

Taiwan

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

Current Environment

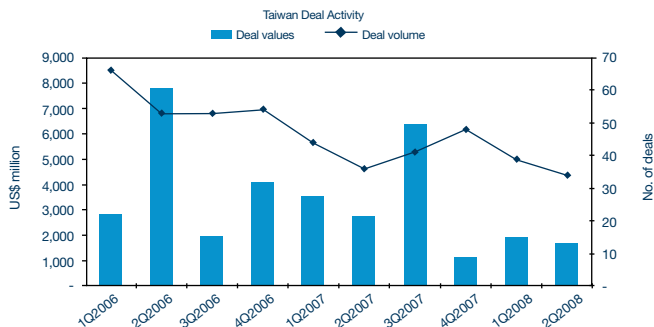
Despite a sharper than expected slump in the US and other major industrial countries following the sub-prime turbulence, Taiwan's economy in the first half of 2008 remained sound with moderate GDP growth of 4.3%, supported by strong exports to the Greater China and ASEAN regions.

While the increase in gasoline and commodity prices will put a damper on consumer spending, a series of new government programmes, including the launch of i-Taiwan 12 projects and eased cross-strait restrictions will likely offset weakening consumer demand. Stimulus measures will replace exports as the biggest economic driver in the second half of the year, boosting domestic demand and accelerating GDP growth to achieve 4.8% for 2008.

High prices and continuing inflationary pressure will still be a concern. The CPI showed a rise of 3.7% in May compared with the same month last year. The Taiwan Stock Exchange index (TAIEX) moved higher in the run-up to the Presidential election, followed by a substantial drop due to both global market turmoil and uncertainty surrounding the new government's timeline to lift investment restrictions. In the first half of 2008, the TAIEX was down by 11.6%.

According to the Investment Commission under the Ministry of Economic Affairs, foreign direct investment during the first five months increased 34.8%, year-on-year. Continuous overseas capital inflow, in light of a positive economic outlook, as well as the government's intention to curb rampant inflation, drove the New Taiwan dollar to appreciate 6.4% against the US dollar in the first half of 2008.

Deal Activity



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

In H1 2008, announced M&A transactions aggregated US\$3.3 billion in value and 53 in volume, with figures excluding outbound activity. Compared to H1 2007, M&A volume fell 12%, while deal value declined 43% in H1 2008. Due to global market turmoil, private equity funds and foreign strategic investors took a more cautious stance toward investments. Moreover, optimistic sellers have been holding out for higher prices, resulting in sluggish inbound activity. Due to the lack of

distressed bank disposal in the financial industry, domestic deals declined significantly year-on-year. Anticipation of potential easing of investment regulations, following the Presidential election in March 2008, contributed to the decline of domestic and outbound deals in the first half of 2008.

We highlight below some representative deals for the first half of 2008:

Outbound activity

Adlink Technology and Ampower – Adlink announced its intention to acquire privately-held Ampro Computers Inc. for US\$20 million. Adlink is a Taiwan-headquartered company providing embedded computing products and services to numerous high-tech industries. Ampro is an embedded PC manufacturer, marketing board- and system-level products to original equipment manufacturers in various markets. The transaction will consolidate Ampro's unmatched expertise in board-level embedded computers with Adlink's low-cost manufacturing capabilities and products targeting the industrial control and communications markets.

Private Equity

Carlyle and Cable-giant CATV Co Ltd. – The Carlyle Group announced a tender offer to take over Cable-giant CATV Co. Ltd for US\$64 million. Acquisition of the Cable-giant is seen as a strategic move by Carlyle to increase its market share of Taipei's cable TV industry. Carlyle has aggressively broadened its Cable TV Network in Taiwan. Between 2006 and 2007, the private equity firm had invested an aggregate US\$1.5 billion in Kbro Co. Ltd., formerly known as Eastern Multimedia Company.

Inbound activity

DBS and Bowa Commercial Bank – DBS Group Holdings Ltd., Southeast Asia's largest bank, is expanding in Taiwan by taking over distressed Bowa Commercial Bank Co. in exchange for payment from the Taiwan regulatory authority, Resolution Trust Corporation. The island's government, which took control of Bowa in August 2007, will pay DBS US\$1.4 billion to take over the bank's assets. The acquisition gives DBS an additional 39 branches in Taiwan, broadening the bank's revenue beyond its two biggest markets of Hong Kong and its base in Singapore. This was part of a period of auctioning of distressed banks at the end of 2007.

