Investment Outlook (First Quarterly)

HIGHLIGHTS

After a power rally in 2009, investors are getting more risk averse on fears of policy exits, interest rate hike and a strong dollar. The cautious sentiment may cap global markets in a range trading mode and the directions will be path finding, and passive to economic developments. In China, the State maintains its pro-growth policy stance but with tightening bias. Yet we remain upbeat with the long-term prospects of China on its accelerating economic orientation to consumption and urbanization. In Hong Kong, we expect the economy to be driven by a recovery in mass consumption rather that liquidity as in 2010.

Equity Markets:
For **U.S**, we expect US equities to experience a correction in 1Q after a powerful rally last year. Main reasons for this outlook include the possibility of a large-scale unwinding of the USD carry trade and elevated expectations of corporate earnings growth.
For **Europe**, we expect high employment rate and government deficits continue to drag recovery. Yet increasing mergers and acquisitions activities shall be the key market drivers.
For **Japan**, we expect market performance will hinge on the ability of the yen to weaken. Meanwhile, valuations remain elevated while earnings growth has not improved dramatically. Japanese markets should continue to lag behind other markets in performance.

Bond Markets:
We believe Government bond supply in 2010 would decrease as a result of recovering economy. We do not expect the rate hike cycle to start until 3Q of 2010 on as Fed reconfirmed that FED Fund Rate would be kept at “exceptionally low levels” for “an extended period on subdue inflation pressure.

Forex Markets:
EUR is expected to slide to lower levels throughout the year with the improvement of the U.S. economy and the Fed’s tendency towards withdrawing the massive government capital from the market after the recovery is secured.
GBP will probably stay range-bound trading given the weak momentum of the nation’s economic recovery.
JPY is expected to head towards 100 against the dollar as the government’s aim of boosting the economy gets more firmed.
XAU has potential to go higher as the global economic recovery will foster the demand for commodities and lift the inflation expectations.

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Executive Summary

After a powerful rally of global markets in 2009, investors are worrying whether the bull rally is sustainable in 2010?

The market rally in 2009 had been driven by massive liquidity on the quantitative easing and fiscal stimulus packages. However, the picture will be more mix in 2010 with sluggish recovery in G4 economies and asset bubbles in emerging economies on the prolonged low interest rate environment. We believe the policies will react to economic figures in 2010. That said we expect policy exits will happen only after a sustainable economic recovery of G4 economies, and rate hike decisions will be behind a sustainable uptrend in US housing prices to rein in inflationary expectations. The high unemployment rate, high deficits in US and Europe and the fragile financial positions of Eastern Europe countries may drag the pace of recovery. On the backdrop of sluggish global economic recovery, we think the ample liquidity and low interest environment will last at least till 2Q 2010.

In China, we expect the goldilocks to last at least in 1Q2010 to be characterised by low interest rate environment, high GDP growth and accommodative policies. Rather than massive stimulus to the hardware and infrastructure part of the economy, consumption, social welfare and urbanization will be the key focus for 2010. Yet policies are on a tightening bias for 2010, with higher capital requirement for banks and tighter lending to the property and sectors with excess capacities. While CPI had turned to the positive territory, China may hike interest when CPI breach 3% levels and negative real interest rate situation emerged. We believe China will carefully manage policy exit, as stable assets prices are necessary to ensure a smooth of China economy from exports oriented to consumption oriented.

In Hong Kong, the economy is being well boosted by the massive liquidity inflows which resulted in bubbles in the luxury residential market and a very strong bull market rally. With tighter liquidity inflows from the mainland, the rally may slacken in 2010. However, we believe improving unemployment trend and a strong recovery in consumption shall bode well for the domestic economy.

