billion joint offer for AXA Asia Pacific; and Newcrest Mining's USD8.3 billion acquisition of Papua New Guinea's Lihir Gold during the first half of 2010. Deal volume was particularly high in materials, financials, and energy and power industries.

On the other hand, Japan M&A deal value and volume both fell in 2010, primarily due to lower domestic deals. Both its inbound and outbound deals grew 122% but were insufficient to make up for the fall in domestic M&A. Major domestic deals in Japan included assets

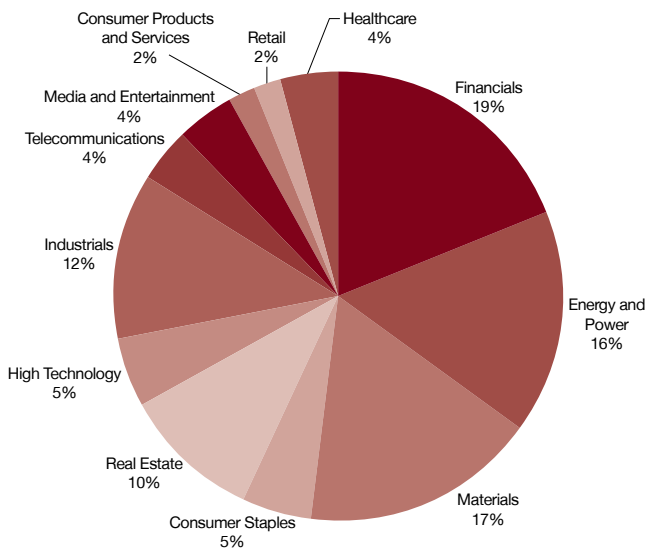
acquisition of Japan Airlines by Enterprise Turnaround Initiative Corporation for USD8.1 billion. With its shrinking and fast ageing domestic market, Japan corporations are keen to tap into overseas international market, with the US being the top destination. 54 out of 359 outbound deals are into the US. Japan M&As were mainly in high technology, industrials and consumer products and services sectors.

Hong Kong's M&A activities in 2010 were underpinned by outbound deals, which almost doubled. The outbound deals were led by the USD9.1 billion acquisition of UK power distribution business of EDF Energy Plc, a wholly owned unit of French state-owned Electricite De France SA, by a consortium comprising Cheung Kong Infrastructure Holdings Ltd, Hong Kong Electric Holdings Ltd, Li Ka Shing Foundation Ltd and Li Ka Shing (Overseas) Foundation. Other major deals included AXA SA's acquisition of AMP Ltd For USD2.6 billion and Capitaland China's acquisition of Orient Overseas Development Ltd for USD2.2 billion. Major sectors were financials, materials and industrials.

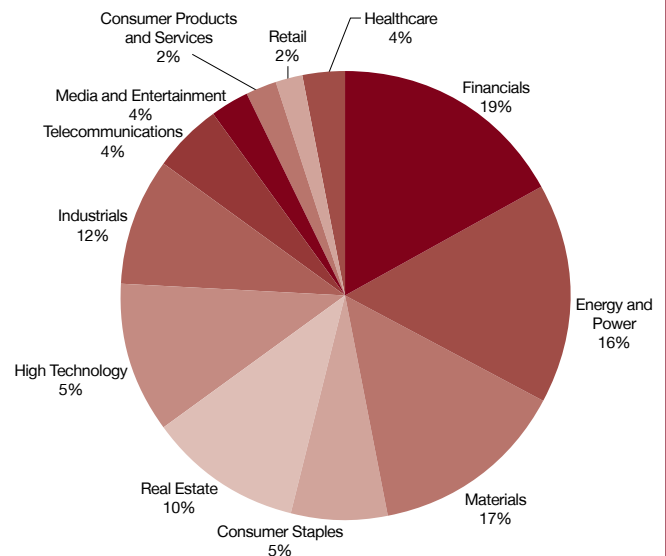
India's M&A activities rose across the board, with outbound making the biggest contribution primarily due to Bharti Airtel Ltd's USD10.7 billion acquisition of Zain Africa BV during the first half of 2010. Cairn India Ltd is included in both top domestic and top inbound deals as Sesa Goa Ltd acquired a 20% stake for USD2.9 billion and Vedanta Resources PLC of the UK acquired another 40% stake for USD6.6 billion. Major deals in India were in the industrials, materials and financials industries.

Any Asia Pacific Involvement by Target Industry

Full Year 2010



Full Year 2009



Source: Thomson Reuters

All sectors experienced a positive growth in 2010, except for high technology sector which fell 33%.

The financials sector led the pack and saw a 61% increase in deal value. Major deals included the merger of Sumitomo Trust and Chuo Mitsui Trust Holdings at USD9.1 billion and the proposed acquisition of ASX Ltd by Singapore Exchange Ltd for USD8.3 billion.

The energy and power sector also experienced a 54% increase in deal value. Major deals included Hong Kong's private investors' acquisition of EDF Energy-UK Power for USD9.1 billion

and China's Sinopec Group's 40% acquisition of Repsol YPF Brasil SA for USD7.1 billion.

The materials sector saw an increase of 78% in its deal value. Top deals included the merger of New Zealand's Pactiv Corp and US' Reynolds Group Holding Ltd valued at USD5.9 billion.

Lastly, real estate sector experienced 27% growth in deal value. Top deals included the spun-off of Australia's Westfield Group in real estate industry for USD9.5 billion, and the acquisition of ING Industrial Fund by Goodman Trust Australia for USD2.8 billion. ■

North Asia

People's Republic of China

China M&A deals reach record levels in 2010.

*Outbound M&A by China buyers is up by more than 30%;
Private Equity activity surges in domestic M&A deals.*



Matthew Phillips
Transactions Leader
China

China's economic growth remained strong in 2010 and certain measures were taken to avoid the economy from overheating and to control inflation.

The overall level of M&A activity in China has reached an all time high as a result of higher deal activity from Chinese outbound investments, private equity investors and inbound M&A by foreign corporate investors.

There is recognition in government and regulatory circles of the importance of private equity and venture capital as a provider of capital, especially to private enterprises.

The policies and direction set by China's new five year plan (which will be published in March 2011) are likely to support continued M&A activity, as the government aims to continue domestic consolidation and the restructuring of industries, while ensuring foreign investment is optimised and their 'going abroad' is accelerated.

We believe that these strong growth trends will continue into 2011.

Current Environment

China's gross domestic product (GDP) growth returned to double digit growth again in 2010 reaching 10.2% growth. The first two quarters of the year, GDP growth was above 11% but in the second half of the year the economy cooled slightly when the impact of the stimulus measures taken in prior years faded out and deliberate measures to cool the economy were executed.

With the stimulus package and flexible lending terms in the past, China has been able to maintain strong economic growth but it has had some negative side effects. The Consumer Price Index (CPI) reached 5.1% in November 2010 and 3.1% for 2010 as a whole, mainly driven by increasing food prices which were up 11.7% in November 2010 year-over-year.

By increasing the official interest rate by 25 basis points in October 2010, which was the first increase since 2007, and another 25 basis points in December 2010, the Chinese government is trying to actively curb inflation. The official one year lending rate was 5.81% at the end of 2010. Besides trying to lower the demand for loans with the interest rate increases, the capital ratio requirements for banks had been increased six times during 2010 to limit liquidity supply.



Because of the lower liquidity in the market, the money available for investment in shares in listed Chinese companies also declined, which is illustrated by the 14% decrease of the Shanghai Composite Index to 2,808 points on 31 December 2010 compared to 3,277 points on 31 December 2009.

Although the importance of domestic consumption and services as part of China's GDP growth is rising, export is still a key component of China's GDP. Increased consumer spending in the United States and Europe resulted in a USD1.6 trillion total export value, up 30% over 2009, which was a relative slow year, due to the global financial crisis. Compared to 2008, the 2010 export value was also higher by 10%.

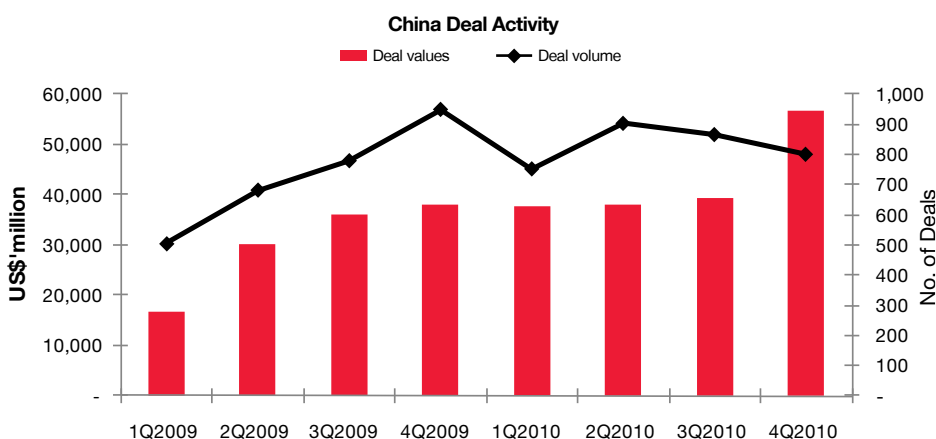
New Renminbi-denominated loans reached RMB7.95 trillion (USD1.21 trillion) in 2010 compared to RMB9.6 trillion (USD1.46 trillion) in 2009. This was higher than the RMB7.5 trillion (USD1.14 trillion) that was set as the lending target for the year by the government.

In addition, fears of a real estate asset bubble remain and the government took measures to contain housing prices. In April 2010, the government implemented new minimum down payment rules for mortgages, banning mortgage discounts and restricting financing for project developers. The government also announced that more social housing will come to market and there is talk of levying a property tax from 2011. However, so far it is unclear whether all these measures have the intended effect, as like many large cities, housing prices in Shanghai rose in November for the fifth consecutive month.

Because import values increased at a higher pace than export values, 39% compared to 2009, China's trade surplus was down by 7% to USD183.1 billion from USD196.1 billion in 2009.

December 2010 was notable, as in the month there was a trade surplus of USD13.1 billion versus the USD20.8 billion that was expected and compared to realised surpluses of USD27.1 billion and USD22.9 billion in October 2010 and November 2010, respectively. This helped to support Beijing's policy with respect to their foreign exchange policy. During 2010, the Renminbi appreciated 3.5% compared to the US Dollar, with analysts expecting between 4-6% appreciation in 2011.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

China's appetite for overseas assets continues to grow, with natural resources remaining a key industry target, as the country aims to secure the resources it needs to fuel its engine of economic growth. The largest announced outbound transaction in 2010 was Sinopec's acquisition of a 40% equity stake in Repsol YPF Brasil SA for USD7.1 billion.

Apart from continued strong interest in natural resources, there has been an increasing number of acquisitions of high technology companies, as Chinese buyers look to bring know-how back to China to foster their developing economy. There is also strong interest in machinery and equipment manufacturers, and in the automotive sector.

Deal Activity

The overall level of M&A deals in China has reached an all time high, both in the number and value of domestic, inbound and outbound deals. A record of 3,319 announced transactions valued at more than USD170 billion were recorded in 2010, representing a 14% increase on the number of deals and a 42% increase in terms of the value of deals over 2009. The consistent pace of strong economic growth in China and the valuable inorganic growth opportunities created from consolidating industries are some of the important drivers behind this burgeoning growth of M&A.

Outbound

The trend is loud and clear for outbound M&A by China buyers, with M&A deal activity overseas growing by more than 20%, to a record of 251 transactions with a combined value of about USD43 billion in 2010, up from 206 deals in 2009 valued at USD22 billion. The strong trend of China's growing interest in quality assets overseas, which started about four years ago continued, and despite a relatively slower final quarter of outbound activity in 2010 in terms of volume, there has been no sign of the strong outbound trend waning during 2011 and beyond.

China's interest in M&A targets overseas remain widespread globally, however the US is identified as a growing strategic target with 34 deals completed in 2010 compared to 13 deals in 2009. The European Union, Australia and Africa remain important locations of interest, as well as countries in Asia.



The Rise of Private Equity

Private Equity (PE) is emerging as an important source of capital for private enterprises in China, with 562 transactions involving PE activity with Chinese targets announced in 2010, PE activity in 2010 more than doubled¹. More than two thirds of these deals were initiated by domestic PEs, demonstrating the increasing power of local players in China's PE industry.

There are rapid developments in the PE industry in China. All indications are that PE will prove to be an important provider of growth capital for Chinese private enterprises in the future, and this is underpinned by the support of the Chinese government.

Fund Raising and Exits²

PE raised USD18 billion of funding for China focused investments in 2010, an increase of 57% over 2009. 46% of the funds

raised were for Renminbi denominated funds.

With strengthening capital markets, PE funds also took opportunities to exit or list their previous investments, with 204 PE/VC-backed initial public offering (IPO) in 2010 in addition to 46 trade sales.

Strategic Deals Make a Comeback

Foreign strategic buyers (corporates) are marching to the beat of a new drum, now showing signs of returning to China with inbound M&A activity growing by 25% to approach levels reached before the global financial crisis.

However M&A activity in China is still dominated by domestic transactions, which grew at a steady pace of 10% to 2,429 announced deals in 2010, and an announced value of USD100 billion, up 32% over 2009.

¹ Data provided by Thomson Reuters and ChinaVenture

² Data provided by Asia Venture Capital Journal (AVCJ)

Outlook 2011

Overall

The World Bank predicts a 10% GDP growth for 2011 and we believe that the strong growth trends experienced in 2010 will continue into 2011.

In October, the Central Committee of the Communist Party of China discussed the Twelfth Five-Year Plan. Further details will be released in the first quarter of 2011 and the plan is expected to address rising inequality and focus on China's efforts to rebalance its economy, shifting emphasis from investment towards consumption and from urban and coastal growth towards rural and inland development (the "Go West" policy). It aims to create an environment for more sustainable growth by prioritising more equitable wealth distribution, increased domestic consumption, and improved social infrastructure and social safety nets.

The plan also continues the objectives set out in the Eleventh Five-Year Plan related to environmental protection and the process of opening and reforming the economy.

According to a summary produced by the World Bank, the five main objectives of the Twelfth Five-Year Plan are:

- changing the economic growth pattern; more focus on services and consumption and less on industry and investment
- boosting efficiency, notably by innovation and upgrading and increasing the role of the private sector
- pursuing sustainable spatial transformation, by successful urbanisation and regional development
- changing the role of the State in the economy, with less direct control when markets function well and more involvement in areas such as health and education where markets often do not function well
- taking account of China's changing interaction with the rest of the world.

These objectives and other areas set out in the Twelfth Five-Year Plan are all likely to be favorable to M&A activity.

Outbound

Outbound activity will continue to grow strongly driven by demand for resources and the search for high technology, know-how and intellectual property to bring back to the Chinese market ("going out to bring back in"), and supported by China's "going abroad" strategy and the increasing experience and sophistication of Chinese buyers overseas.

The scale of ambition in some sectors, particularly chemicals, is on the rise and PE may have a role to play, as PE firms partner with corporates to do outbound transactions.

Private Equity

Nearly all of the major players are gearing up to meet the growing competition from a burgeoning domestic PE industry. Some of the new funds will fail, but others will emerge as important players and the growth and localization of the industry in China is unstoppable.

China's government and regulators are underpinning this growth with a number of new regulations and initiatives which are supportive of this important source of capital for Chinese businesses.

Strategic

We expect both domestic and foreign strategic buyer activity to continue to grow steadily in 2011 and to exceed the peak levels seen in 2010.

Foreign investments should return to pre-crisis levels as we move into 2011, with a special focus on more high technology enterprises as well as sectors positioned to take advantage of Chinese growing domestic consumer spending. ■

North Asia

Hong Kong

The Hong Kong economy is forecasted to remain buoyant in 2011 after recovering in 2010, with improvements expected in the job market and consumer spending. The shift in global growth towards Asia, in particular China, will continue to benefit Hong Kong as it remains an intermediary between China and the rest of the world.



Katy Spooner
Transaction Partner
Hong Kong

Current Environment

Hong Kong's economy remained robust and continued its recovery in 2010 as a result of the combined effects of the government stimulus programs, strengthened local spending and increasing demand from China. Real Gross Domestic Product (GDP) recorded year-on-year increases of 8.2%, 6.5% and 6.8% during the first three quarters of 2010. Private consumption expenditure also increased in the third quarter of 2010 by 5.7% year-on-year reflecting rising labour wages and improvement in the job market.

Hong Kong's total export of goods, after five consecutive quarters of decline, recorded year-on-year growth of 21.6%, 20.1% and 20.8% in the first, second and third quarter of 2010 respectively, which were mainly due to increased demands from Asian countries reflecting the economic strength in the region.

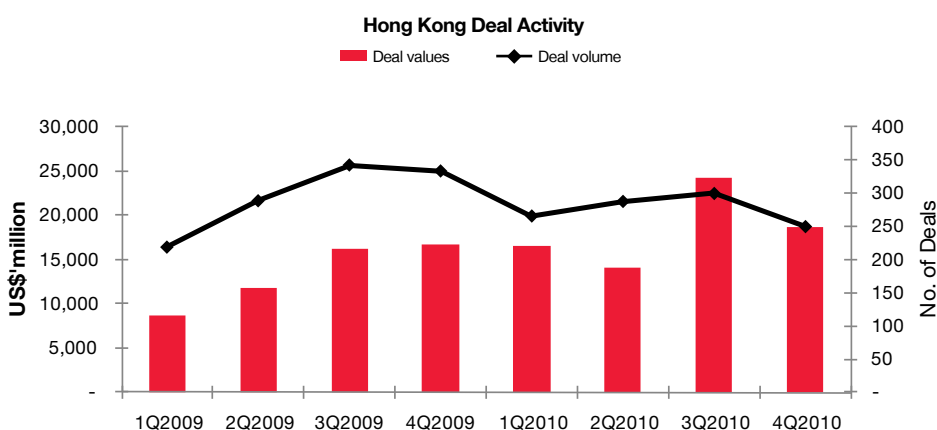
Employment conditions improved markedly in 2010 with the quarterly unemployment rate in 2010 well below 2009. In the third quarter of 2010, the unemployment rate was 4.2%, the lowest since the onset of the global financial crisis at the end of 2008, when the unemployment rate peaked at 5.4% in the third quarter of 2009.

Hong Kong equity markets retreated 8% in the first half of 2010 with the Hang Seng Index declining to 20,218 points, largely impacted by the Eurozone sovereign debt crisis and the slow recovery in advanced economies. In the second half of 2010, the Hang Seng Index closed 14% higher over the first half of 2010 with total market capitalisation increasing by 22% aided by investor sentiment and the second round of quantitative easing in the US. The Hong Kong Stock Exchange (HKSE), on the back of two mega listings in the Agricultural Bank of China (USD22 billion) and the AIA Group (USD20.5 billion), and continued fund raising by mainland companies in Hong Kong, dominated the global initial public offering (IPO) scene during 2010. In total, USD51 billion of funds were raised from 79 IPOs in Hong Kong during the first eleven months to November 2010 compared to the global listing proceeds of USD255.3 billion.

The market for IPOs has cooled since the third quarter of 2010 due to a number of cancelled IPOs resulting from excessive market volatility and tightening measures in China as well as a number of stocks underperforming since listing in 2010 (mainly in the China property, beverage and securities sectors).

The Hong Kong property market continued its rise during 2010 driven by a combination of liquidity inflow, depreciation in currency and the low interest rate environment. Residential property prices increased by 18% to October 2010, with average monthly sales transactions maintained above 11,000 transactions in each of the three quarters of 2010. In November 2010, the Hong Kong government implemented tighter measures in an attempt to halt a property bubble with additional taxes and policies, after the International Monetary Fund warned that asset inflation may derail Hong Kong's economy.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

Despite a drop in total deal volume from 1,185 deals in 2009 to 1,104 deals in 2010, deal activity in value terms increased from USD53 billion in 2009 to USD74 billion in 2010 reflecting larger deal values and significant Hong Kong outbound deals such as the USD9 billion acquisition of UK power distribution business, EDF Energy Plc by an investor group comprising Cheung Kong Infrastructure Holdings Ltd, Hong Kong Electric Holdings Ltd, Li Ka Shing Foundation Ltd and Li Ka Shing (Overseas) Foundation of Hong Kong in October 2010. Deal value for the second half of 2010 was USD43 billion, a 40% increase over the first half of 2010 of USD36 billion.

