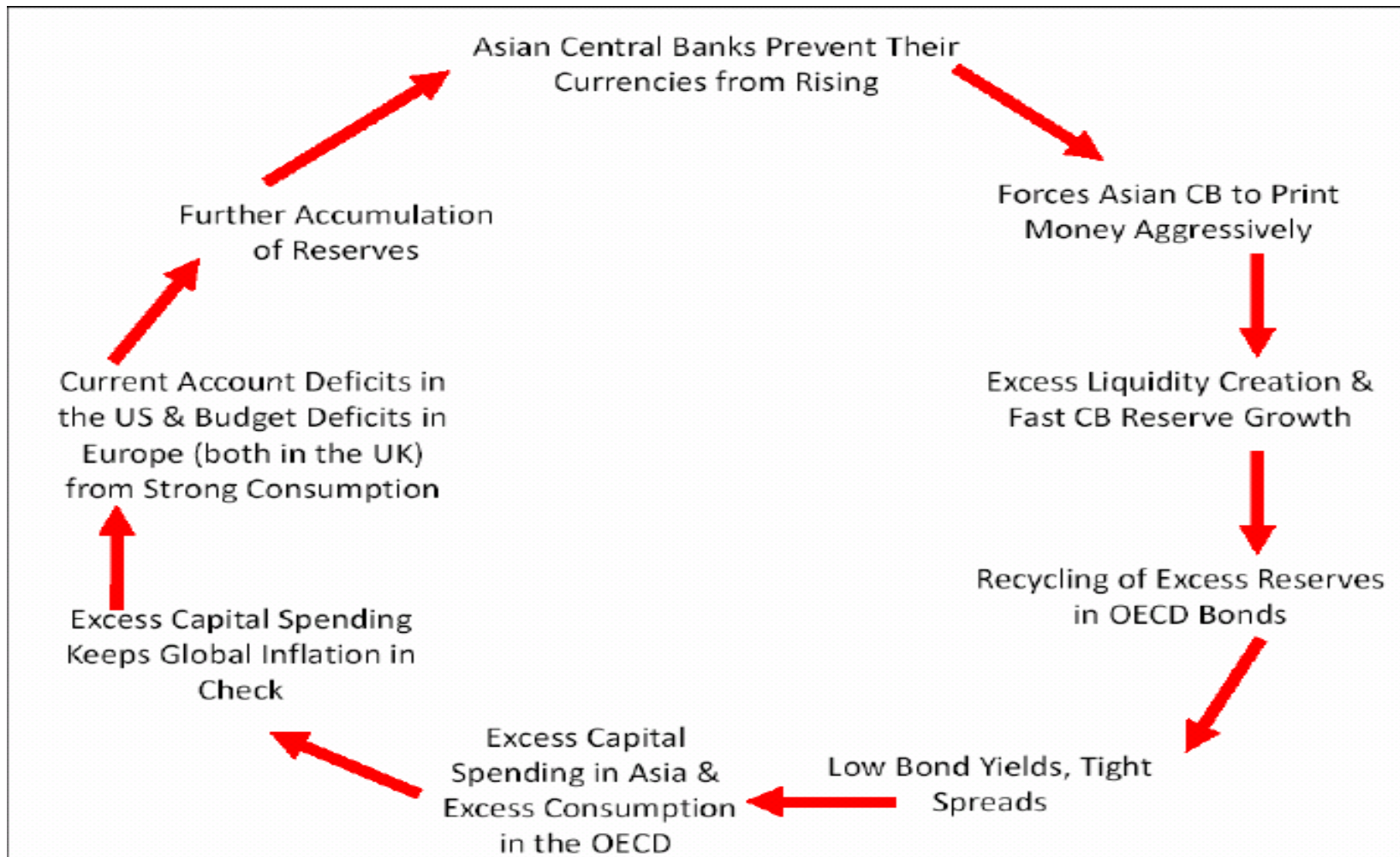




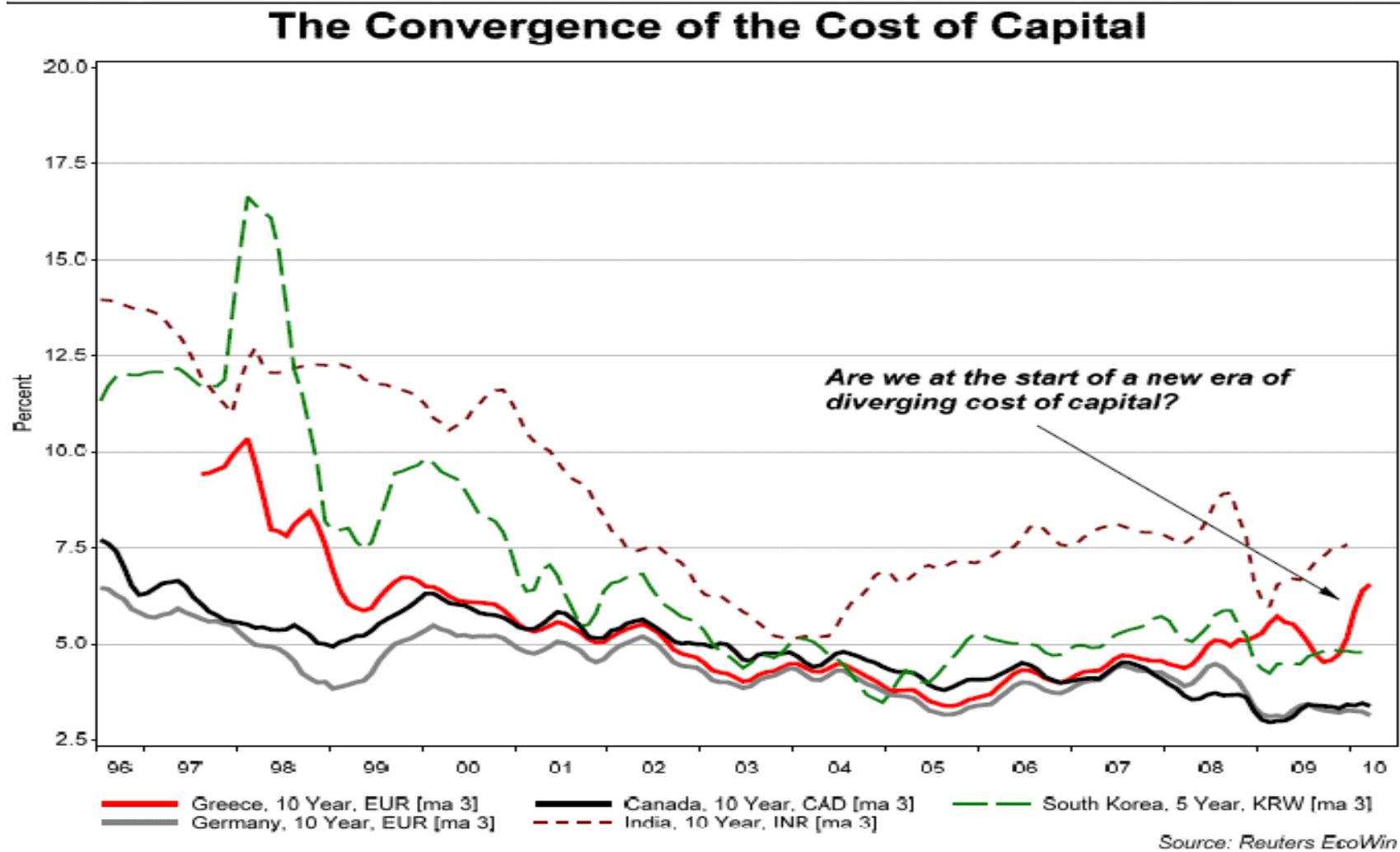
The Return of Country Risk – Are Japan & China at Risk?
MW GaveKal Investor Conference Call
March 2010