We believe Government bond supply in 2010 would decrease as a result of recovering economy, termination of emergency packages, and payback of TARP funds. Front end should be heavily loaded, as Foreign Central Banks are only willing to buy short-term bonds. We do not expect the rate hike cycle to start until 3Q of 2010 as Fed reconfirmed that FED Fund Rate would be kept at “exceptionally low levels” for “an extended period on subdue inflation pressure. The yield curve is expected to flatten once the FED starts to hike rates as the short-end seems too overpriced at the moment.

We expect major risks in 2010 are financial crisis of emerging economies, the reverse of liquidity flow in the markets on sharper than expected inflationary pressure and higher cost of capital.

UNITED STATES

Year-To-Date Performance

S&P 500 Index

S&P 500 Index Data

Market cap	$9.91Trillion
52-week Hi / Lo	1,130 / 667
3-Mth Return	+5.49%
Y-T-D Return	+23.45%
50 / 250 Mov.Avg.	948 / 1,094
Dividend Yield	2.11%
Historic P/E	18.05X
Estimated P/E	14.18X
Historic P/B	2.24X

Source: Bloomberg L.P.
As of 12/31/2009

INVESTMENT SUMMARY

- We expect a correction in 1Q 2010 after a stellar 2009. Recent shift of market leaders from small-caps to large-cap multinationals could be suggesting a change in investment sentiment.
- Key factors to focus: earnings growth performance, Fed's tightening cycle, USD direction, sustainability of macroeconomic improvements and the possibility of additional fiscal stimulus targeted toward improving unemployment.

Correction likely in 1Q 2010 We expect US equities to experience a correction in 1Q after a powerful rally last year. Main reasons for this outlook include the possibility of a large-scale unwinding of the USD carry trade and elevated expectations of corporate earnings growth. A shift of market leaders from small-cap stocks to large-cap multinational could be suggesting a change in investment sentiment toward relative safety. Meanwhile, recent actions by the Obama administration to extend the TARP program until October 2010 and the possibility of additional stimulus measures to improve unemployment are market supportive.

Market participants may be too optimistic on earnings growth Sharper-than-expected corporate earnings have also been a major factor behind last year's rally. S&P 500 index earnings has shown sequential quarterly improvement since 1Q 2009, which coincided with a market bottom. Market participants are currently so optimistic that they are anticipating another 25% increase in S&P 500 index earnings for 2010. With corporate and consumer spending yet to fully recover, such optimism could prove disappointing, especially if the ability to further cut operating costs are limited.

However, still elevated cash levels on sidelines The total amount of assets in money market funds can be used as a proxy for available sideline cash. According to weekly data from Investment Company Institute, money market funds assets totalled $3.32 trillion at the middle of December, still at elevated levels compared to recent history. Market participants suggest that this amount should be close to $2.4 trillion under "normal" market condition, implying that there could be $920 billion of potential liquidity into risky assets.

Sector Performances

Financials (neutral) – Although all TARP recipients have repaid government support, major banks remained unwilling to increase outstanding loans. According to a recent monthly report from the US Treasury, average loan balances held by the top TARP recipient institutions totaled $4.12 trillion in October, falling from an average of $4.16 trillion one month ago.

Technology (overweight) – We continue to be positive on the outlook for the technology sector in Q1, including selective sectors such as software and mobile devices. Gartner estimates that global PC shipments should rise by 12.6% next year due to a corporate hardware upgrade cycle. Longer term, biotechnology stocks remain attractive.

Materials and energy (overweight) – We remain overweight on cyclical sectors such as materials and energy, with the view that demand for commodities in emerging markets will stay robust. OPEC recently upgraded global oil demand to 85.13 million barrels per day in 2010, an increase of 1% from 2009 levels. In addition, further stimulus in infrastructure and construction in developed markets should also underpin the consumption for resources.

Consumer staples (neutral) – We stay neutral on consumer staples. Many companies have revised full-year profit targets upwards to reflect improved margins and softer raw material costs. However, this sector should outperform if risk aversion returns.

Risk Considerations: 1) disappointing fiscal 4Q09 corporate earnings performance; 2) USD direction; 3) consumer spending fails to rebound because of rising unemployment 4) higher interest rate environment going forward.