Some of the major transactions in 2010 include:

Financial Services

In August 2010, the Industrial & Commercial Bank of China Limited, a China and Hong Kong dual-listed bank, agreed to acquire the remaining 27% stake it has not already held in the Industrial & Commercial Bank of China (Asia) Limited, its subsidiary listed in Hong Kong to take the Hong Kong unit private. The total deal size was USD1.4 billion and aims to provide ICBC with greater flexibility to support the future business development of ICBC Asia.

In October 2010, ACE Ltd of Bermuda acquired the Hong Kong and South Korean life insurance business of New York Life Insurance Co. The transaction has a combined value of approximately USD425 million and is ACE's first foray into life insurance in both the Hong Kong and Korean markets where it already has presence in the property and casualty insurance markets.

Consumer and Retail

In December 2010, Hong Kong-listed Tsingtao Brewery entered into an agreement to acquire China-based brewery manufacturer Shandong Xin Immense Brewery from Hong Kong-based Xin Immense Brewery (Hong Kong) and China Skill Ltd, for USD281 million. The deal is expected to increase Tsingtao's market share in the Shandong province, which is China's largest beer market, to 55%.

Throughout 2010, Hong Kong-based multinational Li & Fung Group acquired a number of companies engaged in the apparel, furniture, cosmetic, sportswear and jeans wear businesses. These acquisitions are expected to enable the Li & Fung Group to create synergies within their existing operation and strengthen leading position in the consumer goods supply chain business.



Real Estate

In January 2010, Shanghai Industrial Holdings Limited (SIHL), a listed Chinese industrial conglomerate, made a mandatory offer to acquire a 45% equity interest in Neo-China Land Group (Holdings) Limited, a PRC property developer listed in Hong Kong, with a consideration of USD1 billion through its wholly owned subsidiary, Novel Good. The acquisition of a sizeable premium land bank from Neo-China aims to accelerate the growth of SIHL's real estate business.

CapitaLand China (RE) Holding Co. Ltd., a wholly owned subsidiary of CapitaLand Limited, a listed Singapore based real estate and hospitality company, purchased from Orient Overseas (International) Limited (OOIL), a listed Hong Kong-based company, the entire issued share capital of Orient Overseas Development Ltd., a Hong Kong-based real estate developer, for a consideration of USD2.2 billion in February 2010. The sale proceeds from the transaction allowed OOIL to fund growth opportunities in its core business of container transport and logistics services.

Transportation and Distribution

In June 2010, Hong Kong-listed Swire Pacific acquired a further 15% stake to raise its holding to 60.96% in Hong Kong-listed aircraft parts manufacturer Hong Kong Aircraft Engineering from Cathay Pacific Airways (HAECO) for USD336 million. The Transaction reflects HAECO as a core long-term strategic business for the Swire Pacific group.

Hong Kong-listed Li & Fung (LF) has entered into an agreement to acquire Hong Kong-listed logistics services provider, Integrated Distribution Services Group, from its shareholders, through a HKD21 per share tender offer in August 2010. The total consideration is approximately USD563 million and is part of LF's plans to support their targeted sales of USD20 billion this year via acquisition of competitors and signing of supply agreements.

Telecommunications

Hutchison Whampoa Limited (HWL), the Hong Kong listed conglomerate, privatised its domestic listed telecommunication subsidiary, Hutchison Telecommunications International Limited (HTIL) by acquiring the remaining 32.93% stake in HTIL it did not already own via a scheme of arrangement for a total value of USD450 million in May 2010.



Media and Technology

In May 2010, Advantage Partners invested USD21.8 million in Qin Jia Yuan Media Services (QJY), a Hong Kong-listed media company, for 5% of the issued share capital of QJY at an issue price of HKD1.33 per share. The funding provided by Advantage Partners will primarily be applied by QJY for the rights acquisition and new media platform development related to the development and operations of its multi-media advertising platform and multi-media business with television as a key focus.

In November 2010, Jardine OneSolution (JOS), a subsidiary of Jardine Pacific Limited and Jardine Matheson Holdings Limited, entered into an agreement to acquire a Hong Kong-listed IT distribution and services business, SiS. The transaction value is approximately USD130 million and is expected to accelerate the growth of JOS and enhance its partnership with resellers and vendors.

In December 2010, SeekAsia Limited, the majority-owned unit of Australia based Seek Limited, acquired a 60% stake in JobsDB Inc., the Hong Kong based operator of online recruitment

services, from JDB Holdings Limited, the Hong Kong based holding company having interest in online recruitment services, for a total consideration of USD205 million.

Energy, Utilities and Mining

In November 2010, The Hong Kong and China Gas Company Limited, the listed Hong Kong based manufacturer, distributor and marketer of gas, agreed to acquire a 10.21% stake in Towngas China Co Ltd (TCCL), the listed Hong Kong based producer and distributor of liquefied petroleum gas and natural gas, from Enerchina Holdings Limited for a consideration of USD117 million.

Private Equity

In April 2010, CVC Capital Asia agreed to invest in an 18.96% stake in Sun Hung Kai & Co, a Hong Kong-listed financial services provider. The transaction was conditional upon Sun Hung Kai & Co.'s sale of its 38.06% stake in Tian An China Investments Co., a mainland China property development and investment company, to Allied Properties Ltd., which is controlled by Sun Hung Kai & Co.'s parent company.

In September 2010, Private Equity (PE) funds managed by Permira Advisers, along with the Asia Broadcast Satellite management team, completed the management buyout of Kingsbridge Limited, the holding company for Hong Kong based Asia Broadcast Satellite, one of the fastest growing premium satellite operators in the world. Permira will become the majority shareholder of ABS. The existing PE investors, ADM Capital and Citigroup Venture Capital International Asia, will divest their stake. The transaction amount is estimated at USD200 million.

Outlook

Looking ahead, Hong Kong's economy will face a number of challenges in 2011 ranging from external factors such as the continued financial problems in the Eurozone and lack of economic growth from advanced economies. Domestically, Hong Kong's economy could be impacted by government policies to cool the property market, the introduction of the statutory minimum wage in May 2011 and rising food and oil prices due to the weakness in the Hong Kong dollar and higher business costs (from wage and rental increases).

Notwithstanding the above, the Hong Kong economy is expected to remain buoyant in 2011 driven by increases in consumer spending, strong public spending, close ties to China and the impact of the second round of quantitative easing in the US.

We expect the M&A market in Hong Kong to remain robust reflecting low funding costs and continued growth in the M&A activity of China businesses with close ties to Hong Kong.

Owing to foreign exchange restrictions and the difficulty associated with investing in China using offshore funding, we expect a greater shift of PE firms setting up in China as evidenced by the formation of Renminbi PE funds becoming more prominent in China. Notwithstanding this, Hong Kong will continue to be an important base for PE funds with many funds continuing to increase their presence, or choosing to establish a presence here, including China Investment Corporation, China Asean Investment Co-operation Fund and Soros Fund Management. We expect that PE will continue to recover in 2011 with a continued focus on Asia.

We expect outbound deals to continue to be one of the key drivers of M&A activity in 2011 as more corporates shift from a recovery mindset to that of expansion. Corporates with strong balance sheets (including those who are able to take advantage of a strong credit market in Hong Kong) will continue to seek strategic acquisitions, particularly in fast-growing emerging markets in their quest for expansion in 2011. ■

North Asia

Taiwan

Taiwan's economy rebounded dramatically in 2010 and will grow steadily in 2011. M&A activity is likely to rise in 2011 should markets stay robust.



Peter Yu
Corporate Finance Leader
Taiwan

Current Environment

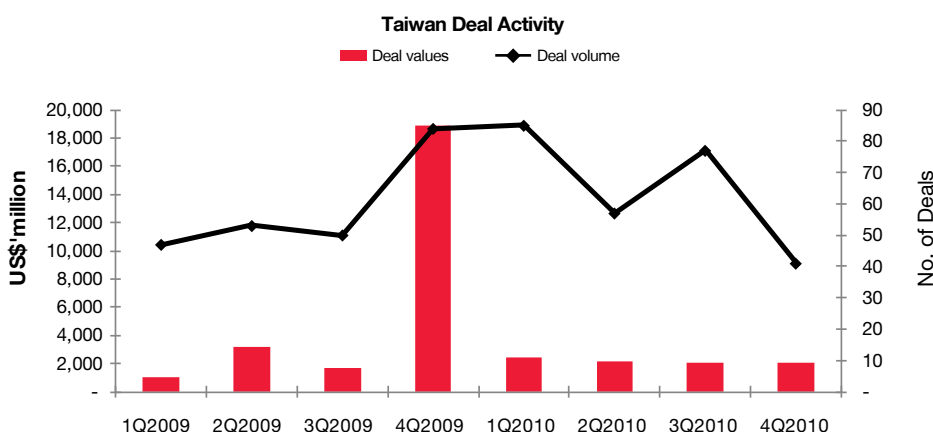
Taiwan's GDP is forecast to grow by 9.98% in 2010 driven by strong exports and domestic demand. In 2011, the forecasted GDP growth rate is expected to be 4.51%, as exports are anticipated to grow steadily combined with a continued contribution from demand in the domestic sector.

Initial Public Offering (IPO) and fundraising in general have been growing rapidly in 2010 reaching TWD59 billion (USD2 billion), 74% of which is comprised of overseas-based companies going IPO or issuing Taiwan Depositary Receipts (TDR) in Taiwan. The opportunity for overseas-based companies to list in Taiwan has successfully attracted a few highly profitable companies in 2010. Twelve overseas companies issued TDRs and seven overseas-based companies went IPO in Taiwan, resulting in TWD43.6 billion being raised in 2010. Several of these companies are China-based companies, as investors in Taiwan are interested in companies that are focused on serving China's domestic market.

As the relationship between China & Taiwan has improved significantly, two more critical economic agreements have been signed in 2010.

- **Memorandum of Understanding (MOU) on financial supervision**
The MOU signed by Taiwan and China took effect on 15 January 2010. It focuses on supervisory cooperation of the Banking, Securities, Futures and Insurance sectors. It also provides preferential policies for both sides to enter each other's market.
- **ECFA signed up in June 2010**
Economic Cooperation Framework Agreement (ECFA) is a free-trade agreement between Taiwan & Mainland China. As a result of signing this agreement, trading between these two countries will be tariff-free. This will benefit companies in Taiwan.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

Compared to 2009, announced M&A transaction values dropped by 65% while deal volume increased by 11% as a result of smaller value deals closing in 2010. The total deal value decreased from USD24.8 billion to USD8.7 billion, mainly caused by a 72% reduction in domestic transactions. Inbound deals dropped 40% in value but increased 33% in terms of volume with Japanese buyers contributing to several mega deals. Outbound transactions are the only category that increased in terms of both deal value and volume.

We highlight several representative deals that occurred in 2010.

Financial Sector

Capital Securities and Taiwan International Securities: Capital Securities Corporation, a Taiwan-based securities brokerage and investment banking company, announced that they would acquire up to a 100% stake in Taiwan International Securities Corp. (TIS) in cash and stock. The transaction is

valued at approximately TWD13.5 million (USD420.79 million). The transaction will create a new firm that will be ranked number four in Taiwan.

Ruentex Group and Nan Shan Life Insurance: Ruentex Group acquired a 97.57% stake in Nan Shan Life Insurance Co., AIG's Taiwanese unit, for USD2.16 billion on January 12, 2011. The Ruentex Group's previous experience in the Taiwanese insurance sector, through an investment in the Taiwan unit of Aetna Inc., helped regulators approve their bid. The acquisition of Nan Shan Life Insurance is a strategic move for Ruentex Group, who hope to leverage AIG's licenses to enter the Chinese market.

Consumer Product

Ting Hsin Group and Asahi Breweries Ltd.: Asahi Breweries Ltd. acquired 6.54% of Ting Hsin (Cayman Islands) Holding Corp. through a share swap of its stake in a beverage joint venture with Ting Hsin and Tingyi (Cayman

Islands) Holding Corp. The deal was valued at USD520 million. Ting Hsin group has the largest market share in the instant noodle market in China.

It also runs several food-related businesses both in China and Taiwan. Asahi aims to bring Asahi's domestic food business to China via this transaction while minimizing their investment risk.

Technology Sector

WPG Holdings Co. merged with Yosun Industrial Corp.: WPG and Yosun, Asia's largest and second largest Integrated Circuit distributors, expect to consolidate operations of both companies through a share swap valued at USD874 million. After this transaction, it will stabilize WPG's leading position in the Asian market. The merged entity will have a combined revenue of TWD316 billion (USD10.9 billion) and it will have a 30% market share in Asia.

Epistar Inc. acquired a 47.9% stake in Huga Optotech Inc.: Epistar Inc. announced a plan to partner with Huga Optotech Inc. as part of its ambition to boost its share of Taiwan's light-emitting diode (LED) industry by integrating LED chipmakers. Epistar plans to pay over USD236.7 million for a 47.88% stake in Huga through a stock and cash deal.

Pegatron Technology and Rih Li: Pegatron Technology, a spin-off from Asustek Computer Inc., announced it will spend up to USD220 million to acquire China-based Rih Li International, which owns China-based PC component maker Sunrise. The transaction aims to strengthen Asus Group's presence in the casing component sector of the consumer electronics market.

Outlook

Outbound deals will become more active as companies' look to expand and participate in the high-growth China market. We foresee more cross-strait M&A activity in the near future due to the closer business ties between Taiwan and China. In the finance sector, Taiwan's banks will continue to seek opportunities to acquire significant minority interests in Chinese banks. Insurance companies are likely to form joint-ventures with the big local players in China to enter

the market. A good example of this trend that occurred in 2010 is Taiwan-based China Life Insurance co-investment with China Construction Bank to acquire ING's insurance business in China. Closer cross-strait business ties will also encourage foreign companies to tap into the huge Chinese market through cooperation with Taiwanese companies which have operations and a customer base there. We believe this trend will apply to various industries from biotech, food and beverage to the technology sector.

In the technology sector, EMS, ODM and OEM mega companies will look to consolidate the components of consumer electronic products to strengthen their competitiveness in cost and product design. Taiwan's solar cell and LED suppliers will continue to seek capital to finance their expansion and acquisition plans. In this sector, fund raising will continue to prosper in 2011, with M&A activity and equity investments from large corporate groups who are looking to build their presence in the solar energy and LED sectors. ■



North Asia

Japan

The economic downturn in Japan appears to have bottomed out during 2010, however there remains considerable instability in both the economic and political environments in Japan. This instability, along with the benefit of a strong yen, have increasingly led many prominent Japanese companies to look to M&A in overseas markets as an element of their growth strategy.



Matthew Wyborn
Corporate Finance Leader
Japan

Current Environment

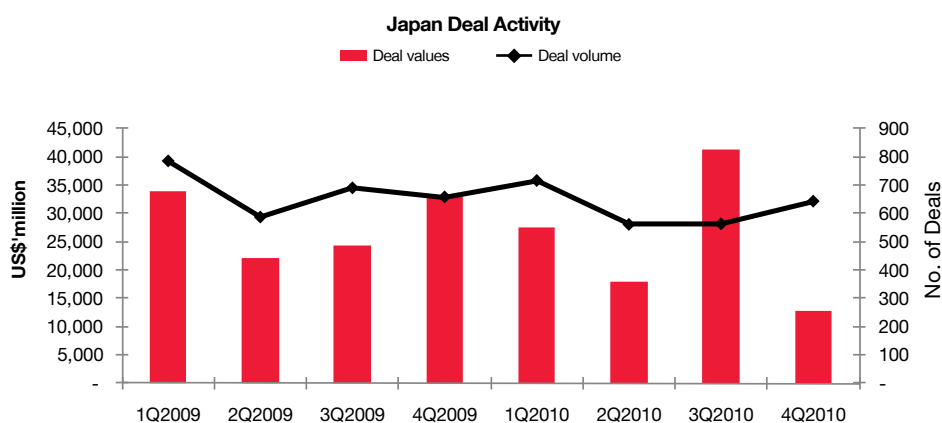
Japan's economic activity appears to have bottomed out in 2010. Real gross domestic product is expected to range from 2 to 3% in 2010, compared to negative 5% in 2009. Accumulated trade volume as of the end of October recorded gains in both exports and imports by 7.8% and 8.7%, respectively, against 2009 due to the worldwide economic recovery, although it could not make up for a decline of over 30% in 2009.

The private sector has seen sales and profit growth due to the economic recovery in overseas markets as well as the result of corporate restructuring efforts. The Ministry of Finance has said that all industries achieved growth in total sales and ordinary profits for the first three quarters in 2010. In the third quarter of 2010, sales increased by 6.5% and ordinary profit jumped by 54.1% from the previous year. While financial results vastly improved in sectors such as oil & coal, steel, production machinery, transportation machinery and electric machinery, growth in the latter two sectors is estimated to slow down in 2011 as the government has announced it will terminate or reduce financial aid to promote eco-friendly machinery products.

For investment activity, fixed asset investment by Japan's small and medium-sized enterprises has gradually turned positive. However, larger businesses have remained cautious about further investment as they are yet to emerge from their extensive restructuring process. As of the end of the third quarter in 2010, large companies saw a 13.7% drop in capital expenditure from the previous year, and accordingly their attitude towards outbound direct investment also declined by 50.6% to USD46 billion on a net basis from the previous year. Investment to North America declined by 53.0%, to Europe by 21.3%, and to Asia by 21.1%.

On the other hand, the Japanese yen's appreciation against the US dollar and the Euro has dampened inbound investment, with only USD1.8 billion or a decrease of 85.4% from the third quarter in 2009. The Dollar-Yen currency rate started 2010 at ¥93.05:USD1 and hit ¥80.22:USD1 in November 2010, a 13.8% strengthening of the yen over this period. The yen has also remained strong against the Euro throughout the year, closing at a level of ¥108.29:€1. Although the government and Bank of Japan conducted a unilateral currency intervention in September, such measures failed to halt the yen's appreciation.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

In addition to the strong yen, political instability has suppressed stock prices which may not be fully reflective of the actual growth in sales and profit within the private sector. The Nikkei 225 started at JPY10,609 in January, decreased to JPY8,796 in August, and closed out the year at JPY10,228.

Contrary to the anticipation at the beginning of the year that interest rates would continuously advance, the stagnant economy has kept interest rates including short and long term prime rates at the same level as the previous year, with the basic discount rate of the Bank of Japan remaining at 0.3%. Fund raising through equity and bond markets has been less active compared to last year, as reflected in their declines of 7.9% as of October 31, 2010 and 18.5% as of November 30, 2010, respectively, from the previous year.

Deal Activity

M&A activity was affected by the conservative attitudes of investors who were cautious to increase their assets in the stagnant domestic market, with a 14.4% reduction to 2,128 in number of deals or a 28.1% reduction to USD73.1 billion in year-on-year deal value. These figures include 176 inbound deals valued at USD11.9 billion, which constitutes 8.3% in terms of number of deals or 16.2% in terms of deals by value. There have been two inbound and eleven domestic transactions where the deal value announced exceeded USD1 billion.

The top four sectors, namely Information and Communication Technologies (ICT), Services, Wholesale & Retail, and Machinery & Electric Machinery, accounted for 60% of the total number of deals.

The changing landscape in inbound deals into Japan is reflected by China's (including Hong Kong) 36 inbound deals as of November 30, 2010, which represents the first time the United States was not the top investor into Japan through M&A since 1996, according to Recof M&A Database. The inbound deal market was deeply impacted by the capital participation of Shandong Ruyi Science & Technology Group of China in Japan's textile maker Renown. It was symbolic in that an emerging Chinese business obtained access to a highly-reputed brand in Japan in an established industry.

In contrast, outbound deals from Japan has turned positive, as the number of outbound deals rose by 50.2% to 359 deals, amounting to USD26.4 billion. Outbound transactions by Japanese acquirers represented 12 of the top 30 deals conducted by Japanese companies in 2010. This illustrates the appetite of financially healthy companies towards opportunities in the global market despite a weakening domestic market. As we forecasted in last year's issue, outbound M&A deal activity in sectors such as food and beverage, pharmaceuticals, healthcare, chemicals, ICT, mining and energy as well as financial services were the most prominent. In terms of target countries, the United States still remains the most significant investment destination, accounting for around 30% of the total number of outbound deals. However, outbound transactions to China increased from 29 deals in 2009 to 44 deals as of November 2010, according to Recof.