The Return of Country Risk

The Circle of Manipulation Comes Crumbling Down



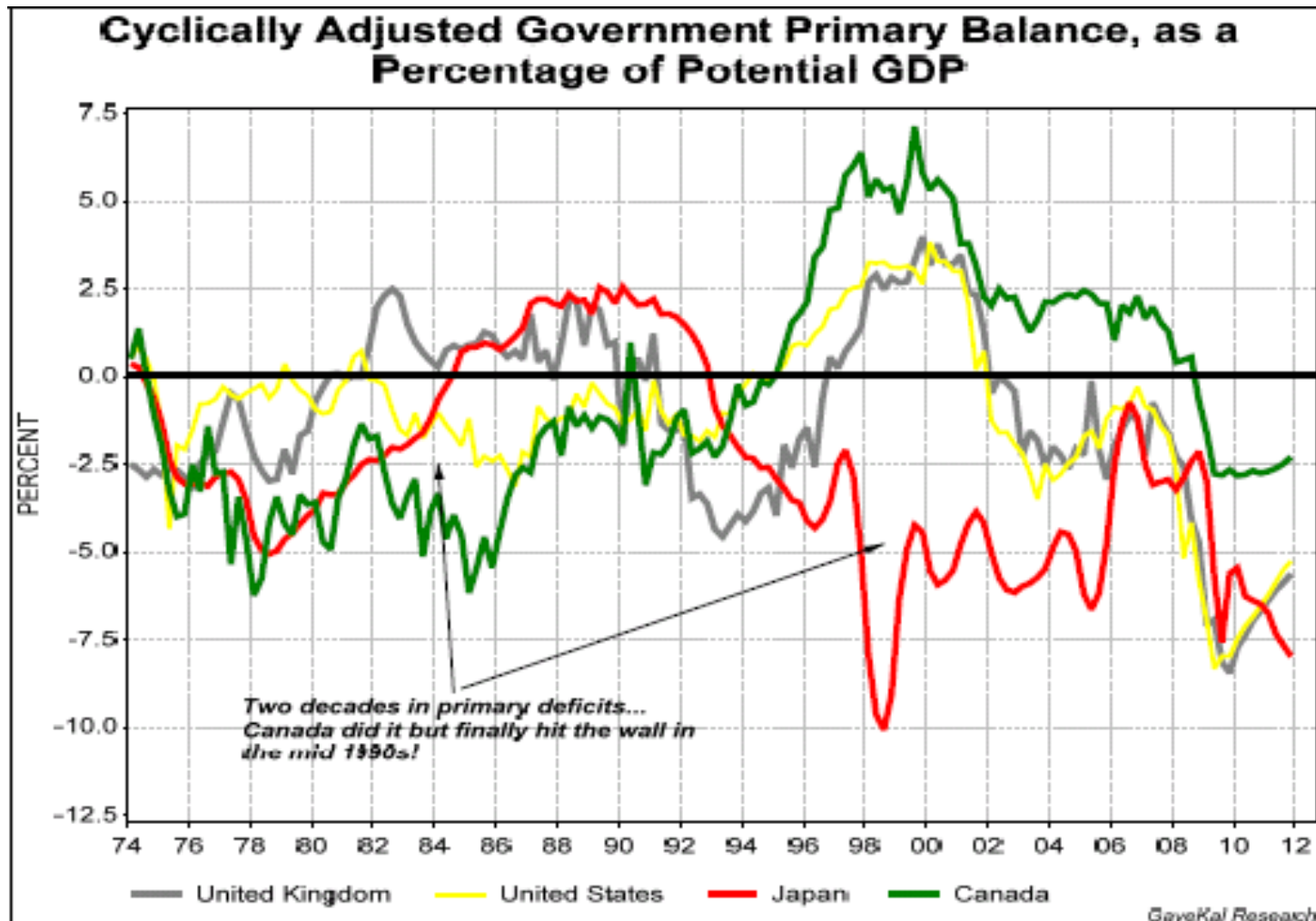
The Cost of Capital: From Convergence to Divergence



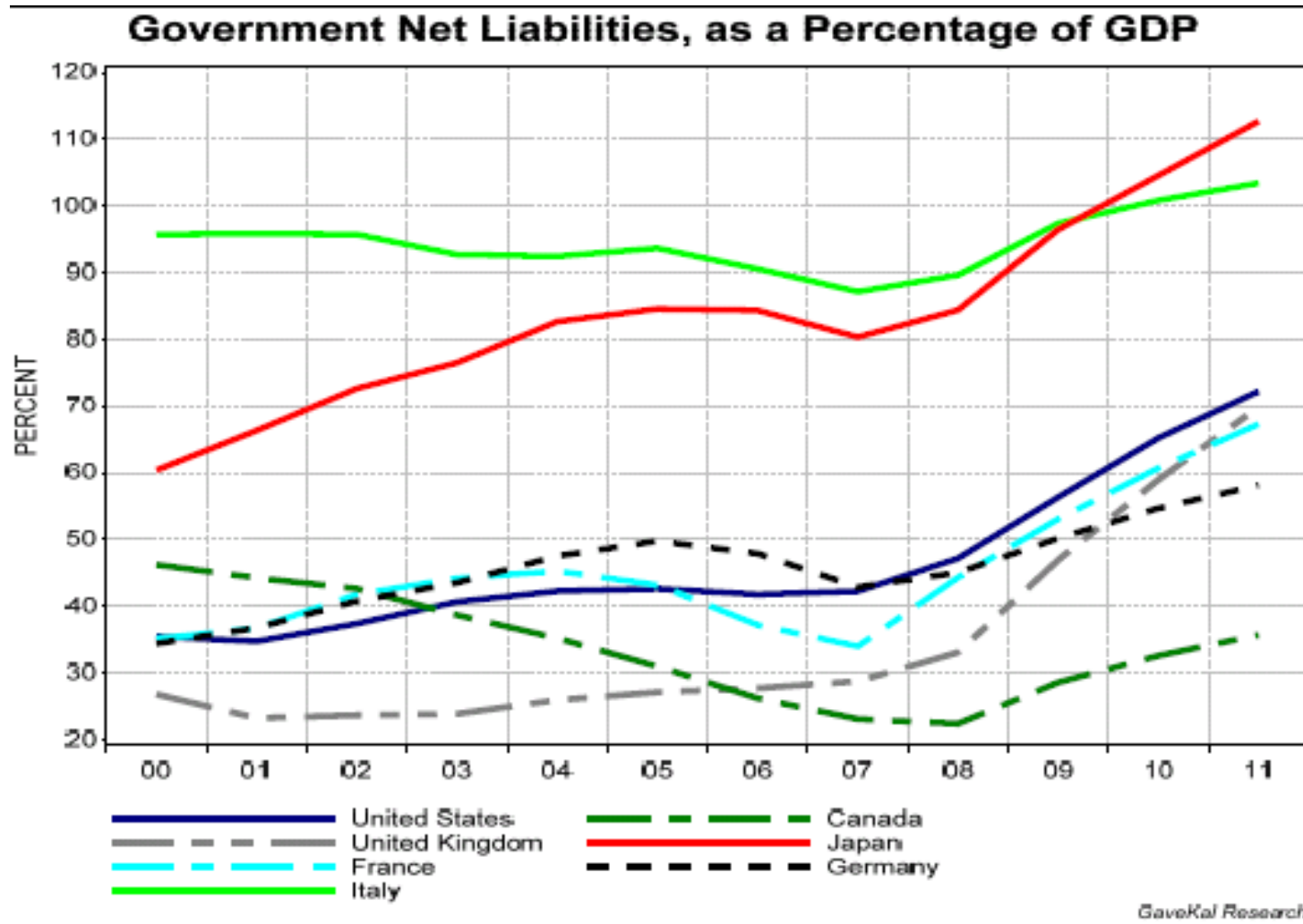


Will the Resurgent Bond Vigilantes Take Japan Out?

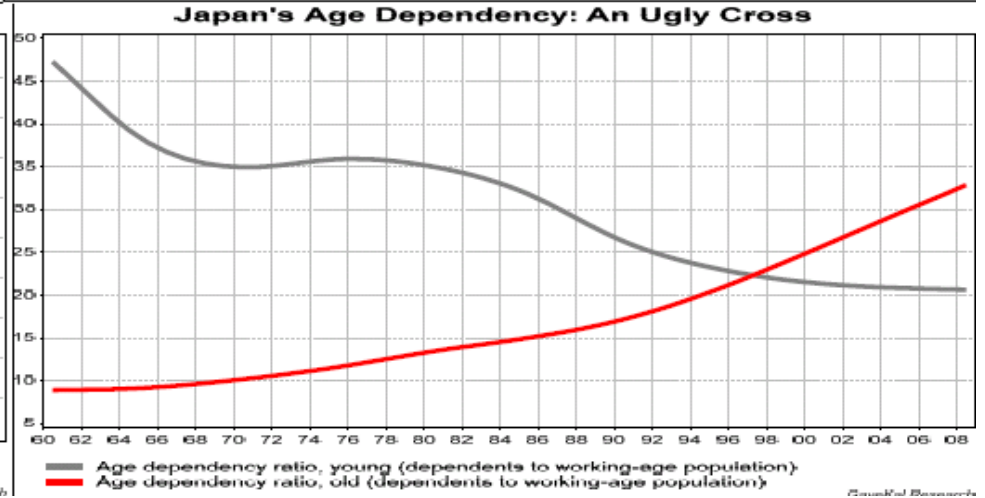
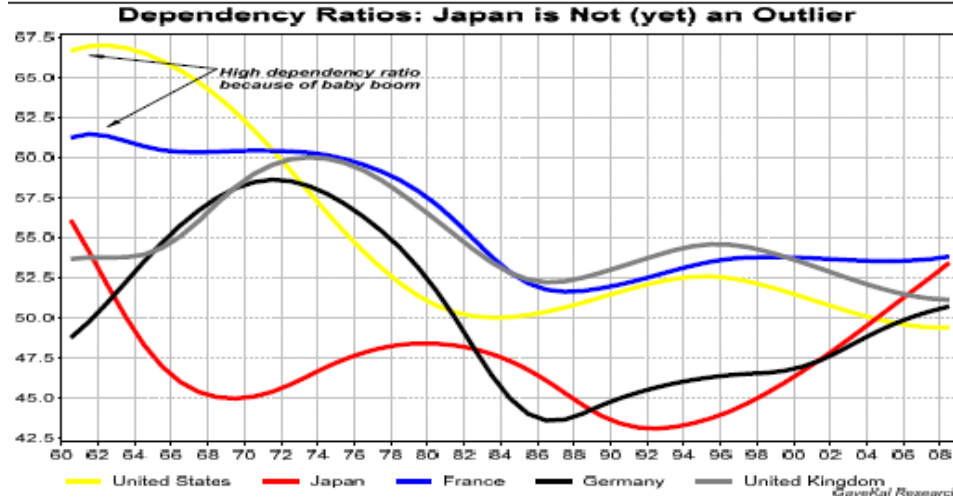
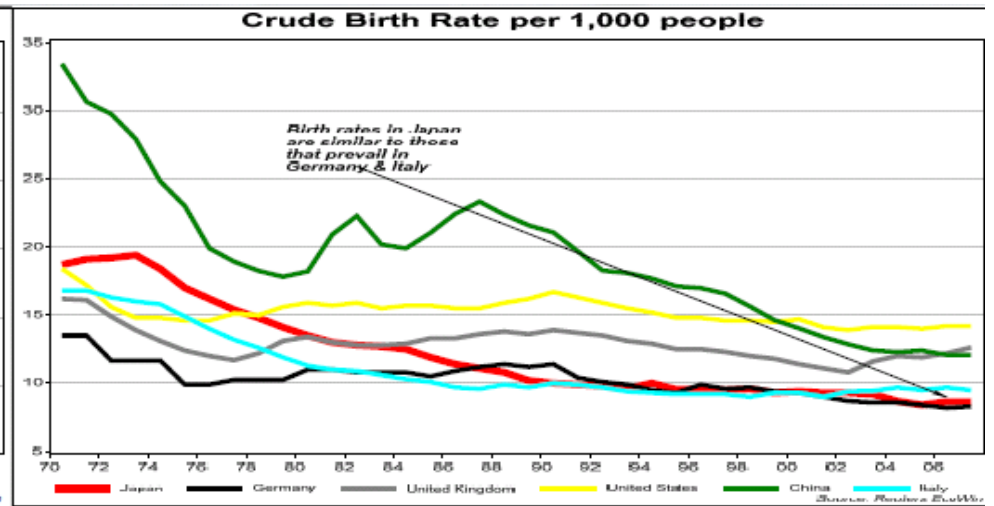
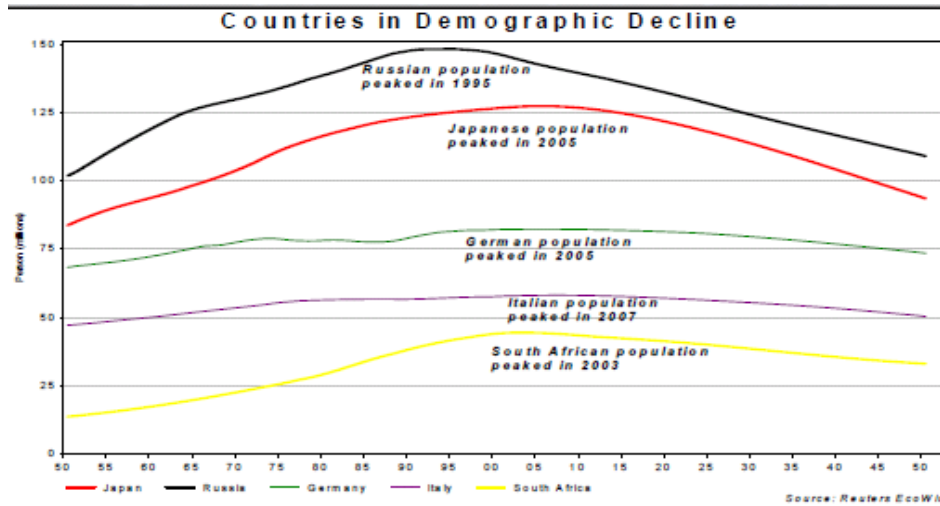
Two Decades of Primary Deficit



