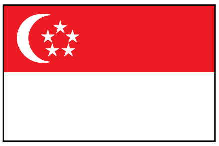


Singapore

The outlook is strong with activity expected in the real estate sector and in public-to-private transactions

Current Environment

The better-than-expected performance of the economy in the third quarter of 2006 led the Ministry of Trade and Industry to revise its official GDP forecast for 2006 upwards to 7.5 – 8 percent, from 6.5 – 7.5 percent. The overall robust growth of the economy was led by the manufacturing and the wholesale and retail trade sectors. Both sectors grew on the back of strong global demand and firm domestic demand, which in turn was fuelled by strong consumption. Other factors including domestic restructuring and pro-growth policies also helped to keep the market buoyant.

The wholesale and retail trade sector grew by 11 percent in the third quarter, due mainly to stronger non-oil re-exports and the construction sector. On the construction front, more contracts were awarded for private sector industrial and commercial projects. The financial services sector rebounded with growth of 8.4 percent in the third quarter, and is expected to grow further as more multinationals set up offices in Singapore.

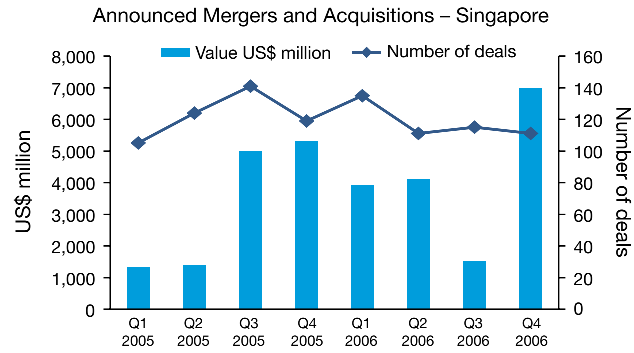
The biomedical manufacturing cluster, which grew by 17.8 percent year-on-year, supported overall output growth in October. The sole contributor to the growth is the pharmaceuticals segment, in which output grew due to more active pharmaceutical ingredients reaching the final stage of the production process.

The other star performer helping to support the overall output growth is the transport engineering cluster, which grew 22.1 percent in October year-on-year and continues to be the fastest growing cluster. This cluster, was boosted by high international oil prices as Singapore holds a significant share of the world market for the maintenance of oil rigs and ships.

The electronics cluster contracted 14.3 percent year-on-year in October, despite an expansion of the semiconductors segment by 14.7 percent in the same month. This is due to sharp contractions in three segments – computer peripherals, data storage, and infocomms and consumer electronics. A drop in demand, as well as the relocation of the production facilities offshore to lower-cost producers, led to the overall decrease in production of these electronic products.

The chemicals cluster also contracted in October by 4.7 percent year-on-year. The production of petroleum, petrochemicals and specialties chemicals fell due to maintenance shutdowns in some refining plants.

Deal Activity



Source: Thomson Financial

Deal values in Singapore improved by 26.9 percent to US$16.5 billion in 2006. This represented an increase of average deal size to US$35 million (US$27 million in 2005), helped by some large deals in the real estate sector and in the palm oil and gaming segments. The 472 deals announced within the year represented a 3.5 percent decline compared to 2005.

Government-linked M&A activity

Singapore's two biggest investors are also the Government's investment arms - Temasek Holdings and the Government of Singapore Investment Corp (GIC), together with the Government-linked real estate companies, which continued to be active within the M&A market in the second half of 2006.

Some of the major deals announced or completed in the second half of 2006 include:

- Temasek announced that it intends to purchase a 14.9 percent stake in the Singapore-based Fraser and Neave for US$583 million to expand its food and beverage exposure in the region
- GIC's real estate investment arm, GIC RE, has bought two prime office buildings in Munich, Germany, for more than US$383.9 million. The buildings are part of an office campus development called Uptown Munchen developed by Hines, a US-based real estate investment company
- ST Engineering concluded the acquisition of a 49 percent stake in Canada-based 1699590 Ontario Inc. for US$250 million to increase its research and development capacity for the next generation remote internet access system
- Mapletree Logistics Trust announced the acquisition of 16 properties across Singapore, China, Hong Kong and Japan. These properties are mainly warehouse cum offices and the total sale price amounts to about US$284 million

