PACIFIC CAPITAL
MANAGEMENT LTD.

Our mission: to produce consistently superior performance for Asian investments with unrivalled service and integrity.

The Case for Investing in Asia

Not so long ago, investors were showing a distinct lack of interest in Asian equity markets. You couldn't blame them: few had made any money between 1995 and 1998, a period when U.S. markets were hot and Asian markets were hit by the great financial crisis.

But that was then. Today, the Asian financial landscape has changed for the better. Many of the structural deficiencies in the economies of Asia have undergone a dramatic transformation. Post crisis, these economies have floated their currencies, restructured their banks, improved corporate governance, shut down inefficient capacities, and made dramatic strides in raising their current account surpluses. As a result, Asia has once again been able to capitalize on its traditional strengths — a high savings rate, a strong work ethic, favorable demographics — to stage a remarkable economic recovery. To cite just one example, Korea, which borrowed US$20 billion from the IMF in 1998, has already paid off the debt and is now sitting on foreign exchange reserves of over US$100 billion.

Investors have taken notice. Since early in the year 2000, Asian markets have outperformed the Dow Jones, S&P, European markets and Japan. This strong market performance reflects the fact that overall economic growth in Asia will likely top 5% this year.

The flame of economic growth has tilted to Asia. Its long-term trend looks attractive. In a globally competitive world, companies in the West have increasingly outsourced their production needs to Asia, particularly to China. The result is that exports have remained on a positive trajectory through the recent U.S. recession. With a healthier banking system and robust current account surpluses in the region, domestic consumption has emerged as a key driver of demand strength. Additionally, intra-regional trade has now become an important, if not dominant, feature in Asia's economic growth model.

Continued overleaf

Pacific Capital Management Ltd. • 11th Floor • 16 Ice House Street • Central • Hong Kong
Tel. (852) 2523-8082 • Fax (852) 2523-4142 • rkwei@pcmlhk.com • www.pcmlhk.com

In the center of this remarkable trend is the story of China's economic miracle. By now, over 80% of the world's multinationals have a presence in China. Each year, the country attracts more foreign investment dollars than any other developing economy in the world. Already, China's GDP stands at over US$1 trillion, growing at a rate of around 7% per annum. China's stock market capitalization is close to US$500 billion. Coupled with those of Taiwan and Hong Kong, the total market capitalization of the so-called Greater China region now exceeds US$1.4 trillion, placing it just behind the markets of the U.S., Japan, the U.K., and Germany. It would not be too bold to suggest that this dynamic region will experience rapid expansion of market size unmatched by other regions in the world.

In short, long-term investors can no longer view Asia as a fringe area for investment.

That said, investing in Asia requires patience, discipline, and a thorough knowledge of the local business scene in order not to take on unacceptable risk. While corporate governance and market transparency are improving rapidly as more and more companies seek capital in the public markets, investing in Asia, in my view, requires a high level of due diligence. There is no substitute for staying close to management in order to be confident that the interests of minority shareholders are being well looked after.

In the decade-plus that my company and I have been investing in private and public equities in Asia, we have found many companies that have sound business strategies, first-class management, solid financial strength and profitability.

If you are interested in investing in growth companies trading at sensible values, I would urge you to consider incorporating Asian equities into a diversified portfolio of assets. With the right approach, I am confident that your capital will earn a highly attractive return in the long term.

RKwei

Randolph Kwei
Managing Director

June 2002

Pacific Capital Management Ltd. • 11th Floor • 16 Ice House Street • Central • Hong Kong
Tel. (852) 2523-8082 • Fax (852) 2523-4142 • rkwei@pcmlhk.com • www.pcmlhk.com