Domestic deals

Industrial Bank of Taiwan and China Bills Finance – Industrial Bank of Taiwan ("IBT") has approved a plan to acquire China Bills Finance Corp. ("CBF") through a share swap in a transaction worth US\$1 billion, whereby one IBT share would be exchanged for 1.241 CBF shares. The merger is expected to be completed by April 2009. The operations of IBT cover corporate banking, venture capital and securities, while CBF acts as a dealer and broker of commercial paper, certificates of deposits and treasury bills. The transaction will



help the bank strengthen its competitiveness in the overcrowded banking sector and help it to provide more comprehensive financial services.

Syncmold and Fulfil – Syncmold Enterprise Corp., principally engaged in the design and manufacture of various plastics moulds and hinge products with main applications in IT products, consumer electronics, and document-processing machines, announced its merger with Fulfil Technology, a Taiwan-based hinge manufacturer, at the amount of US\$337 million. Together, the two are believed to account for more than 20% of hinges sold to the global LCD monitor market, with complementary client base.

Wistron acquires Monitor business of Lite-On Technology – Wistron Corp., the Taiwan-based and world's third-largest ODM/OEM maker of notebook computers, announced plans to buy Lite-On Technology Corp.'s monitor business to secure supply of parts. Wistron will pay US\$302 million in cash for the business, including inventory, equipment, and intellectual property. The purchase will expand the company's flat-panel television assembly business. Wistron also plans to sell as many as 24 million new shares to Lite-On in a private placement.

Acer and Eten Information Systems – Acer Inc., the world's third-largest maker of personal computers, agreed to acquire Eten Information Systems Co., a maker of satellite-positioning machines and mobile phones, in order to expand into the market for handheld devices. The transaction values Eten at US\$226 million and will strengthen Acer's foothold in the mobile communications segment, completing the company's range of mobile solutions.

Outlook

We expect M&A activity to grow moderately through the second half of 2008, in view of the global economic slowdown as well as balanced domestic economic statistics. Following the Kuomintang party's Presidential election victory in March 2008, a policy of easing regulatory restrictions is currently underway.

The planned opening of cross-strait policies would include weekend chartered flights, allowing more mainland Chinese tourists to visit Taiwan, a relaxation of the current 40% limit on China-bound investment and a green light for financial institutions to invest in Mainland Chinese peers. The Ministry of Economic Affairs also considers loosening restrictions on private investments in Taiwan by China enterprises.

Should the above easing of restrictions commence as scheduled, we foresee M&A activity regaining momentum in the near future, whetting the appetites of both foreign investors and domestic enterprises, especially in financial, technology and tourism sectors.

Financial sector

M&A activity in the financial sector opened with a slow tempo for the first half of 2008. Despite this, in view of the over-banking situation as well as globalisation issues, we foresee sustained momentum for further M&A activity within the financial sector. Additional opportunities arising from relief of cross-strait investment restrictions could facilitate domestic financial institutions to seek potential outbound activity. A currently drafted act would allow subsidiaries of domestic banks registered in a third country to acquire as much as a 20% stake in China local banks, as well as permitting securities companies to invest in mainland Chinese peers.

For the insurance sector, several insurance companies currently maintain below statutory capital adequacy ratio of 200%, requiring them to undergo capital injection within a defined timeline. Also, the currently drafted, R.O.C. SFAS No. 40, regarding accounting treatment of insurance contracts, will substantially impact capital adequacy of insurance companies, pressuring these companies to raise capital as a buffer against the impact of this legislation. We therefore expect several minority share investments within the insurance industry over the second half of 2008, lasting at least into 2009.

Non-financial sectors

In the wake of both the global market slowdown and the "honeymoon period" of the new Government, we foresee moderate M&A activity in the non-financial sectors for the second half of 2008.

Easing of cross-strait restrictions to allow the launch of regular direct flights and permit up to 3,000 Chinese tourists per day to visit Taiwan, combined with improved relations with China and expanding domestic demand will not only sustain the island's economic growth but also result in potential M&A or investment opportunities in tourism and hospitality industries.

Potential deregulation of the current 40% limit on investments in China, for Taiwan based companies focusing on the domestic market in mainland China, will turn these companies toward acquiring companies or channels in China to capitalise on China's burgeoning domestic demand. Transactions are expected to occur in traditional industries such as cement, food and retail.

Currently, many technology companies are facing a bottleneck of expansion and severe competition; therefore, most thirst for investment opportunities to diversify product mix and maintain growth momentum.

Due to the worldwide energy shortage and the support from governments, market demand in the solar energy industry is growing rapidly. In order to expand production capacities, secure sufficient working capital for raw materials and facilitate vertical integration, many solar energy companies in Taiwan have raised funds or signed syndicated loans in the first half of 2008. We anticipate more movement in the solar energy industry for further future expansion and investment, continuing in the second half of 2008.