The main transactions in 2010 include:

Financial Sector

- Bank of Tokyo Mitsubishi UFJ reached an agreement with Royal Bank of Scotland to purchase its portfolio of project finance assets in EMEA, worth GBP3.8 billion.
- Mizuho Financial Group agreed to buy a 2 percent stake in US-based asset manager BlackRock from Bank of America Corporation for USD500 million.
- Daiwa Securities Capital Markets, a unit of Daiwa Securities Group, purchased the Convertible Bond and Equity Derivatives Business of KBC Group, a Belgian investment management services provider for EUR797.4 million.
- Sompo Japan Insurance acquired a Turkish insurance company Fiba Sigorta from its holding company for USD342.9 million. It also increased its stakes in two insurance companies, Universal Sompo General Insurance of India (26% to 49%) and United Insurance of Vietnam (24.2% to 48.4%).
- Sumitomo Mitsui Banking Corporation agreed to invest in an Indian bank, Kotak Mahindra Bank, by acquiring ordinary issues valued at USD294.2 million. Mitsui Sumitomo Insurance signed an agreement to buy a 30% stake in a Malaysian insurance group, Hong Leong Assurance, to form a strategic alliance in the life and non-life insurance business.



Mining and Energy Sector

- An investor consortium comprising of 13 electric power and heavy industry companies purchased new shares equivalent to USD4.8 billion issued by a nuclear fuel supplier Japan Nuclear Fuel in order that the company can invest in nuclear fuel reprocessing plants.
- Mitsui E&P USA, a joint venture of Mitsui & Co., and Mitsui Ocean Development Company, bought a 32.5% share of the Marcellus Shale natural gas assets from Anadarko Petroleum Corporation. The deal, which consisted of the shares acquisition cost and a future investment commitment amounted to around USD4 billion.
- Sumitomo Corporation agreed to acquire a 30% stake in Mineracao Usiminas, an iron ore mining subsidiary of Usinas Siderurgicas de Minas Gerais for USD1.9 billion.

Information, Communication and Technology Sector

- Sumitomo Corporation and KDDI purchased a 12.61% and 31.1% stake respectively in Jupiter Telecommunication, Japan's largest cable TV services provider, from its shareholder Liberty Global Inc.
- Nippon Telegraph & Telephone Corporation (NTT) entered into the South African market through the acquisition of the entire share capital of an information technology service provider Dimension Data Holdings. The transaction was valued at USD3.1 billion.
- NTT Data announced a USD1.2 billion deal to take over Keane International Inc., a US-based information technology service company which has a variety of blue-chip clients in US.

Other Sectors

- Astellas Pharma acquired US-based OSI Pharmaceuticals for USD4 billion in order to enhance its cancer drug portfolio
- Japan's leading cosmetics maker Shiseido acquired Bare Escentuals Inc, a US manufacturer and wholesaler of cosmetics, skin care, and body care products for USD1.8 billion.
- Kirin Holdings purchased a 14.7% stake in a Singapore-based soft drink producer Fraser & Neave from an investment arm of Temasek Holdings for USD974.6 million.
- Daimler acquired a 3.2% stake in Nissan Motor from Renault for USD778.4 million.

Private Equity Funds and Government-backed Funds

The number of deals involving private equity (PE) funds and government-backed funds fell 7.4% from a year earlier to 175 deals at the end of November 2010. This figure includes 25 inbound deals by foreign multinational PE funds and 14 outbound deals by Japanese funds, of which half were completed in China and Vietnam. In terms of deal size, only 14 transactions exceeded JPY10 billion.

There were two government-backed funds that merit public attention: Enterprise Turnaround Initiative Corporation of Japan (ETIC) and Innovation Network Corporation of Japan (INCJ).



In January 2010, ETIC decided to lead the turnaround process for the bankrupt air carrier Japan Airlines Corporation and acquired their assets for USD8.2 billion including negotiating a USD2.3 billion debt reduction by the Development Bank of Japan.

INCJ was established last year "to provide financial, technological and management support in order to promote the creation of next-generation businesses through 'open innovation.'" INCJ announced five deals to invest in high prospect small and mid-sized companies: Anaeropharma Science Inc (drug development service provider), Nihon Inter Electronics Corporation (semiconductor units manufacturer), ENAX Inc (Li-ion rechargeable batteries manufacturer), Zephyr Corporation (power generator maker) and Alps Electric (electronic components manufacturer). INCJ has also supported companies that enter into overseas infrastructure management businesses. In May, a consortium comprised of INCJ, Mitsubishi Corporation, Manila Water and JGC Corporation announced that they would acquire an Australian water

utility company, United Utilities Australia, for USD203.2million. In November, INCJ and Marubeni Corporation announced that they would purchase the entire share capital of Aguas Nuevas, a water utility company in Chile, from Santander Infraestructura Fund II for an estimated USD498.3 million.

In the PE sector, Japan's leading financial institutions including the Development Bank of Japan, Mitsubishi Tokyo UFJ Banking Corporation, Sumitomo Mitsui Banking Corporation and Mitsubishi Corporation jointly set up a turnaround management company Japan Industrial Solutions (JIS) in September 2010. JIS will extend business recovery services mainly to their small and mid-sized corporate customers. Although Japan's mega financials have operated in turnaround businesses through their own funds, this is the first instance of a cooperative effort to manage such a substantial fund. Deutsche Bank and Mizuho Corporate Bank also announced their plan to invest in the funds arranged by JIS, whose assets under management could reach JPY100 billion.



Outlook

Based on the consensus of a number of economists, the Japanese economy will improve slightly in 2011, with real gross domestic product (GDP) growth rate of about 1.0%.

However, corporate earnings and sentiments may be curtailed to some extent by the political instability derived from the organizational fragility of the ruling Democratic Party of Japan (DPJ). In December 2010, the cabinet approved Tax Reform Proposals 2011, suggesting a reduction in corporate income tax by 5% but imposing a global warming tax and abolishing any special tax cut measures. From a monetary perspective, the DPJ administration does not intend unilateral or concerted market intervention to depreciate the yen against other currencies.

But those governmental tax and monetary policies may be changed

after a nationwide local election in Spring 2011, which is said to test the public's confidence in the administration. In addition, the government could be forced to modify the policies the DPJ administration have advocated, including the revision of the Worker Dispatching Act, a 25% reduction of green house gas emission to a 1990 level by 2020 and freezing the privatization of Japan Post.

There is no sign that Japan's M&A market will recover to pre-Lehman Shock levels anytime soon, but Japanese companies in the sectors mentioned earlier will continue to look for targets with a focus in the overseas markets. It is also anticipated that the buyers from China, Hong Kong and other Asian countries may seek more opportunities in Japan through capital partnerships or acquisition of companies offering well-known brand names or advanced technologies. ■

North Asia

Korea

Strong economic growth and stable exchange rates combined with a saturated domestic market contributed to an active year for cross-border M&A in Korea and government incentives in the green tech sector and interest derived from the G20 Summit held in Seoul are expected to drive high levels of activity into 2011.



Seung-Woo Ryu
Deal Business Managing Partner
Korea

Current Environment

After spending 2009 treading water while riding out the global economic recession, Korea exhibited a strong rebound in 2010 with growth of 5.9% (2009:0.2%). Nevertheless performance was uneven across industry sectors with some sectors performing much more strongly than others.

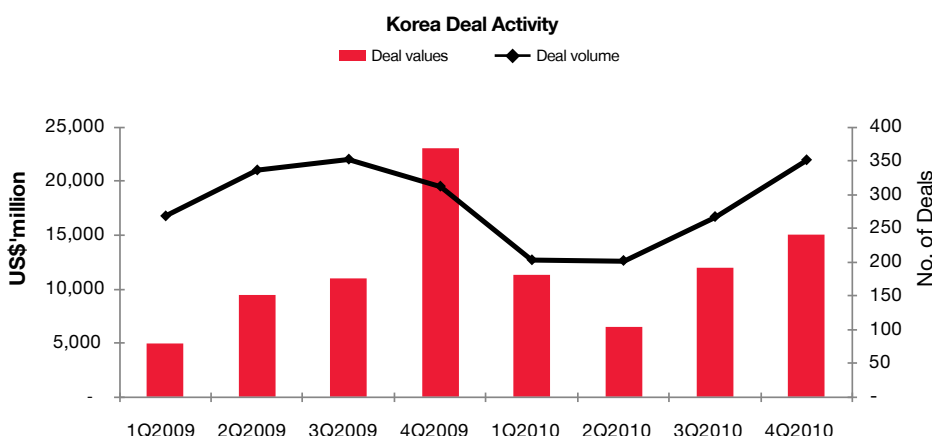
The Korean government played a key part in stimulating economic growth in 2009 but as economic stimuli were reduced in 2010, the private sector stepped in to pick up the slack.

Exports, which had plunged 13.9% in 2009, due to a decrease in demand from the crisis-affected countries of the US and EU, surged 30.5% year-on-year in the first nine months of 2010, resuming their position as the main driver of economic growth. The automobile sector enjoyed particularly strong growth as it was able to capitalize on brand issues suffered by regional competitors due to reliability problems to gain market share.

Strong exports led to increasing corporate profitability which in turn led to investments in facilities, higher production and increased salaries. Increased salaries had a knock-on effect on private consumption, which showed a better than expected performance in 2010.

While the manufacturing economy showed positive growth for 2010, domestic financial markets had a turbulent year and suffered high volatility from the influence of a number of adverse external events. The prospect of a sovereign debt crisis in Southern Europe in January 2010 meant a rocky start to the year and the expansion of the crisis with the bail-out of Greece in May further impacted the domestic markets. While the specter of a pan-European crisis subsided somewhat thereafter, renewed concerns over the financial health of Spain and Portugal and the bail-out of Ireland in November combined with worries over the possibility of a renewed global economic slowdown caused frequent volatility in the domestic financial markets.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

At year end, as signs grew that major industrialized nations (including the US) would continue low interest and quantitative easing policies for the foreseeable future, expectations grew that global liquidity would continue to expand. Such expectations were already reflected in domestic financial markets and so the current domestic stock market has started to boom.

After leaving the base rate untouched at 2% for 17 months, in July 2010 the Bank of Korea (BOK) increased it by 0.25%. The rate was increased by a further 0.25% in each of November 2010 and January 2011 as the risk of inflation increased due to poor harvests leading to significant increases in the price of basic foodstuffs. Although the consumer price index (CPI) showed an increase of 2.9% for the year, an increase of 21.3%

in the price of foodstuffs and 8% on gasoline meant a tougher time for individual consumers.

The Korean equity markets enjoyed mixed results during the year with the Korea composite stock price index (KOSPI) rising 19% (primarily in the second half of the year) and the Korean Securities Dealers Automated Quotations (KOSDAQ) declining 3% mainly due to the bullishness of the KOSPI.

The Korean won was much more stable this year than last, managing to avoid any major fluctuations during the year. It opened at 1,139 to USD1 and depreciated gradually to top out at 1,214 to USD1 in June. It then re-appreciated over the remainder of the year to close at 1,148 to USD1.

Deal Activity

M&A deal values decreased 8% year-on-year in 2010 to USD44.7 billion and deal volume also decreased by 19% from 1,268 deals to 1,023 deals. In terms of deal value, the level of inbound deals was static at USD3.7 billion, the level of domestic deals saw a decline of 22% to USD27.3 billion and the level of outbound deals saw an impressive 42% increase to USD13.7 billion. The increase in outbound deals is attributable to the fact that unfavourable exchange rates caused corporates to hoard their cash in 2009 and the decrease in domestic deals is due to an ever-decreasing pool of targets in need of restructuring. In terms of deal volume, similar swings were noted, except for inbound where the number of deals decreased by 16%.

Some of the significant announced transactions in 2010 include:

Domestic Deals

- In February, Lotte Shopping, through Lotte Square, acquired the mart and department store units of GS Retail, a Seoul-based owner and operator of convenience stores and a subsidiary of GS Holdings for KRW1.3 trillion (USD1.2 billion).
- In November, Hana Financial Group Inc agreed to acquire a 51.02% interest in Korea Exchange Bank (KEB), from Lone Star Funds, for KRW4.7 trillion (USD4.1 billion) in cash. This deal represents consolidation within the sector.

- Vogo Investment Fund agreed to acquire a 47.2% stake in Tong Yang Life Insurance, a Seoul-based life insurance company, from Tong Yang Financial Services Corp, Tong Yang Securities Inc and Tong Yang Venture Capital Corp, for KRW900.3 billion (USD795.9 million), in a privately negotiated transaction.
- Other significant deals centered on completion of deals to restructure companies affected by the global financial crisis.

Inbound Deals

- In March, Telefonaktiebolaget LM Ericsson of Sweden acquired, from Nortel Networks Corp, a 50% interest plus one share in LG-Nortel, a Seoul-based manufacturer and wholesaler of telecommunications equipment and products and a 50:50 joint venture between Nortel and LG Electronics, for KRW270 billion (USD242 million) in cash.
- In November, Entekhab Industrial Group agreed to acquire the entire share capital in Daewoo Electronics Co Ltd, a manufacturer of electronic equipment, for KRW577.8 billion (USD518.3 million). Entekhab had an existing relationship as an original equipment manufacturer (OEM) for Daewoo Electronics.
- In November, Mahindra & Mahindra of India agreed to acquire a 70% interest in Ssangyong Motor Co, a Seoul-based manufacturer and wholesaler of motor vehicles, for a total value of KRW522.5 billion (USD464 million). Ssangyong had been run by its creditors since going bankrupt during the Asian financial crisis in 1997.

Outbound Deals

- In February, Korea Gas Corp announced its intention to acquire a 50% interest in the three gas fields of EnCana Corp, a Calgary-based oil and gas exploration and production company, for CAD1.2 billion (USD1.1 billion). This fits with its strategy of seeking overseas assets that are not available in resource-poor Korea.
- In July, Korea National Oil Corp (KNOC) of South Korea acquired the entire share capital of Dana Petroleum PLC, an Aberdeen-based oil and gas exploration and production company, for a total value of GBP1.7 billion (USD2.6 billion) in cash. KNOC has been active in recent years in trying to secure resources to secure Korea's economic stability.
- In July, Honam Petrochemical Corp of South Korea acquired a 72.32% interest in Titan Chemicals Corp, a Kuala Lumpur-based manufacturer of chemicals, for a total value of MYR2.9 billion (USD918.3 million) and immediately planned to launch a tender offer to acquire the remaining 27.68% stake. The acquisition of Malaysia's number one chemical producer will enable Honam to achieve economies of scale and gain market share in order to assist it in its strategy of becoming a major global player.
- Other significant deals were mainly centred on the acquisition of mineral resources with a couple of significant deals for prime real estate assets in Germany and Australia.



Outlook

Korea enjoyed stronger than expected growth in 2010 and is expected to continue to grow in 2011 albeit at a slower rate with forecasts predicting a tempering of the growth rate from a brisk 5.9% in 2010 to 3.8% in 2011. The main cause for the slowdown will be weaker growth in exports due to lack of economic recovery and/or possibility of a double-dip recession in export markets. In addition, due to strong facilities investment in 2010, less investment is expected in 2011.

Following a strong performance in 2010, export growth in 2011 is expected to slow dramatically, driven by a likely sharp drop in outbound shipments of major export items like semiconductors and automobiles. The Korean won is also likely to appreciate further in 2011, acting as a damper on the rise in exports. Information technology and automobile facilities investment, which grew rapidly in tandem with exports in 2010, are predicted to tail off in 2011. This is because substantial facilities investment has already occurred in 2010, making further investment unnecessary;

moreover a slowing in the demand for exports in these sectors means that there is no need for extra manufacturing capacity. Construction investment is likely to remain sluggish due to the continued contraction in the real estate market, and limited government ability to increase budgets in social overhead capital, i.e., infrastructure.

Consumption, though recovering, is unlikely to grow enough to cover weaker exports and investment, meaning that the growth of 2010 will not likely survive into the next year.

The annual average won or dollar exchange rate is predicted to fall to 1,080 won per dollar in 2011, down from 1,153 in 2010. The exchange rate in the first half is expected to fall sharply to 1,070 on average, with the decline slowing thereafter to end at 1,050 in the second half of the year. A strong won and weak dollar in the first half will come from continued quantitative easing by the US, and gradual appreciation of the Chinese Yuan. Such movements are likely to contribute to the slowing of Korea's export market while increasing demand for imported goods.

Continuing efforts to secure Free Trade Agreements (FTAs) with key trading partners is also expected to lead to further economic growth. Renegotiation of the KORUS FTA in December 2010 may lead to that finally being ratified, which should generate a large increase in bilateral trade. In addition, FTAs are currently under negotiation with Canada, Mexico, Australia, New Zealand, Colombia and Turkey and being explored with Japan, China, Russia, Israel and Mercosur.

The M&A sector is expected to remain active. Appreciation of the won combined with a saturated domestic market is expected to contribute to strong demand for outbound deals. Government incentives for green and clean tech are expected to particularly drive a scramble to acquire technology in that sector.

In November 2010, a G20 summit was held in Seoul and this is expected to increase interest in inbound activity and generate substantial economic benefits for Korea. However, following aggression from North Korea in December, Korea also needs to consider how to manage its North Korean policy to mitigate perceived risks for Korean foreign direct investment (FDI). ■



South and Southeast Asia

India

Cautious growth to follow strong 2010 recovery.



Sanjeev Krishan
Transaction Executive Director
India

Current Environment

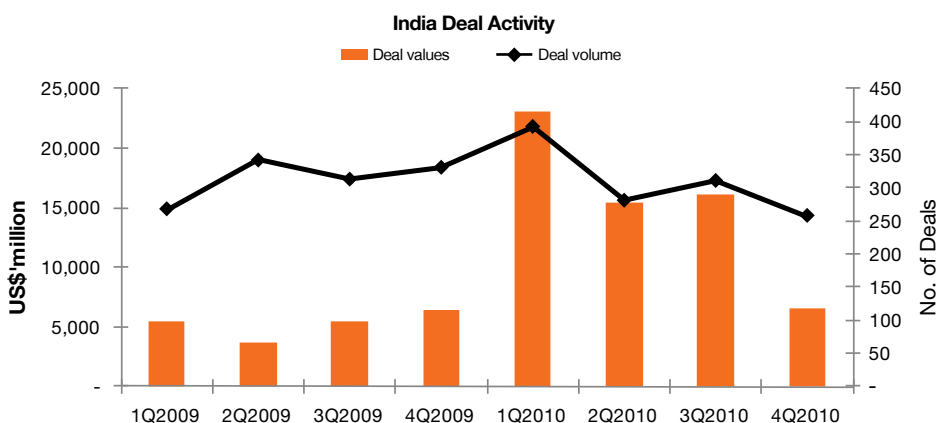
The Indian economy grew by almost 9% in the first half of the 2010-11 fiscal year, faring much better than the 7.5% growth registered during the same period last year. While all the three major sectors – agriculture, industry and services witnessed robust growth, the key contributors to this performance were the strong growth in manufacturing and an improvement in the farm sector. The agricultural sector which showed weak growth of 1.7% in the first half of the 2009-10 fiscal year, recorded over 3% growth during the first half of the 2010-11 fiscal year on account of a reasonably good, monsoon-aided harvest. The growth in the industries sector was primarily driven by the manufacturing sector which grew by 11.4% compared to the 6.3% growth achieved during the same period last year, and the construction sector which showed 9.5% growth in the first half of 2010-11 fiscal year vis-à-vis 8.7% growth during the corresponding period last fiscal year. The services sector continued to grow and improve with hotels, transport & communications showing a 11.5% growth in the first half of the 2010-11 fiscal year.

Inflation has been a key concern for the Indian economy over the last year or so; it has been showing an upward trend since late 2009, and rose from a negative 1% in August 2009 to 4.8% in

November 2009. A rise in food prices and international crude prices has meant that inflation is unlikely to ease anytime in the near future, and this is a key concern for the government. The government has responded by raising interest rates, which has in turn cast some short term concerns over the anticipated growth in 2011. The Indian stock markets which have been supported by the Foreign Institutional Investor (FII) inflows of over USD39 billion during the year, have been volatile over the last few months, erasing some of the 140% gains made since March 2009. The buoyant market however did provide significant fund raising opportunities for Indian corporates and the government of India also leveraged on the buoyancy in the markets to divest their shareholdings in a number of public sector entities, as part of their fiscal correction program. More such divestments are expected in 2011.

