



Taiwan

Foreign partnership alongside industry consolidation fuels M&A activity

Current Environment

Taiwan's economy in 2007 boasted a strong improvement over the previous two years. GDP growth in 2007 accelerated to 5.5%, the highest since 2005. The unemployment rate dropped to 3.9%, the lowest in the past seven years. Market watchers cited export expansion, combined with recovering private consumption and robust private fixed-capital formation as the main factors behind GDP growth. Taiwan's total foreign trade, exports, imports and trade surplus all exceeded historic highs in 2007. Total exports rose 10.1% to US\$247 billion, and imports climbed 8% to US\$219 billion. The trade surplus saw a 28.4% increase to US\$27.4 billion. Foreign demand in 2008 will continue to drive economic growth. In the aftermath of the subprime crisis and subsequent slow-down of the global economy, Taiwan's exports will experience more modest growth in 2008, with GDP growth predicted at 4.5%.

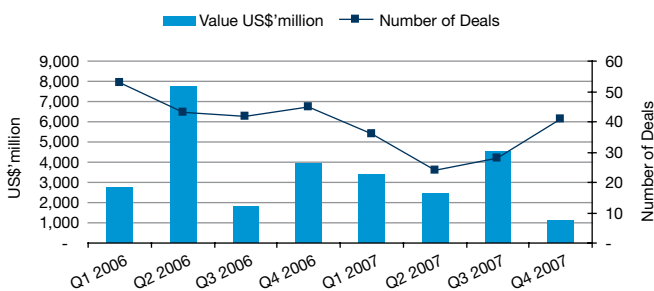
In the wake of the US subprime crisis, with approaching parliamentary and Presidential elections, Taiwan's stocks fluctuated widely in the second half of 2007. The government announced a series of favorable policies in the third quarter, which included a US\$15 billion investment in the construction of public infrastructure and an over US\$843 million investment in the biotech sector, toward the goal of developing Taiwan as a bio-tech island. Optimism about domestic political conditions and a potential opening-up of the "three links" between Taiwan and China partially offset negative effects of the downturn in the US economy. The Taiwan Weighted Stock Index rocketed over 9,800 in July and October 2007, with annual securities market turnover value of over US\$1 trillion, the highest since 1998.

The New Taiwan dollar advanced steadily against the US dollar over the second half of the year. At the end of December, US\$1 traded for NTD32.443, compared to NTD32.596 at the end of 2006. The New Taiwan dollar is expected to continue gaining against the US dollar as market watchers expect the victory of the Kuomintang party's in securing a legislative majority in January 2008 to generate more fund inflows and a bullish stock market in 2008.

Total applications for Foreign Direct Investment approved in 2007 reached 2,266, an increase of 22.75% over 2006, according to statistics from the Investment Commission of the Ministry of Economic Affairs. Thanks to active inbound M&A activity and buoyant PE fund investment, Foreign Direct Investment approved in 2007 peaked a record US\$15 billion.

Deal Activity

Announced Mergers & Acquisition – Taiwan



Source: Thomson Financial

M&A activity rose 40% in 2007, although deal value declined to US\$11.5 billion without the benefit of the series of mega deals which occurred in 2006. Technology, telecommunications, and financial services dominated M&A transactions in 2007. Cross-border acquisition deals comprised the bulk of transactions valued above US\$300 million. Inbound activity over-shadowed outbound activity in terms of both the deal value and volume, with PE funds still prominent among those inbound deals. Outbound deals rose sharply, nonetheless, with announced deal value in 2007 five times that of the previous year, concentrating largely in the technology and industrial sectors.

We summarise below some representative deals in the second-half of 2007.

Outbound activity

Acer and Gateway

Acer acquired a 99.62% stake in Gateway for US\$755 million in cash to boost its global market share by entering the US market with a well-known brand name and better access to crucial retailers. This deal will push the Taiwanese company past China's Lenovo Group as the world's third-largest vendor of personal computers.

Lite-on Technology acquires Perlos Corp

Lite-on Technology, a Taiwan-headquartered manufacturer of computer peripheral equipment, has made a tender offer, via a Finland-incorporated wholly-owned subsidiary, to acquire all outstanding shares of Perlos, a Finland-based handset casing maker for US\$529 million. The transaction will create a new global handset manufacturing powerhouse.

MediaTek Inc. and Analog Devices

In the trend of global baseband vendor consolidation, MediaTek, the world's leading fabless semiconductor company for wireless communications and digital media solutions, plans to acquire Analog Devices' handset transceivers, basebands and related platform product lines and staff for US\$350 million in cash. This acquisition will bolster MediaTek's global operations and development in converging consumer solutions through enhanced customer base, strengthened radio transceiver and baseband chipset products, and key patents and intellectual property.

Prime View International Co. and BOE Hydys Technology Co.

Prime View, which makes LCD panels for a wide range of products, including DVD players and mobile phones, announced plans to buy a 95% stake in bankrupt BOE-Hydys Technology for US\$287 million to secure its panel capacity and boost its position in the small-to-medium TFT panel market. The deal will boost Prim View's capacity four-fold after merging three plants owned by BOE-Hydys.

