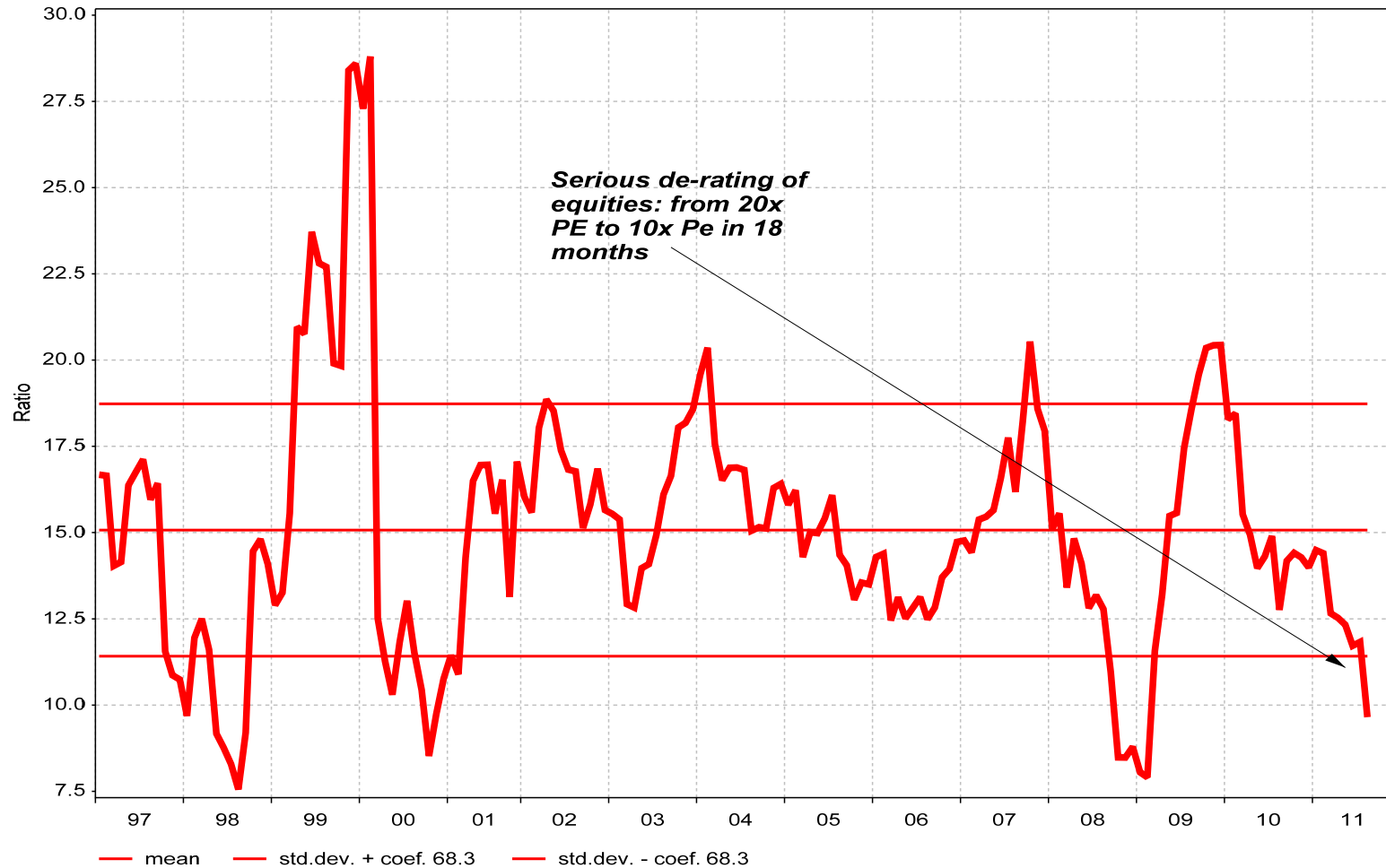




MW GaveKal Quarterly Investor Conference Call
Update on Asian Markets
September 2011

Asia has just gone through a serious 'de-rating'