Apart from helping the markets, the surge in FIIs also helped the Indian rupee strengthen vis-à-vis the dollar by approximately 10% in 2010. However, Foreign Direct Investment (FDI) inflows into the country between January to October during 2010 aggregated USD17.4 billion, compared to USD23.8 billion in the corresponding period in the previous year, which translates into a 27% decline.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

With the Indian economy on the track to recovery, 2010 saw a significant rebound in deal activity with deal values matching the record highs of 2007. While the total number of transactions remained more or less the same at 1,243 deals in 2010 vis-à-vis 1,254 deals in 2009, the aggregate deal value increased significantly by almost 200% from USD21.06 billion in 2009 to USD61.14 billion in 2010.

The surge in deal value was attributed by a few mega deals, including Bharti Airtel's acquisition of the African telecom assets of Kuwaiti group Zain for USD10.7 billion. A combination of international valuations remaining depressed, access to financing, and the availability of assets that synergize with Indian businesses, Indian corporates' desire to grow across other emerging markets and a desire to secure natural resources have all been factors driving M&A growth. Oil and gas, energy, telecom, metal

and mining sectors were the leaders as far as sector deal values were concerned, accounting for over 50% of the total M&A deal value during 2010.

The domestic deal value at USD18.1 billion in 2010 recorded a 40% growth from USD12.6 billion in 2009; whilst the number of transactions declined from 879 deals in 2009 to 771 deals in 2010. However, domestic deal values rose, causing the overall growth. Recovering global economies, a rise in risk appetite and to an extent the firming valuations of domestic companies all drove the appetite for domestic deals.

Some of the key domestic deals during this period include:

- Chennai Network Infrastructure Ltd, a Special purpose vehicle of GTL Infrastructure Ltd acquired the mobile tower operations (17,500 towers) from Airtel Ltd, a provider of telecommunication services for a consideration of ~USD1.7 billion.

- Reliance Power Ltd merged with Reliance Natural Resources Ltd, an oil and gas exploration and production company, in a stock swap transaction valued at approximately USD1.5 billion.
- Reliance Industries Ltd acquired a 95% interest in Infotel Broadband Services Pvt Ltd, a provider of internet broadband services, for a consideration of approximately USD1 billion.
- Bank of Rajasthan Ltd. merged with ICICI Bank Ltd., in a stock swap transaction valued at approximately USD608 million.
- Axis Securities & Sales Ltd, a wholly-owned unit of Axis Bank Ltd, acquired the financial services business (comprising of investment banking, institutional equities, retail equities and distribution of financial products, and non-banking finance businesses) of Enam Securities Pvt Ltd, for a consideration of approximately USD446 million.

Outbound transactions which had almost dried up in 2009, accounted for over 40% of the deal value in 2010 amounting to USD25.6 billion spread over 199 deals. 2010 had two major themes in the Indian corporates outbound plans:

- Secure raw material/feedstock supplies for Indian manufacturing / power industry and meet its energy security needs; and
- Enter into new, less crowded emerging markets, particularly in Africa and the Middle East, which have an appetite and opportunity for Indian consumer brands.

Prominent examples were the USD4.8 billion deal involving Indian State-owned ONGC, IOC and Oil India to jointly develop a crude oil block in Venezuela with Spain's Repsol YPF SA and Malaysia's Petroliaam Nasional Bhd; Hindustan Zinc's acquisition of the Skorpion Zinc Mine in Namibia from Anglo American plc for approximately USD700 million and Reliance Energy's purchase of Shale's gas assets for approximately USD391 million.

Other significant outbound deals announced during the year include:

- Hinduja Group acquired Luxembourg-based KBL European Private Bankers SA for approximately USD1.69 billion to expand its wealth-management business in Europe.

- Aamby Valley Ltd. of India, a unit of Sahara India Pariwar, acquired Grosvenor House Hotel, a London-based owner and operator of a hotel, from Royal Bank of Scotland Group PLC for approximately USD725 million.
- Jindal Steel & Power Ltd agreed to acquire Shadeed Iron & Steel Co LLC, an Oman based manufacturer of steel and iron products for approximately USD464 million.
- Godrej Consumer Products Ltd acquired the entire share capital of Argencos SA, an Argentina-based manufacturer and wholesaler of hair care products.
- Godrej Consumer Products Ltd of India acquired the entire share capital of Tura International Ltd, a Nigeria-based cosmetics brand from Lornamead Group.

- Shree Renuka Sugars Ltd of India definitively acquired a 50.79% interest in Equipav SA Acucar e Alcool, a Brazil-based producer of sugar and ethanol, for approximately USD331 million.

Even as Indian corporates scouted overseas to add assets and expand their portfolios, global firms continued to look at India as a source of growth. Inbound activity in India more than doubled with 273 deals worth approximately USD17.4 billion in 2010 vis-à-vis 252 deals worth approximately USD7.3 billion in 2009. The lure of strong domestic prospects in India aside, the trend was partially driven by the stagnant growth in US and Europe. Dealmakers and investors were particularly attracted to the domestic consumption story with deal flow in consumer goods and services industries and healthcare becoming a dominant theme.

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

- Vedanta Resources PLC, UK acquisition of a 40% stake in Cairn India, oil and gas exploration and production company for approximately USD6.5 billion.
- Abbott Laboratories acquired the Healthcare Solutions business of Piramal Healthcare Ltd, a manufacturer and wholesaler of prescription pharmaceuticals, for approximately USD 3.7 billion.
- JFE Steel Corp of Japan, a wholly-owned unit of JFE Holdings Inc, acquired a 14.61% stake in JSW Steel Ltd a manufacturer and wholesaler of iron and steel products for a consideration of approximately USD1 billion.



- Reckitt Benckiser Group PLC, UK acquired a 100% stake in Paras Pharmaceuticals Ltd., manufacturer and wholesaler of healthcare products for a consideration of approximately USD722 million.

In 2008 and 2009, we witnessed a slowdown in private equity (PE) investment activity given the backdrop of the global financial crisis, as investors continued to focus on existing portfolios and applied greater precaution while selecting targets for investments. However, in 2010 PE transactions increased from approximately USD4 billion in 2009 to approximately USD6 billion in 2010. Infrastructure and energy were the targeted sectors for PE investment during 2010. Some of the notable PE transactions during 2010 were:

- Blackstone Group LP of the US acquired an undisclosed minority stake in Moser Baer Projects Pvt Ltd, a New Delhi-based owner and operator of a cogeneration plant, for approximately USD300 million.
- An investor group, comprised of Kohlberg Kravis Roberts & Co (KKR), Standard Chartered Private Equity Ltd and New Silk Route Partners LLC acquired a 25% stake, in Coffee Day Holdings Co Pvt Ltd, an investment holding company, for approximately USD213 million.



- Claymore Investments (Mauritius) Pte Ltd., a wholly owned unit of Temasek Holdings Pte Ltd, agreed to acquire an undisclosed minority stake in GMR Energy Ltd, an electric utility company for an estimated USD200 million.
- Temasek Holdings (Pte) Ltd, a unit of the Singapore state-owned Ministry of Finance acquired a 5% stake in National Stock Exchange of India Ltd, a provider of securities and commodity exchange services.
- Sequoia Capital exited out of non-banking financial company Manappuram General Finance & Leasing with returns of almost five times. In early 2007, Sequoia had invested approximately USD14 million in the firm for nearly a 14% stake. Sequoia has now sold its entire stake for USD70 million in the open market.
- ICICI Ventures made a part-exit from its investment in engineering services company VA Tech Wabag which focuses on water and waste water treatment. The PE fund sold 10% out of its remaining 14.6% stake in the company earning approximately seven and a half times gross returns.
- Most prominently, PE firms Actis and Sequoia who had a 70% stake in Paras Pharma, received approximately USD500 million in a USD722 million strategic sale to Reckitt Benckiser. The two PE firms are estimated to have generated gross returns to the tune of three and a half to four times.

2010 was also a record year for exits by PE funds. Most of the exits in 2010 were, however, through stock offerings. A few of the big exits this year were:

- ChrysCapital's stake sale in Infosys for USD400 million, wherein the PE firm recouped more than double its investment of around USD175 million which they had invested less than 30 months ago.



Outlook

The momentum in deal activity that has built up over the last six months is expected to continue into the early part of 2011. While inflation continues to be a concern, relatively healthier macro-economic indicators in India are expected to create greater inbound M&A opportunities in 2011. Likewise energy security and diversification of geographic profiles by Indian consumer groups means that outbound M&A is likely to remain strong as well. Expected consolidation in certain sectors, such as the telecom sector, is expected to enhance domestic M&A. PE players continue to remain cautious in making additional investments in the country, on account of the high valuations – infrastructure, healthcare, education, mid-size branded businesses and business/consumer services continue to be interesting areas for PE investors,

who are also expected to look at divesting some of their investments made in 2006 and 2007.

The government of India came up with a New Takeover Code in 2010 which amongst other criteria, seeks to raise the threshold for open offer trigger from 15% to 25% and also proposes to raise the size of open offers to minority shareholders from the current 20% to 100%; considering that there are restrictions on bank financing for domestic share purchases, this creates some bias in favour of overseas investors. Apart from finalising the code, the government also has a number of policy decisions to make relating to FDI, specifically relating to the insurance, multi-brand retail and the defence sector and these could spur further M&A activity in India. ■

South and Southeast Asia

Indonesia

Promising economy and sustained growth attracted 29% more deals in 2010 than those reported a year ago.



Mirza Diran
Advisory Leader
Indonesia

Current Environment

The year 2010 was an exciting period for Indonesia. During the year, Indonesia showed its ability to maintain healthy economic growth despite the many economic challenges around the globe. Several of Indonesia's economic indicators have shown impressive performances during the year. Furthermore, several experts such as Nouriel Roubini, a New York University professor of economics, and Morgan Stanley have mentioned that Indonesia could become a new promising emerging market.

Indonesia's real gross domestic product (GDP) growth year-over-year has increased significantly from 4.5% in 2009 to 5.9% in 2010. This growth rate is still slightly below the market expectation of around 6%, but considering the inclement weather that significantly affected agriculture and mining industries and also recent natural disasters that occurred, it is still a great achievement for the country amidst the current global economic environment. The capability of Indonesia to shelter against the challenges of the global recession is mostly due to its small proportion of exports compared to its total GDP, which means that private consumption is still the primary driver.

During 2010, Indonesia's exchange rate has remained stable with slight

appreciation against US dollar from Rp9,400:USD1 in December 2009 to Rp8,991:USD1 in December 2010. The strong interest from foreign investors, who had access to low cost funding, to purchase assets in Indonesia, which has high interest rates, has been a strong driver for the appreciation of Indonesian Rupiah. The higher interest rates in Indonesia coupled with the healthy economic growth in face of global recession enabled Indonesia to encourage more foreign investors to invest in its assets.

Consequently, Indonesia recorded an impressive performance in 2010 when the Jakarta Composite Index increased by 45.9% from 2,534 points in 2009 to 3,699 points in 2010. The increase represents the best performance of any market index in Asia Pacific during 2010.

Additionally, average inflation remained relatively stable during 2009 – 2010. There was a slight increase in inflation from 4.8% in December 2009 to 5.1% in December 2010, mostly caused by the increase in domestic consumer product prices in response to the increase in international commodity prices. In response to the stable rate of inflation, Bank Indonesia (the central bank of Indonesia) has maintained the interest rate in December 2010 with that of the December 2009 rate of 6.5%.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Indonesia has become a member of a number international and regional organizations, including the G-20, Association of South-East Asian nations (ASEAN) and the UN Security Council. In addition, Indonesia is the first country in the region with which the European Union has signed a partnership and cooperation agreement. The country has started to return to global political and economic prominence for the right reasons. President Yudhoyono's popularity both domestically and abroad has played an important factor to this newfound stability and success. In his second term as President, Yudhoyono will continue to focus on fighting corruption, stimulating economic growth and maintaining the stability of the country's overall macroeconomic environment. The results have been evidenced by GDP growth, employment and social spending all reaching their highest levels since the 1997–1998 financial crisis. Indonesia is also one of the few countries that managed to sustain positive economic growth during the recent global economic crisis.

Deal Activity

M&A activity increased by 29% in terms of deal volume from 2009 to 2010 with 572 deals with a total estimated value of USD13.7 billion. Several key deals completed during 2010 are as follows:

Energy and Mining

PT Harum Energy, one of the country's largest coal producers, launched its IPO in September 2010 raising Rp2.86 trillion (USD321 million) from selling a 24% stake in the offering. This is followed by PT Borneo Lumbung Energy, whom launched its IPO in November 2010, selling a 20% stake for approximately USD570 million in proceeds.

In the second half of 2010, the South Korean state-owned Korea Electric Power Corp ("KEPCO") acquired a 20% equity stake in PT Bayan Resources Tbk. ("Bayan"), a Jakarta based coal mining company. This privately negotiated transaction is valued at USD522.7 million. KEPCO believes that this investment

will assist them to increase their self-sourced coal by 10% from 24% that they currently source from their own resources.

In another transaction, Bayan plans to acquire nine coal mining concessions located in East Kalimantan from PT Ilthabi Bara Utama and Prime Mine Resources Ltd. The coal mining concessions will be injected into Kangaroo Resources Ltd., the Australian listed mining company, as part of Bayan's plan to acquire a controlling stake in Kangaroo Resources. The concessions have a combined coal reserve of 116 million metric tons. The acquisition will be completed at the end of first quarter of 2011.

In September 2010, Banpu Public Company Ltd., the Thai-listed energy company, announced the sale of an 8.72% stake in its Indonesian coal mining subsidiary, PT Indo Tambangraya Megah Tbk. to institutional investors for USD395 million.

Another key deal to be noted during 2010 in the coal mining industry is the USD350 million purchase of a 25% stake in Maruwai Coal Mine of BHP Billiton Ltd. ("Biliton"), a Melbourne-based mining company. The acquirer, PT Alam Tri Abadi, a wholly-owned unit of PT Adaro Energy Tbk., Indonesia's second largest thermal coal producer, managed to complete this deal in the first half of 2010, as a part of their plan to set up a coal related joint venture in Indonesia. Biliton planned to purchase a 25% stake in each of the seven companies related to the Maruwai Coal Mine in order to execute this joint venture strategy.



Consumer and Industrial Products

In November 2010, PT Indal Aluminium Industry Tbk., the Indonesian listed aluminum manufacturer, sold its entire 50% stake in PT Indal Compact Aluminium Industries to PT Maspion Industrial Estate (“MIE”) for USD772.4 million. MIE and PT Indal Compact Aluminium Industries are affiliated companies of the Indonesia-based conglomerate Maspion Group.

Meadows Asia Co. Ltd. (“Meadow”), a subsidiary of CVC Capital Partners Ltd., has managed to complete the acquisition of a 90.7% stake in PT Matahari Department Store Tbk. (“Matahari”) in a deal valued at USD766.6 million. Matahari is one of the market leaders in the retail industry in Indonesia. On top of the deal, Meadow plans to further increase their stake in Matahari by 7.24% or approximately 211.2 million of ordinary shares.

Para Group, an Indonesian conglomerate group comprised of companies in various industries, through one of its subsidiaries, PT Trans Retail (“TR”), acquired a 40% stake in PT Carrefour Indonesia (“CI”). CI, the owner and operator of hypermarkets, was previously owned wholly by Carrefour SA of France. The deal was valued at USD400 million and completed in the first half of the year.

Following the acquisition of PT Berau Coal by Recapital Advisors at end of 2009, in August 2010, PT Berau Coal Energy launched its IPO, sold a 18.18% stake for approximately USD310 million. Subsequently, in November 2010, Vallar Plc. has acquired a 25% stake in PT Bumi Resources Tbk. and a 75% stake in PT Berau Coal Energy Tbk. for a combined consideration of approximately USD3 billion.

At the end of 2010, a 40% stake in PT Delta Dunia Makmur Tbk., a parent of Indonesian mining contractor PT Bukit Makmur Mandiri Utama, was acquired by a consortium of investors consisting of affiliates/nominated investment vehicles of TPG Capital, the Government of Singapore Investment Corporation

Pte. Ltd. and China Investment Corporation.

J & Partners LP has agreed to acquire the Malaysian and Indonesian assets of Avocet Mining Plc, the listed UK based gold mining company, for a consideration of USD200 million on a cash and debt-free basis.

PT Pertamina Hulu Energi, a majority-owned unit of the state-owned PT Pertamina (Persero) (“Pertamina”) acquired the entire share capital of Inpex Jawa Ltd, an oil and gas exploration and production company, from Inpex Corp. The transaction was to include a 53.3% interest in the Offshore North West Java Block (ONWJ Block) and a 13.1% stake in the Southeast Sumatra Block (SES Block).

In April 2010, Godrej Consumer Products Ltd. acquired PT Megasari Makmur Group, one of the market leaders of household product in Indonesia and its distribution company for approximately USD301 million.

PT Krakatau Steel, one of the country's largest steel producers, also launched its IPO in October 2010 raising Rp2.68 trillion (USD301 million).

A State-owned cement manufacturer, PT Semen Gresik (Persero) Tbk. (Gresik), sold a minority stake of 5.5% in the first quarter of 2010. Lazard Asset Management LLC (Lazard) of United States acquired the stake in a privately negotiated deal with a value of USD251.2 million. The stake acquired is part of the 20.54% stake previously owned by Blue Valley Holdings Pte. Ltd., a subsidiary of Indonesia's Rajawali Group.

In February 2010, Asia Pacific Breweries Ltd., the Singapore-based beer company acquired a 68.5% stake in Multi Bintang Indonesia, the listed Indonesian beer company for USD248 million and acquired an additional 10% shares from the public shareholders via a mandatory tender offer in April 2010 for a total consideration of USD38.3 million.

At the end of 2010, a 68.82% stake in PT Sorini Agro Asia Corporindo Tbk., the listed Indonesian foods company and producers and suppliers of sorbitol, was sold to Cargill, the American foods company, by PT AKR Corporindo for approximately USD245 million. The sale is part of PT AKR Corporindo's plan to focus its business in the energy sector. It was reported that the transaction is expected to be completed in January 2011.

PT Tri Polyta Indonesia Tbk. has agreed to acquire PT Chandra Asri through a share swap merger transaction and has become one of the largest integrated players in Indonesia.

Financial Services

CIMB Group Holdings Bhd. raised its interest in PT Bank CIMB Niaga Tbk. (CIMBN) to 95.4% from 78.3% through its wholly-owned unit, CIMB Group Sdn. Bhd. (CIMB) of Malaysia. The acquisition from Khazanah Nasional Bhd., a Malaysian State-owned entity, was valued at USD528.7 million. Concurrently, CIMB was granted an option to raise its interest to 97.9% by acquiring 615.9 million of ordinary shares in CIMBN.

The intention to increase the interest in PT Bank OCBC NISP Tbk. of Indonesia has motivated OCBC Overseas Investments Pte. Ltd. of Singapore to acquire an additional 7.17% stake, or 417.1 million ordinary shares. The deal with the International Bank for Reconstruction and Development (part of the World Bank) was valued at USD55.3 million. The deal was arranged and settled in a privately negotiated transaction during the first half of 2010.

PT Bank Permata Tbk. (Permata) acquired the entire share capital of PT GE Finance Indonesia (GEFI), a provider of financing and credit services, from GE Capital International Holdings Corp of US (69%) and PT General Electric Service Indonesia (31%).



GEFI is Indonesia's only non-bank credit card issuer, commanding about 6% of the market share. As a result of the acquisition, Permata will effectively more than triple the size of its credit card portfolio, with a resulting market share of approximately 8%.

PT Astra International Tbk. has also agreed to acquire a 47% stake in PT Astra Sedaya Finance from GE Capital Corporation for an undisclosed consideration. At the same time, PT Astra International Tbk. has signed another agreement to acquire a 47% stake in PT Sedaya Pratama from GE Capital Corporation.

Australia and New Zealand Banking Group Limited (ANZ) has agreed to acquire certain Asian businesses of Royal Bank of Scotland Group Plc (RBS) including their operations in Indonesia.

Aviva Plc, the listed UK based insurance company, has acquired a 60% stake in PT Asuransi Winterthur Life Indonesia, an Indonesia based insurance Company, for an undisclosed consideration.



Outlook

The government of Indonesia expects to achieve economic growth of around 6.4% for 2011 despite the growth for 2010 being below 6%. The government is also targeting economic growth to increase gradually to around 7% by 2013. The government is optimistic that the target is achievable and will be driven by its plan for regulation restructuring to stimulate business and industry growth, and also from several infrastructure projects in areas such as Mass Rapid Transit, toll roads, and power plant construction in Jakarta.