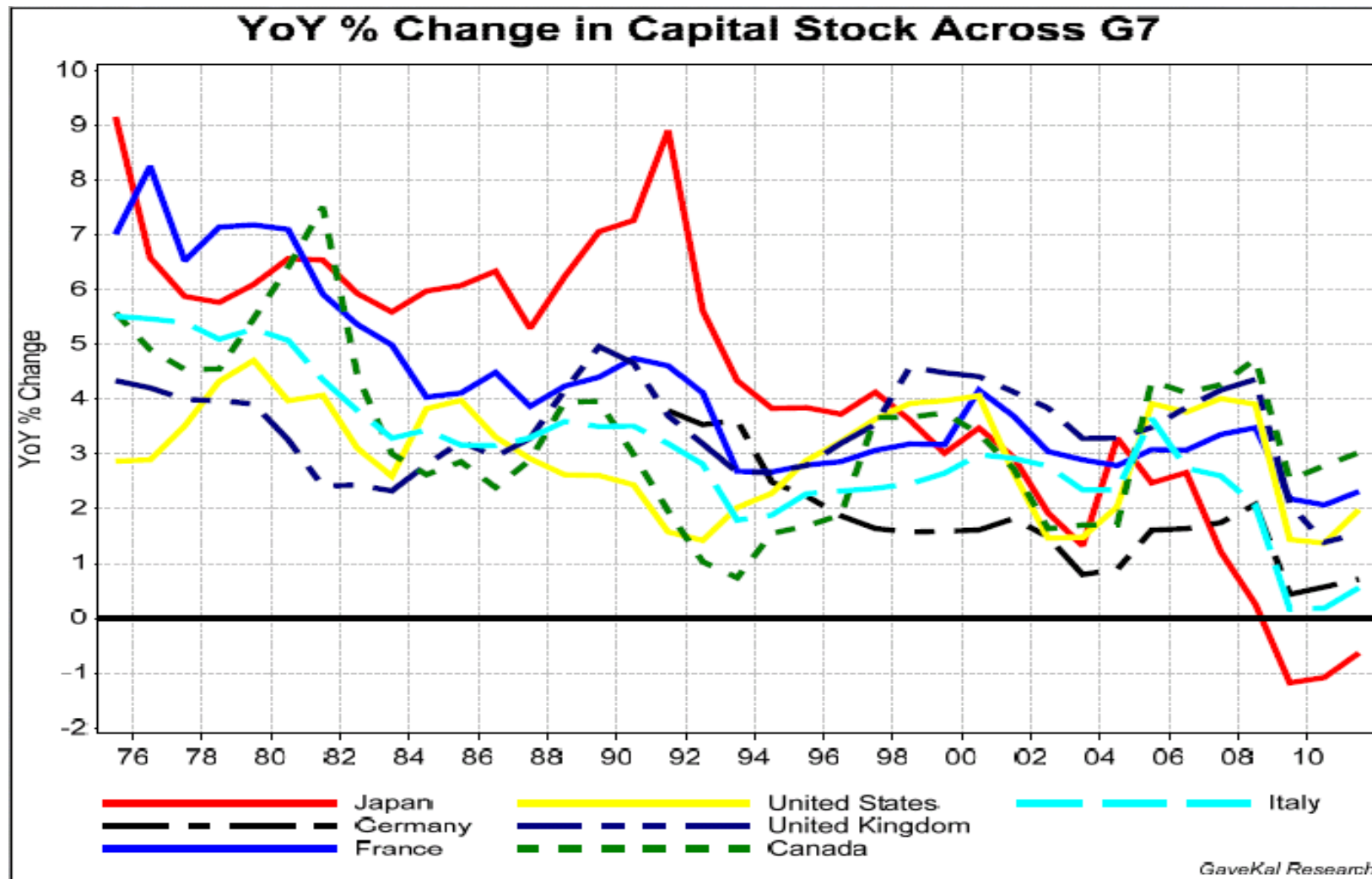
Have Left Japan's Government Balance Sheet Looking Very Stretched