EUROPE

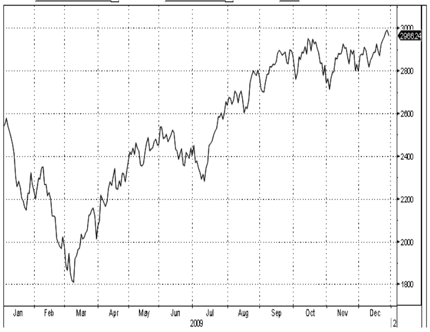
INVESTMENT SUMMARY

- Economic growth to persist
- Expecting a mixed Q1
- Favouring healthcare, luxury goods and oil stocks; remaining neutral on financials and still cautious on airlines

Dragged By Deficits – The euro-area economy may expand 0.7% next year, the European Commission said, raising its growth forecast. The economy of the 16 countries sharing the euro will resume growth in 2010 and expand 1.5% in 2011, after contracting 4 percent this year. It previously forecast a 0.1% contraction in 2010. However, the region's average budget deficit will swell to 6.9% of gross domestic product next year and slip to 6.5% in 2011 and unemployment will rise into 2011, reaching 10.9%, the highest since at least 1995. The deficit problem also applies to the U.K. On 8 December, rating agency Moody's Investors Service said its top debt rating on the nation may "test the AAA boundary" because its public finances were worsening in the wake of the global financial crisis. Public debt will swell to 89.3% of the economy in 2010 from 75.3% this year, according to OECD. Going across to southern Europe, Fitch downgraded Greece's long-term foreign currency and local currency Issuer Default Ratings to BBB + from A- with negative outlook being assigned owing to similar issues. On the employment front, Europe's jobless rate held at the highest in more than a decade in October as companies cut jobs even after the economy was emerging from recession. Unemployment in the 16-nation euro area remained at 9.8%. That was the highest rate since December 1998. The U.K. has fared better as unemployment claims declined by 6,300 in November to 1.63mn while the number of people seeking work in the three months through October rose 21,000 to 2.49mn, the smallest gain in 17 months.

Murky Quarter Expected – European markets failed to stage the remarkable runs witnessed in Q3 during the three months to December despite signs of further economic recovery within the region. October was the weakest month as investors became concerned that the long rally had outpaced the prospects for economic and profit growth and markets staged a come-back in November owing to better-than-estimated earnings by most firms. However, the month did not go by without hindrance as Dubai World asked creditors to postpone its forthcoming debt repayments until May 2010 on the 26th. Fears of potential sovereign default subsequently sent shock waves through the Western European financial sector. The problem was eventually contained by Abu Dhabi's $10bn aid to the beleaguered government investment company on 14th December. For the upcoming quarter, we expect more mergers and acquisitions activities to emerge as sentiment further improves in the corporate sector while enhanced earnings should become less dependent on cut-throat cost reductions with the climb in revenue. However, there exists little doubt that markets will be watching with closest interest the pace in which respective governments whine down existing stimulus measures and may therefore remain susceptible to intermittent corrective volatility.

Year-To-Date Performance



DJ Euro Stoxx 50 Index

DJ Euro Stoxx 50 Index Data

Market cap	EUR 1.65Trillion
52-week Hi / Lo	3,001.56 / 1,765.49
3-Mth Return	3.21%
Y-T-D Return	21.14%
50 / 250 Mov.Avg.	2,872.16 / 2,525.97
Dividend Yield	3.80%
Historic P/E	23.11X
Estimated P/E	11.78X
Historic P/B	1.46X

Source: Bloomberg L.P.
As of 03/31/2009

Going Forward –

Overweight on:

We see potentially inviting earnings momentum within the healthcare and pharmaceutical sector. First reason being the defensive nature of the industry as demand for products is largely oblivious to economic swings. The other main attraction of this sector has been the strength of balance sheets and companies tend to be cash-rich and little laden with debt. We also foresee near-term opportunities from luxury goods companies as demand from large emerging economies such as Mainland China for top-end products still remain vibrant. There could be tradable rallies for oil stocks as we foresee an uptrend in oil stocks as winter lingers within the upper region of the Northern Hemisphere, which should fuel enhanced demand on consumption.

