

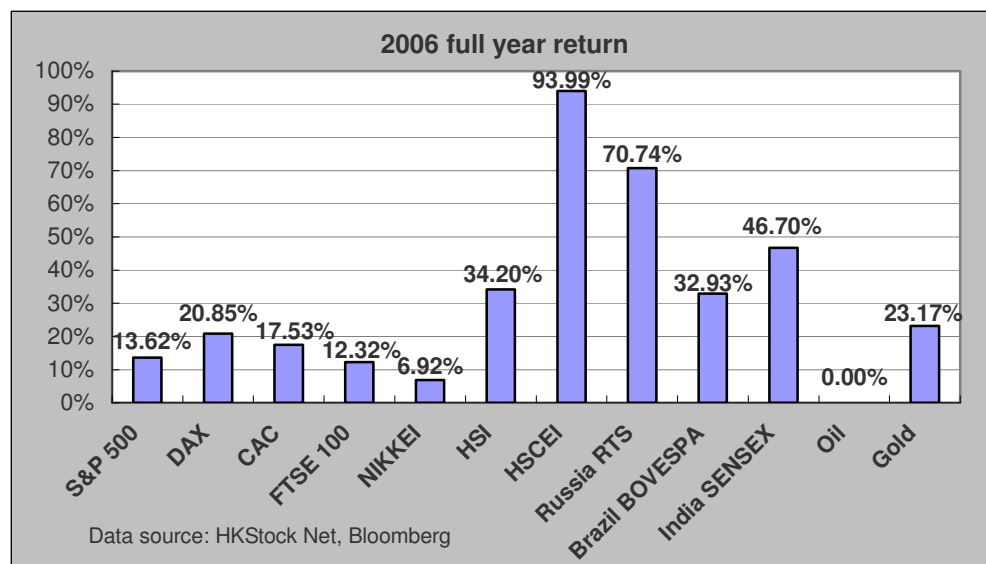


Jan 2007

Prosperous 2006, looking forward to 2007.

2006 was a very profitable year for investing public. For investors in Hong Kong, you probably had noticed the strong run of the Chinese stocks.

Below were the return for different market indices in 2006.



Last year, the developed markets performed well. US made the best performance in 3 years while strong run in Europe extended into the 4th consecutive year.

For emerging markets, they continued to out perform the developed markets in 2006. The BRIC markets in the table above all reported over 30% return. Besides BRIC markets, Vietnam, Philippines and Indonesia were also among the high flyers. They went up by 143%, 42.29% and 55.30% respectively.

2006 ended with good return despite the volatility seen in mid-year. For 2007, what shall investors look for?

We believe there are two themes for investment in the coming year. First, we expect a weaker USD in the year resulted from lower US interest rate. It shall help investment alternative to the USD such as Euro, Sterling and Gold. Second, the volatility in investment market could turn up. It suggested that diversification would be very important for the coming year.

US: Neutral

The US market continued with the up trend in December. DJIA went up 1.97%, S&P 500 added another 1.26%. But, NASDAQ declined slightly by 0.68%. Housing market numbers was better than those in November. New home sales rebounded by 3.4% to annualized number of 1.05 million. Still, it was down by 15% compare to November 2005. We believe that the US housing market is still moderating and lead the economy into soft landing.

EU: Neutral

European markets also registered strong gain in the month. DAX gained 4.56%, CAC up 3.99% and FTSE also added 2.84%. The strong gain was accompanied by good economic data, which suggested that Europe's economic recovery would continue into 2007. ZEW

expectations index recovered to -19 in December. Although the number was still in the negative territory, it nevertheless suggested an improvement in sentiment about Germany economy.

Japan: Neutral

NIKKEI made a rally towards the year end and gone up by 5.85% in December. It had lifted the full year return to 6.97%. The BOJ had left the interest rate at 0.25% till the end of 2006. It had reduced the worries about aggressive interest rate hike to choke economic recovery. However, domestic consumption was still weak. It remained the risk to Japanese economy and market.

China: Negative

China stole the show in 2006. HSCEI rose 94% in the year. For the time being, the rally may continue as investors' enthusiasm remains. However, we believe the price level for many of the companies shall be hard to sustain. We would rather look for selling opportunities in the coming months.

Hong Kong: Negative

HSI went up another 5% in December. It had breached 20,000 points just before New Year Eve. Despite the strong performance, we should be cautious that many of the shares especially the Chinese mainland financial stocks are trading at expensive valuations.

Emerging Markets: Slightly Positive

Things went on well in most market but not for Thailand. Thailand shocked the investment public once and again in December. It seemed that the aftermath of political turmoil is still clouding the country. On 19 Dec 2006, the Thai government announced that 30% of foreign capital inflow is required to be deposited into reserve with the central bank and a 10% tax would be imposed on capital withdrawn from the country within 1 year with no prior warnings or any clues. Though that the new policy was quickly amended to exempt equity investment from the requirement after radical slump in the equities market, the harm to investors' confidence was already caused. In the last day of the year, bomb attacks hit Bangkok. Question about the political stability of the country was once again raised. The political risk of investing in Thailand seemed to have risen. Therefore, we would not suggest investor to jump into the Thai market despite the cheap valuations.

Bonds: Slightly positive

The Fed has kept the US target policy rate at 5.25% as expected. 10 year Treasuries yield rebound to 4.71% at the end of the year from around 4.5% in the month begin. Still, we believe that the economic environment still points to lower interest rate in the future. Thereby, we maintain slightly positive view on bonds.

Commodities: Slightly positive

Commodities had softened a bit in December. Gold dropped by 1.76% and oil declined by 2.32%. For oil, the decline widened in early January as winter was approaching the end and warm weather kept the demand low. Despite the short term weakness, we believe a weak USD in long term shall provide support for commodities, especially gold.

Hedge funds: Neutral

Hedge funds had got very good performance in November in general. Every category sub-indices of HFRI Index reported a gain in the month. Emerging market hedge funds led the pack again with 4.34% gain. The HFRI Emerging Market (Total) Index went up by 20.2% YTD at the end of November. Besides emerging market, macro and equity hedge also made good gain. HFRI Macro Index and HFRI Equity Hedge Index reported 2.62% and 2.08% return in the month.

Advices for investors

Precaution on Hong Kong and China market is highly recommended. Although the short

term gains is very attractive, we believe that the rally is overdone. Thereby, we would recommend investors to consider profit taking in the coming future.

For aggressive investors, we think Euro, Sterling and gold are good instruments to ride on weaker USD.

For defensive investors, bonds would be the choice to take advantage of the expected rate cut by Fed.

We wish you all a happy and successful 2007!

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