Combine That With An Ugly Demographic Picture And the Situation is Worrying

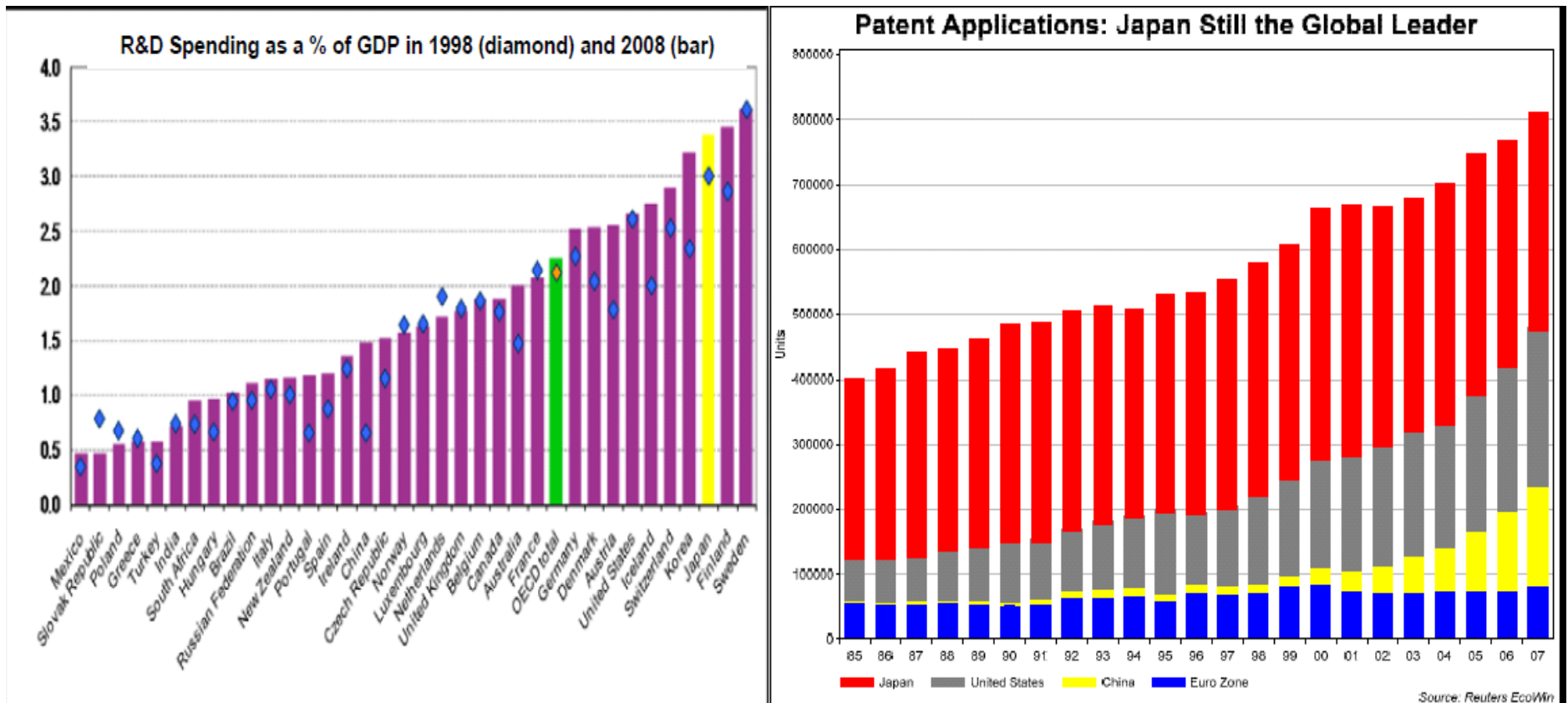


Another Major Challenge: A Shrinking Capital Base

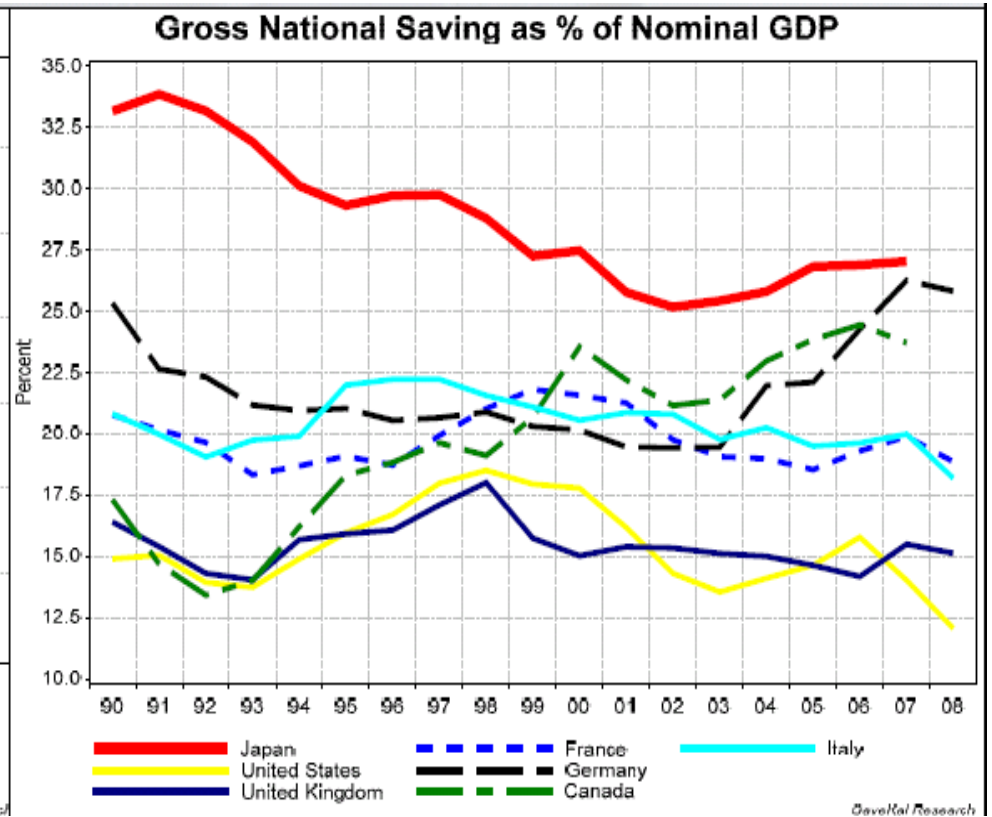
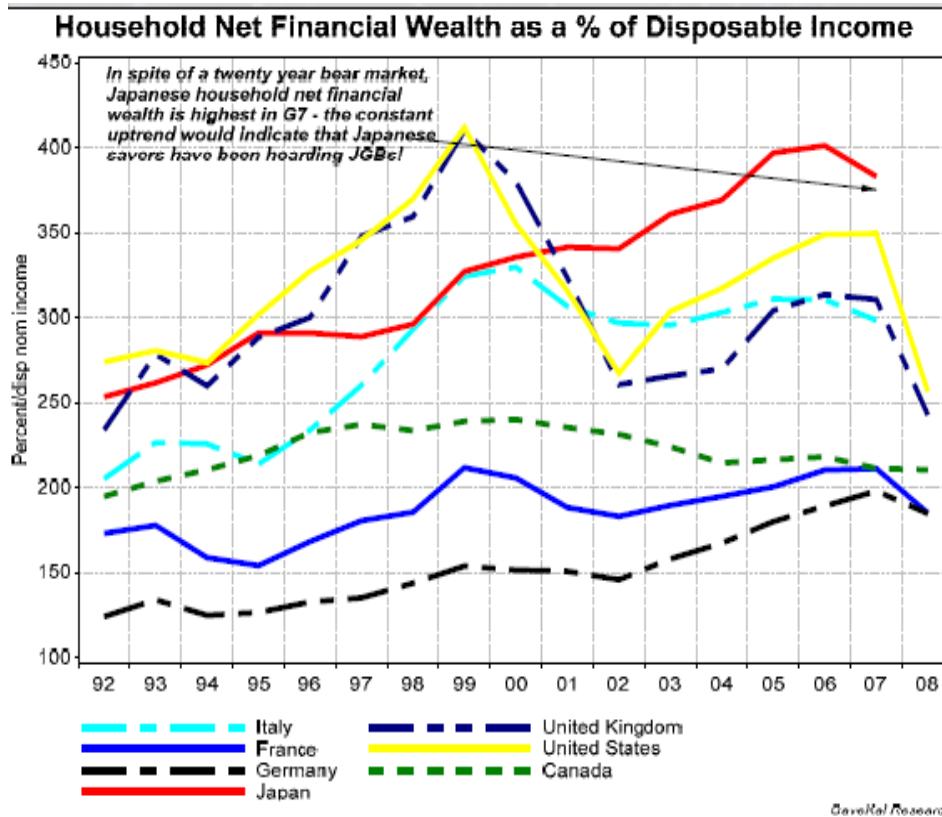


Source: MW GaveKal
 Confidential to recipient; not for reproduction or redistribution. Please refer to penultimate page for Important Disclosures.

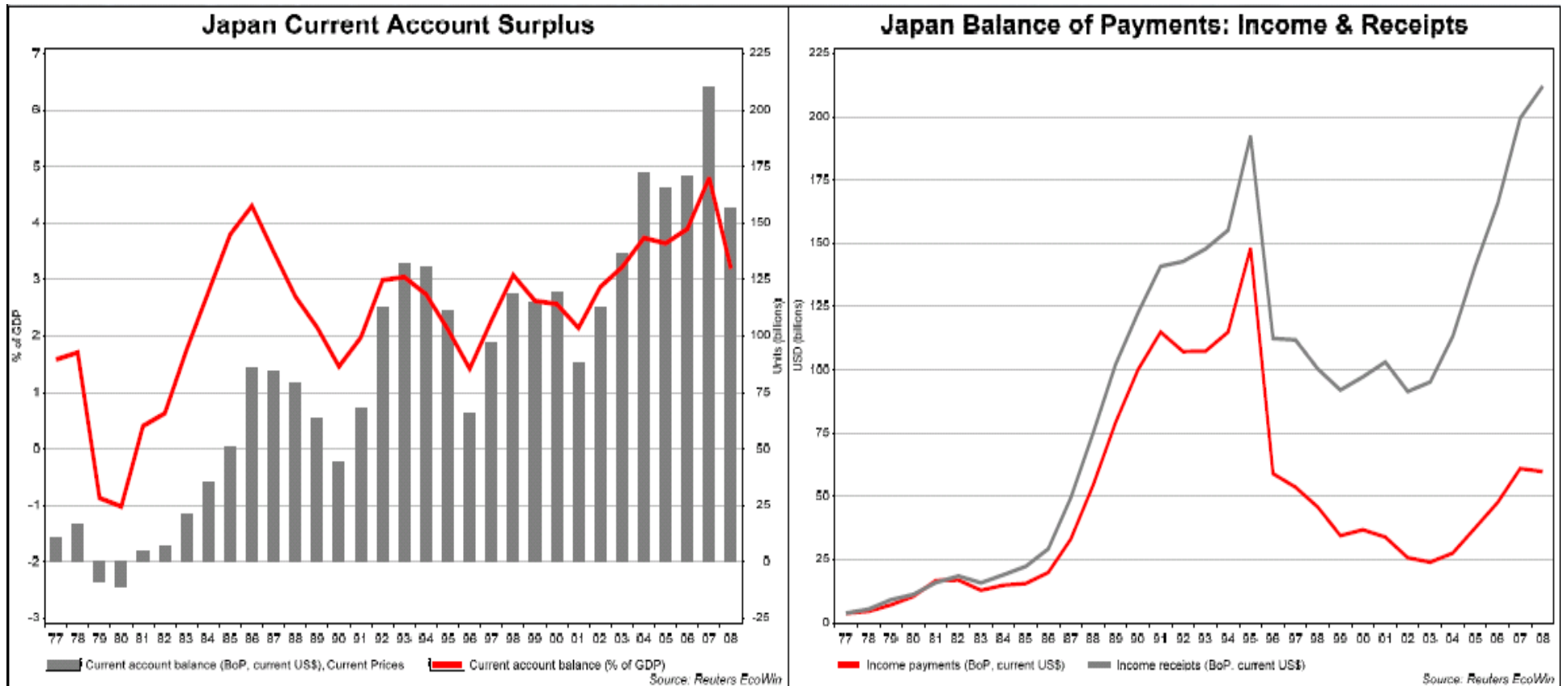
Japan May Simply Be Moving Away From Industry