Neutral on:

Even though financials continued to be amongst the leading gainers during the past quarter, but they still face certain challenges such as potential defaults on loans. In addition, institutions with majority government stake may see their appeal somewhat undermined owing to a low degree of corporate sovereignty and restrictive dividend payouts. Indeed, the ECB said on 18th December that banks in the euro region may have to write down an additional 187bn euros as loans to property companies and eastern European nations threaten the recovery in financial markets. The region's central bank raised its estimate for write-downs for the period of 2007 through 2010 by 13% to 553bn euros from 488bn euros forecast in June. The ECB has also said that "the surge in government indebtedness" around the world is a risk to financial stability and that some European banks are still reliant on emergency funding.

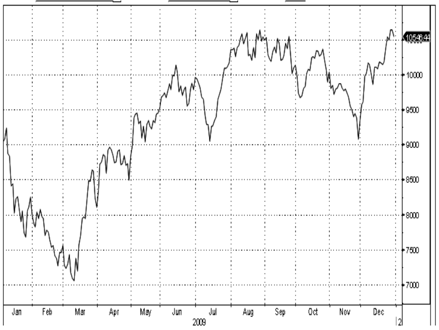
Cautious on:

Despite improved traffic figures published by the region's major carriers, the International Air Transport Association said late last month that losses by the sector will total $5.6bn, 47% wider than initial estimates as oil prices rise while airlines compete for passengers with lower fares. Unless we see a consistent recovery in traffic flows, we maintain our cautious stance.

Risk Considerations: 1) Ballooning of national deficits; 2) Drastic cut-backs on stimulus measures by governments; 3) Further impairments across the banking sector; 4) Internal and external demand stagnation.

JAPAN

Year-To-Date Performance



Nikkei 225 Index

Nikkei 225 Index Data

Market cap	￥203.6Trillion
52-week Hi / Lo	10,767 / 7,021
3-Mth Return	+4.08%
Y-T-D Return	+19.04%
50 / 250 Mov.Avg.	9,984 / 9,336
Dividend Yield	1.50%
Historic P/E	43.54x
Estimated P/E	23.33X
Historic P/B	1.41X

Source: Bloomberg L.P.
As of 12/31/2009

INVESTMENT SUMMARY

- Japanese equities underperformed US and European markets in 4Q 2009 due to concerns over a strong yen exchange rate and relatively weaker economic performance.
- Both the Bank of Japan and the government have implemented additional quantitative easing/economic stimulus programs aimed at reviving the domestic economy. However, the effectiveness of their actions remains questionable so far.
- Performance of Japanese equities in 2010 will hinge on the ability of the yen to weaken. Meanwhile, valuations remain elevated while earnings growth has not improved dramatically. Japanese markets should continue to lag behind other markets in performance.

Macro concerns persist, Japan continues to underperform US and Europe Japanese equities continued to underperform other developed markets such as the United States and Europe, mainly due to concerns over a strong yen exchange rate and relatively weaker economic performance. 3Q09 GDP growth was finalized at 1.3%, much slower than previous estimates of 4.8%, as declines in capital spending and corporate investment offset growth in exports and consumer spending. Many exporters have scaled back their capital expenditure plans as yen strength threatens their profitability outlook.

More economic stimulus required? Bank of Japan officials recently indicated that more economic stimulus programs may be required should a rising yen and a deflationary environment continue to undermine the current recovery. The central bank implemented an additional ¥10 trillion lending program designed to extend loans at low interest rates for a period of six months to one year. Meanwhile, the government until new Prime Minister Hatoyama also unveiled a ¥7.2 trillion economic stimulus package aimed at improving unemployment, expanding emergency credit to small and medium sized companies and initiating environmental initiatives. Since September 2008, the Japanese government has compiled 4 stimulus plans totaling ¥29 trillion or US$326 billion, which is lower than $787 billion from the United States and $586 billion from China.

