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RISING CHINA STILL ATTRACTIVE ON LONG-TERM EARNINGS POTENTIAL

- **China stocks still a draw for earnings potential despite high valuations**
- **Consumer and nationwide property stocks set to grow as incomes rise**
- **Soaring local stock markets catch up with economy as listings increase**

Despite the high valuations of the Chinese stock market and warnings that the market is heading for a downturn, AT Asset Management, the boutique asset management company of Alliance Trust PLC, highlights that China still offers growth potential almost unrivalled in Asia.

Tathagata Guha Roy, Senior Portfolio Manager with AT Asset Management says: *“Runaway gains on the Chinese domestic stock exchanges last year have stoked fears that an overheating market could be heading for bust. Yet there is more substance behind the rally than investor frenzy and, moreover, there are structural reasons why local stock markets have come back into favour after years in the cold.”*

Sector performance in 2007

Alliance Trust highlights that sectors such as consumer stocks and nationwide property should perform well over the next year, benefiting from income growth and increasing urbanisation of the Chinese population. With the Government's focus on energy security and growing investment in energy efficiency, oil and gas stocks are also poised for expansion.

The Chinese stock market has seen a steady increase in the number of large Chinese companies with multi-billion pound stock market capitalisations, improving not only the quantity but also recovering the quality of stock options for investors on local exchanges.

Roy says: *“We have seen numerous changes during the course of the last year, resulting in more and more big Chinese companies such as banks listing on the local ‘A’ share market. The Chinese government has been showing strong determination to modernise the market, forcing investors to acknowledge imminent improvements. For the first time, the laggard stock market has caught up and has started to reflect the growth of the economy.”*

Government regulation

The Chinese government has in the past been known for its frequent attempts to manage the pace of the stock market by regulation, sparking concerns over market volatility. Its most recent interventions however, have successfully demonstrated that the authorities are willing to tailor interventions to avoid strangling

growth, for example by easing restrictions on property ownership in secondary cities . Furthermore, government intervention is selective.

Roy says: *“Government measures to dampen investment are targeted at the less efficient sectors such as lower-end steel and coal mines, while progressive projects, especially those pivotal for development, such as railway construction, city metro lines and power grid upgrades have accelerated.”*

Export industry

China is highly dependent on exports, raising further fears for the market in the event of a global slowdown. But the Chinese export industries have seen a steady development away from low-end industries such as textiles, toys and furniture into industries with higher margins and value such as ship-building, high-end steel and auto parts.

Roy adds: *“Although China’s stock market has become expensive in the short term, this is not yet a bubble. Relative to the rest of Asia, China can still boast many companies with prospects for 20% earnings growth, and only India or maybe Indonesia can rival that. The Government is well aware, too, that a market crash will not be beneficial to China’s economic growth. Against expectations, authorities have already shown they can engineer soft landings and will continue to fine-tune their measures so as not to risk growth. For these reasons, China should offer strong investment opportunities in 2007.”*

AT Asset Management currently manages the investment portfolio of two funds, Premier Alliance Trust Asia-Pacific Equity Fund and Premier Alliance Trust Japan Equity Fund, out of its asset management boutique based in Hong Kong. Investors who subscribe to the two funds through Alliance Trust’s financial services business, Alliance Trust Savings, will have a unique opportunity to benefit from the I Class rates normally available only to institutional and other larger investors, and they will pay no initial charge.

For a copy of Alliance Trusts Market View on China go to www.alliancetrust.co.uk or email contact@alliancetrust.co.uk

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Notes to Editors

1. Alliance Trust PLC is the largest generalist investment trust listed on the London Stock Exchange. It is a FTSE-250 company with £2.8bn of assets at the end of January 2007.

2. AT Asset Management (Asia-Pacific) Limited is a wholly-owned subsidiary of Alliance Trust PLC and is registered in Hong Kong. The Board consists of Alan Harden and Grant Lindsay (as Non-Executive Directors); and Anthony Muh as Executive Director.
3. Alliance Trust Savings Limited is the financial services subsidiary of Alliance Trust PLC. Alliance Trust Savings and its subsidiaries offer investment dealing, investment wrappers and self-invested personal pensions.
4. Premier Portfolio Managers Limited will be the authorised corporate director (ACD) of Premier Alliance Trust Asia-Pacific Equity Fund and Premier Alliance Trust Japan Equity Fund and will have regulatory responsibility for the funds in the UK. AT Asset Management (Asia-Pacific) Limited will be responsible for the investment decisions.
6. The two funds, Premier Alliance Trust Asia-Pacific Equity Fund and Premier Alliance Trust Japan Equity Fund, are available under a UCITS III OEIC umbrella structure.
7. There is no target number of companies or holding size for the funds.
8. Photographs of Tathagata Guha Roy are available.