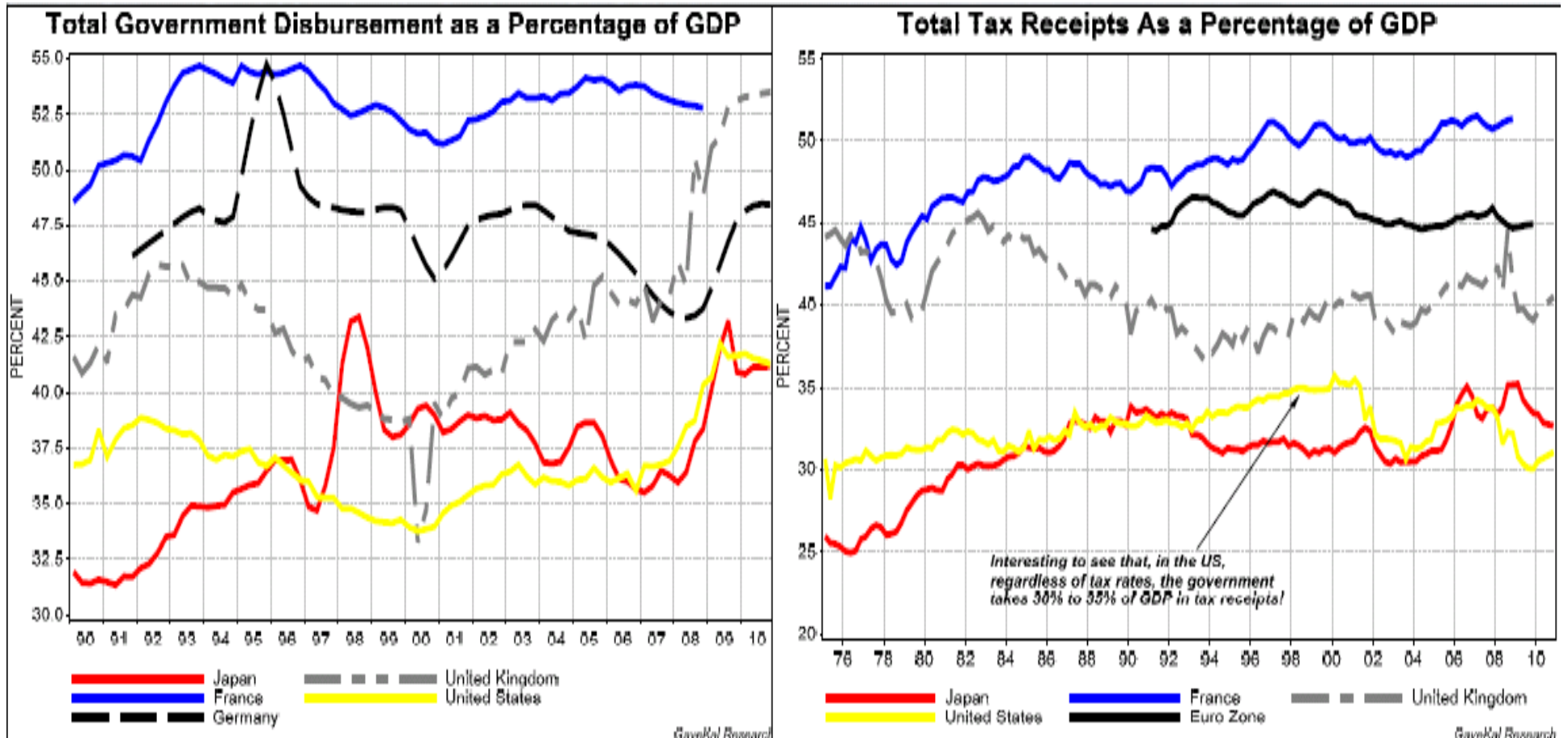
Japan is Still A Very Rich Country



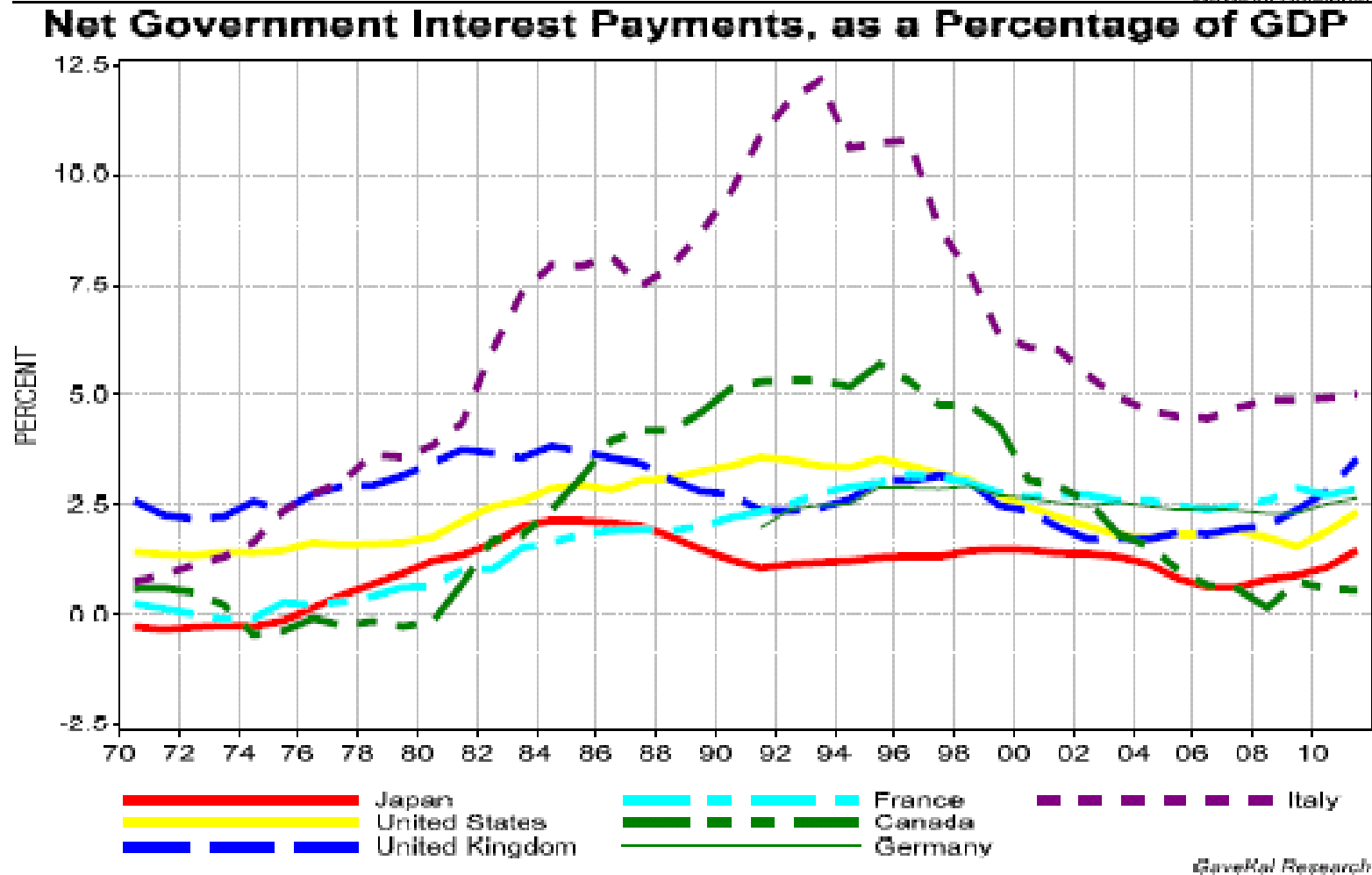
Japan's Current Account Surpluses Argue Against a Typical Debt Crisis



The Reality is that the Japanese Government is Still a Manageable Part of the Overall Economy