Performance in 2010 will hinge on yen's ability to weaken and overseas demand With substantial focus on yen strength, performance of Japanese equities this year will depend on the yen's ability of depreciate. Consumer markets in major export destinations have yet to show sustainable improvements. Additionally, valuations still remain elevated with prospective PE ratio of 23.33 while earnings growth has not improved dramatically. Japanese markets should continue to lag behind regional and other global markets in performance.

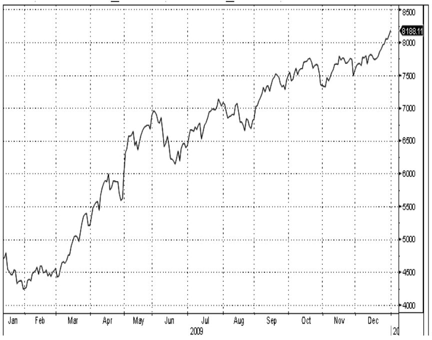
Risk Considerations: 1) yen exchange rate volatility; 2) persistent weakness in domestic and overseas markets; 3) disappointing corporate earnings; 4) further deterioration in investor confidence. 5) ineffective fiscal and monetary policies.

Taiwan

INVESTMENT SUMMARY

- Economy recuperates as global demand improves
- Stock market buoyed by strengthening ties with Mainland China.
- Anticipating further climbs on improved demand from the West and increased cross-strait economic activities.

Year-To-Date Performance



TWSE Index

TWSE Index Data

Market cap	TWD 21.01Trillion
52-week Hi / Lo	8,283.64 / 4,164.19
3-Mth Return	9.04%
Y-T-D Return	78.34%
50 / 250 Mov.Avg.	4,164.19/ 6,473.39
Dividend Yield	2.29%
Historic P/E	223.64X
Estimated P/E	24.83X
Historic P/B	2.22X

Source: Bloomberg L.P.
As of 03/31/2009

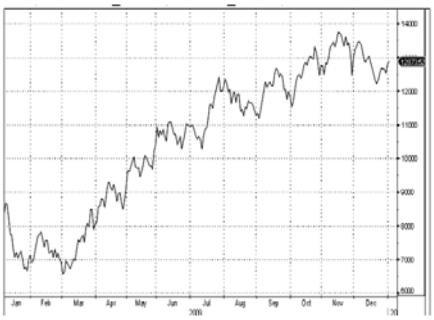
A Good Quarter – The recuperation of the global economy lent the country a much-needed helping hand during the past quarter. The economy contracted at the slowest pace in a year in the third quarter. Gross domestic product shrank 1.29% from a year earlier, after contracting a revised 6.85% in the second quarter. The statistics bureau has also revised its forecast decline in full-year GDP to 2.53% from an earlier estimate of 4.04% while consumer prices for the year will likely fall 0.73%, from an earlier forecast drop of 0.68%. In addition, export orders climbed in October for the first time in 13 months as stronger demand for electronics goods spurs economic recovery. Orders, an indication of shipments in the next one to three months, rose 4.41% from a year earlier, after a 3% drop in September. Furthermore, jobless rate fell for the first time in more than a year last month to 6.04% from September's 6.09% as companies hired more people on better sales forecast. Despite the odd corrections that were brought about by concerns that the rally out-stretched earnings prospects, Taiwanese stocks were once again lifted by prospects that closer economic ties with Mainland China would bring about more trade and investment. However, the technology sector's run witnessed in the third quarter had all but petered out despite rising global demand. Financials fared better on hopes of closer ties with the Mainland Chinese market. On a quarter-to-quarter basis, the Taiex Index went % higher and settled at on 31^{st} December.