In addition to those two plans, the government also plans to accelerate an economic decentralisation that would maximise resources in areas other than in Java Island, the main island of Indonesia where Jakarta, the capital city of Indonesia is situated.

The manufacturing sector is also an area of priority for the government with a focus on substituting raw products supply with finished products export.

Furthermore, the government is confident that they will be able to maintain the inflation rate at 5.3% for 2011. However, this targeted inflation rate is highly dependent on the fluctuation of global non-oil commodities prices, as Indonesia still has significant dependencies on imported goods, and also the price of oil in international markets.

The mining sector, which has been one of the most active sectors in M&A activity, is forecasted to remain so for 2011. The plantation sector is also expected to be another key sector in the 2011 M&A deal flow,

as Indonesia is currently the world's leading crude palm oil producer and there is increasing global demand for the product.

Putting these potential drivers aside, the government's effort to improve stability in inflation, the political environment, and the country's infrastructure are the drivers that need to be maintained for a healthy M&A market in Indonesia in 2011. ■

South and Southeast Asia

Malaysia

Growth was driven by regionalisation, property price increases and favorable resource pricing, supported by the Economic Transformation Program.



Datuk Mohd Anwar Yahya
Head of Corporate Finance
Malaysia

Current environment

After a challenging economic climate in 2009, Malaysia's gross domestic product (GDP) growth rebounded in the first three quarters of 2010 to 8.0% from negative 3.7% in the previous year, with projected full year 2010 GDP growth expected to reach 7.0%.

The economic recovery in 2010 has been broad-based, led by the manufacturing and services sectors. Domestic demand was buoyant in 2010, with strong expansion in private investments, public investment and private consumption.

Selected economic growth data

	2009	2010
GDP	(1.7%)	7.0%
Manufacturing	(9.4%)	10.8%
Services	2.6%	6.5%
Gross fixed capital formation:		
- Private	(18.4%)	17.5%
- Public	10.5%	10.2%
Private consumption	1.2%	8.8%

Source:
Ministry of Finance, Economic Report 2010/2011

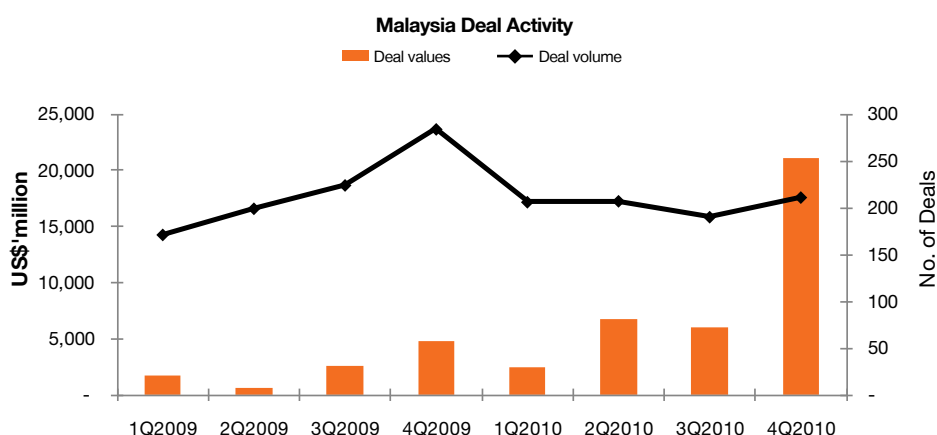
Malaysia's foreign direct investment (FDI) experienced a sharp increase in 2010, with a jump of 141% in the first nine months of 2010 to USD5.4 billion and is expected to surge to over USD6.5 billion for the full year. The strong rebound can be attributed to improving investor confidence driven by a series of economic transformation programs initiated by the government.

Inflation was modest in 2010, with only a 1.5% rise, allowing the Central Bank, Bank Negara Malaysia (BNM), to maintain its accommodative and supportive monetary growth policy. The current overnight policy rate (OPR), the benchmark for banks' lending rates, is at 2.75%, which was gradually raised from 2.00% at the beginning of 2010.

Similar to other regional currencies, the Malaysian ringgit gained nearly 10% against the US dollar in 2010, trading at 3.10 to the dollar in December 2010. The strengthening of the ringgit, however, is not expected to affect the growth of the Malaysian economy. BNM is expected to let the ringgit fluctuate according to the underlying strength of the country's economy.

2010 was a record year for the local stock exchange, with the benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) reached a new peak of 1,528 points in November, up from 1,275 points at the beginning of 2010. The stock market benefitted from stronger than expected economic and corporate earnings growth. The liquidity rush resulting from the US's second round of quantitative easing also helped boost equity markets.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Bullish market sentiments have also led to an active initial public offering (IPO) market, resulting in 29 IPOs and capital raisings of more than USD6.4 billion.

Selected key listings in 2010

	Amount raised
Petronas Chemicals Group Bhd. – largest ever IPO in Southeast Asia	USD4.1 bln
Malaysia Marine & Heavy Engineering Holdings Bhd.	USD655 mln
Sunway REIT – largest property IPO in the country	USD484 mln

The performance of the Malaysian bond market was softer, due to preference for corporate loans over bond market funding in the first half of 2010. Corporate bond issuance in the first nine months of 2010 reached USD15.1 billion, slightly lower than the corresponding period in the previous year.

Deal Activity

Malaysia's M&A market recovered strongly in 2010, with total announced deals valued at USD36 billion, which is about 2.7 times larger than the 2009 deal value and higher than pre-global financial crisis level back in 2006 and 2007.

M&A growth was broad-based, with activity in domestic, inbound and outbound deals, with cross-border deals accounting for 41% of total deal value. The increase was also attributed to a significant number of large deals valued above USD100 million.

Domestic deals

A total of USD21.5 billion domestic deals were announced in 2010, including:

- privatisation of tycoon Ananda Krishnan's listed companies, amounting to USD3.3 billion
- several significant property deals worth over USD4.5 billion

In addition, Malaysia's toll highway operator, PLUS has attracted market attention from a number of bidders, including:

- Employee Provident Fund (EPF) and UEM Group, a construction and property arm of Government-Linked Investment Company (GLIC), Khazanah Nasional Bhd. (KNB)
- privately-owned Jelas Ulung Sdn. Bhd., rumoured to be backed by Halim Saad, former executive chairman of Renong, which previously controlled UEM Group and PLUS
- MMC Bhd, a diversified conglomerate

Among privatisation activity during the year, Ananda Krishnan took the lead last year when three of its listed companies were taken private to provide a more conducive shareholding and operating structure for future corporate development, such as restructuring, capital expenditure and M&A.

Companies taken private by Ananda Krishnan in 2010

	Amount
Tanjong Plc – utilities and gaming company	USD2.4 bln
Astro All Asia Networks – pay-TV operator	USD700 mln
Measat Global Bhd. – satellite service provider	USD201 mln

Renewed confidence in and a positive outlook for the property market has led to a large number of property deals, which include deals involving large land banks of property owners and reputable property developers.

The announced property deals in 2010 include:

- A proposed merger between IJM Land Bhd. and Malaysian Resources Corporation Bhd., estimated to be worth over USD2.0 billion
- A merger between tycoon Jeffrey Cheah's construction and property arm, Sunway Holdings Bhd. and Sunway City Bhd., worth USD1.5 billion
- UEM Land acquisition of the property developer Sunrise Bhd. for USD1.2 billion

Other significant domestic deals in 2010

	Amount
Privatisation of Sarawak Energy Bhd. by Sarawak state government	USD516 mln
Sale of PPB Groups Bhd.'s sugar-related business to Felda	USD484 mln
Buyout offer for MTD Capital Bhd. – the country's second largest toll road operator	USD355 mln

Inbound deals

Malaysia continues to attract interest from companies across the world for its investment and acquisition opportunities. This include deals involving buyers from the US, Europe, Asia and Middle East, covering a broad range of sectors from manufacturing, heavy industries, financial services, telecommunications to consumer products.

Notable inbound deals in 2010 include:

- South Korea's second largest ethylene (petrochemical) maker, Honam Petrochemical Corp acquisition of Titan Chemicals Corp Bhd. for USD1.1 billion, with Honam expected to take it private for USD351 million
- PetroSaudi International Ltd (PetroSaudi) is acquiring UBG Bhd., which is involved in financial services, construction and water infrastructure, for USD333 million
- Mitsui Sumitomo Insurance Co Ltd of Japan is acquiring a 30% stake in Hong Leong Assurance, a unit of Hong Leong Financial Group Bhd. for USD289 million

Malaysia also gained the attention of global private equity (PE) players like the Carlyle Group and Kohlberg Kravis Roberts & Co (KKR), which are among three of the largest PE firms in the world in terms of funds under management. Both PEs and local investor groups (Idaman Saga Sdn Bhd) bid for Johor Corporation's fast food chain operations for USD615 million, the company runs their own QSR Brand Bhd. and KFC Holdings Bhd.. Johor Corporation, however, turned down the offers.

Meanwhile, there are talks that both PE firms are actively looking for other deals in Malaysia. Previously, Carlyle and KKR were rumored to be interested in a deal involving education group Masterskill.

Other significant inbound deals in 2010

	Amount
Thailand based, Berli Jucker Public Co Ltd and global glass manufacturer, Owens-Illinois Inc, through ACI International Pty Ltd, acquired Malaya Glass Products Sdn. Bhd.	USD222 mln
Singapore Technologies Telemedia Pte Ltd acquired 33% stake in Malaysian mobile company, U Mobile Sdn. Bhd.	USD202 mln
UK engineering firm Weir Group Plc acquired rubber products maker Linatex	USD200 mln



Outbound

An increase in outbound deals last year was generally led by Government-Linked Companies (GLCs) and GLICs such as KNB, Petronas, Permodalan Nasional Bhd. (PNB), the government pension fund and EPF. Most of the transactions centered on property with also a focus on healthcare, oil and gas and financial services.

Key foreign property acquisitions by Malaysian companies include:

- BMB Advisors Malaysia Ltd, offered to pay as much as USD3.4 billion for Kerzner International Holdings Ltd, the hotel and casino company that built Atlantis in the Bahamas and Dubai
- PNB acquisition of Santos Place, an Australia-based owner and operator of office building for USD263 million
- Malaysia's government pension fund (Kumpulan Wang Persaraan) and EPF purchase of an office building in London for around USD243 million

Other major foreign acquisitions in 2010

	Amount
KNB, via Integrated Healthcare Holdings Ltd, won the bid for Singapore's healthcare services provider Parkway Holdings Ltd	USD2.8 bln
Malaysia's shipping company and Petronas subsidiary, MISC Bhd., acquisition of 50% in international tank terminal operator VTTI BV (*)	USD850 mln
CIMB Group Holdings Bhd. (major shareholders include KNB and EPF) raised its interest in its Indonesia's banking unit, Bank CIMB Niaga Tbk PT, to 95.36% from 78%	USD529 mln

Notes:
MISC Berhad ("MISC"), and one of the world's largest independent energy trading companies, the Vitol Group ("Vitol"), signed a Sale and Purchase Agreement via their respective subsidiaries whereby MISC's wholly owned subsidiary, MTTI Sdn Bhd ("MTTI"), acquires 50% of the shares in VTTI B.V. ("VTTI"), currently a wholly-owned subsidiary of Vitol.

Outlook

Going forward, we expect the investment themes in 2010 to continue into 2011.

Expected recurring themes include continued regionalisation of the banking sector, merger of large property companies, and market interest in Malaysia's Economic Transformation Program (ETP) which has significant Entry Point Projects (EPPs) in the oil and gas, greater Kuala Lumpur and other services sectors.

Other market factors that will drive Malaysian M&A activities include high market liquidity, the upcoming general election, property development projects in Iskandar Malaysia and strategic federal government land.

Sectors which are expected to attract M&A attention include:

- Resource-based sectors such as oil and gas and palm oil as well as related upstream, downstream and supporting industries. This sector is being driven by a positive outlook

for commodity prices with increasing demand from China and India and the ETP.

- The property and construction sectors are expected to benefit from the current upswing in the property market.
- The automotive sector which is currently undergoing a period of consolidation. The government is looking into merging the two national car makers, Proton Holdings Bhd. and Perusahaan Otomobil Kedua Sdn. Bhd. (Perodua). This may lead to subsequent consolidation in the auto parts sector.
- The utilities sector where there are ongoing negotiations on water and power assets involving the restructuring of Selangor state water assets and the sale of the 2,400 MW Bakun hydropower project.

Other sectors likely to draw M&A interest include gaming, consumer products, wholesale and retail.

Further, M&A deal activities will be driven by several underlying investment and restructuring themes, including:

- Ongoing investment and restructuring of GLCs and GLICs. This includes restructuring and disposing of non-core assets related to Sime Darby, Proton, Pos Malaysia and Axiata, while GLICs such as KNB, PNB, Petronas and EPF continue to search for investment opportunities
- PE deals, with firms such as Carlyle, KKR and Navis Capital Partners scouting for acquisition opportunities in Malaysia
- Privatisation is anticipated to continue in many sectors as it provides an avenue for owners to restructure their listed unit as well as take advantage of funding opportunities or low valuations.

Overall, Malaysia is in for another exciting year of M&A! ■

South and Southeast Asia

Philippines

The economy bounces back. Exports, investment, and manufacturing recover strongly from dips in 2009. Initial public offering (IPO) activity has returned to the market.



**Mary Jade
T. Roxas-Divinagracia, CFA**
Deals Leader
Philippines

Current Environment

Gross domestic product (GDP) growth in the Philippines in 2010 is forecast at 6.2%, a significant increase from the 0.9% growth in 2009, and in step with the strong economic recovery in the rest of the East Asian region. The rebound was aided by growth in exports, manufacturing and foreign direct investment. Domestic consumption levels were sustained by continued growth in overseas remittances.

Export earnings grew 37% to USD43 billion in the first ten months of 2010. Electronic exports, the country's top export, grew 46% in the same period. Electronics export growth is expected to continue into 2011, albeit at a more moderate 10% growth rate. The semiconductor and electronics industry expects full year exports to hit USD30 billion for 2010. The industry received over USD1 billion in investment in 2010, a level last recorded in 2007.

Manufacturing production grew 18.8%, a reversal from the 11.9% decrease recorded in 2009. The value of production growth was particularly strong for the petroleum products, transport equipment, electrical machinery and leather products sectors.

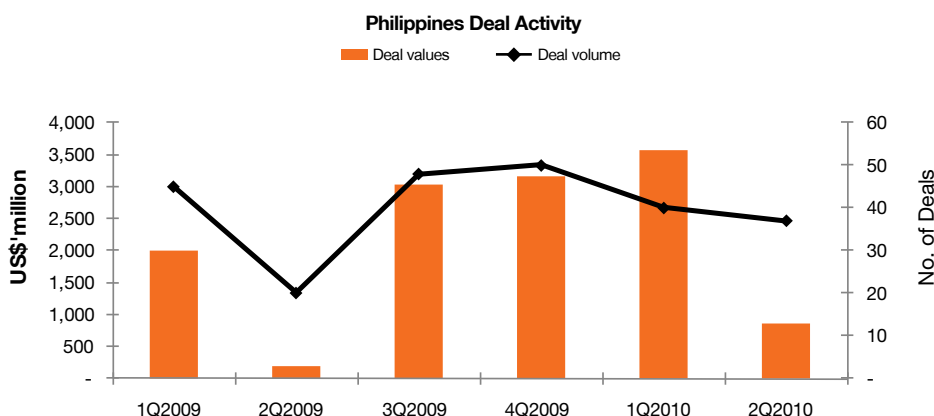
Approved foreign direct investment for the first nine months of 2010 grew 130%, from USD730 million in the same period last year to USD1.7 billion. Manufacturing received 74.4% of investments, followed by the electricity, gas & water utilities (10.6%) and private services (7.8%) sectors.

The Bangko Sentral ng Pilipinas expects overseas remittances to grow to USD18.7 billion for this year, and to top USD20 billion for 2011. The major source countries for these funds are the United States, Canada, Saudi Arabia, Japan, the United Kingdom, United Arab Emirates, Singapore, Italy, Germany and Norway.

Various economic indicators for the Philippine economy show a stable economic environment.

- Consumer prices for 2010 showed a mild 3.9% growth, which was well within the Philippine government's target range of 3.5% to 5.5%
- The Peso continued its two year trend of moderate year-on-year appreciation against the US Dollar. The exchange rate was Php43.68:USD1 at the end of 2010 or a 5.6% appreciation from the end of 2009.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

- The composite index of the Philippine Stock Exchange (PSE) performed well in 2010, rising 38% to close at 4,201.14 points on 30 December 2010.
- Moody's Investor Service has recently changed their outlook to positive from stable on the Philippines' Ba3 foreign and local currency ratings

The Business Process Outsourcing (BPO) industry had a strong 2010, with revenues of USD9 billion representing 20% growth from 2009. The BPO industry serves as a key growth driver for the real estate industry, which likewise had a strong growth year. Based on the government's gross revenue index on industries, real estate gross revenues grew 33% in the first half of 2010 from the same period in 2009. Major real estate companies, such as

Megaworld and Eton Properties, expect the growth trend to continue and are launching several real estate projects for 2011.

In May 2010, the Philippines elected a new president, Benigno Aquino III, who won by a large margin against his closest opponent. A major piece of his administration's economic strategy is to increase much needed investment in infrastructure which led to a re-emphasis on Public-Private Partnerships (PPP). The administration is aggressively promoting cooperation between the government and private companies – in the Philippines and overseas – for ten priority projects in the construction of airports, railway lines, highways, and mass transport systems. The government is currently working to address issues, such as regulatory risk, which have prevented more successful partnerships of this type in the past.

Deal Activity

Deal values shrank 25% in 2010 to USD6.3 billion from USD8.4 billion in 2009. Though the value of inbound transactions nearly quadrupled from USD400 million to USD1.48 billion, domestic deals shrank 41% from USD7.9 billion to USD4.6 billion. The decrease was primarily due to the drying-up of power privatization deals as many large plants had already been successfully bid out by the government in previous years.

Deal volume in 2010 was essentially the same as in 2009 – 162 deals in 2010 versus 163 deals in 2009.

Food and Beverage

The largest deal of the year involved San Miguel Corporation (SMC) acquiring a 49% stake in Top Frontier Investment Holdings, Inc. (TFIH) for USD1.01 billion. Top Frontier is a holding company incorporated and owned by three prominent people in Philippine business – Roberto Ongpin, Inigo Zobel and Joselito Campos, Jr. The deal essentially solidified the cross-ownership arrangement between SMC and TFIH, as in 2009 the latter acquired 28% of SMC for Php64.3 billion (USD1.37 billion). TFIH currently has an approximately 48% stake in SMC, and has been granted an option to raise its stake to up to 63%.

SMC is a food and beverage giant that has been aggressively diversifying into the oil, power, transportation, utilities and infrastructure industries.

Energy and Power

Deal activity in the energy & power sector has decreased due to the shrinking number of government-owned power generation assets available for sale. Nevertheless, some of the biggest deals in 2010 remained in this sector.

- OneTaipan Holdings acquired Monte Oro Grid Resources Corp, including a 30% stake in the National Grid Corp of the Philippines, for approximately USD350 million.

Korean companies. Korea Electric Power Corp. (KEPCO) and state-owned Korea Water Resources Corp, represented foreign corporations interest in entering this sector in 2010 by conducting the following deals:

- KEPCO agreed to acquire a 40% stake in the Santa Rita power station and a 40% stake in San Lorenzo power station from First Gas Holdings, Corp. The combined deal value of the two transactions was approximately USD400 million.
- Korea Water Resources Corp agreed to acquire the 246-MW Angat hydropower plant from National Power Corp (NAPOCOR) for USD441 million.

Petron Corporation sold an approximately 40% stake in the second half of 2010.

- In July, Petron Corp Employees Retirement Plan acquired a 24% stake in Petron Corp for USD357 million.
- In August, SMC acquired an approximately 16% stake in Petron Corp from Sea Refinery Holdings BV for approximately USD242 million.

Outlook

IPO Activity

IPO activity returned to the market in 2010 with the listing of a few companies on the Philippine Stock Exchange (PSE). Cebu Air, Inc., which runs the budget airline Cebu Pacific, listed in October and was the second largest IPO in the history of the local market.

In January, two companies listed on the PSE:

- Integrated Micro-electronics, Inc., an electronic manufacturing services provider and
- IP E-Game Ventures, Inc., the online gaming business unit of IPVG Corp.