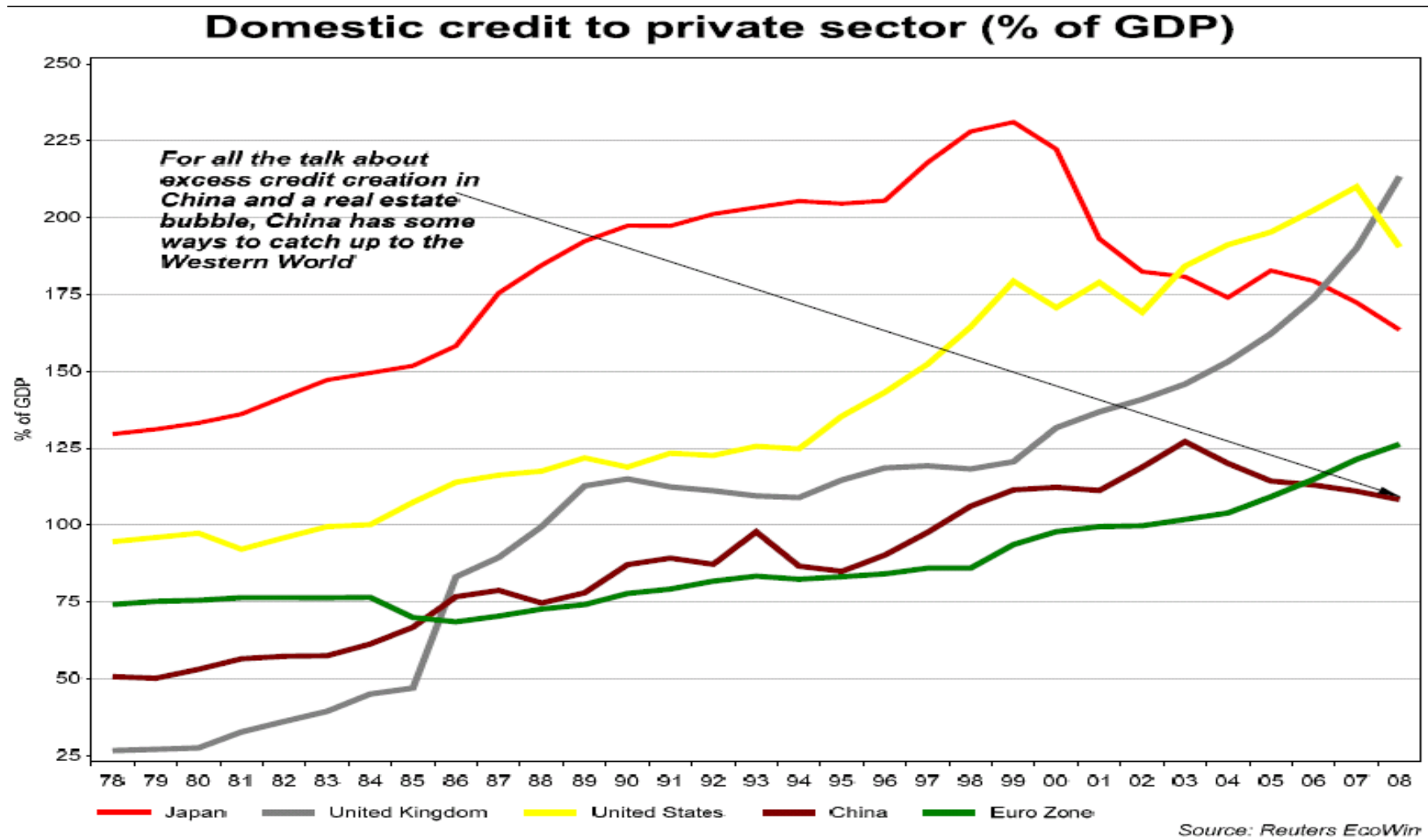


And Interest Costs Are Bearable

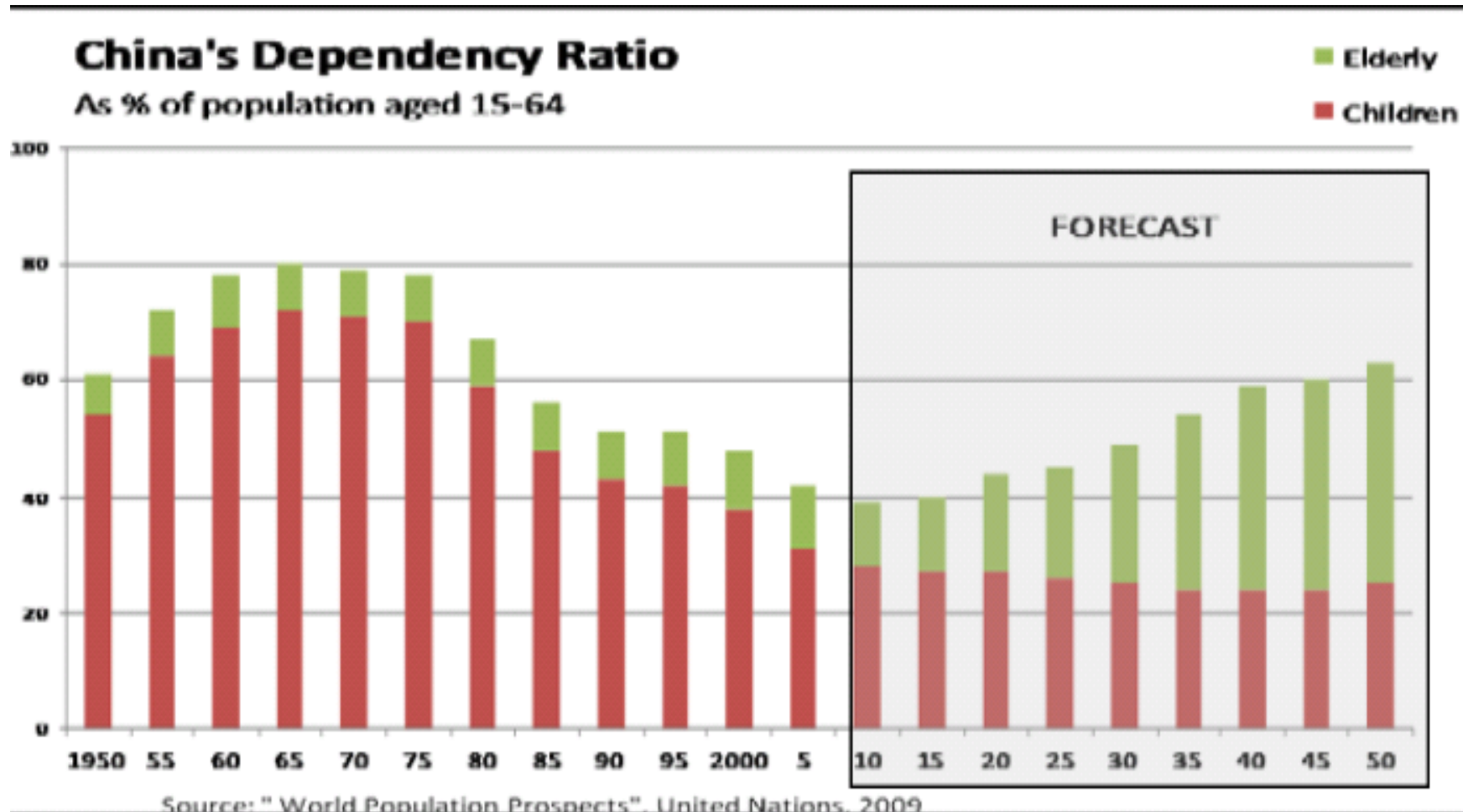


Is China Dubai X1000?

Is China Really About to Experience a Credit Crunch?



The Major Challenge: A Demographic Deterioration



Recent Infrastructure Spending Should Reap Dividends

China Total Trade Value by Province (2008)



The Opportunity: Deregulation of Domestic Capital Markets

Date	Liberalization Moves (domestic-focused)	Reform Focus	Notes/Implications
Oct-08	Introduction of plans to allow short-selling on domestic market	domestic	Financial market reform towards making markets more efficient
Oct-08	Government announces rural land reforms to allow farms to subcontract, lease and transfer land-use rights	domestic	Massive boost to agricultural productivity & labor flexibility
Jan-09	Central bank lowers threshold for bond market entry. Insurance companies are allowed to invest in bonds backed by infrastructural assets and unsecured corporate bonds	domestic	More financial market reform that opens new funding channels to domestic companies
Jan-09	The government pledges to spend US\$1.25bn on healthcare reform	domestic	Less spending on healthcare will give room for consumption
May-09	New IPO rules are drafted	domestic	Domestic reforms that prepare the way for further opening of China's capital account
May-09	Foreign institutions are allowed to offer consumer finance	domestic	Another channel to open up funding for Chinese consumers
May-09	State-planning agency NDRC provides guidelines for further liberalization of the economy and to allow private sector to play a bigger role. These include liberalization of electricity and utilities pricing ..etc.	domestic	Government stresses importance of tackling fundamental imbalances within China
Aug-09	China will gradually increase the number of qualified joint-venture securities companies that can participate in A-share brokerage, proprietary trading and investment advisory services	domestic	To further strengthen China's capital market
Aug-09	Shanghai government supports plans by the city's financial institutions to seek initial public offerings or back-door listings by swapping assets	domestic	To further introduce private ownerships to the city's banks
Aug-09	Restrictions on private-equity firms are changed to attract more foreign private-equity firms in Shanghai: Blackstone will partner with Shanghai government and raise RMB funds from local investors	domestic	To develop domestic private equity industry
Aug-09	Consumer finance companies will be set up in four cities, including Beijing and Shanghai, on a trial basis	domestic	Creation of new liquidity channels
Aug-09	The Hong Kong and Shanghai stock exchanges finalizes plans for a cross-trading mechanism involving exchange-traded funds that will give investors access to both equity markets.	domestic / external	Introduces competition on corporate governance on listed companies and to prepare the way for opening-up of capital accounts
Aug-09	Blackstone will set up a 5 billion yuan partnership between a global buyout firm and Chinese government	domestic	To foster corporate governance and strengthen capital markets
Sep-09	China plans to allow fund houses and brokerages to launch real estate investment trusts, or REITs. Debt REITs would be trialed on interbank market first.	domestic	An important funding channel for real estate market
Oct-09	China Nasdaq-like growth enterprises board, called ChiNext, opened for trading	domestic	More financial funding channels available to domestic companies
Nov-09	China sets up interbank clearing house in Shanghai	domestic	To develop the country's financial hub into a global financial centre over the next decade
Nov-09	China sells its first 50-year government bond at 4.30%	domestic	To expand its domestic debt market
Jan-10	Mainland should soon launch a stock index covering 500 firms listed in the mainland, Hong Kong and Taiwan. CSRC also approved of the launch of index futures, margin financing and short selling in the A-share market.	domestic	Financial market reform towards making markets more efficient

Source: MW GaveKal

Confidential to recipient; not for reproduction or redistribution. Please refer to penultimate page for Important Disclosures.