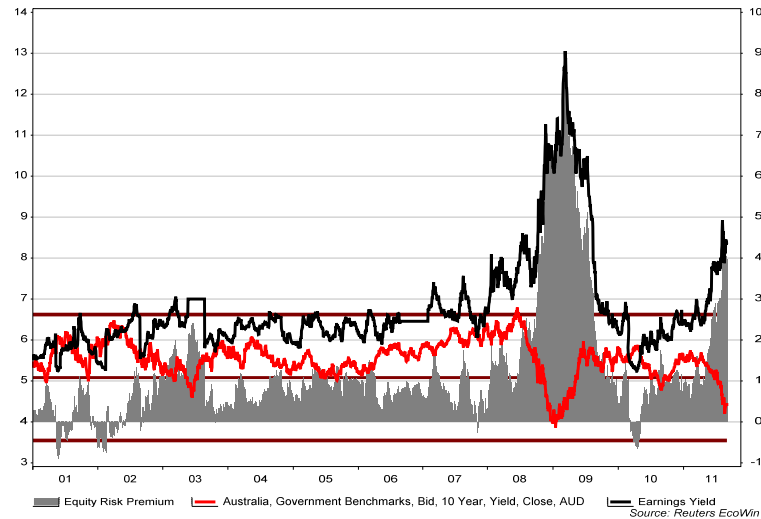
Hong Kong, Hang Seng Index, P/E Ratio



Source: Reuters EcoWin

Valuations are almost back at their 1998, 2002 or 2008 troughs

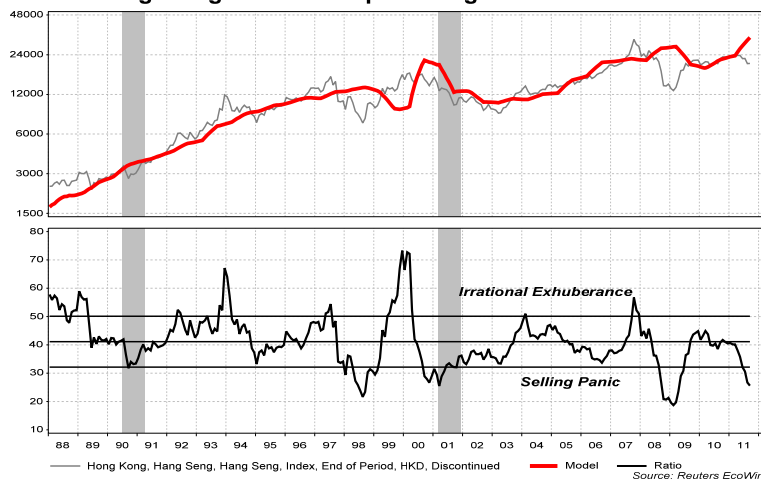
Australia Equity Risk Premium



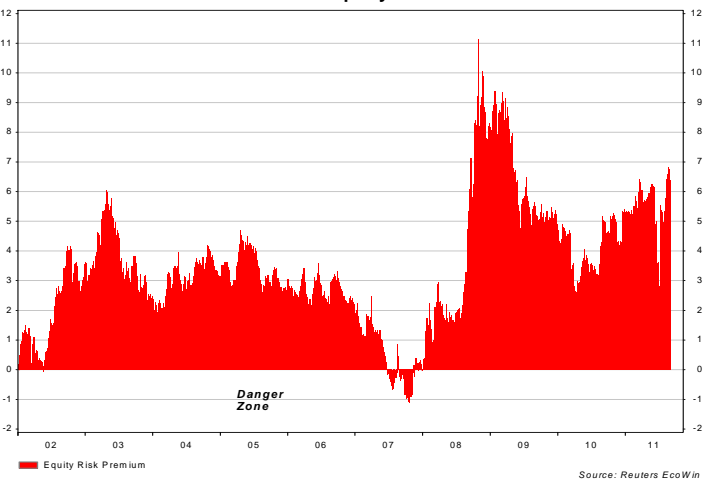
Japan, Nikkei 225 Price to Book Value



Hong Kong Mulhenkamp Earnings Discount Model



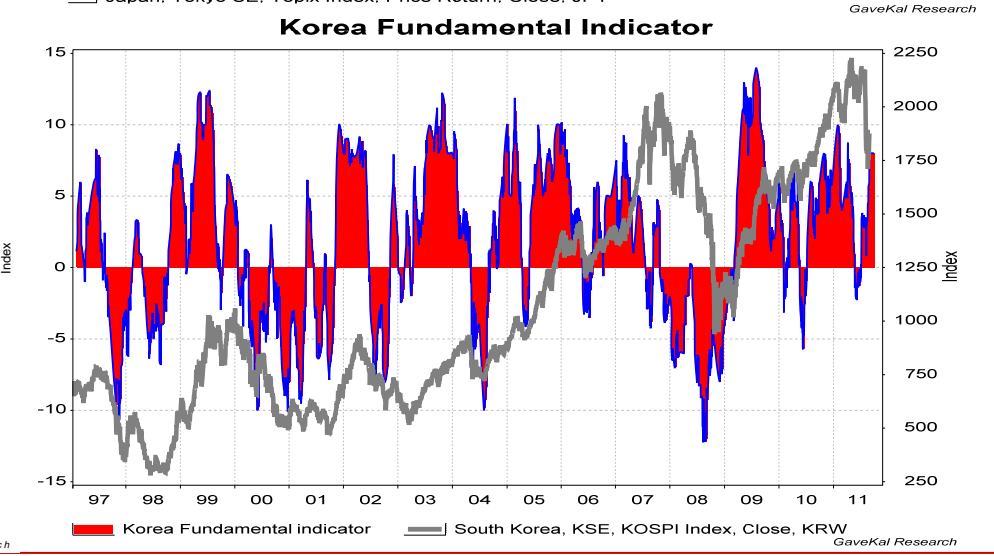
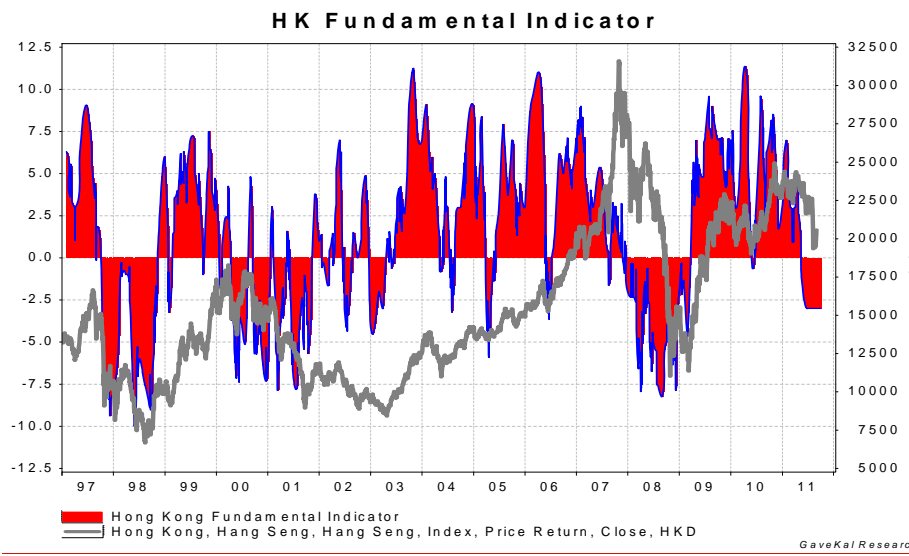
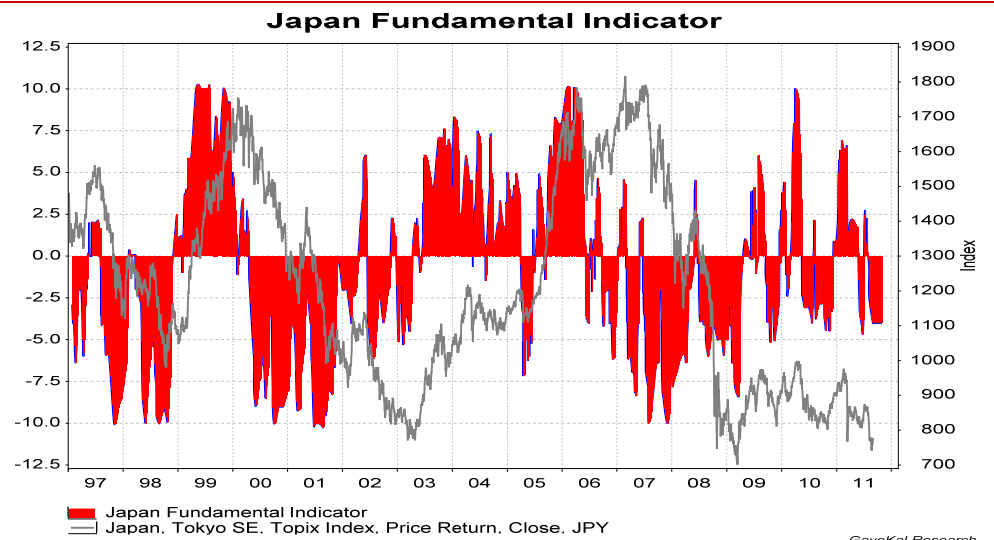
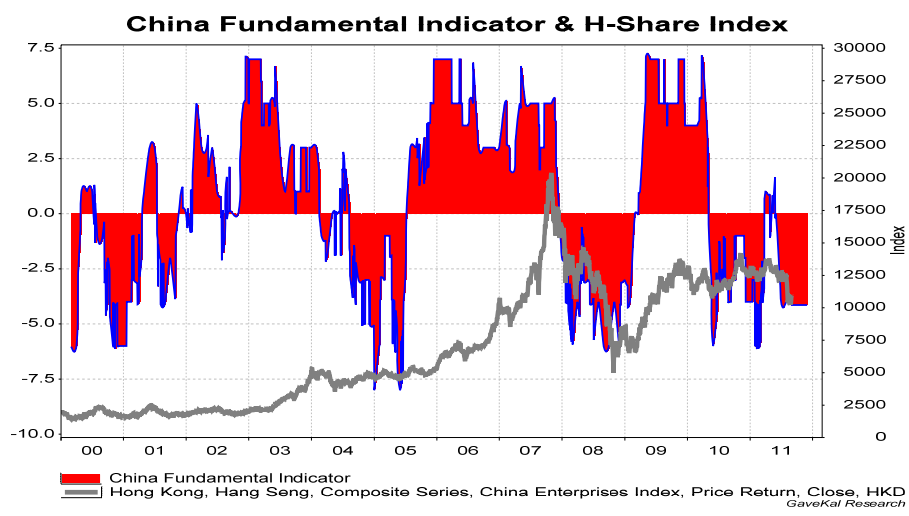
China H Shares Equity Risk Premium



Source: MW GaveKal / Reuters EcoWin

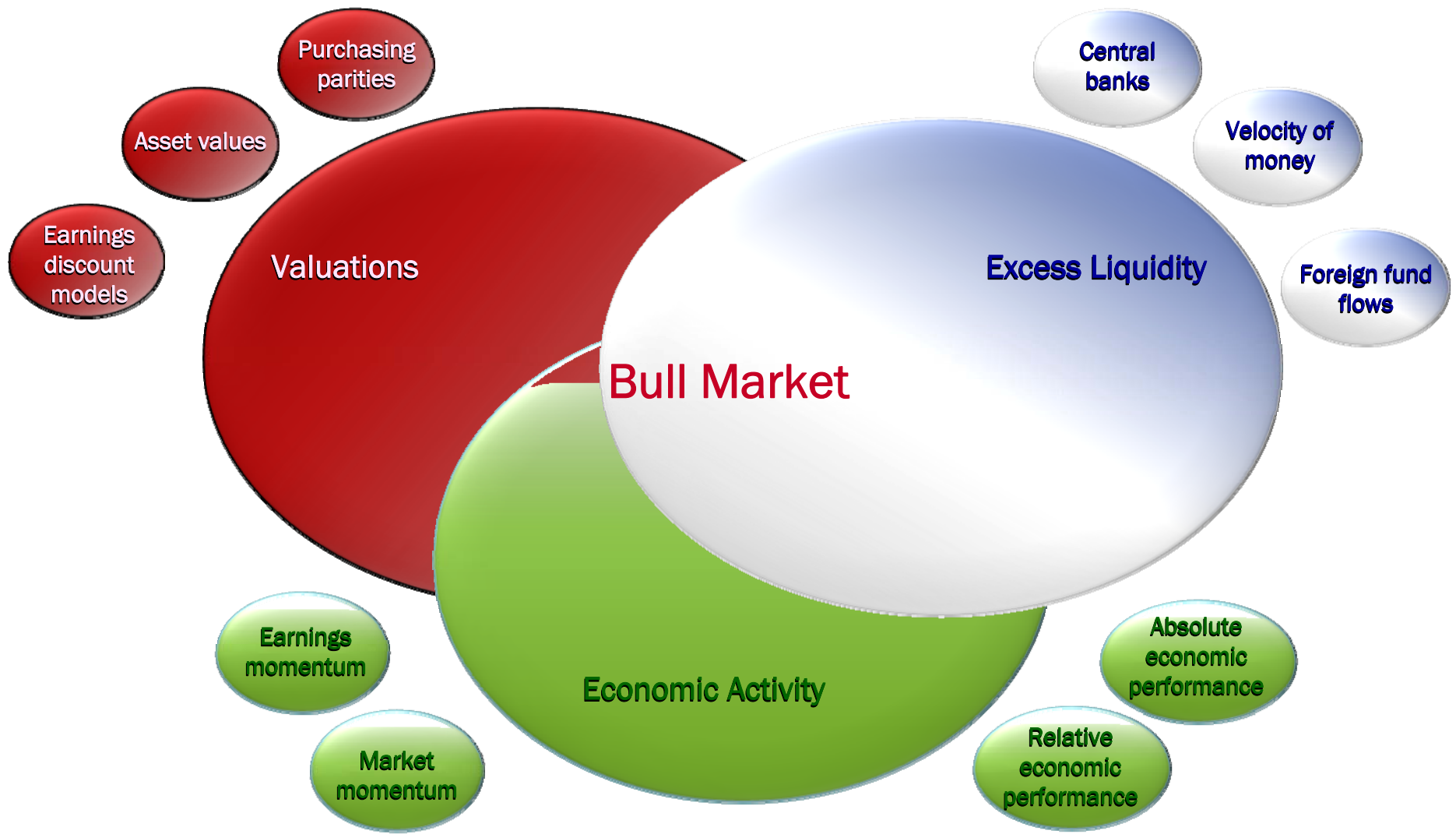
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But our fundamental indicators are (not yet) very bullish