Growth Strategies – The government has undertaken a series of measures to instill growth: (1) Taiwan and Mainland China signed an agreement to widen access to each other's banks, insurers and brokerages. The two sides agreed on issues including cross-strait financial supervision, information sharing and risk management. The accord enables Taiwanese banks to accelerate expansion in the world's fastest-growing economy. For the Mainland, the agreement meets its objective of deepening economic ties with the island nation.; (2) The two parties will began talks on a trade agreement in December as Taiwan seeks to revive its economy and the government in Peking aims for extra leverage over its counterpart in Taipei. The accord will be discussed at cross-strait negotiations on cooperation in the fishing industry, certification of agricultural and industrial goods and double taxation. The trade accord, known as the Economic Cooperation Framework Agreement, will create as many as 263,000 jobs in Taiwan and bolster exports, the Ministry of Economic Affairs in Taipei said last month; (3) Mainland China may reduce tax on Taiwan imports by more than NT$40 billion a year after signing a trade pact with the country.

Further Upside Anticipated – Taiwan stocks may make further runs in Q1 on stronger ties with Mainland China and technology companies should begin to benefit from accelerated demand from Europe and the U.S. In addition, last month's economic co-operation framework should boost the country's exports and help create more jobs.

Risk considerations: 1) Stagnation of the technology sector; 2) Delay in the implementation of new economic measures; 3) escalation of liquidity crisis.

Year-To-Date Performance



HS China Enterprise Index

HS China Enterprise Index Data

Market cap	HKD 2.9 Trillion
52-week Hi / Lo	13,863 / 6,403
3-Mth Return	11.0%
Y-T-D Return	62.1%
50 / 250 Mov.Avg.	13,014 / 10,517
Dividend Yield	1.8%
Historic P/E	20.5x
Estimated P/E	16.3x
Historic P/B	2.5x

Source: Bloomberg L.P.
As of 31/12/2009

CHINA / HONG KONG

INVESTMENT SUMMARY

- We think the broad economic, policy and liquidity environment shall be positive to capital market in the upcoming quarter.
- We expect HSCEI earnings to grow at ~25% yoy for 2010, yet visibility remained low. A wider valuation range at ~12-16x shall therefore put index range at between 11.500 – 15,500.
- We recommend overweight insurance, resources, consumption. We are neutral with infrastructure, banks, properties, power and metals. We underweight telecom.

Economic stability the key macro focus. China had shifted its economic focus from pro-growth to stability. In the latest Central Economic Work Conference, China aimed at sustaining GDP growth at ~8% and CPI at below 3% for 2010. Further, PBOC is targeting new loans at RMB7-8trn (vs ~RMB10trn for 2009) and M2 growth at 17-18% (vs ~29% for 2009) for 2010. To rein in excessive liquidity, CBRC will actively manage the banking system to make sure liquidity has channeled into the physical economy. Further, banks are required to comply with higher financial standards i.e. higher capital adequacy and NPL coverage requirements. Yet without a sustainable recovery in external environment, China is unlikely to withdraw from its stimulus program. All told, China seeks to pursue a stable but flexible macro policy regime as global economies remain fragile.

Micro policy adjustments. Consumption will continue to be the key focus of the State to drive GDP growth. To stimulate consumption further, the State seeks to accelerate urbanization through easing migration of rural dwellers to 2nd and 3rd tier cities. Further, the NDRC had formulated further stimulus to boost rural consumption through widening of the distribution of white goods in rural communities. Yet the State had withdrawn some preferential policies of the property and autos sectors to cool investment demand and preempt excess capacity. In addition, the State had tightened lending to the property sector to cool the overheating property prices in particular the Tier I cities. Nine industries including power, coal, coking coal, iron & steel, cement, paper, leather, ferrous metals and dyeing are subject to excess capacity control.