- Capitaland announced the acquisition of six residential properties/sites across China, Singapore and Japan with a total sale price of US$247.8 million, and the acquisition of three commercial buildings in China and Japan for a total sale price of US$154.7 million

- Temasek concluded the acquisition of a 4.6 percent stake in Mitsui Life Insurance, one of the largest life insurers in Japan, for US$171.4 million

Non-Government-linked M&A activity

The most active players in the second half of 2006 came from industry sectors such as Real estate/REITs, energy, financial services, industrial, transportation and medical/pharmaceutical. The major deals concluded include:

- Wilmar International (formerly Ezyhealth Asia-Pacific) announced that it will acquire PPB Oil Palms, a Malaysian oil palm group, via a conditional voluntary public offer for US$1.2 billion as part of a wider US$2.7 billion merger deal with the plantation assets of Malaysia's Kuok Group

- Genting International, the Singapore-listed gaming arm of Genting Group, the Malaysian diversified group, has made a recommended mandatory public offer to acquire a 69.6 percent stake of Stanley Leisure, the UK-listed gaming company for US$1.3 billion

- Venture Corporation Limited, the Singaporean listed electronics services provider, has agreed to acquire the entire capital of GES International Limited, the Singaporean industrial services provider, for US$639 million

- Tuan Sing Holdings Limited, the Singaporean listed investment holding company has made a counter-public offer to acquire a 74.9 percent stake in Grand Hotel Group, the Australian listed hotel management company for US$335 million

- ISG Asia Ltd, the listed Singapore based international property and construction services and project management group, has agreed to acquire the palm oil plantations and edible oils and fats refining division (EOF) of PT Indofood Sukses Makmur, the listed Indonesia based food processing company, in a reverse takeover transaction, for a stock consideration of US$250 million

- Flextronics International Ltd., the listed Singapore based provider of electronic manufacturing services, acquired International DisplayWorks Inc., the listed US based supplier of LCD displays and modules. The enterprise value of the transaction is approximately US$243 million.

- TSO Investment Pte Ltd, a unit of pan-Asian real estate fund Fudo Capital LP, acquired an office building - SIA Building for US$224 million.

Outlook

With a huge pool of liquidity, plus the arrival of a strong supply of private equity capital, the M&A market in Singapore will see robust activity carried forward into 2007.

Public-to-private trend

Following the first public-to-private deal by private equity investors in Singapore, Mentor Media was acquired and delisted from the Singapore Stock Exchange in the first quarter of 2006 by a consortium of private equity investors, including Mulberry Partners Private Limited, HSBC Private Equity and Navis Global Holdings. Following the Mentor Media public-to-private deal, HSBC extended a mandatory unconditional cash offer for Singapore-based listed Nera Electronics Ltd.

Private equity investors believe they can extract further value from listed companies in South East Asia, and it is estimated that there are several more public-to-private deals in the pipeline across the region.

Real estate sector

Rental rates and capital values are set to continue to rise in Singapore, given the shortage of office and industrial space on the island. In a bid to boost yield accretion to their unit holders further, REITs will continue to seek acquisition opportunities both in Singapore and the region.

The rapid development of both the commercial and residential property markets will lead to greater issuing of REITs and mortgage-backed securities. ING Real Estate, for example, is planning to launch two funds worth at least $1 billion each to invest in Asian shopping centres in the first half of 2007, feeding growing demand from major pension funds. Property analysts believe there will also be an influx of cross-border REITs from Japan and Australia, listing in Singapore to enjoy the attractive yield premiums that Singapore offers.

A possible code of takeovers for REITs could be in place next year and that could pave the way for further M&A activity amongst the REITs listed here. Given the shrinking pool of attractive yield-accretive assets in Singapore, this may encourage some of the bigger REITs to consider acquiring some of the smaller REITs. This would clearly be another step forward and spur the development of the REITs market in Singapore, further consolidating Singapore's lead as a centre for REIT activity in Asia.