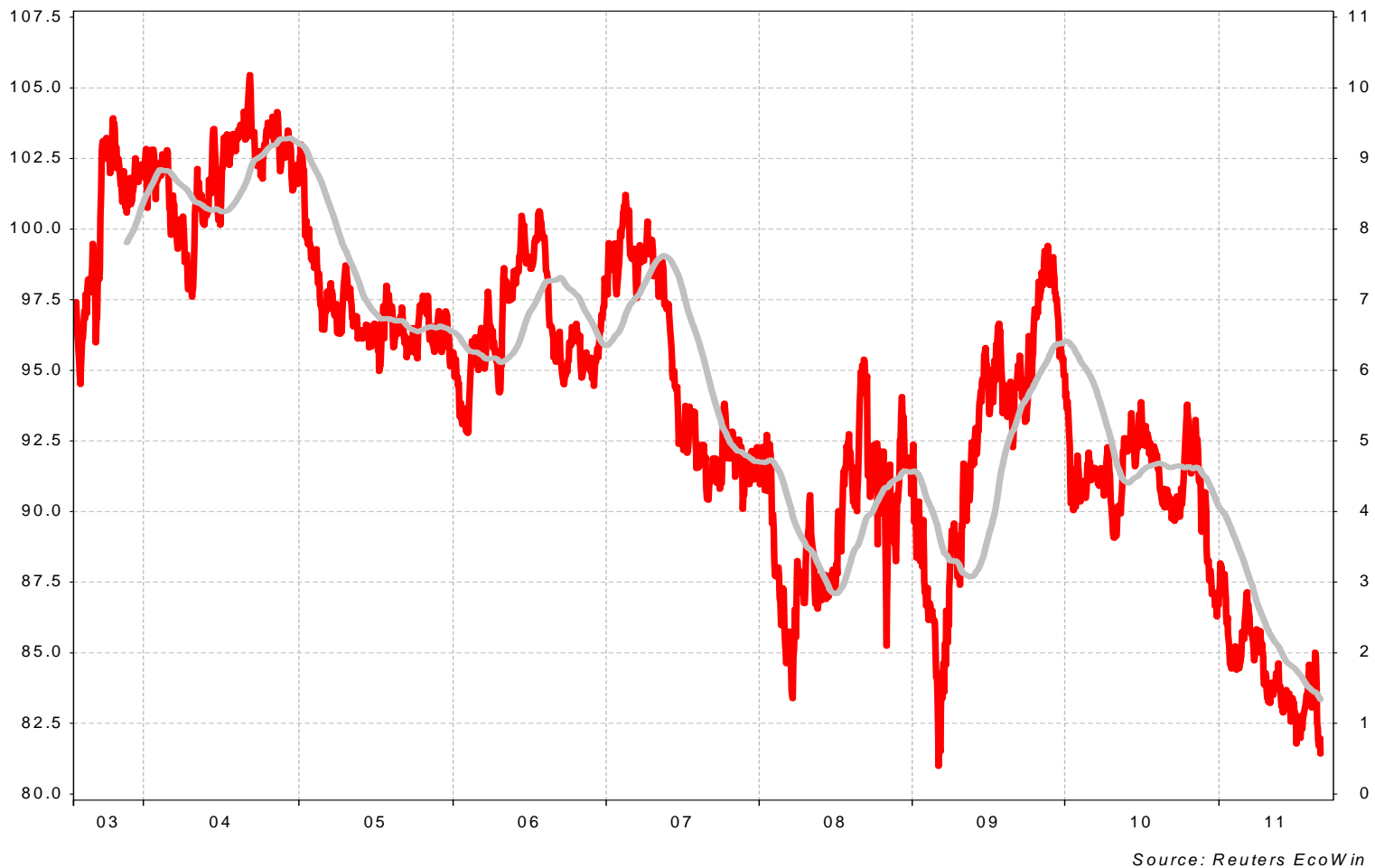
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Let's go through the checklist to see why