E-Ton Solar Tech Co. and Adema Technologies

E-Ton, one of Taiwan's top solar cell makers, acquires Adema Technologies, a US-based manufacturer of solar power parts, for US\$154 million in cash and stock to secure a long-term stable supply of high-quality raw materials. The move is part of a trend that has seen solar panel makers form tie-ups with materials providers to ensure supply as silicon prices climb amid rising demand for alternate energy sources.



Private Equity activity

Global Viewcomp Holding BV and Nien Made Enterprise

Nien Made, the world's number-one window shutters and number-three window blinds player and Asia's largest branded manufacturer, received a US\$750 million buyout offer from Global Viewcomp Holding BV, the investing vehicle of CVC Capital Partners, a global PE fund. The transaction exemplifies growing cross-strait economic ties. This move is seen as a way to avoid China investment caps of 40% of the company's net worth set by the government as Nien Made is establishing itself as a fully integrated Greater China Enterprise. The Nien Made acquisition represents the second-largest public-to-private buyout by a PE fund in Taiwan, following the acquisition of Fu Sheng Industrial by Oaktree Capital Management. After the acquisition, Nien Made will delist from the Taiwan Stock Exchange and is anticipated to relist in 3-5 years.

Carlyle Group and Ta Chong Bank Limited

Ta Chong Bank, Taiwan's fifth-biggest cash card issuer, agreed to issue convertible financial debentures, common shares and preferred shares worth US\$650 million to a consortium led by the Carlyle Group to improve financial structure, marking the US PE fund's first entry into Taiwan's banking sector. This capital injection is expected to improve the asset quality and enhance the BIS ratio of Ta Chong. After the capital injection, Carlyle will control a 37% stake and majority control of Ta Chong's board with ability to oversee major corporate decisions.

Inbound activity

HSBC and The Chinese Bank

HSBC agreed to take over the distressed The Chinese Bank in return for a payment of US\$1.47 billion (NTD47.488 billion) from the government's financial restructuring fund. The acquisition will expand HSBC's branch network from 8 to 47.

Eaton Corporation and Phoenixtec Power Co.

Eaton, a diversified industrial manufacturer, launched an all-cash tender offer to acquire Phoenixtec Power Company, a Taiwanese manufacturer of single- and three-phase uninterruptible power supply ("UPS") systems, for US\$1.54 per share. Approximately 69% of Phoenixtec's outstanding shares have been tendered into the offer valued at US\$451 million. Phoenixtec has leading positions in UPS markets, particularly in China, Southeast Asia and Eastern Europe.

Domestic deals

Cathay United Bank and China United Trust and Investment Corp

Cathay United Bank, the banking unit of Taiwan's largest financial group, won a bid to take control of China United Trust and Investment Corp in October. Cathay United Bank received US\$396 million (NTD12.9 billion) in compensation from the Financial Restructuring Fund. This transaction would give Cathay an additional 20 branches, increasing its number of branches from 139 to 159.

Outlook

We expect M&A activity will remain robust through the second half of 2008 after the Presidential election held in March. The pro-China Kuomintang party won a landslide victory in parliamentary elections in January, hinting that curbs on Taiwanese companies investing in China may ease and whetting the appetites of both foreign investors and domestic enterprises for further consolidation. For foreign investors, Taiwanese companies are still traded at lower multiples compared with those in other Asian countries and are regarded as an advantage for entering the Chinese market. For domestic conglomerates, the possible easing of regulations will fuel an increasing number of China investments, which serve as a way to tap the Chinese market and integrate manufacturing.

Financial and Technology sectors will continue to dominate M&A deals in 2008. An increasing number of outbound activity are anticipated, with no sign of decline in PE deals.

Financial Services sector

As a series of bank acquisitions took place in 2007, consolidation within the sector will slow. Auctioning of distressed banks will start to tail-off after the auction of the Bowa Bank in the end of January. Although affected by the subprime crisis, foreign PE will still play an important role in the consolidation of Taiwan's financial sector in 2008. At least two other distressed banks seek cash injection from PE to avoid take-over by the government. We expect another wave of consolidation in the financial industry after 2008 as many PE funds seek to exit from their investment to realise profits after holding shares for several years.

Taishin Financial Holding Co. announced its withdrawal of the merger proposal with Chang Hwa Commercial Bank. A temporary halt on the merger plan indicate that both sides still await better timing after the Presidential election.

Investment in mainland Chinese banks is anticipated within the sector as Taiwan's government is in its final step of policymaking to allow the island's banks to buy a stake in mainland Chinese rivals via their Hong Kong units. Hua Nan Financial Holdings Co., the island's fifth-largest financial services company by assets, has shown its intent to do so.

Technology sector

In 2008, outbound deals are expected to increase in the technology sector in light of the increasingly important role of Taiwanese companies in the global supply chain. Domestic companies try to enhance competitiveness to boost global market share through integration to increase brand value or acquire channels, which are the key drivers for outbound deals in 2008. The acquisition of Gateway by Acer exemplified the ambition of Taiwanese companies in this regard.

Smaller domestic deals will be driven by vertical or horizontal integration as a way to acquire the key technology or materials or enlarge capacity. Two of these horizontal integration deals were announced in panel and electronic parts distribution industries in January.

PE funds will continue to invest in competent companies which are considered undervalued or are well-established in China. Taiwan Mobile, the island's No.3 telecom operator with stable cash flow, has sold a 6% stake to a foreign PE fund in a deal estimated at US\$433 million in early 2008.