Optimistic 2010 earnings outlook. We are looking at ~25% yoy earnings growth for the HSCEI following ~20% yoy growth for 2009, mainly boosted by the heavy weighted financials which is expected to register ~20-30% growth and resources at above 20% yoy growth. We also expect Shanghai A shares to maintain about 26% yoy earnings growth for 2010 following ~25% growth in 2009. Yet earnings visibility of 2010 to remain low given the uncertainties over the global economic recovery and policy risks in China.

2010 Index target maintained. Assuming a PE range at ~13-17x, then the FY10 fair value range for HSCEI shall be at ~12,500-16,500. We expect index to trade at between 13-15x FY10 PE in 1Q10, representing target range at 12,500-14,500. For Shanghai A share Composite (SHASHR), assuming PE range at 20-25x, then the FY10 fair value range shall be at ~3,250-4,050. In 1Q, we expect index to trade at between 3,250 – 3,750 /20-23x FY10PE.

Key Risks Considerations: 1) OECD economies double-dip; 2) stringent austerity measures; 3) hard-landing in China economy on the collapse in asset price and sharp rise in NPLs; 4) large scale hot money outflows.

China Sector Snapshot

Banks (downgraded to Neutral) We expect earnings of the seven listed H share banks to grow by 14% yoy in FY09 and 23% yoy in FY10, while the bullish view expects earnings growth at ~34% for FY10. Market expects the scale of new loans to drop from ~RMB10trn in 2009 to ~RMB8trn in 2010, NIM expansion by about 20-30bps on tightening, loan growth at about 15-20%, and credit cost to maintain at low level of about 20-30bps. Yet we are cautious with regulatory risks including "margin neutral" or even "margin negative" impact of asymmetric rate hikes (i.e.deposit rates up more than lending rates), and more stringent capital requirement. We prefer State banks to joint stock commercial banks which can sustain about 10-12% loan growth pa, while maintain their ROEs at ~20%, Tier I CAR at ~8.5% / total CAR at a~11% to comply with the higher official requirements. We expect more fund raising activities from joint stock commercial banks to replenish their Tier I CAR should they continue to pursue ~20% loan growth, and we are aware of a rebound in NPLs given their SME focus which may be more vulnerable in a tight liquidity situation.

Insurance (upgraded to Overweight). Life insurers maintained a stable growth in premium income in 2H 2009. Though profit may not give any positive surprise due to the flat performance in A-share market, we expect life insurers to post 20-50% growth in VNB and 15-25% growth in EV for FY09 with successful restructuring to high margin products. For 2010, we believe insurance companies are going to benefit from the expectation of rising interest rate, surge in A-share markets and further liberalization of investment channels,, investment yield is expected to further improve. Moreover, we believe China government will roll out medical and pension reform which will improve the penetration rate of insurance policies. We expect this sector can deliver 20-40% growth in net income and above 20% growth in EV of for 2010.

Property (downgraded to NEUTRAL). Residential property prices in major cities of China surged ~10-15% in 2009 and prices are expected to increase by 5-10% in 2010. The favorable market conditions in 2009 was characterized by ~30% yoy surge in sales but only a 6% yoy rise in completions. For 2010, completions are expected to rise by 15% yoy to outpace property sales at ~10% yoy as construction accelerated since August 09. An influx of more pre-sale launches or new supply may take place as early as in 1Q 2010. National affordability is projected at 39% in 2010 from ~37% in 2009 after the price surge, yet affordability in Tier I cities may stretch to over the alarming level of over 50%. To preempt overheating, the State had tightened lending to second home purchase and land acquisitions, and to increase supply of economic housing. We recommend to accumulate national players with strong financials and SOE background for their ability to replenish their landbank to ride on the accelerating urbanization. Earnings of our property developer universe are expected to grow by 38% in FY09 and 32% in FY10 on their high lock-up ratio. Yet we downgraded the sector to NEUTRAL as the strong sales of developers in 2009 may be difficult to sustain in 2010 on the backdrop of tighter liquidity, higher supply and lower demand from a high base.