The final quarter of the year had two additional listings on the PSE.

- Nickel Asia Corporation, the largest nickel mining company in the country, listed in November
- IP Converge Data Center, Inc., an internet data center services provider, listed in December

Ortigas and Co., a major property developer, is considering an IPO for the middle of 2011.

Call Centers

According to Everest Group, an outsourcing advisory firm, in 2010 the Philippines' call center industry for the first time overtook India's in terms of revenue. The Philippines was expected to take in USD5.7 billion, compared to India's USD5.5 billion.

More Indian companies are expected to diversify their operations and build call centers and business process outsourcing centers in the country. In December,

Tata Consultancy Services, Ltd. announced that it would establish a center in the Philippines. Other fairly recent Indian entrants in the country include Wipro, Ltd. and 24/7 Customer.

Open Skies

The government is set to issue an executive order that formalizes an expanded open skies policy for selected cities in the Philippines, such as Cebu, Davao and Cagayan de Oro. The policy is expected to encourage the entry of more foreign carriers and budget airlines to these cities, which are hubs for tourist destinations throughout the country.

Clark airport in the northern region of the Philippines was an early beneficiary of an open skies policy and saw its airline traffic increase from 10,000 passengers in 2003 to 500,000 passengers after the policy took effect in 2005.

Air Asia Philippines, a new airline venture of Air Asia International and its local partners, is expected to commence operations out of Clark airport in the third quarter of 2011.

With the completion of most of the power privatisation deals of the government, deal value is not expected to soon reach levels that were seen in 2008 and 2009. The government has recently announced though that it is studying the sale of property belonging to two large military camps in Metro Manila, which may provide a boost for government revenues in 2011 or 2012.

However, with changes in the competitive landscape of some large industries in the country, as well as renewed investor confidence, the volume of deal activity can reasonably be expected to be greater in 2011 than in 2010. ■

South and Southeast Asia

Singapore

After a slow start, M&A activities in Singapore picked up in the fourth quarter of 2010. The current uptick in M&A activity is expected to continue into 2011 with companies looking for inroads into emerging markets where the growth outlook is more positive than in developed economies.



Chao Choon Ong
Transactions Leader
Singapore

Current Environment

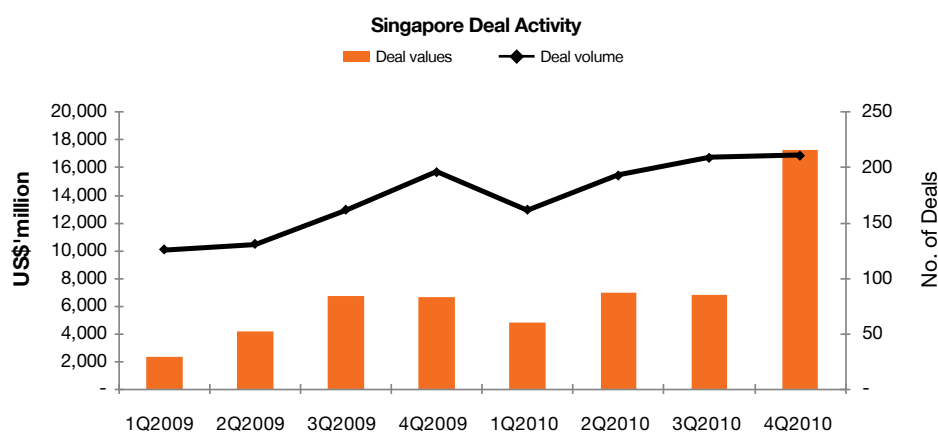
The Singapore economy expanded strongly in the first half of 2010, and after a correction, it recovered in the fourth quarter to post a healthy year-on-year (YoY) gross domestic product (GDP) growth of 14.5%, reversing a 0.8% decline in 2009. Underlying the stellar 2010 economic performance were the manufacturing, wholesale & retail trade, hotels & restaurants, and financial services sectors.

Manufacturing sector grew a whopping 29.7% (2009 : 4.2% decline), led by the biomedical manufacturing cluster which saw a strong recovery in pharmaceutical output. Financial

services sector, bolstered by increased activities in fund management, commercial bank lending and foreign exchange trading, recorded a 12.2% YoY growth (2009 : 4.3%). On the back of improving external demand, stronger tourist arrivals (up 20% YoY) and the opening of the Integrated Resorts, the wholesale & retail trade sector posted a 15.1% growth (2009 : 6% decline) and the hotels & restaurant sector expanded 8.8% (2009 : 1.6% decline).

Among other domestic cost pressures, higher car and commodity prices were mainly responsible for driving an increase in domestic consumer prices in the second half of 2010.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

Against this backdrop of economic expansion, M&A activities in Singapore picked up sharply in the last quarter of the year. Deal value grew 155% from USD6.8 billion in the third quarter to USD17.3 billion in the fourth. The total value of inbound, outbound and domestic deals for the second half of 2010 was USD24.1 billion, doubling the deal value in the first half of 2010. The number of deals announced rose from 355 deals in the first half of 2010 to 420 deals in the second half of the year.

The total value of announced M&A deals in 2010 rose by 81% to USD35.9 billion from USD19.9 billion in 2009, boosted by higher deal value. The number of deals announced increased by 26% from 615 deals in 2009 to 775 deals in 2010. Deal size grew an average of 43% YoY.

Inbound

The total inbound deal value of USD8.8 billion in the second half of 2010 represented an increase of 23% over 2009. A total of 166 inbound deals were recorded in 2010 with the major ones being:

- Integrated Healthcare Holdings Ltd, a wholly-owned unit of Malaysian state-owned Khazanah Nasional Bhd, completed a general offer to raise its interest in healthcare group Parkway Holdings Ltd from 23.9% to 95% for a total value of SGD3.2 billion (USD2.4 billion).
- Kirin Holdings Co Ltd of Japan acquired a 14.7% stake in Fraser & Neave Ltd, a producer and wholesaler of soft drinks, from Seletar Investments Pte Ltd, a wholly-owned subsidiary of Temasek Holdings Pte Ltd, for a total value of SGD1.3 billion (USD974.6 million) in cash, in a privately negotiated transaction.
- Advantest Corp of Japan launched an unsolicited general offer to acquire the entire share capital of Verigy Ltd, a provider of advanced semiconductor test systems and solutions, for a total value of SGD1.2 billion (USD899.7 million).
- Deka Immobilien Investment GmbH of Germany, a unit of Deutscher Sparkassenund Giroverband eV, planned to acquire Chevron House, an owner and operator of office buildings, from Goldman Sachs Group Inc, for SGD534.9 million (USD404.8 million).





Outbound

The value of outbound deals was USD19.7 billion in 2010, almost triple the amount in 2009, with the largest deal by far being Singapore Exchange's (SGX) proposed acquisition of the Australian Securities Exchange (ASX). The larger outbound deals out of a total of 340 deals 2010 were:

- SGX proposed to merge with ASX, a Sydney-based stock exchange, for AUD8.4 billion (USD8.3 billion), via a scheme of arrangement. The consideration was to consist of AUD3.85 billion (USD3.8 billion) in cash, and the issuance of 608.25 million new SGX ordinary shares valued at AUD4.5 billion (USD4.5 billion).
- An investor group comprised of Singapore state-owned Government of Singapore Investment Corp Pte Ltd (GIC), China Investment Corp of China, Ontario Teachers' Pension Plan Board of Canada, Abu Dhabi Investment Co, RIT Capital Partners PLC of UK, Santo Domingo Group of Peru, JC Flowers & Co LLC of the US, EXOR SpA of Italy and Rothschild, Agnelli and Motta families, agreed to acquire an 18.65% stake in Banco BTG Pactual SA, a Rio De Janeiro-based provider of investment brokerage services, for BRL3.0 billion (USD1.8 billion).
- Ascott Residence Trust of Singapore acquired 28 Europe and Asia properties of The Ascott Ltd, an owner and operator of serviced residences and a wholly-owned unit of Capitaland Ltd, in three interconditional transactions. The transactions had a combined value of EUR472.5 million (USD600.6 million).
- Singapore state-owned Temasek Holdings (Pte) Ltd acquired a 14.3% stake in Odebrecht Oleo & Gas SA, a Rio de Janeiro-based provider of oil and gas exploration and production support services, from Odebrecht SA, a unit of Kieppe Patrimonial S/C Ltda for BRL672.8 million (USD400 million).
- GIC agreed to acquire a 29% stake in Duquesne Light Holdings Inc, a Pittsburgh-based electric utility holding company, from Duet Group, a unit of AMP Capital Investors Ltd and Macquarie Capital Group Ltd, for USD360 million.



Domestic

Domestic M&A activity generated a total deal value of USD7.4 billion in 2010, which is 5% lower than 2009. Out of a total of 269 deals in 2010, the larger deals were:

- Oversea-Chinese Banking Corp Ltd's acquisition of ING Asia Private Bank Ltd from ING for SGD2 billion (USD1.5 billion) in cash. Launched as Bank of Singapore, the entity is positioned as the leading Asian private bank with more than 7,000 customers and total private client assets of approximately USD23 billion
- Suntec Real Estate Investment Trust agreed to acquire a one-third stake in BFC Development Pte Ltd, a real estate development firm, from Choicewide Group Ltd for SGD1.5 billion (USD1.2 billion).
- Total Apex Ltd, a wholly-owned unit of Overseas Union Enterprise Ltd (OUE), acquired the entire share capital of Alkas Realty Pte Ltd, a property holding company, from Naruse (Delaware) LLC and Baekdu Investments Ltd, for SGD870.5 million (USD637.4 million). The transaction was to include the acquisition of DBS Towers One & Two owned by Alkas Realty. OUE is a majority-owned unit of the Lippo Group.
- Mansfield Developments Pte Ltd, a wholly-owned unit of Keppel Corp Ltd's majority-owned Keppel Land Ltd subsidiary, agreed to acquire Keppel Towers & GE Tower, an owner and operator of office buildings, from K-REIT Asia Management Ltd, for SGD573 million (USD438.4 million).
- Dolphin Acquisitions Pte Ltd planned to launch a general offer to acquire the entire share capital of Soilbuild Group Holdings Ltd, a real estate development firm, from Lim Chap Huat, Leo Jee Lin, CHL Holdings Pte Ltd and other shareholders, for a total value of SGD417.8 million (USD314.3 million) in cash.
- Cache Logistics Trust planned to acquire CWT Commodity Hub and CWT Cold Hub of CWT Ltd, a provider of logistics and warehousing services, for SGD445 million (USD315.7 million).

Outlook

Looking ahead, the general consensus is that Singapore's growth will remain positive with the continuing recovery of the global economies but will moderate. This is consistent with the slower pace of economic expansion in the major global economies following the initial upswing after the global financial crisis, and the tighter monetary policies in Asia.

The level of economic activity in Singapore should remain high across a range of industries. Steady, albeit slow, growth in the advanced economies is expected to lend support to the manufacturing sector. Intra-regional trade will also grow with the Asian economies, as will tourism-related industries which will continue to benefit from growth in tourists from Asia.

However, domestic cost pressures have increased, given the tighter labour market and increasing oil and commodity prices. There also remain global downside risks such as European sovereign debt crises and weak housing and labour markets which could hold back demand growth in the developed Western economies.

Taking these factors into consideration, it is expected that the Singapore economy will grow at its long-term sustainable rate of 4 – 6% in 2011.

The current uptick in M&A activity is expected to continue into 2011. Companies continue to look for inroads into emerging markets where the growth outlook is more positive than in developed economies.

While valuations may not be as low as in the past, acquirers with a strategic interest in Asia Pacific will still be looking to generate economic returns from investing in the region. Outbound deals continue to be the main driver of M&A activities in Singapore, and some sectors that are hotting up are real estate, consumer and financial services, as well as the oil and gas and related services sector. ■

South and Southeast Asia

Thailand

Thai economy is expected to expand by about 3.5% to 5% in 2011. Strength of the Thai baht, political situation and economic conditions of advanced economies are likely to influence M&A activities this year.



Gary Murphy
Deals Leader
Thailand

Current Environment

External demand, primarily driven by the economic recovery of major trading partners, combined with the revival in private domestic consumption and investment largely contributed to the revival of the economy. Export values (in US dollars) were expected to expand by about 25.1%, whilst private investment and consumption were expected to expand by 13.9% and 4.9%, respectively. During the first half of 2010, exports grew by 37% (year-over-year) and the export value of USD49.72 billion hit a historic high in the 3rd quarter of 2010. Key drivers include the export of vehicles, integrated circuits, air conditioning units and rubber. The trade balance is forecasted to record a surplus of USD13.3 billion by the end of 2010.

The tourism sector has also rebounded after a sharp contraction during the period of political turmoil (second quarter of 2010). The number of inbound tourists in the third quarter rose by about 12.5% from the same period in 2009. This significant improvement was due to an increasing number of tourists from emerging markets such as China, Malaysia, and India. It is expected that the total number of tourist arrivals will reach 4 million in the fourth quarter of 2010.

The automotive sector also experienced significant growth in 2010. Car production reached 1.5 million units

for the first 11 months of 2010, an increase of over 69% compared with the same period in 2009. Domestic car sales for the first 11 months also rose by 48%.

On the domestic side, increased confidence among consumers resulted in a 5% growth in household consumption especially in vehicle purchases. The trend is likely to continue as farm income from various crops, especially cassava, rubber and maize, remains favourable; the unemployment rate is still less than 1%; and inflation in the third quarter remains constant at 3.3%.

Business sentiment also shows signs of regaining confidence. Private investment grew by 14.5% in the third quarter, attributed mainly to the expansion in residential construction in the Bangkok metropolitan area. In terms of portfolio investment, the Stock Exchange of Thailand (SET) index jumped by 40.6% from the end of 2009 and reached 1,032.76 points at the end of 2010. The average daily trading value in December 2010 was THB31.5 billion (USD1 billion), a doubling of the average daily trading value of THB15.72 billion (USD516 million) in December 2009.

Foreign direct investment (FDI), which contracted slightly during the political unrest, has also rebounded. The average monthly FDI in 2010 was up 22% from 2009 with 60% of this inflow going into high tech industries such as electrical appliances and transport equipment.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

M&A activity in Thailand in 2010 increased significantly from the prior year. Based on the announced deals, the deal value increased from USD4.3 billion in 2009 to USD12.4 billion in 2010, driven mainly by both domestic and outbound M&A activity.

The deal profile in 2010 was also significantly different from 2009. About 37% of the deal activity in 2010 was from outbound transactions, while 57% of remaining deals were made up of domestic and inbound transactions. In 2009, outbound M&A activity accounted for only 6%, while domestic deals accounted for 79% of the deal activity. The contraction of inbound M&A is primarily due to environmental issues related to the Maptaphut Industrial Estate, the political turmoil and the strength of the Thai baht.

About 91% of outbound M&A activity occurred in the second half of 2010. The key driver of this was the notable appreciation of the Thai baht against other key currencies, in particular, the US dollar and the Euro. During 2010, the Thai baht appreciated against the US dollar and the Euro by approximately 9.4% and 16%, respectively. Outbound M&A transactions were primarily led by large local companies. Some major outbound M&A deals include:

- Banpu PCL acquired a 100% interest in Centennial Coal Co Ltd, an Australian coal mining company with a total deal value of approximately USD2 billion.
- Thai Union Frozen Products PCL acquired a 100% interest in MWBrands SAS, a leading producer of seafood in Europe, making it the largest producer of canned tuna in the world with a total deal value of approximately USD1 billion.

In terms of domestic M&A activity, significant deals include:

- Big C Supercenter PCL acquired the Thailand operations of Carrefour SA (Carrefour) for THB35.5 billion (USD1.189 billion).
- Thanachart Bank PCL. (TBANK) completed its tender offer to raise its interest in Siam City Bank PCL (SCIB) to 99.24% by acquiring an additional 51.66% interest in SCIB with a total value of THB35.472 billion (USD1.102 billion). In the first quarter, TBANK completed its acquisition of a 47.58% stake in the Thai state-owned Financial Institutions Development Fund (FIDF) for a total value of THB32.673 billion (USD1 billion).
- SS National Logistics Co Ltd. launched a tender offer to acquire a 32.62% interest in Serm Suk PCL, a Bangkok-based producer and wholesaler of bottled soft drinks, for a total value of THB3.643 billion (USD121.75 million).
- TICON Property Fund acquired 35 factory units of TICON Industrial Connection PCL, a Bangkok-based constructor and developer of warehouses, for THB1.707 billion (USD57.2 million)
- Dusit Thani PCL agreed to acquire the assets of Dusit Thani Laguna Phuket, an owner and operator of hotels, from Laguna Resorts & Hotels PCL, for THB2.62 billion (USD82 million).
- Indorama Ventures PCL raised its interest to 99.9% from 54.7% by acquiring a further 45.2% stake in TPT Petrochemicals PCL, a Bangkok-based manufacturer of terephthalic acid products, for an estimated value of THB2.896 billion (USD96.8 million).



Inbound M&A accounted for only 6% (or about USD728.6 million) of announced M&A activity in 2010. We noted that the slowdown was primarily caused by political instability, the appreciation of the Thai baht, environmental issues related to the Maptaphut Industrial Estate and the global economy. Some of the major inbound M&A deals include:

- Brenntag Netherland BV acquired the entire share capital of East Asiatic (Thailand) Public Co Ltd, a Bangkok-based holding company, from A/S Det Ostasiatisk Kompagni, for THB6.747 billion (USD209.3 million).
- Suzuki Motor Corp of Japan raised its interest to 70.8% from 52%, by acquiring a further 18.8% stake in Thai Suzuki Motor Co Ltd from SP Suzuki PCL, for THB804.8 million (USD25 million).
- Standard Chartered private equity (PE) Ltd of Hong Kong planned to acquire debentures convertible into a 5.58% stake in Thai Union Frozen Products PCL for THB2.4 billion (USD74.4 million).
- Salamander Energy PLC acquired the entire share capital of SOCO Thailand LLC, an oil and gas exploration and production company, and a wholly-owned subsidiary of SOCO International PLC, from SOCO International, for THB3.4 billion (USD106 million).

Outlook

According to the Ministry of Finance, the Thai economy is expected to grow by approximately 3.5% to 5% in 2011. The growth will be primarily driven by domestic consumption and private investment. The country's exports will remain the key engine for growth, and are projected to grow by about 11% to 14%, a much slower pace compared to growth of about 25 to 30% experienced in 2010. Domestic consumption and private investment are projected to grow at 3.5 to 5% and 8 to 10% in 2011, respectively.

Apart from the slowdown in demand from advanced economies, the sustained appreciation of the Thai baht against other major currencies such as the Euro and US dollar will continue to challenge the Thai export market. According to the Governor of the Bank of Thailand, the Bank of Thailand will continue to monitor the Thai currency and is prepared to apply necessary measures to address its valuation.

The government Stimulus Package 2 (Thai Kem Kang 2) and the recently announced populist policy, called "Pracha Wiwat" which is aimed at alleviating the cost of living for the poor and helping casual workers to join the social security system and obtain cheap loans from state-owned banks, are anticipated to help boost domestic consumption and private investment.

In terms of foreign direct investment, Thailand's Board of Investment expects investment applications

in 2011 to be THB400 billion (USD13.3 billion), consistent with the 2010 level of investment due to the strong baht and fragile global economy. The leading industries are anticipated to be food, automobiles, electrical appliances and electricity generation.

For M&A activity, it is expected that the majority of transactions will continue to be led by outbound transactions. The major local companies have expressed their interest to continue expanding their footprint overseas and will take advantage of the stronger baht to expand their operations abroad.

No significant growth is anticipated for inbound M&A, primarily due to political uncertainty (i.e. the new election is expected in 2011), the strength of the Thai baht, and economic conditions of other countries such as the US and certain countries in the EU. The trend of domestic consolidation is expected to continue for companies wishing to expand their market share and improve efficiency in their operations. One of the mega-deals anticipated this year is the divestment of shares by one of the largest banks in Thailand held by the Thai state-owned Financial Institutions Development Fund.

While moderate growth is anticipated in 2011, the Thai economy is still vulnerable to a number of risk factors including political uncertainty and government instability, currency fluctuation and management, global economic recovery, and increasing interest rates. ■

South and Southeast Asia

Vietnam

Overall M&A values and volumes reached record levels in 2010 reflecting a rebound in the global economy, stronger growth in the local economy and increasing focus on market entry through M&A by Asian companies that view Vietnam as a key growth market and integral to their international expansion plans. Higher levels of outbound transactions have also boosted M&A values significantly.