And an Opening of the Capital Accounts

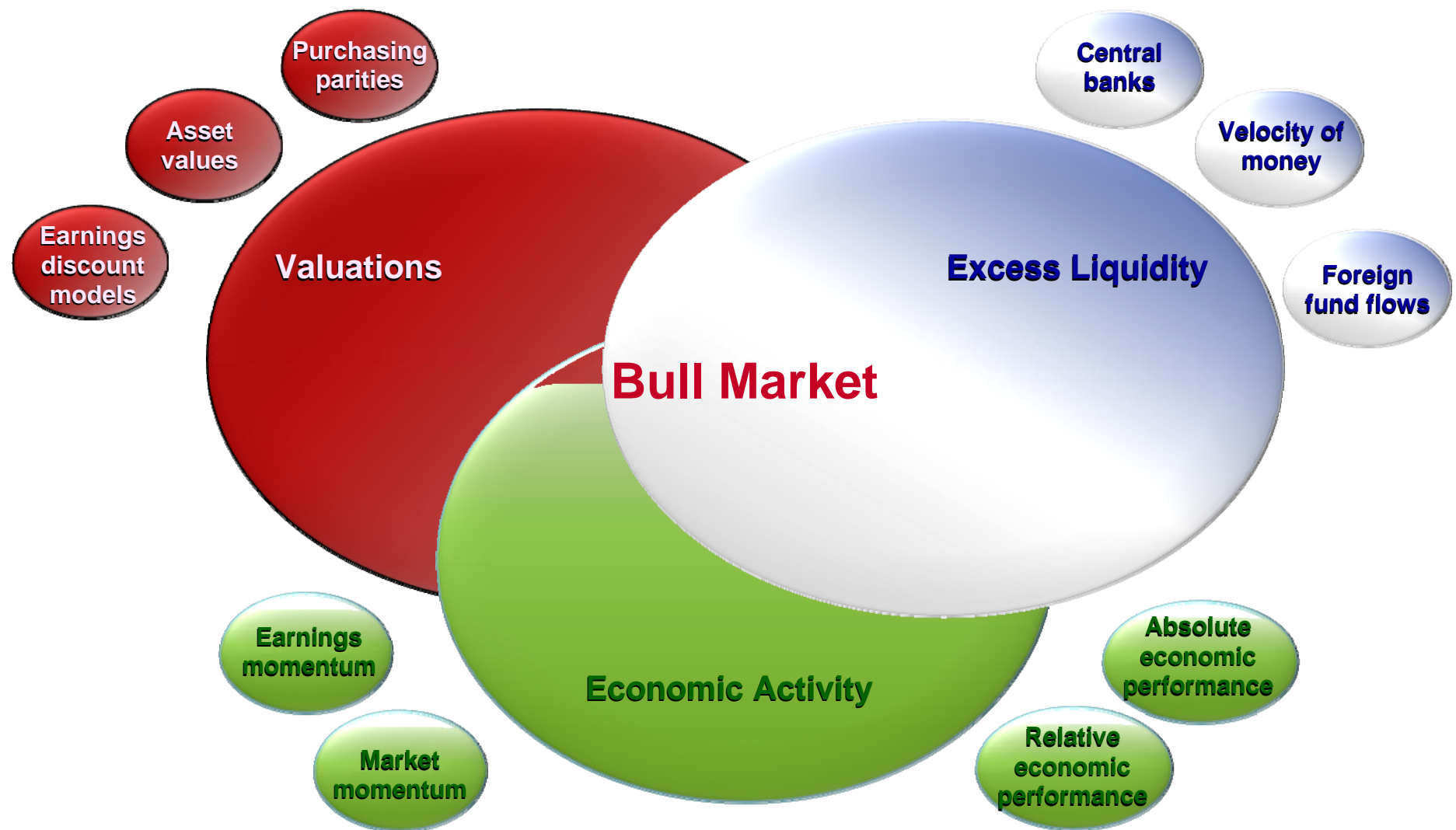
Date	Liberalization Moves (external-focused)	Reform Focus	Notes/Implications
Dec-08 to Mar-09	China signs currency swap agreements with six countries totaling RMB650bn	external	Paves way for internationalization of RMB
Apr-09	Hong Kong banks to start issuing RMB bonds, to be traded in Hong Kong. Pilot program on RMB trade settlement will also start in HK.	external	This paves path for internationalization of RMB
May-09	Brazil and China say they will work towards settling trade in own currencies	external	This paves path for internationalization of RMB
May-09	Domestic companies will no longer need SAFE approval to obtain forex for FDIs and will only need to register their source of forex funding after a transaction is done	external	This should further promote FDI outflows from China
May-09	National Social Security Fund seeks cabinet approval to invest billions of dollars in foreign private equity funds this year	external	This opens up diversification channels for its foreign exchange funds
May-09	"Through train" is launched whereby Chinese retail investors are allowed to buy ETFs backed by HK-listed stocks	external	This will ease capital flow and Taiwan is in the plans to be included eventually
May-09	China eases inspection procedures and expands the sources of foreign-exchange capital available for investment overseas. Companies will also be permitted to keep income from offshore investments overseas and reinvest abroad.	external	To further promote FDI outflows from China
May-09	HSBC and Bank of East Asia become the first foreign companies granted approval to sell bonds in RMB	external	This paves path for internationalization of RMB
Jun-09	Mainland companies are allowed to lend up to 30% of their equity to overseas subsidiaries, branches and companies	external	This paves path for internationalization of RMB
Jun-09	Foreign banks will be able to buy or borrow RMB from mainland lenders for the first time to settle trade in Hong Kong and Macau under a pilot scheme; exporters will be allowed to keep their RMB earnings outside mainland	external	This paves path for internationalization of RMB
Jul-09	Shanghai government lowers the threshold of district-level authorities to clear foreign investment projects	external	To further promote FDI outflows from China
Aug-09	Chinese banks cards are allowed in Taiwan	external	Credit card systems will be linked across the strait
Sep-09	Chinese government sold yuan- denominated sovereign debt in HK	external	This paves path for internationalization of RMB
Sep-09	Foreign listings on the Shanghai stock exchange will begin with a pilot phase, with the first few companies expected to be listed in 2010.	external/domestic	To further strengthen China's capital market and increase capital efficiency

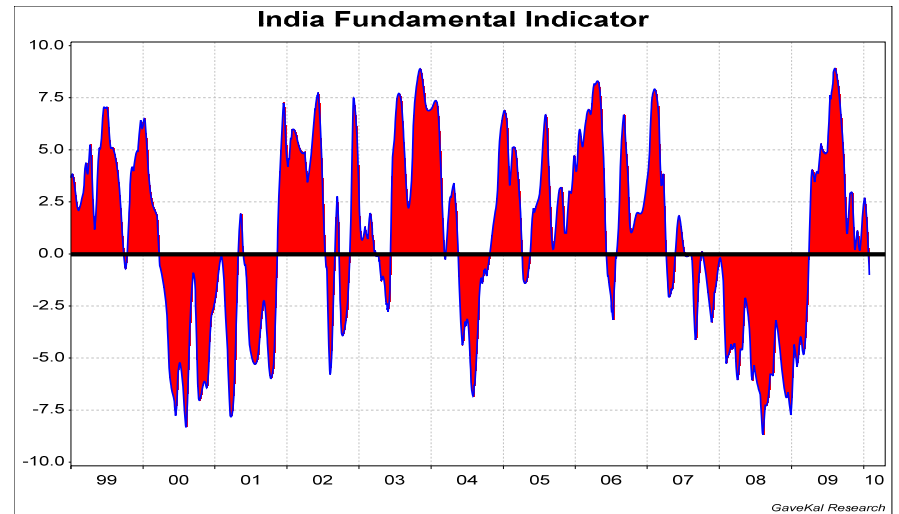
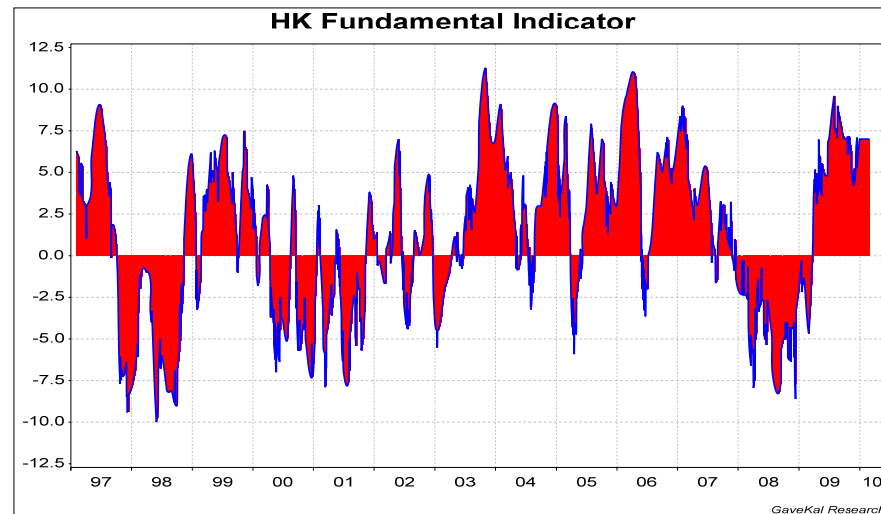
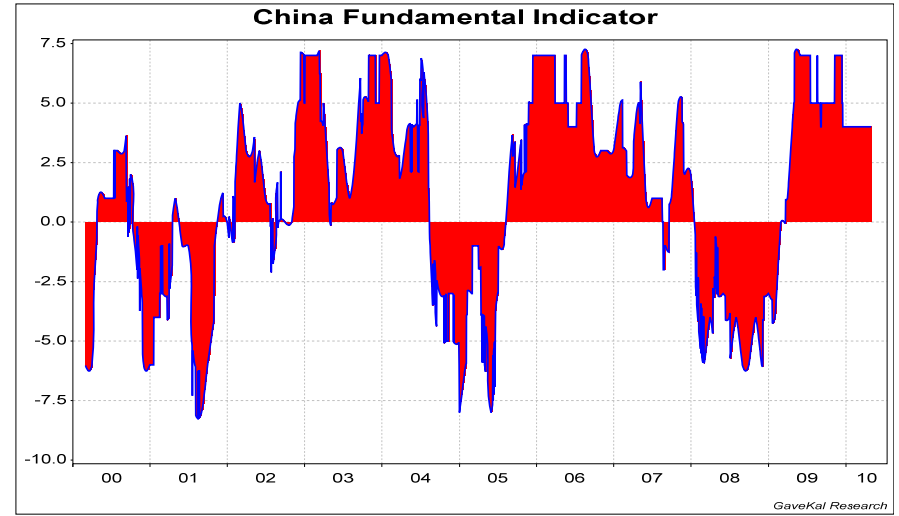
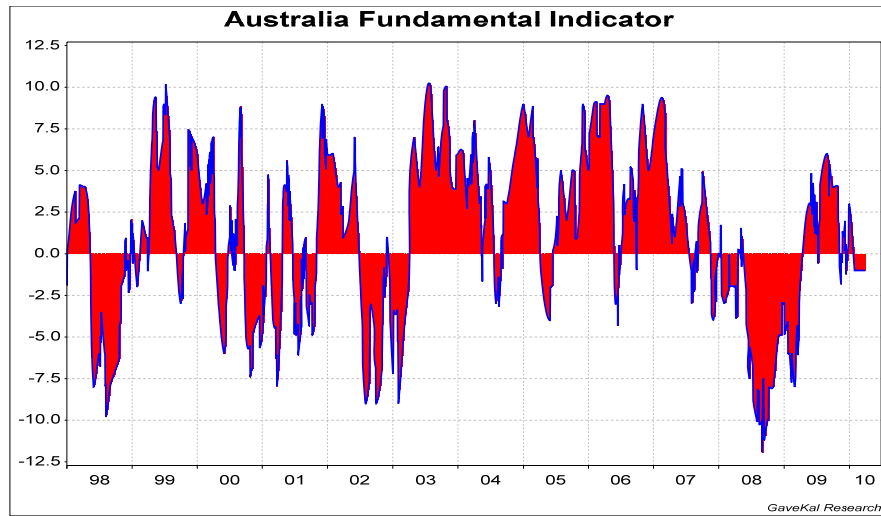
Source: MW GaveKal