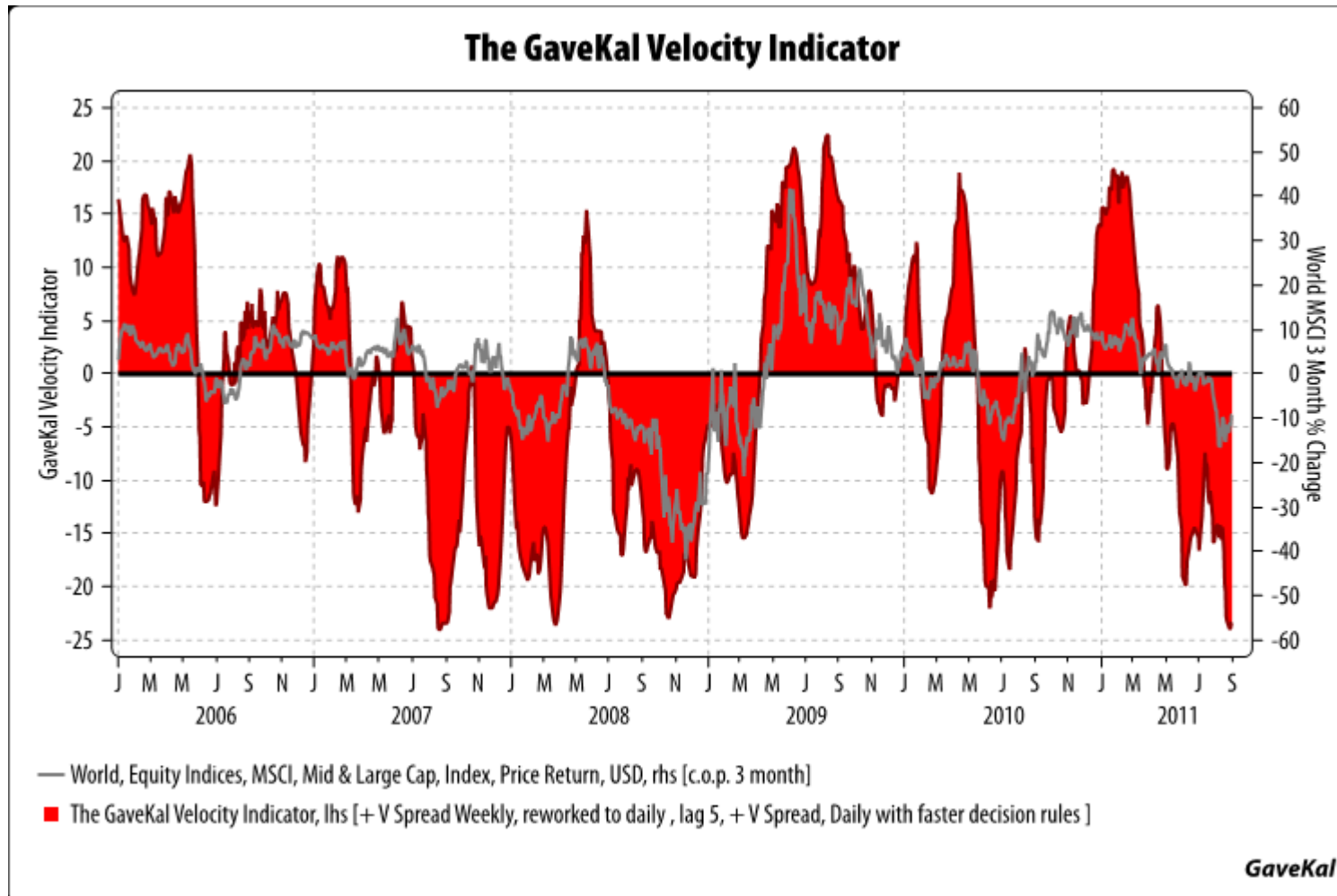


Sustained underperformance of banks is a sign that something is not quite right

Asian Financials Relative Performance



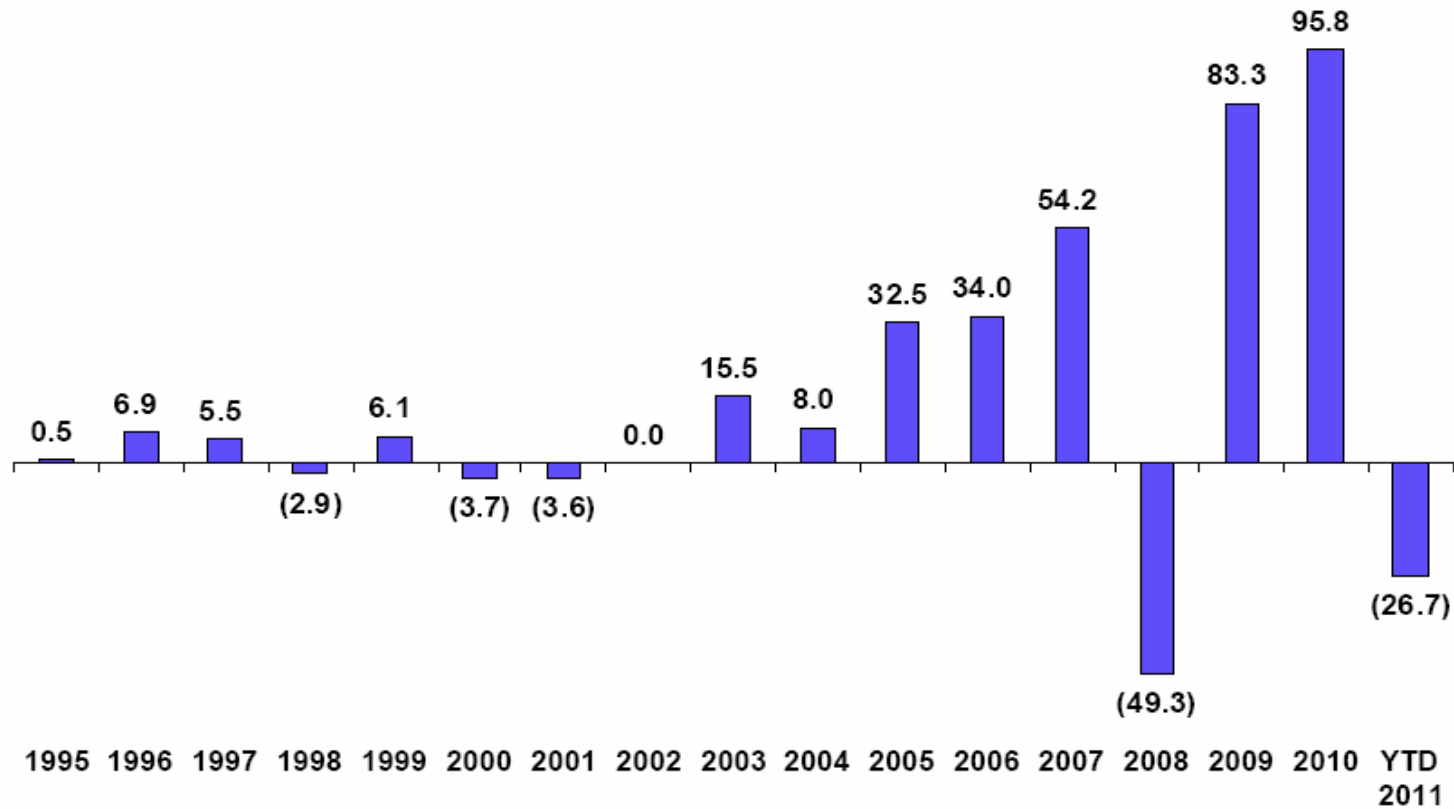
Global liquidity situation appears to still be deteriorating



Fund flows are still a hurdle with foreign investors still heading for the door

EM funds reported inflows of \$95.8bn in 2010 vs. outflows of \$26.7bn YTD

Dedicated EM Equity Flows
(US\$ Billions)



Source: EPFR Global, Fund Flows Database (See Slide no 36 for details), Morgan Stanley Research. Data as of Aug 31, 2011.

Though at the current pace, the selling could soon exhaust itself?

Fig. 13: Flows among bonds, money markets and equities

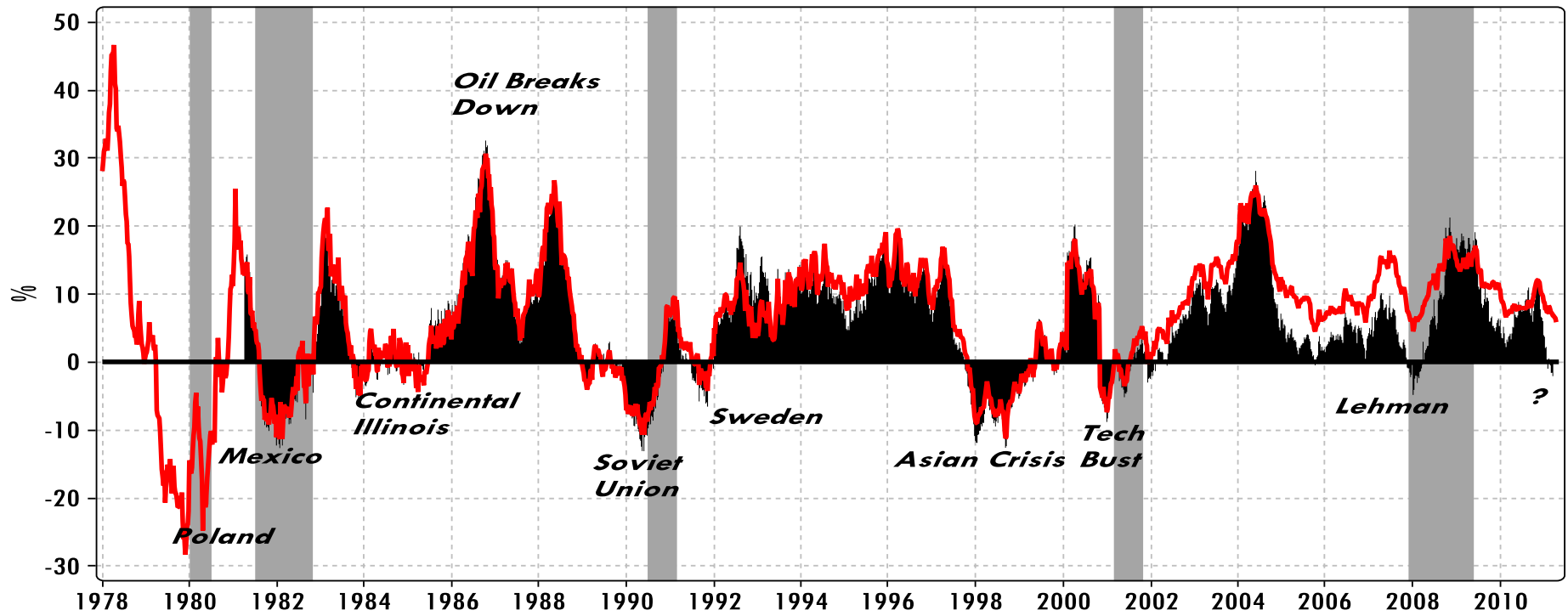
| USDmn | Bonds | Money Market | EM Equities | DM Equities | All Equities |
|--------|----------|--------------|-------------|-------------|--------------|
| 2003 | 31,331 | (258,528) | 9,936 | 17,677 | 27,612 |
| 2004 | (10,031) | (167,552) | 2,784 | 33,344 | 36,128 |
| 2005 | 30,163 | 63,689 | 20,270 | 25,816 | 46,086 |
| 2006 | 60,575 | 247,450 | 22,441 | 37,051 | 59,492 |
| 2007 | 108,614 | 661,640 | 41,487 | (26,753) | 14,733 |
| 2008 | 22,222 | 631,890 | (40,150) | (81,604) | (121,754) |
| 2009 | 375,096 | (539,277) | 64,383 | (24,602) | 39,781 |
| 2010 | 244,834 | (524,700) | 84,112 | (8,479) | 75,632 |
| 2011 | 69,462 | (185,065) | (19,522) | 33,494 | 13,972 |
| Jan-11 | (1,836) | (75,606) | (3,331) | 33,407 | 30,076 |
| Feb-11 | 7,673 | 11,922 | (12,857) | 17,612 | 4,755 |
| Mar-11 | 11,496 | (14,618) | (2,201) | 521 | (1,680) |
| Apr-11 | 12,682 | (8,667) | 11,140 | 12,978 | 24,118 |
| May-11 | 23,532 | (1,052) | (325) | (3,152) | (3,477) |
| Jun-11 | 12,173 | (43,506) | 1,072 | (9,317) | (8,245) |
| Jul-11 | 13,780 | (48,604) | 1,358 | 3,553 | 4,911 |
| Aug-11 | (10,038) | (4,934) | (14,379) | (22,107) | (36,486) |

