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AVCJ - KPMG Asian Private Equity Quarterly Investment Report

**AVCJ KPMG Asian Private Equity Quarterly Investment Report sees Asia Pacific
investment end 2008 on a low
Activity continues fall to year end**

Hong Kong, 1 February 2009 – The AVCJ KPMG Asian Private Equity Quarterly Investment Report, drawing on data from the *Asian Venture Capital Journal*, has shown announced private equity investments continuing a steady slide to the end of 2008, with the fourth quarter of the year delivering just \$8.4 billion of deals, down from \$19.6 billion in 1Q08, \$15.5 billion in 2Q08, and \$11.9 billion in 3Q08. This steady downwards progression, though it may reverse in 2009, clearly shows a very different environment from the same quarter in 2007, which delivered \$27.6 billion of deals. There is no longer any question that the global financial and economic crisis is impacting private equity activity in the region.

Mature economies up, China, India down

Perhaps surprisingly, Asia Pacific's more mature economies moved back to the fore of regional investment activity, somewhat contradicting those investors who still see great potential in the growth economies of China and India. Australia came first, with over \$1.68 billion of deals, followed closely by Antipodean peer New Zealand, at just under \$1.2 billion – albeit on the strength of just one deal, the 50% investment into New Zealand Powerco by Australia's QIC Global Infrastructure. Emerging economy hopeful China saw just over \$1.13 billion of deals, none above \$200 million in size, with Japan just behind at \$999 million. This is a substantial fall from the Q308 investment total of \$4.3 billion for China. India also struggled to meet expectations of the many funds raised for this market with just \$799 million of mostly small deals. Indonesia came sixth, also on the strength of a single deal – Ancora Capital Management and Northstar Pacific Partners' \$647 million 45% investment in PT Bumi Resources.

Sectors see utilities, mining dominate

Investment patterns by sector showed utilities and mining solidly ahead in Q408, with almost \$1.67 billion for the first and just over \$1.2 billion for the second. The fact that two of the top ten deals of the quarter – Cairns Airport and Brisbane Airport – also arguably encroached on the utilities sector reinforces the picture of direct investment money going into solid assets with sustainable non-cyclical businesses. Furthermore, many of the investors into these deals were asset management firms or pension funds, rather than independent private equity firms.

AVCJ GROUP LIMITED

20th Floor, Admiralty Centre, Tower 2 · 18 Harcourt Road · Admiralty, Hong Kong

Telephone (852) 3411 4900 · Fax (852) 3411 4999 · Email info@avcj.com · Website www.avcj.com



TMT also saw a respectable volume of business, just under \$1 billion. However, the MYOB and PBL Media deals in Australia accounted for a substantial proportion of this. The predominance of small financial services deals, totaling \$863 million, also suggests investment firms taking advantage of depressed valuations in the sector.

Buyouts back across region – or not

The overall smaller volume of activity in Asia Pacific made a big difference to the value of investments by stage in 4Q08. With giant economies like China and India hardly able to deliver even \$1 billion of private equity opportunity, even medium-sized transactions like Ashmore Investment Management's \$522.6 million purchase of 40% of the Philippines' Petron Corporation could move the needle. And Pakistan, not hitherto a major private equity destination, appeared in the rankings thanks to Abraaj Capital's \$400 million investment for 35.8% of Karachi Electric Supply Corporation.

The strong showing in the buyout space during 4Q08 mostly reflects these larger isolated transactions, with relatively little activity in the growth capital and venture spaces. Smaller buyouts such as Archer Capital and HarbourVest Partners' joint \$301 million purchase of Australia's MYOB, and the \$356 million Hastings/JPMorgan AM/Perron/Westpac consortium's purchase of Cairns Airport, appeared comparatively significant. South Korea's market is also one showing a conspicuous drop in activity, with MBK Partners' \$310.7 million buyout of Doosan Techpack accounting for almost the entire deal flow there for the quarter.

The situation in growth capital showed some momentum at the small deal end. In the two most important growth economies, China saw almost \$672 million of such deals, while India saw just over \$518 million. Feedback from sources suggests that the slowdown in both markets is mostly attributable to promoters waiting in hope of higher valuations and the immediate impact of the global crisis, rather than an absolute shortage of opportunities per se.

Investment stalled or waiting game?

With investment activity down substantially in much-vaunted growth economies like China and India, targeted by many recent and current fundraising efforts, regional commentators are speculating on whether the dropoff in investments represents a genuinely depressed market, or simply promoters waiting in the hope that valuations will improve. Despite the impact of the global downturn on export businesses in Asia, much opinion leans towards the latter.

"Asia Pacific finished the year quietly, with particularly marked slowdowns in China and India," said Honson To, Asia Pacific Regional Leader, KPMG Private Equity Group. "However, there are still strong hopes for an excellent vintage of investments as companies seek funding at keen valuation levels."

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“There are many indications that private equity firms are focusing on value improvement in their investees rather than fresh investments,” remarked Paul Mackintosh, Managing Editor at AVCJ. “With the IPO exit route closed regionwide for the present, expectations are that holding periods for investees will increase.”

About AVCJ Group

AVCJ Group is the leading source of information on Asian private equity and venture capital. A wholly-owned subsidiary of Incisive Media, AVCJ’s journals include *Asian Venture Capital Journal*, *Private Equity Asia* and *Asian Venture Capital Journal* (Chinese edition). AVCJ Group also organizes the *AVCJ Private Equity & Venture Forum* conference series. Since its first gathering more than 20 years ago, the *AVCJ Private Equity & Venture Forum* has grown to become *the* meeting place for Asian private equity and venture investors, fund managers, corporate executives and financial professionals.

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 145 countries and have more than 123,000 professionals working in member firms around the world.

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For press release information, please contact:

AVCJ

Paul Mackintosh

Tel: + (852) 3411 4909

Email: Paul.Mackintosh@incisivemedia.com

Georgina Sam

Tel: + (852) 3411 4951

Email: Georgina.Sam@incisivemedia.com

KPMG

Robert Stoneley

Tel: + (852) 3121 9850

Email: robert.stoneley@kpmg.com

Honson To

Tel: + (86 21) 2212 2708

Email: honson.to@kpmg.com.cn

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