Stephen Gaskill
Transactions Leader
Vietnam

Current Environment

The overall annual growth rate of gross domestic product (GDP) in 2010 reached 6.8%, compared to 5.3% in 2009, as easing of the government's monetary policy coupled with a rebound in the global economy stimulated a pick-up in growth rates. The overall performance reflected an accelerating rate of growth in GDP during the year, with the second half of 2010 achieving 12% growth on an annualised basis.

Accelerating GDP growth led to a return of high inflation rates, which reached levels close to 12% by the end of 2010, above the 8% to 10% levels predicted by many economists at the start of the year. Increasing concerns over macro-economic instability surfaced towards the end of 2010 as continued weakness in the Vietnam Dong, which devalued by 5.3% during 2010, inflation and an ongoing balance of trade deficit affected the economy. The USD selling reference rate of the State Bank of Vietnam was VND19,495 on 31 December 2010 compared to VND18,479 at the end of the prior year.

Exports and imports increased by 25.5% and 20.1% respectively compared to 2009. The ongoing current account deficit, which reached

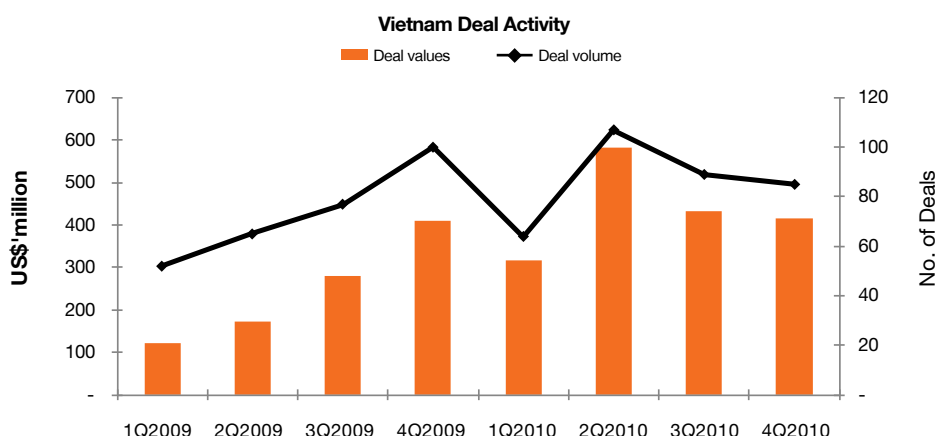
6% of GDP in 2010 and looks set to widen further in 2011, may contribute to further weakening of the Dong and erosion of the US Dollar reserves which fell to approximately USD16 billion in 2010.

The total value of foreign direct investment commitments licensed in 2010 increased to USD17.2 billion compared to USD16.5 billion in 2009; however, increases in committed capital at existing foreign invested entities was considerably down in 2010 at USD1.2 billion leading to a drop in the overall level of FDI compared to the prior year.

The benchmark stock exchange indicator, the VN-Index was relatively flat during the year ending at 485 points compared to 517 points at the beginning of the year. Returns were the second lowest in the region after China with Vietnam delivering negative USD returns.

Initial public offering (IPO) activity picked up during the year with 189 companies newly listed on the two main stock exchanges. However, certain of the larger listings that occurred during the year were relatively unsuccessful, with that of PV Gas, one of state owned oil and gas giant PetroVietnam's largest subsidiaries, being under subscribed.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Deal Activity

The rebound in deal values and volumes seen in 2009 continued in 2010 with an acceleration seen both in terms of reported values and volumes to reach almost USD1.75 billion from 345 deals for the year compared to USD1.1 billion and 295 deals for 2009.

Deals values were boosted by significant outbound deals involving Viettel Corporation, such as its USD300 million investment in Teletalk Bangladesh Limited and a USD59 million investment in Telecommunications d'Haiti SAM. The scale of these overseas investments marked a departure from past trends when outbound deals tended to be small in value terms and generally only involved PetroVietnam's investments in upstream assets.

Another notable trend was the significant increase in M&A activity from Asian companies, especially Japanese corporations, which increasingly dominated inbound M&A. The trend reflects Japanese

corporations' attempts to accelerate their penetration of what they see as an important growth market in the region in order to compensate for stagnant domestic demand; it also reflects the fact that investment in Vietnam has become relatively cheap due to the appreciation of the yen.

2010 trends also reflected restructuring by a number of Vietnamese corporations as some sought vertical integration in order to guarantee raw materials supply whilst others attempted to re-focus their groups around core businesses leading to disposals of assets considered non-core.

Private equity (PE) activity was more focused on the sell-side than on the buy-side in 2010 since certain of the older Vietnam-focused funds are approaching maturity and their fund managers are accordingly looking for exits. Attempts to raise new funds in a difficult market are also encouraging fund managers to exit more deals in order to show a proven track record of successful fund management. This is a trend we are likely to see continuing in 2011.

Notable deals announced during the year included:

Inbound deals

State-owned Oman Investment Fund acquired a 12.6% stake, or 20.208 million ordinary shares, in Hanoi-based Petrovietnam Insurance JSC, a unit of state-owned Vietnam National Oil & Gas Group (PetroVietnam), for VND40,000 (USD2.12) per share, or a total value of VND808.3 billion (USD42.84 million).

Gamuda Land (HCMC) Sdn Bhd, a wholly-owned unit of Gamuda Bhd of Malaysia, agreed to acquire a 60% interest in Sai Gon Thuong Tin Tan Thang Investment Real Estate JSC, a Ho Chi Minh City based real estate development firm majority owned by Sai Gon Thuong Tin Real Estate JSC (Sacomreal), from Sacomreal for VND23,889 (USD1.29) per share, or a total value of VND1.533 trillion (USD82.8 million) in cash.

Fullerton Financial Holdings Pte Ltd of Singapore acquired a 15% stake, in Mekong Development Joint Stock Commercial Bank, a Long Xuyen-based bank for an undisclosed amount.

Orix Corporation of Japan acquired a 25% stake, or 11.408 million ordinary shares in Indochina Capital Vietnam Holdings Ltd, a real estate fund manager and provider of financial services, in a privately negotiated transaction.

Commonwealth Bank of Australia, acquired a 15% stake in Vietnam International Commercial Joint Stock Bank (VIB). Whilst information on pricing of this transaction was not made public, this is likely to be one largest deal in terms of deal size since VIB is one of the largest private banks in Vietnam.

TNK-BP Holding of Russia, a 50:50 joint venture between BP PLC (BP) and Alfa Group Consortium, agreed to acquire a 35% stake in an offshore natural gas block belonging to BP Plc. Concurrently, TNK-BP agreed to acquire a 32.7% stake in the Nam Con Son Pipeline and Terminal and 33.3% stake in Phi My 3 BOT Power Co Ltd. These transactions were part of a larger overall transaction estimated to have a combined value of USD1.8 billion.

Domestic Deals

An undisclosed investor group acquired a 68.52% interest in Societe De Bourbon Tay Ninh, a producer of sugar cane and a 68.52%-owned unit of Bourbon SA of France, from Bourbon SA, for VND901.998 billion (USD46 million), in a privately negotiated transaction.

Vinasteel Corporation acquired an 85% interest in a steel factory belonging to Lilama Hanoi JSC, a Hanoi-based construction company and a majority-owned unit of the state-owned Vietnam Machinery Erection Corporation, for VND 579 billion (USD29.5 million).

Trung Nguyen JSC acquired Saigon Coffee Factory from Vietnam Dairy Products JSC, a Ho Chi Minh City based producer and wholesaler of dairy products, for an estimated VND784.313 billion (USD40 million).

An investor group, including Saigon Securities Inc., Jaccar Group of France and Dragon Capital Management Ltd, acquired an 11.75% stake or 23.5 million shares in Real Estate Corp, a real estate development firm and a wholly-owned unit of Hoang Anh Gia Lai JSC, for an estimated value of VND1,200 billion (USD62.4 million) in cash.

An investor group, which included Thang Long Securities Co Ltd and Saigon-Hanoi Securities JSC, agreed to acquire a 10.31% stake, or 25 million ordinary shares, in PetroVietnam Construction Joint Stock Corp (PVC), a Hanoi-based provider of construction and engineering services, from its parent, PetroVietnam, for a total value of VND625 billion (USD32.5 million), in a privately negotiated transaction. Thang Long Securities Co Ltd later raised its stake in PVC to 13.94% from 0.61% by acquiring a further 13.33% stake, or 20 million ordinary shares, for VND 556 billion (USD28.9 million) in open market transactions.

An investor group comprised of STIC Investment Inc., FPT Securities Co and Bong Sen Fund Management Co acquired a 21% stake in Hoa Sen Group, an industrial conglomerate for a VND45,000 (USD2.40) per share, representing a total value of VND538 billion (USD28 million), in a private negotiated transaction.

Private Equity

Notable PE activity announced during 2010 included:

Mekong Capital Ltd divested its minority stake in Masan Food Corporation, a Ho Chi Minh based producer, wholesaler and retailer of food products and a majority-owned unit of Masan Group Corporation, to an undisclosed acquirer, for VND368.6 billion (USD18.8 million).

Aureos South East Asian Fund of United Kingdom, a unit of Aureos Capital Ltd, agreed to acquire a 18.5% stake in Tran Anh Digital World JSC, a Hanoi-based wholesaler of computer devices for VND80.8 billion (USD4.2 million)

in cash, in a privately negotiated transaction.

Mekong Capital Ltd divested its undisclosed minority stake in Maison JSC, a Ho Chi Minh based fashion retailer, to an undisclosed acquirer.

Masan Group Corporation acquired a 70% interest in Nui Phao Mining Joint Venture Co Ltd, a mining company, from Tiberon Minerals Pte Ltd (Tiberon) a majority-owned unit of Dragon Capital Corporation. Terms of the deal were not disclosed.

Outbound activity

One of the most notable aspects of M&A in 2010 was the fact that a small number of significant deals were transacted by Vietnamese companies outside of Vietnam. Three notable deals that were announced or closed in 2010 as follows:

Vietnam Dairy Products JSC acquired a 19.3% stake in Miraka Ltd, a producer of dairy products in order to secure supply of raw materials for its local operations. Terms were not disclosed.

Vietnamese state-owned Viettel Corporation announced that it planned to acquire a 60% interest in Bangladeshi state-owned Teletalk Bangladesh Ltd, a Dhaka-based provider of telecommunications services, for an estimated USD300 million.

Viettel Corporation also announced that it would acquire a 60% interest in the Haitian state-owned Telecommunications d'Haiti SAM, a Port-au-Prince based provider of telecommunications services, for HTG2.3 billion (USD59 million).



Outlook

There were increasing concerns over the Vietnamese economy towards the end of 2010 as inflation reached double figures, the balance of trade gap continued to widen and pressure on the Dong continued unabated. Concerns over Vinashin's debt default and the resulting impact on Vietnam's credit rating have heightened the sense of concern. There is a growing sense that the economy is out of kilter and that development has been somewhat one dimensional, focused too heavily on Vietnam's abundant and cheap labour force and natural resources.

Whilst the country will undoubtedly continue to grow and to attract relatively high levels of foreign direct investment and M&A, this is likely to be another year of conservative fiscal policy aimed at re-establishing stability and building foundations for long term growth. The Communist Party National Congress held in January 2011 appears unlikely to trigger any major departure from the policies which have been in place for the past 10 to 15 years but may well reinforce current trends towards more

conservative economic policies aimed at regaining stability at a macro level. There also appears to be increasing scrutiny by the government over the type of foreign investment activity being conducted in Vietnam and we are likely to see ongoing moves to encourage investment in sectors which add more value to the economy and which are less focussed on the processing of imported materials using cheap Vietnamese labour.

In terms of M&A, it is expected that volumes and values will remain high by Vietnam standards as Asian companies, in particular those from Japan, continue to show high levels of interest in Vietnam drawn by the market demographics and high growth rates. Such investment will come across all sectors of the economy but will be particularly focused on manufacturing. In addition, the ongoing aftermath of the issues with regard to Vinashin will shape government and state owned enterprise policy going forward and should stimulate a raft of disposals of non-core assets by some of the large state owned group. High interest rates and liquidity issues will also continue to force domestic corporations in search of growth capital to turn to M&A for the answer to their funding needs.

Outbound activity, albeit on a smaller scale in terms of value, may see increased volumes as Vietnamese corporations look to grab market access in countries such as Laos, Cambodia and Myanmar.

Private Equity

As mentioned earlier we are likely to see further exits by Vietnam focussed funds and relatively little in the way of new investments as the focus continues to be on raising new funds, a slow process in the current environment.

Fast Moving Consumer Goods (FMCG)

This sector's link to the rapidly growing levels of consumption of consumer products by the local population, in particular the expanding middle class, and the country's young population make this sector one of the most sought after in terms of M&A activity. Although there are limited numbers of companies of significant size available in the market to attract M&A, which will limit activity, it is likely that there will be a small number of relatively sizeable (by Vietnam standards) deals involving FMCG companies in 2011.

Financial Services

All the indications are that this sector will drive ongoing levels of M&A since the minimum capital requirements for banks set by the State Bank of Vietnam of VND3 trillion, in addition to pressures from increasing competition, will push smaller banks to look to new foreign investors to achieve expansion of their capital base and to gain access to technology and knowhow. There may also be some long awaited consolidation in the banking sector via domestic M&A deals.

In terms of other financial services sectors, there is an expectation of further deals in the securities company sector as investors in small players look to exit their often unprofitable investments in such companies.

Real Estate

Whilst the office, serviced apartment and hotel sector returns appear for the time being to have become less attractive, the condominium/villa sector and the second home market is still attracting strong interest and many private Vietnamese companies are likely to look to raise new funds in 2010 to take advantage of such opportunities, stimulating M&A in the process. Other local corporations will continue to divest non-core real estate assets or to sell down their stakes in order to raise cash to invest in core businesses.

Retail

The retail sector continues to attract a great deal of attention despite the ongoing concerns over legal restrictions facing foreign investors. Certain Vietnamese retailers are currently undergoing rapid expansion as they look to take advantage of changing consumer trends, trends which are stimulating rapid growth in the modern trade channel especially in the major cities. Rapid chain store expansion

requires additional funding and in some cases the transfer of technical knowhow which will open up opportunities for private equity and strategic investments in this sector.

Education

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

Infrastructure

The huge demand for power, roads, ports, bridges and other infrastructure to support the country's growth, and the government's recognition that this sector needs private investment if it is to keep pace with the growth in the economy, together with disposals of power assets by local private corporations and state owned companies, will lead to more M&A in 2011. PetroVietnam's announcement that it will divest an interest in its Nhon Trach power plant is an example of the trend. Deals in the hydro power sector have been prevalent in 2010 and look set to continue going forward. ■

South and Southeast Asia

Australia

With the backdrop of an economy that has performed relatively well over the course of the past year, conditions for M&A activity in Australia have improved in 2010, with large entities well capitalised and limited debt once again available. Resources and infrastructure have dominated the largest transactions in FY10, and along with private equity these sectors continue to look well placed for further activity heading into 2011.



Sean Gregory
Transaction Services Leader
Australia

Current Environment

Whilst many global economies have struggled in the aftermath of the Global Financial Crisis, Australia has been relatively resilient in 2010. A key indicator of the confidence in the Australian economy has been the spectacular performance of the AUD in comparison to most major currencies.

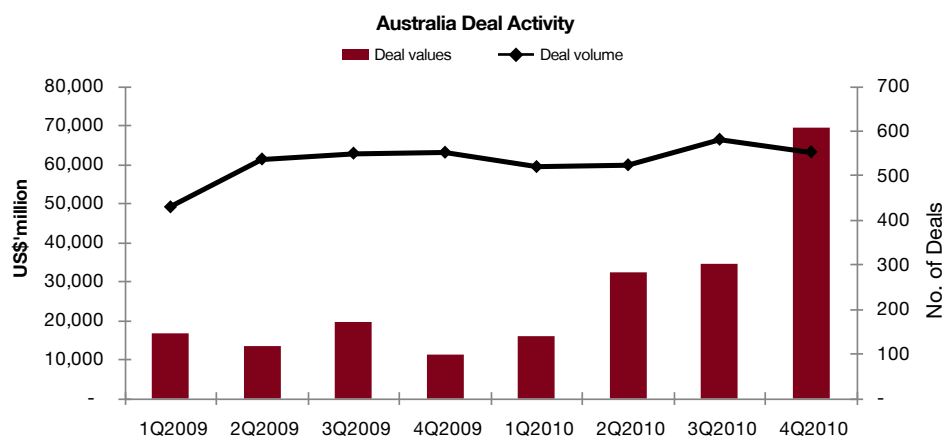
In particular, on 15 October 2010 the AUD reached parity with the USD for the first time since the currency floated in 1983. Whilst the AUD subsequently slipped below parity a short time afterwards, the AUD gradually increased during the remainder of the year closing on 31 December 2010 at a high of AUD1.016/USD1. The AUD also reached highs against both the Euro and Sterling by the end of the 2010.

The performance of the AUD has largely been driven by a series of interest rate increases implemented by the Reserve Bank of Australia during the course of 2010. Three base rate increases of 0.25% were implemented in consecutive months from March to May, with a further 0.25% increase being implemented in November, with the base rate closing the year at 4.75%.

These rate increases were put through largely to curb inflation (which was 2.8% at the 2010 year end), which had been increasing due to high overseas demand for resources, and wage pressure driven by significant mining and infrastructure projects, which in some Australian states has resulted in skills shortages. As at November 2010 (the latest available official data), the Australian unemployment rate stood at 5.1%, well below many major economies and below the 5.5% unemployment rate of 1 year ago.

A general election was also held within Australia in August 2010, which initially resulted in a 'hung' parliament, with neither the Labour Party nor the Liberal National Coalition obtaining the necessary votes to claim outright victory. After several weeks of horse trading between party leaders and a handful of independents, Julia Gillard's labour party retained power by a slim margin. Shortly prior to the election, in a development that took many observers off-guard, Julia Gillard had replaced Kevin Rudd as head of the Labour Party and assumed the position of Prime Minister.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

The performance of the Australian economy has resulted in an improvement in business sentiment which has resulted in increased M&A activity, with domestic players having increased buying power to target off-shore assets. Additionally, overseas buyers have seen Australia as an attractive destination for inbound investment (despite the strength of the AUD increasing assets prices and the degree of political instability noted above), with investors from China, Japan and Korea particularly active in the resources, energy and agricultural sectors. The environment for M&A activity within Australia also benefited from:

- **Balance sheet strength of top tier players** – Many listed businesses reduced leverage through capital raisings and the repayment of higher cost debt during the course of the financial crisis. Management of these companies have begun to come under pressure to either return cash to investors, or use it to generate growth, be it organically or via acquisitions.

- **Debt markets have gradually begun to reopen** – Following the credit market freeze during the financial crisis, banks now appear willing to lend once again, albeit they remain risk adverse, with higher spreads and up-front fees being charged compared to pre-crisis levels.

Deal Activity

The favourable environment for M&A activity discussed above resulted in an uptick in deal flow in 2010 compared to the prior year, both in terms of quantity, and in particular aggregate value. Deal volumes increased from 2,069 announced transactions in 2009 to 2,178 transactions in 2010, with total deal value increasing from USD61.4 billion to USD152.3 billion. Standout transactions included within the 2010 figure include:

- A joint USD13 billion offer for AXA Asia Pacific from AMP Capital and AXA SA. Under the terms of the deal, AXA's Australian and New Zealand businesses will merge with AMP, whilst AXA SA will take over AXA's Asian operations. At the time of writing the deal has received director support and Australian Competition & Consumer Commission (ACCC) approval, with the scheme of arrangement documents to be distributed to



shareholders to vote on early in 2011. AXA board members had originally accepted an offer for the Asia Pacific business from National Australia Bank (NAB), however the deal was rejected by the ACCC.

- The spin-off of 54 Australian assets by Sydney based real estate investment firm, the Westfield Group, into a new shareholder owned entity (Westfield Retail Trust) in a transaction valued at USD9.5 billion.
- Telstra's announced sale of their wholesale telecommunications network and customer base to NBNCo, the state-owned entity set up to construct the Federal Government's USD45 billion National Broadband Network. The transaction, which is currently the subject of government and shareholder approval, will transform the Australian telecommunication industry landscape, and values Telstra's network at USD7.9 billion.