Source: EPFR Global, ICI, Nomura International (HK) Ltd — Equity Quantitative Strategies

Still, we are in the midst of an international liquidity squeeze

Growth of Central Bank Reserves Held At the Fed: Total & Ex-China

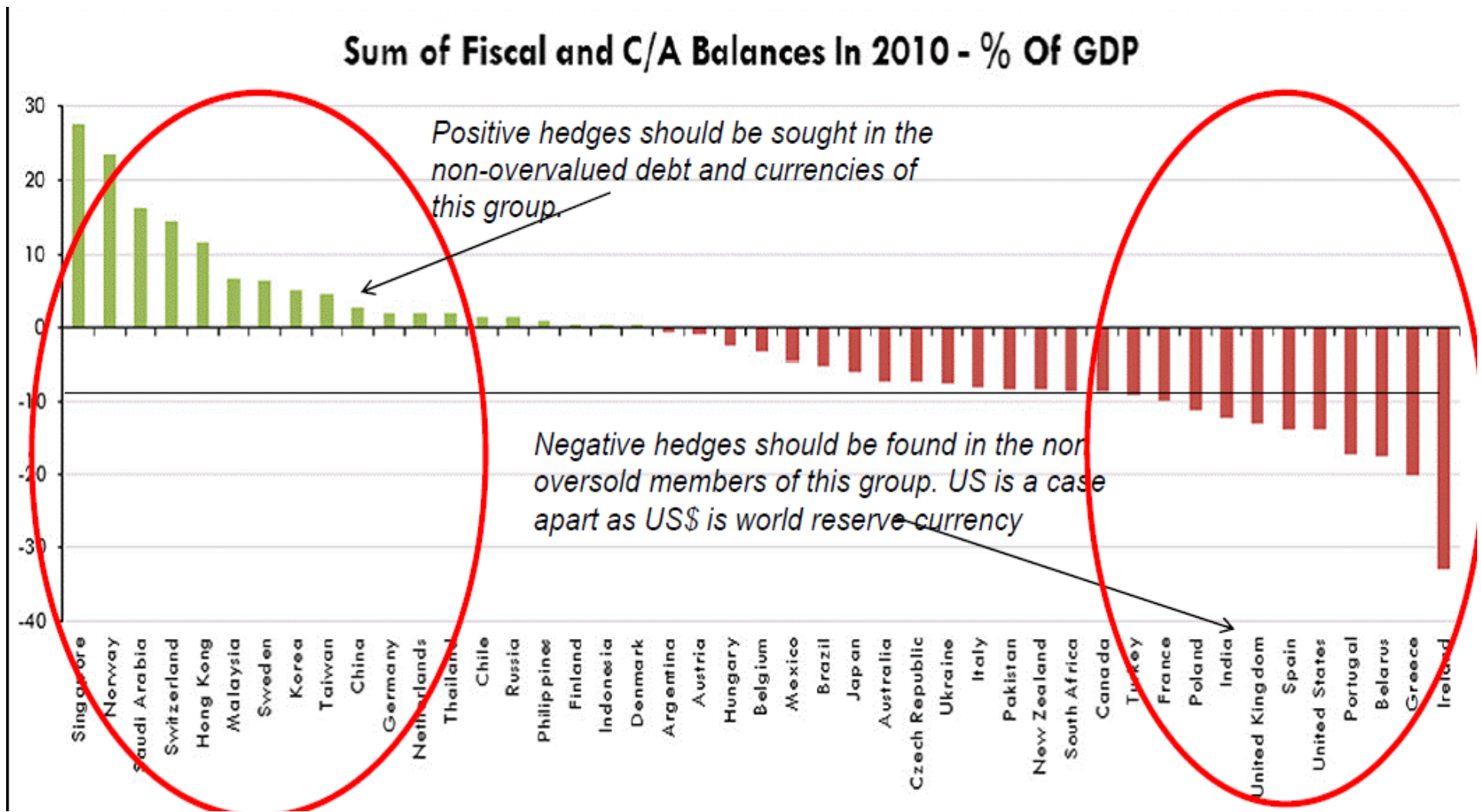
9 Month % Change; Deflated by US CPI



- Reserves Held in Custody of Fed for Foreign Central Banks (/ US CPI)
- Reserves Held in Custody of Fed for Foreign Central Banks, Less 50% of China's Total FX Reserves (/ US CPI)
- NBER, Business Cycle Reference Dates