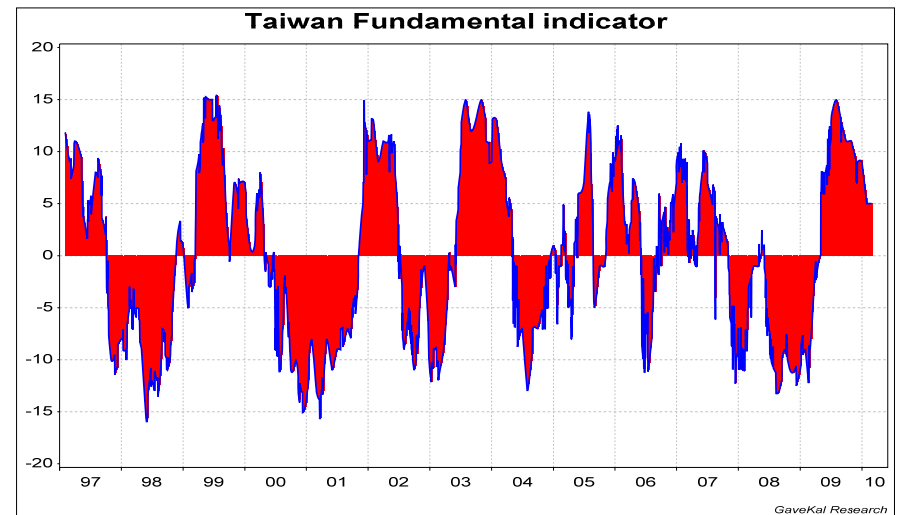
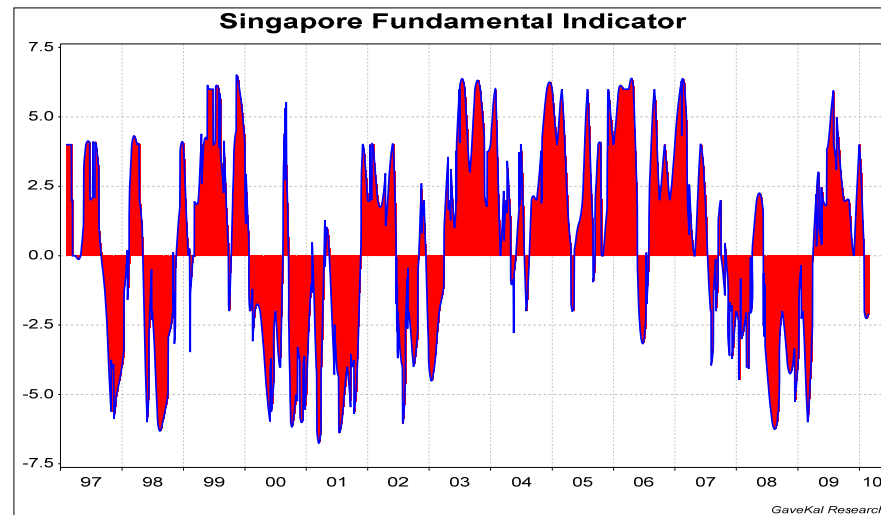
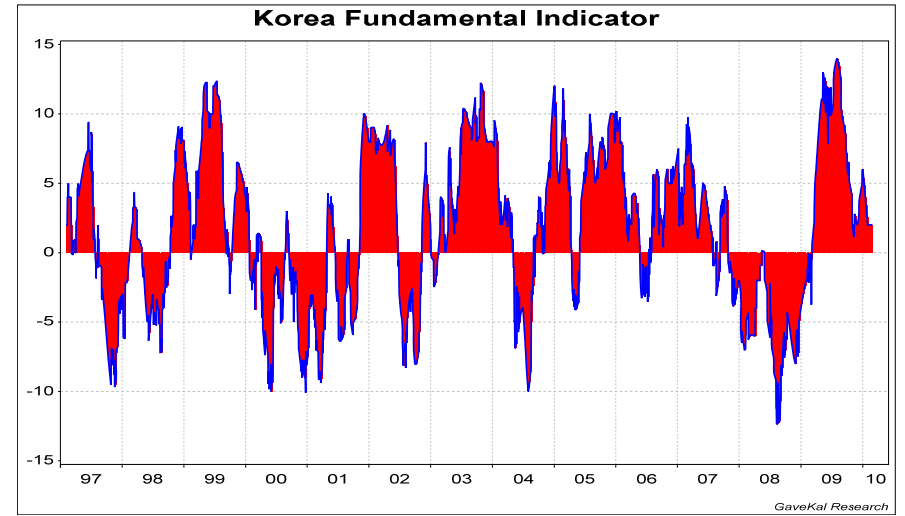
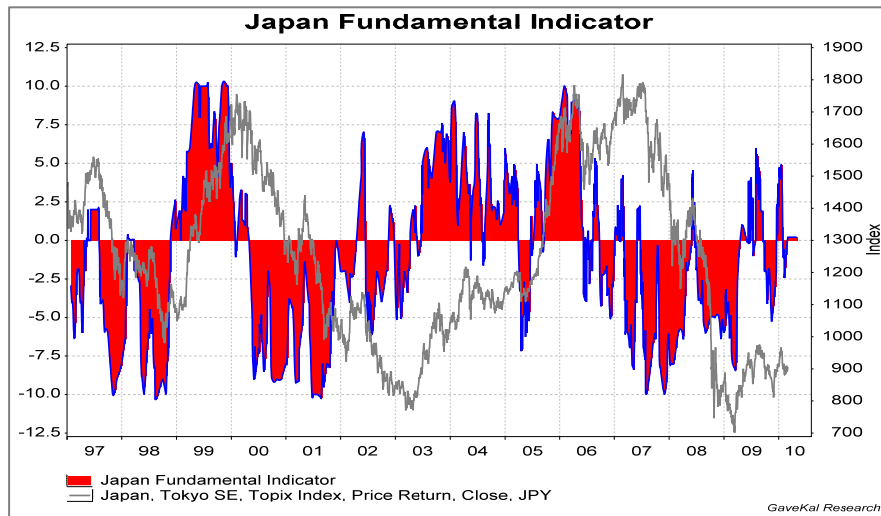
Confidential to recipient; not for reproduction or redistribution. Please refer to penultimate page for Important Disclosures.

Appendix: Most Markets Still in a Bull Phase

Equity Bull Markets Rest on 3 Pillars: Valuations, Excess Liquidity and Growth









Important Information

Copyright and Other Rights

The copyright, trademarks and all similar rights of this presentation and the contents, including all information, graphics, code, text and design, are owned by Marshall Wace GaveKal Asia Limited. Information contained in this presentation must not be reproduced, copied or redistributed in whole or in part.

Limitation of Liability and Indemnity

Marshall Wace GaveKal Asia Limited does not warrant the accuracy, adequacy or completeness of the information and data contained herein and expressly disclaims liability for errors or omissions in this information and data. No warranty of any kind, implied, expressed or statutory, is given in conjunction with the information and data. Marshall Wace GaveKal Asia Limited accepts no liability for any loss or damage arising out of the use or misuse of or reliance on the information provided including, without limitation, any loss of profits or any other damage, direct or consequential.

You agree to indemnify and hold harmless Marshall Wace GaveKal Asia Limited and its affiliates, and the partners and employees of Marshall Wace GaveKal Asia Limited and its affiliates from and against any and all liabilities, claims, damages, losses or expenses, including legal fees and expenses, (together, "Losses") arising out of your access to or use of the information in this presentation, save to the extent that such Losses may not be excluded pursuant to relevant law or regulation.

Any opinions contained in this presentation may be changed after issue at any time without notice.

Marshall Wace GaveKal Asia Limited's registered address is Suites 2812-2815, 28th Floor, One International Finance Centre, Central, Hong Kong. Marshall Wace GaveKal Asia Limited is licensed by the Securities and Futures Commission in Hong Kong