- The Singapore Exchange Ltd agreed to merge with the Australian stock exchange, ASX Ltd in a transaction worth USD8.3 billion, via a scheme of arrangement. This transaction has received ACCC approval, however it is currently under review by the Australian Foreign Investment Board.

In addition to these headline transactions, a number of themes have emerged over the course of 2010 with regards to Australian M&A activity.

The resources sector was particularly active, Australian assets in the sector proved appealing to both local and off-shore purchasers. This was largely driven by increasing commodity prices and demand for Australian resources from Asian economies, in particular China. Key transactions in the sector included:

- Newcrest Mining's acquisition of the entire share capital of Lihir Gold, a Port Moresby-based gold mining company in a stock-swap transaction valued at USD8.6 billion
- Rio Tinto's announced offer for the entire share capital of Riversdale Mining, valuing the company at USD3.5 billion. At the time of writing the offer is under review by Riversdale shareholders, with other potential bidders rumoured to be preparing counter-offers
- The USD3.1 billion acquisition of Arrow Energy Ltd by CS CSG (Australia) Ltd, a joint venture between subsidiaries of both Royal Dutch Shell and China National Petroleum Corp

- All Glorious Ltd's acquisition of mineral mining company Album Enterprises Ltd, the wholly owned subsidiary of China Minmetal Corp valuing the business at USD2.8 billion
- Adani Mining's USD2.7 billion acquisition of the Galilee Basin coal tenements of Linc Energy Ltd

Deal activity in the sector was also notable for the transactions that didn't happen. These include the collapse of the proposed USD50 billion West Australian iron ore joint venture between Rio Tinto and BHP Billiton, with the latter also failing in a USD60 billion offer for Potash Corp of Canada (both deals failing to obtain the necessary regulatory approvals).

The infrastructure sector has also seen a number of high profile transactions, primarily driven by the progression of the privatisation processes for several state owned assets in New South Wales and Queensland. Key transactions included:

- The Queensland State Government's USD6.4 billion initial public offering (IPO) of Queensland Railways. This float also marked the re-opening of the Australian IPO market, which had been largely closed since late 2009 following the market's lukewarm reception to several highprofile retail offerings. The Queensland Government also disposed of the Port of Brisbane asset for USD2.1 billion to a consortium of investors including Global Infrastructure Partners, Queensland Investment Corporation, Industry Funds Management, and the UAE state-owned Abu Dhabi Investment Authority.



- Origin Energy's purchase of the retail businesses of Integral Energy and Country Energy from the New South Wales State Government for a combined price of USD2.4 billion. TRUenergy acquired Energy Australia from the NSW Government as part of the same process. In a further asset sale, the NSW Government disposed of the state's waste disposal and collection business, WSN Environmental Solutions, to SITA Australia for USD235 million following a competitive sale process.

- The Canada Pension Plan's acquisition of toll road operator Intoll Group for USD3.1 billion via a scheme of arrangement.
- Alinta Energy Group agreed the sale of its assets to creditors, including TPG Capital, for USD2.5 billion, following a prolonged period of financial stress. This transaction remains subject to a scheme of arrangement
- Citi Infrastructure Investor's acquisition of 75% of the share capital of DP World Ltd, a national provider of marine terminal services, for USD1.5 billion

2010 was also the year that private equity (PE) returned to the Australian M&A market, with many funds taking a break from acquisition activity during the global economic crisis. The biggest PE deal in Australia in 2010 was the USD2.3 billion public-to-private takeover of Healthscope Ltd, an operator of private hospitals and pathology services, by US based funds TPG Capital and Carlyle Capital. This was the first PE acquisition of over USD1 billion in Australia for almost 3 years. Other notable PE deals in 2010 included:



- The secondary buyout of the Study Group by Providence Equity Partners from CHAMP Private Equity for USD400 million
- Pacific Equity Partner's public to private acquisition of Energy Developments for USD400 million, which was finally completed in early 2010
- Archer Capital's acquisitions of energy distribution group Ausfuel and Western Australia (WA) based dairy producer Brownes from AMP Capital and Fonterra Brands Australia respectively, both for undisclosed amounts
- Quadrant Private Equity's acquisition of the entire share capital of Media Monitors Pty Ltd
- CHAMP Private Equity's secondary buyout of temporary fencing services provider ATF Services from Quadrant
- Crescent Capital's USD445m sale of National Hearing Care to Amplifon SpA of Italy

In addition to the above completed PE deals, in late 2010 KKR surprised many observers with an unsolicited

USD1.9 billion offer for wealth management firm Perpetual. After initial discussions this bid was rejected. It remains to be seen as to whether or not KKR will return with a revised offer.

Finally, the other key themes noted with regards to Australian M&A activity in 2010 was the series of demergers, with several high profile conglomerates looking to split up their groups in order to focus on core activities. Notable demergers in 2010 included:

- Orica Ltd's spin-off of its Dulux Group unit, a manufacturer and wholesaler of paints in a transaction valued at USD806 million
- CSR's sale of its sugar business, Sucrogen, to Singapore company Wilmar International for USD1.8 billion, in order to concentrate solely on the building products sector
- Fosters Group announced the split of its beer and wine assets into separate companies. At the time of writing the leadership teams of each business have been confirmed, and the transaction will shortly be put to a shareholder vote

Outlook

Whilst economic growth may not continue at quite the same rate as 2010, we believe the Australian economy will remain in a healthy condition over the course of 2011, largely underpinned by the continued demand for local resources from Asia. We also expect the value of the AUD to drop slightly, particularly in the wake of the Queensland floods, and also a result of any improvement in economic performance in other major economies.

From a deal perspective, we believe the following areas will provide significant levels of activity in the coming months:

Private Equity

There remain significant unspent funds coming out of the economic crisis which PE managers will be looking to invest in 2011 in order to earn returns for their investors and justify fund management fees. In addition, several local PE firms raised new funds towards the end of the 2010, including CHAMP and Quadrant. In the post-crisis environment, fund managers continue to scour the full range of Australian industries for investment opportunities, and place a renewed focus on value-add activity at the portfolio company level, as opposed to simply leveraging the business and riding out cyclical markets. In addition, many PE funds will be looking to exit investments made during the pre-crisis era, with many investments due for refinancing within the next two to three years. The tentative re-opening of the IPO market following the Queensland Rail float may present an attractive avenue for

exit for the number of portfolio companies which are approaching investment maturity under their current ownership structure.

Resources

With the continued demand for Australian commodities, we expect the resources sector to remain an active source of M&A deals, as local firms look to utilise excess cash, and overseas bidders attempt to secure ownership stakes in key components of their supply chain. It is also likely that local giant, BHP Billiton, will continue to look for targets following their failed deals with Rio Tinto and Potash Corp, given their strong balance sheet and pressure for growth from investors. That being said, BHP may be required to look outside their core resources sector for deals given the scrutiny placed on their previous attempted transactions by the competition authorities. Resource services is also widely speculated to be the source of further consolidation in 2011, as all participants struggle to fill labour shortages, placing particular pressure on smaller players.

Wealth Management

Whilst there has been a raft of industry consolidation in the banking sector over the past two years, the wealth management aspect of financial services still appears an attractive area for investment, with analysts seeing many public stocks as undervalued coming out of the crisis. This was primarily evidenced by KKR's failed USD1.9 billion offer for Perpetual, whilst we expect AMP and AXA SA to finalise their USD13 billion takeover of AXA Asia Pacific in early 2011.

Entertainment and Media

A combination of a rebound in the advertising market post-crisis and the PE ownership of several major media conglomerates within Australia is likely to result in a number of transactions taking place within the entertainment & media industry in 2011. Nine Entertainment (formally PBL Media), owned by CVC Asia Pacific is hotly tipped to seek an IPO in the first half of 2011. Should this float be well received by the market, then Kohlberg Kravis Roberts may also look to seek an exit on their investment in Seven Media Group. In addition the Hoyts cinema chain, currently owned by Pacific Equity Partners was strongly rumoured to have been the subject of a trade sale process in late 2010, and may now be put forward for IPO in 2011.

Infrastructure

The government privatisation programs in place in 2010 will continue into 2011, with the sale process for Abbot Point Coal Terminal underway and also the last phase of the NSW energy sales to be conducted. Further government privatisations may also be undertaken with rumours that further port sales may be considered by certain States. Some of the listed infrastructure funds continue to consider their capital structure and further consolidation of listed infrastructure funds is expected during the year. A number of infrastructure entities have significant refinancing needs in 2011, which may drive further secondary asset sales as these funds look to create a more sustainable leverage position. ■

South and Southeast Asia

New Zealand

On the road to recovery.



Mark Averill
Corporate Finance Leader
New Zealand

Current Environment

Recovery in the New Zealand economy has been gradual this year, against a frail global backdrop. This is illustrated by the change in GDP which grew by 0.5% over the last four quarters to September 2010.

The New Zealand dollar has remained at historically high levels compared to the USD throughout 2010, rising from a low of USD0.66:NZD1 in June to USD0.79:NZD1 in November. In addition to a generally weak USD, the New Zealand dollar has been supported by high prices for New Zealand's export commodities, principally dairy, meat, forestry, and horticulture products which comprise a large proportion of New Zealand's total exports. The ANZ Commodity Price Index, which measures the movement in international prices for New Zealand's key export commodities, is up 31% on prior year.

New Zealand's unemployment rate has decreased to 6.4% at September 2010 from a recent peak of 7.1% recorded in December 2009. Increased employment has been concentrated in the agricultural, forestry and fishing, and electricity and utilities industries.

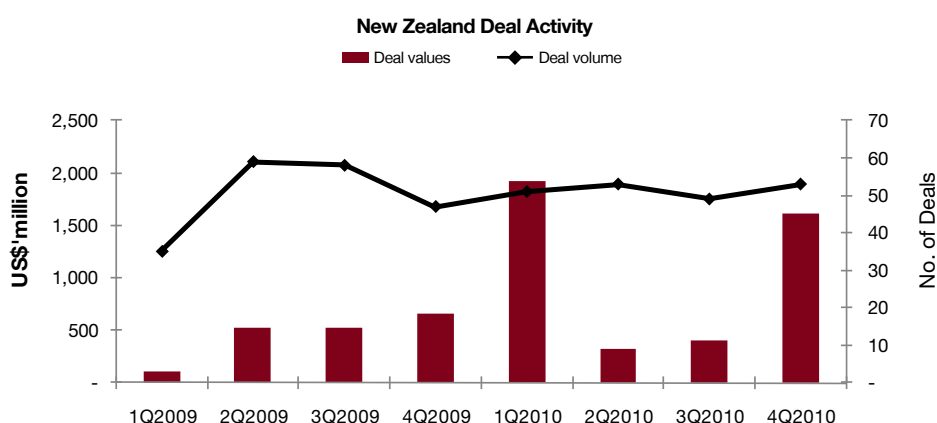
Residential building consents rebounded in the year to October

2010, increasing by 19.5% and recording the first increase since 2007. However house prices have remained largely stagnant during the year, with house prices currently around 6% below the market peak of late 2007. The value of non-residential building consents for the year to October 2010 was down 17% on prior year, with the value of consents for offices and administration buildings recording the largest fall.

Inflation for the year ended September 2010 was 1.5%, which is towards the lower end of the target range of 1% to 3% used by the Reserve Bank of New Zealand (RBNZ). The RBNZ left New Zealand's Official Cash Rate (OCR) unchanged at 3.0% in its 8 December, 2010 Monetary Policy Statement, with the RBNZ Governor stating that the OCR will remain low until the recovery becomes more robust and underlying inflationary pressures show more obvious signs of increasing. The OCR reached a recent high of 8.25% between July 2007 and June 2008 before being progressively reduced to a low of 2.5% in April 2009 as the global financial crisis took effect. The RBNZ started raising the OCR in June 2010.

During 2010, the New Zealand Government reduced the corporate tax rate to 28% from 30% and increased the Goods and Services Tax (GST) from 12.5% to 15%.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2010.

Having reached a high for the year of 3,335 points on 14 April the New Zealand Exchange (NZX) 50 declined to a low of 2,934 points on 1 July. The NZX50 finished the year at 3,309 points, up 2.4% from the start of the year. During the year the New Zealand Stock Exchange launched its Dairy Futures trading platform, with whole milk powder futures the first product to be launched. In late December 2010, the NZX announced that it would add skim milk powder and anhydrous milk fat to its NZX Dairy Futures Market in 2011.

Deal Activity

Deal activity was up slightly on the prior year, with 206 deals announced during the year compared to 199 deals in 2009. Domestic deals accounted for 53% of deal volumes, with inbound deals accounting for 35%, and with the remaining 12% being outbound deals.

Total deal value was significantly higher than 2009, however this is skewed by certain large deals, principally the announcement of

Hong Kong based Natural Dairy (NZ) Holdings' proposed acquisition of New Zealand dairy farms for approximately USD1.1 billion in March 2010 (deal still pending), and New Zealand based investment company Rank Group's announced acquisition of US based vehicle replacement parts supplier UCI International for approximately USD1.0 billion in November 2010.

In March, Royal Dutch Shell (Shell) completed the USD524 million sale of its New Zealand downstream assets to Aotea Energy Holdings, a joint venture between NZX listed infrastructure investor Infratil and the New Zealand Superannuation Fund. The deal, which was announced in December 2009, included Shell's supply and distribution infrastructure and a 17% stake in NZX listed New Zealand Refining Company.

Deal activity in 2010 centred around a number of key themes, with agriculture continuing to be a key focus as a result of growing international food demand and New Zealand's considerable strengths in this sector. Growing demand for premium New Zealand



dairy products was cited as a key driver for China based Bright Dairy & Food Co's decision to invest USD58 million for a 51% interest in Synlait Milk Limited, a New Zealand milk processor. The proceeds will be used to double production capacity and extend the company's product range to value-add infant formulated milk products.

Singapore listed Olam International (Olam) made an offer to acquire the remaining shares in New Zealand Farming Systems Uruguay (NZFSU), having acquired an initial 18% shareholding in 2009. NZFSU is a New Zealand listed company established in 2006 to acquire farms in Uruguay and apply intensive pasture based farm management systems developed in New Zealand, which has a similar climate to Uruguay. Olam's offer closed in September with total acceptances taking Olam's shareholding to 78% for a total consideration of approximately NZD120 million (USD90 million).

Another notable deal in the agriculture sector was the offer by Talleys Group (Talleys) to acquire the remaining 47% shareholding in

NZX listed AFFCO Holdings, New Zealand's fourth largest meat processor and exporter with revenue of NZD1.1 billion in 2009. The offer reached 90.5% acceptance in October 2010 allowing Talleys to compulsory acquire the remaining shares under New Zealand's takeover regime. Talleys is a private New Zealand company engaged in fishing, vegetable processing, and ice cream manufacturing.

In the aquaculture sector, NZX listed fishing company Sanford acquired the Greenshell mussel and Pacific Oyster businesses of Pacifica Seafood for USD65.6 million. The acquisition, which involved the purchase of more than 70 marine farms and around 400 hectares of water space, will help drive Sanford's aquaculture strategy. Aquaculture is New Zealand's fastest growing seafood sector and a major export contributor. The New Zealand Government has demonstrated its support for the sector by announcing new legislation to remove regulatory burdens, streamline the consent process for new marine farms, and promote investment in aquaculture development.

The viticulture sector saw two notable deals. Pernod Ricard sold twelve of its New Zealand wine brands and certain New Zealand wineries to an investor consortium led by Lion Nathan for USD63.1 million. Lion Nathan, an alcoholic beverages company operating in New Zealand and Australia, was acquired by Japan based Kirin Holdings for AUD\$3.5 billion in 2009. The transaction followed a strategic review of Pernod Ricard's New Zealand business and the decision to refocus its wine strategy behind core strategic brands. The other notable deal was the full takeover offer for Oyster Bay Marlborough Vineyards (Oyster Bay) by NZX listed Delegat's Group, which received the required level of shareholder support in December 2010.



In the animal health sector, Bayer AG acquired Bomac Group, a private family business which manufactures animal healthcare products designed for farm stock, horses and pets that are sold in over 60 countries. The transaction will strengthen Bayer AG's global animal health business with particular emphasis on the Asia Pacific and Latin America regions. Financial details were not disclosed.

The year saw considerable activity in the financial services sector. Devon Funds Group acquired Goldman Sachs JBW Asset Management (NZ) Limited in March 2010 and renamed the business Devon Funds Management. Perpetual Group, a subsidiary of NZX listed Pyne Gould Corporation, announced its intention to acquire Aegis, the leading WRAP platform in New Zealand with funds under management of over NZD5 billion (USD3.7 billion), from ASB Bank. In November 2010, Japan based Nikko Asset Management announced that it had agreed to acquire Tyndall Investments (Tyndall) in Australia and New Zealand. Tyndall is the fifth largest fund manager in New Zealand. Meanwhile Deutsche Bank acquired a 49.9% shareholding in local investment company Craigs Investment Partners for an undisclosed amount. This activity comes as the New Zealand Government has commissioned a Savings Working Group to consider how New Zealand can improve its national savings rate, with many commentators advocating compulsory superannuation saving in line with Australia and other countries. The working group will make its recommendations in early 2011.

Another notable deal in the financial services sector is the planned merger of three New Zealand finance companies, Marac Finance, Canterbury Building Society, and Southern Cross Building Society, to create a New Zealand listed bank with assets of NZD2.2 billion (USD1.7 billion). The proposal received final shareholder approval in December 2010 and the merged entity is expected to be listed on the NZX in early 2011.

Private equity (PE) deal activity has been relatively subdued during the year. Deals of note include the sale of paper and packaging distributor BJ Ball Group (BJ Ball) by Pencarrow Private Equity to Maui Capital, both local private equity firms. Deal metrics were not disclosed, however BJ Ball generates revenue of over NZD300 million (USD222.9 million). Another local PE firm, Direct Capital, announced the successful closing of its Direct Capital IV fund at NZD325 million (USD241.1 million), which included NZD75 million (USD55.7 million) in over-subscriptions. Direct Capital has already made a number of investments from this fund, including a NZD24 million (USD17.8 million) investment in Australasia's largest third party recurring payment processing company, Transaction Services Limited, and real estate agency Bayleys Corporation. Pacific Equity Partners has indicated that it is running an exit process for Tegel Food. As yet no transaction has been announced.





Outlook

Latest consensus forecasts show the New Zealand economy continuing to improve, with gross domestic product (GDP) forecast to grow by 3.5% in the year to March 2012 (period used for the consensus forecasts). Factors expected to help drive GDP growth in the second half of 2011 include rebuilding work following the recent Canterbury earthquake driving building investment, flow through of high average commodity prices, and hosting of the Rugby World Cup in September 2011. Growth is expected to moderate to 2.6% in the year to March 2013.

The Government will progress a number of initiatives during 2011, including the Aquaculture Amendment Bill and recommendations of the Savings Working Group referred to earlier. In addition, the New Zealand government is progressing with its NZD1.5 billion (USD1.1 billion) ultra-fast broadband initiative to accelerate the roll-out of ultra-fast broadband in New Zealand. This will involve the government investing in partnership with the private sector, and is likely to result in the separation of New Zealand's incumbent

telecommunications company, Telecom New Zealand, into separate network and retail businesses in order for it to participate in the initiative. The government currently enjoys strong support ahead of the next general election, which is expected to be held during the second half of 2011.

The strengthening economic outlook, improving availability of debt funding, and a large number of sizable privately owned New Zealand companies facing near term succession issues will help drive M&A momentum in 2011. PE activity is expected to increase as local and Australian/international PE firms seek to exit existing portfolio companies held over the cycle and invest new funds raised.

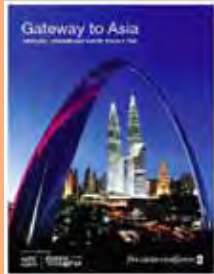
Agriculture will continue to be a sector of focus, both at the primary level and downstream, as global food demand increases and New Zealand's agricultural products and expertise continue to enjoy strong demand globally. This, combined with New Zealand's free trade agreements with its core trading partners, including the recent New Zealand-China Free Trade Agreement which has resulted in strong growth in trade between the two countries, is likely to result in further M&A activity. ■

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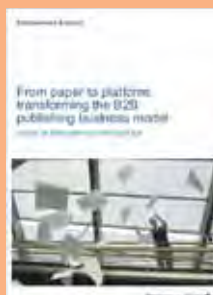
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