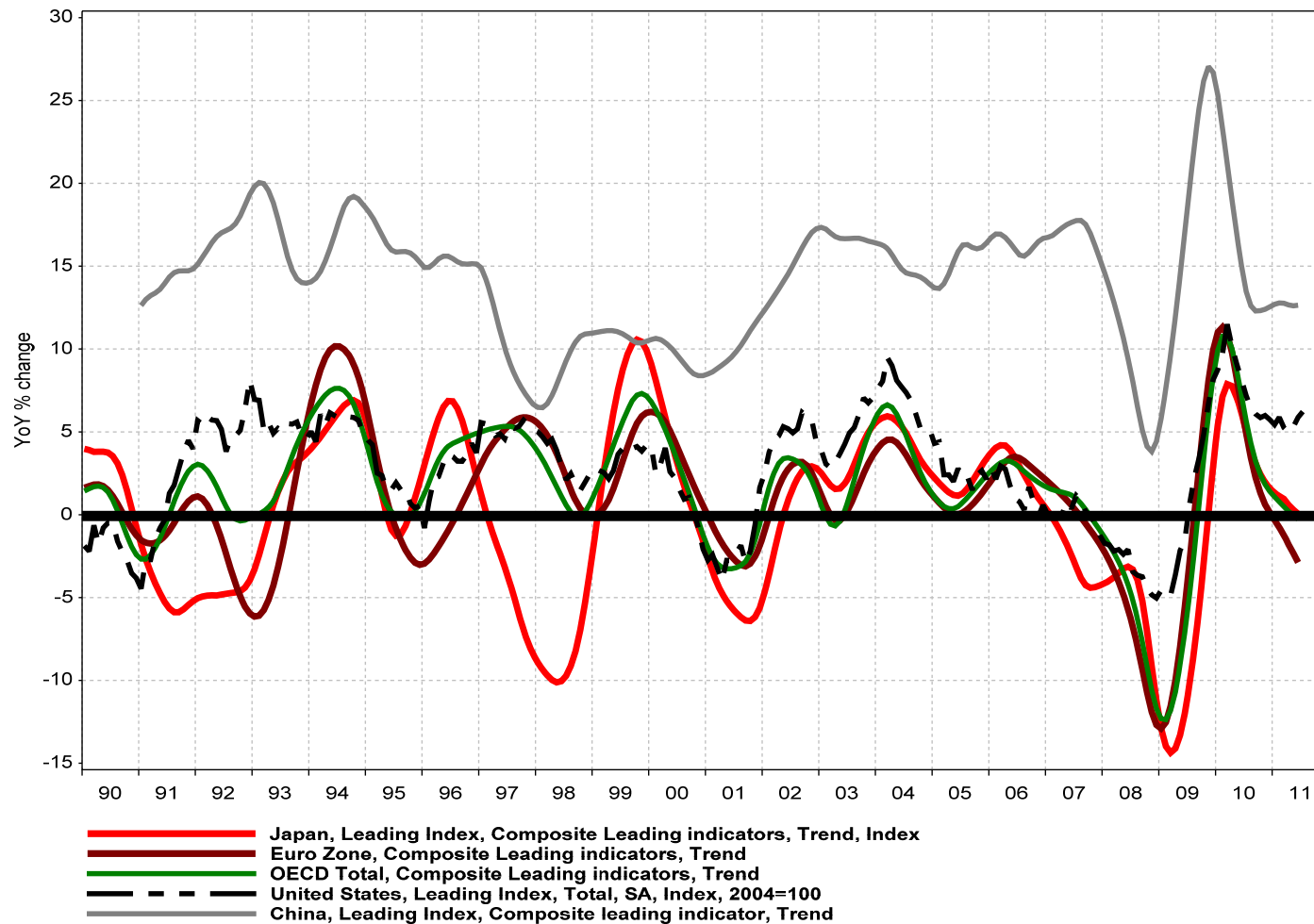
GaveKal Research

Fortunately, however, this time the 'whale' should not be in Asia



The liquidity squeeze is having an impact on global & regional growth

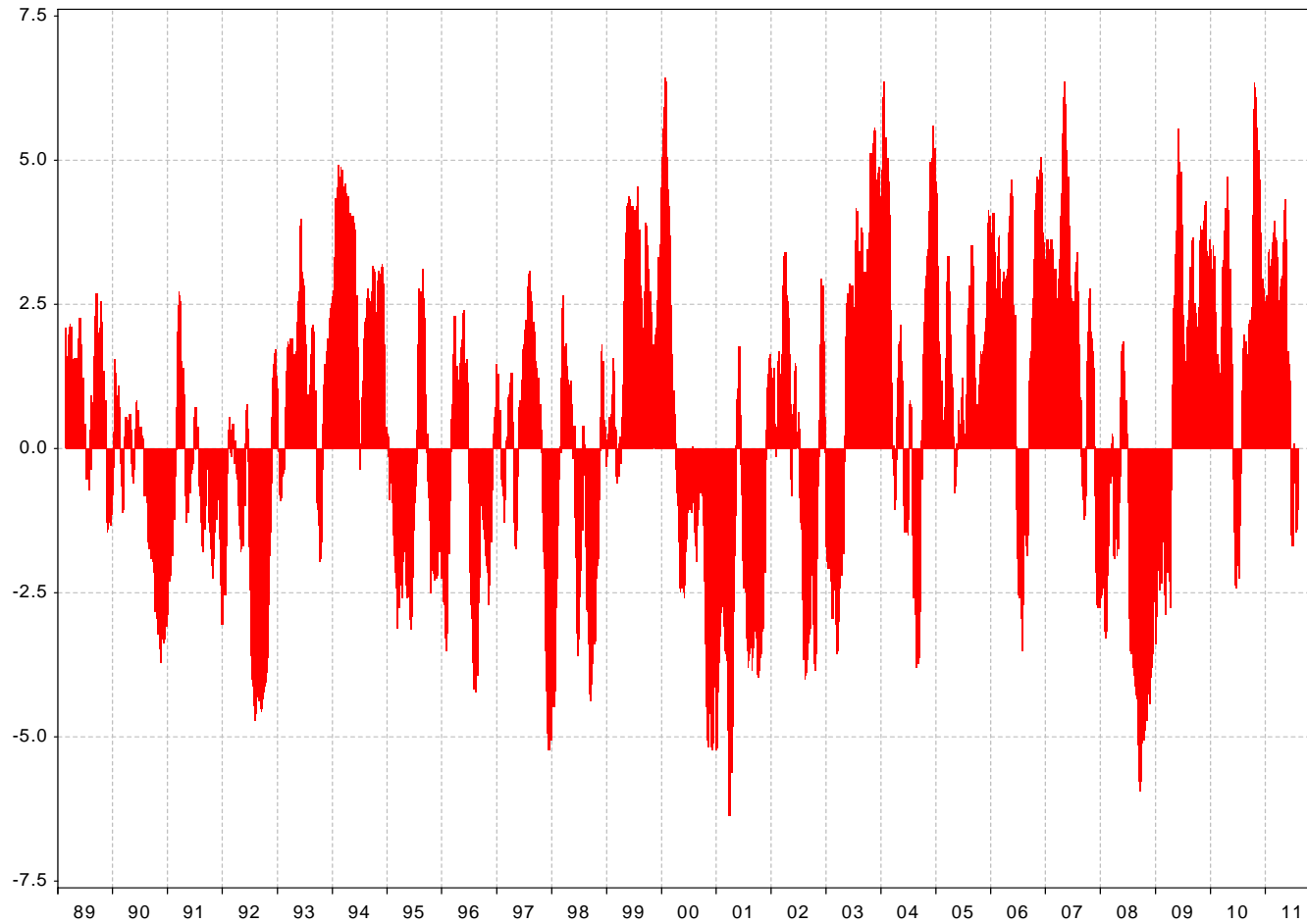
Leading Indicators of Major Economies



Source: MW GaveKal / Reuters EcoWin
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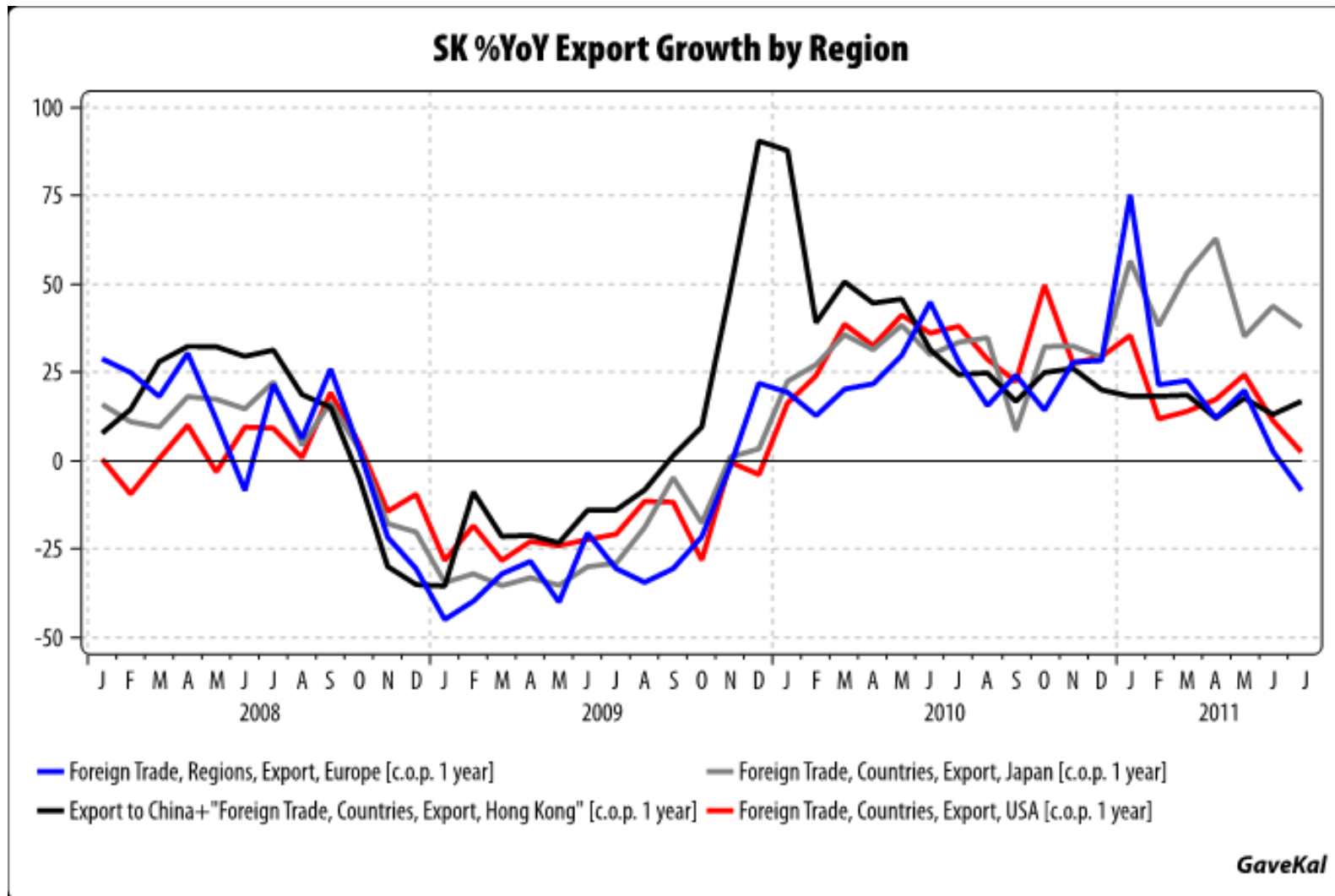
Markets seem to be pointing towards a recession

Indicator of Economic Sensitive Prices

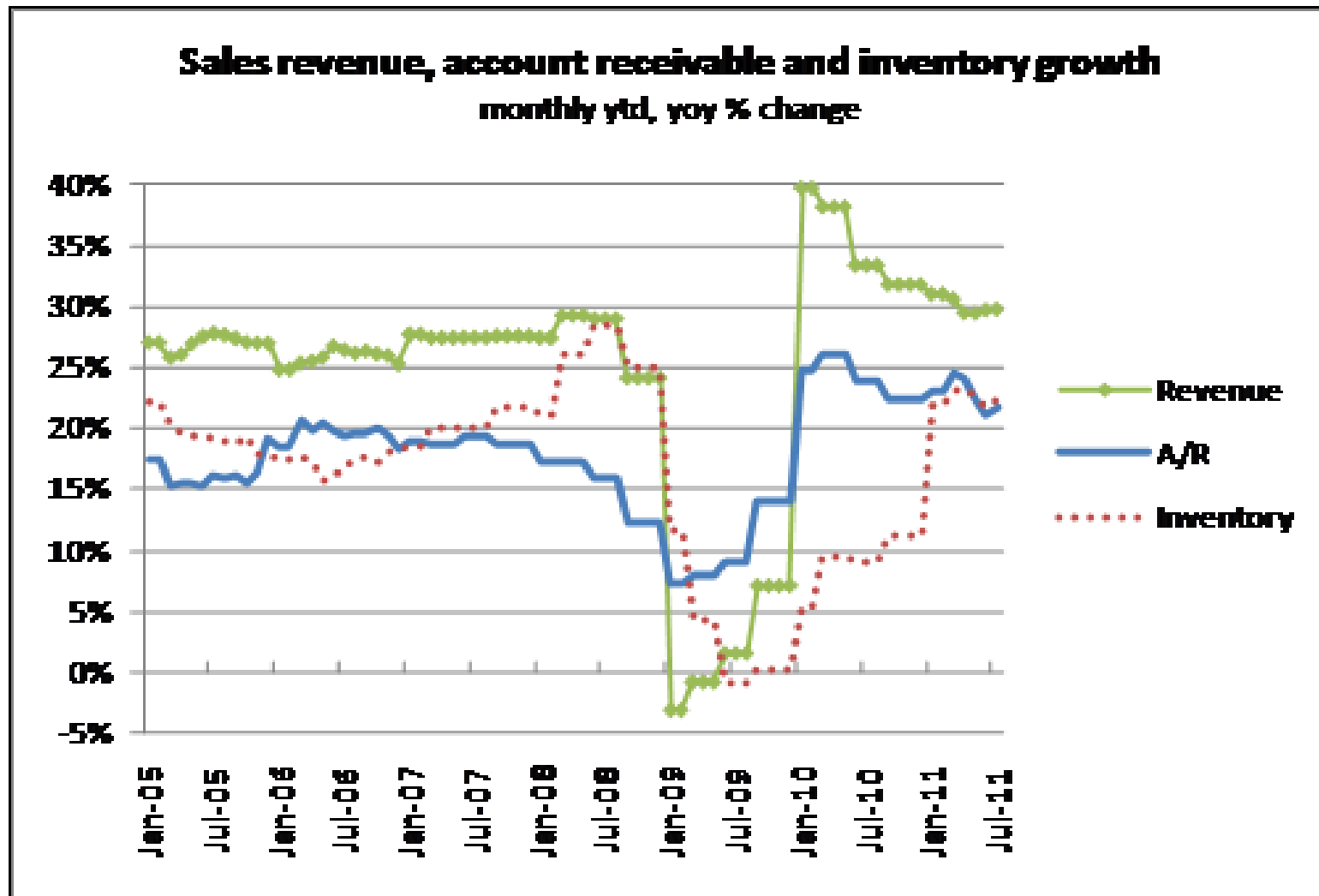


Source: Reuters EcoWin

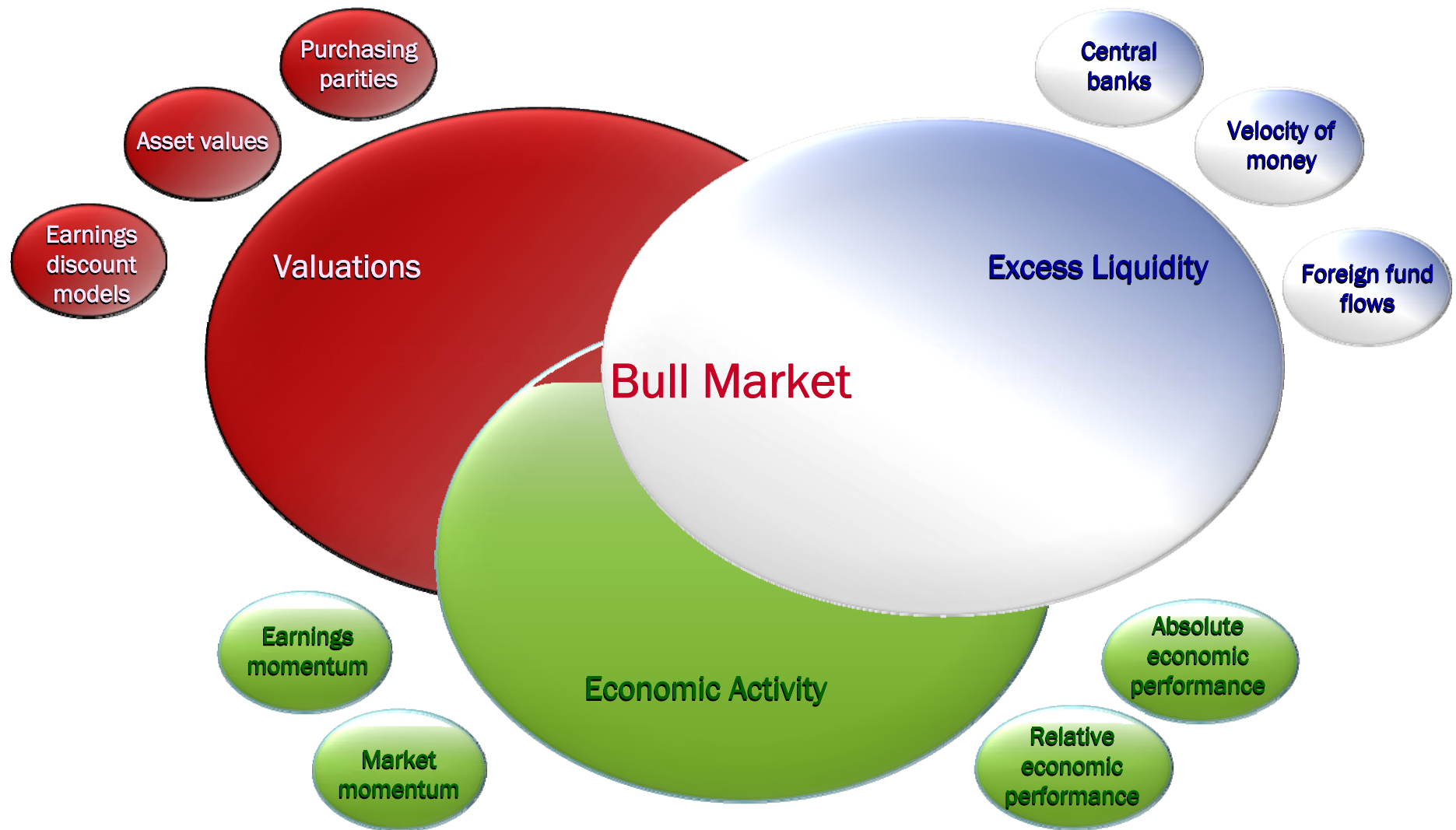
The EMU Crisis is undeniably having an impact



As is the Chinese tightening. Rise in Chinese inventories and accounts receivables is worrying



We are in the phase of the cycle where valuations are attractive, but liquidity is not yet ample and economic activity has yet to bottom



We are probably two to three months from a market bottom.
In the meantime, it's a bottom-up stock picker's time

| | Ticker | NAME | MCAP (Mn USD) | P/B | 12M FW EPS GROWTH | PE 12M FWD | PEG | ROE | 1M % Change | 3M % Change |
|-------------|------------------|---|------------------|-----|----------------------|---------------|------|-------|----------------|----------------|
| KOREA | 005930 KS EQUITY | SAMSUNG ELECTRONICS CO LTD <i>- World leading electronics company & emerging as a leading smartphone and tablet manufacturer - Valuations low on almost any measure despite strong track record of profitability and innovation</i> | 107008 | 1.2 | 12.0 | 7.2 | 0.60 | 13.10 | -11.4 | -15.4 |
| | 012330 KS Equity | HYUNDAI MOBIS <i>- Benefiting from robust growth in the auto parts market in Korea while also taking share in new markets</i> | 30864 | 3.2 | 26.0 | 9.4 | 0.36 | 26.80 | -11.9 | -9.2 |
| | 000270 KS EQUITY | KIA MOTORS CORPORATION <i>- A leading automobile manufacturer with great growth prospects, solid balance sheet and strong cash flow - Trades at very cheap valuations given strong brand name & solid growth outlook</i> | 26156 | 2.9 | 22.3 | 7.7 | 0.35 | 26.40 | -14.1 | -4.6 |
| HK / CHINA | 1919 HK EQUITY | CHINA COSCO <i>- Major operator and manufacturer of container ships and terminals. A Chinese 'national champion' - Stock is trading at 0.4x book value.</i> | 9640 | 0.4 | 30.0 | 25.0 | 0.52 | 15.50 | -17.2 | -38.8 |
| | 3323 HK EQUITY | CHINA NATIONAL BUILDING MA-H <i>- Fundamentally well-positioned to benefit from rising cement prices in Eastern China as government policy restricts additional capacity - Attractive valuation at 6.3x EPE vs average of 15x over the past three years.</i> | 9390 | 3.3 | 18.4 | 6.3 | 0.34 | 21.00 | -15 | -15.4 |
| | 1068 HK EQUITY | CHINA YURUN FOOD GROUP LTD <i>- Defensive earnings growth above 20%. Earnings quality has improved as govt grants become smaller % of profits. - Increase in live hog supply should drive growth and boost profitability</i> | 4415 | 2.4 | 30.0 | 9.3 | 0.31 | 23.90 | -22.3 | -30.6 |
| TAIWAN | 2498 TT EQUITY | HTC CORP <i>- Innovative up and coming feature phone, smartphone and tablet producer with high profitability and strong growth track record</i> | 22826 | 7.8 | 22.0 | 7.9 | 0.36 | 56.30 | -10.9 | -35.4 |
| INDIA | BHEL III EQUITY | BHARAT HEAVY ELECTRICALS <i>- Major beneficiary of investments into Indian electricity grid</i> | 18780 | 4.3 | 17.0 | 11.5 | 0.68 | 33.20 | -3.1 | -9.5 |
| INDONESIA | ITMG IJ EQUITY | INDO TAMBANGRAYA MEGAH PT <i>- Leading Indonesian thermal coal miner. Sells majority of its coal on contract to Banpu thus making its growth very defensive</i> | 5727 | 6.4 | 40.0 | 9.0 | 0.23 | 27.10 | -15 | -8.1 |
| | HRUM IJ EQUITY | HARUM ENERGY TBK PT <i>- Indonesian thermal coal miner with highest exposure to sea borne spot prices. Beneficiary of rising coal demand and tighter supply</i> | 2458 | 9.1 | 52.0 | 8.1 | 0.16 | 56.30 | -20.1 | -15.8 |
| PHILIPPINES | DMC PM EQUITY | DMCI HOLDINGS INC <i>- Philippine conglomerate with leading businesses in property, construction, mining & power generation and a strong focus on profitability - Key beneficiary of Philippine infrastructure roll-out</i> | 2595 | 3.4 | 37.0 | 8.6 | 0.23 | 33.60 | -8.9 | -1 |
| | CEB PM EQUITY | CEBU AIR INC <i>- Philippines leading domestic carrier. Benefiting from rise in middle class and emerging travel culture - One of the best run and most profitable airlines in Asia</i> | 1187 | 2.7 | 19.0 | 8.6 | 0.45 | 55.00 | -3.1 | -8.4 |
| SINGAPORE | KEP SP EQUITY | KEPPEL CORP LTD <i>- Industry leader in offshore oil equipment & engineering. Despite economic concerns repair work has buoyed profits - New order inquiries remain strong, a testament to industry leading position</i> | 13856 | 2.4 | 9.5 | 10.7 | 1.13 | 25.50 | -17.5 | -19.8 |

This is not investment advice. The above examples are for illustrative purposes.

Example 1: Kia Motors Corp

Daniel Fields

| | | | |
|--|------------------------------|---------------------------------|------------|
| Company Name | Kia Motors Corp | Bberg Code | 000270 KS |
| Country | Korea | Sector | Automobile |
| Mkt. Cap. / Free Float / 3M Avg. Daily Turnover | US\$26.2bn / 63% / US\$240mn | Category (Growth/Income) | Growth |
| 3M Expected Return | 40% | Entry Price | KRW 67,000 |

1. Business Model

Kia Motors is the second largest automobile manufacturer in Korea, with retail sales of 1.4m units globally in 2010. It is a 34%-owned subsidiary of Hyundai Motor. Its business model is based on producing trendy, quality autos at prices cheaper than most its competitors. It is able to do this due to its large scale and cost advantages. Kia generates stable growth by entering new markets and taking market share in existing markets. It has continuously had strong cash flows and is expected to pay a dividend consistently for the future.

2. Earnings Model

i. Drivers for the Next 12 Months

Volume
Volume growth over the last year has been driven largely by strong domestic sales and sales to Emerging Markets. Specifically, sales to china grew by +60% in 2010 and sales to South America grew by over +70%. Meanwhile developed markets have grown more modestly. These trends are likely to continue for the next year with Emerging Markets continuing to drive volume growth.

Average Selling Price
Kia has managed to expand their operating margins in recent quarters thanks to big ASP hikes on exported cars and more modest ASP hikes in the domestic market. Also helped by strict cost control and lower ad spend, Kia expanded their operating margins to 8.7% in 2Q 2011, up from 7.0% in 2Q 2010. In the next year margins are expected to remain flat as ASP hikes will likely be smaller and higher ad spend may be required to drive volume growth in the sluggish developed markets.

Cost Control
Kia has done a good job of controlling cost growth in the post crisis environment but is making cost control a bigger initiative this year. Kia does not have much operating leverage and thus cost control is essential. Despite strict measures in the past, salaries have been rising at almost 15% for the last several years and warranty expense has seen a large increase as well. Better cost control, as expected would help Kia maintain margins and benefit from economies of scale as sales rise.

ii. Pressure Points

Rising Won
Though the Won has been one of the most heavily managed Asian currencies, it still appreciated by over 3% in 2010 and by 6.5% year to date. A rising KRW makes Kia's cars less cost competitive and also decreases the earnings it generates from its foreign subsidiaries as the profits are translated back into the operating currency.

Economic slowdown in developed markets
Kia still derives nearly 1/3 of its sales from North America & Europe. As both regions face looming debt problems and slow economic growth, Kia could struggle to generate adequate growth in these markets while also facing higher promotional costs and weaker margins.

3. Valuation

| | |
|--|---|
| <input checked="" type="checkbox"/> Sustainable-Growth Stock | |
| PEG 12M Fwd | 0.5x (assumes forward 12 month earnings growth of 22%) |
| Target Price | KRW 94,000 Target price implies a 10.4 F/P/E which is slightly above the historical median P/E ratio |

Example 2: TCL Communications

Stephanie Woo

| | | | |
|--|----------------------------|---------------------------------|--------------------|
| Company Name | TCL Communication | Bberg Code | 2618 HK |
| Country | China | Sector | Telecommunications |
| Mkt. Cap. / Free Float / 3M Avg. Daily Turnover | HK\$667mn / 40% / HK\$28mn | Category (Growth/Income) | Growth |
| 3M Expected Return | 50% | Entry Price | HK\$4.7 |

1. Business Model

i. DuPont Analysis

- One of the top ten global handset makers targeting emerging market growth with 95% of shipments to overseas markets outside of China. The company has established strong relationship with telecom operators in Europe, South America, Middle East and Africa, with 80% of its sales achieved through the operator model, and the rest through the open market via global chain stores.

- Expected topline growth of CAGR 26% over the next three years.

- Beginning of a margins uptrend through economies of scale and larger contribution from 3G/smartphones with the company's positioning in launching low-end smartphones to tap the low-penetrated emerging markets like Asia, Middle East and Latin America.

- FY11E and FY12E ROE are expected to be around 30%.

2. Earnings Model

i. Drivers for the Next 12 Months

Volume
Sales grew +33% YoY in 1H11. The company expects sales growth of over 30%yoy for FY11 and FY12. This will be driven by strong volume growth in Latin America and EMEA markets (expected +30-50% YoY shipment growth from these markets) through the operator channel (which account for 80% of the company's sales).

Average Selling Price (ASP)
Average ASP at US\$30.3 in the 1H => Expect this to rise to US\$33 to 35 in FY12.

Margins
Gross Profit Margins at 22% in 1H11, up 1% from last year. This should increase gradually as the company's overall product mix will shift towards more contribution from higher end phones. 3G phones targeted to account for 20% of shipment volume by FY12, up from current less than 10%.

- Larger production scale will also provide for higher operating efficiency which will result to higher margins.

ii. Pressure Points

- Higher marketing expenses with the launch of new phones. SG&A as a percentage of sales already risen to 14% in the 1H11 from 12% last year.

- Lower than volume growth as demand is affected by global economic downturn.

- Fierce competition from other handset makers in the low-end smartphone segment.

3. Valuation

| | |
|--|---------|
| <input checked="" type="checkbox"/> Sustainable-Growth Stock | |
| PEG 12M Fwd | 0.2x |
| Target Price | HK\$7.5 |

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Source: MW GaveKal / Bloomberg

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