Infrastructure (downgraded to NEUTRAL). While China's infrastructure investments are expected to grow at about 38% yoy at RMB1.9trn for 2009, railway FAI growth declined to 25% yoy in Oct 09 from around 150% yoy in 1H09 and 32-66% between July and Sep. Road investment growth rate moderated to 31% yoy in Oct from the average growth rate of 40-60% since the beginning of the year. Ports investment declined by -24% yoy in Oct and is the only area that has not witnessed any growth this year. The Central Economic Working Conference stated that “China will grow investment moderately with key focus on projects in progress and tightly control new projects. Fears that infrastructure spendings growth may slow down from a high base to ~15-20% yoy for 2010 had dragged the sector. Market expects new contracts growth of the listed infrastructure companies may slow to ~10% in FY10 vs ~20%-80% growth for FY09. Of which, market expects new contracts for railway investments to increase by ~25% in FY10 vs ~60-80% in FY09, and highway investments to drop ~45% from ~20% growth in FY09. We downgrade the sector to NEUTRAL on rising long-term growth concerns, despite we expect earnings of the sector to grow by 82% in 2009 and 25% in 2010 on their high backlog.

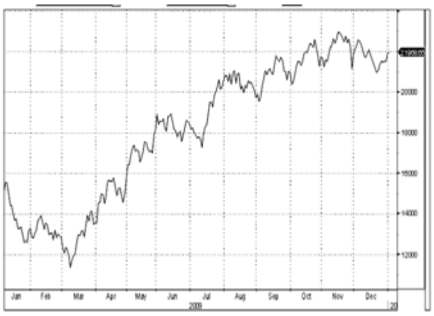
Resources (upgraded to Overweight). Oil price once breached US$80/bbl in October but turned weak afterward, touching US$70/bbl on USD rebound and higher-than-expected inventories. For 2009, mainly due to lower oil price, we expect sector (including downstream oil refining) earnings to drop 6% yoy. However, earnings may grow by as much as 30% in 2010 given oil price recovery. According to Bloomberg consensus, oil price may reach US$80 in 2H10 and US$85 in 2011, to the favor of upstream oil counters. For coal, market expects contract price may rise about 10% in 2010 as coal consumption growth accelerates. Share price correction should provide opportunities to accumulate leading coal miners.

Metals (maintained NEUTRAL). Base metal prices including copper and aluminum generally trended upward in 4Q on revived demand, while gold corrected after breaching US$1,200/oz as the USD rebounded. Metal sector is likely to suffer earnings decline of 25% in 2009 but market expects earnings to more than double in 2010 given low base in 2009. We see metal miners fairly valued for the time being.

Consumers (maintained Overweight). Driven by favorable government policies, consumer plays on both durables and luxury goods performed strongly. Latest direction of the government revealed to continue focus on *supporting domestic demand* and *encouraging urbanization* going into next year. The continuation of policy supports domestic consumption, especially those promoting purchase of autos and household electronic appliances. Market believes domestic consumption should see strong growth in 2010, which will be boosted by ongoing positive government measures, decent household disposable income growth and accelerating progress in urbanization. Rising urbanization including to encourage rural migrant population and more consumption to settle in urbanized areas, especially in medium and smaller cities. On selecting segments, we see auto, sportswear and F&B are three potential to note: China Auto plays gave a tremendous shot in 2009, both in stock prices and sale figures. Though we see a moderate growth instead a sharp jump, when comparing to 2009’s high base, auto sectors continue to be one of the government support sectors. Under the backdrop of promoting consumption as a key economic driver, market expects more policies to boost auto consumption including auto financing and new regulations for boosting the development of the new energy vehicles. Sportswear and F&B received solid base in 2009 and notable will be benefit by more rural consumption. Given the attractive valuation on some sportswear stock, we see more attention will be put especially those can perform in tier-2/3 cities.

Telecom (maintained Underweight). We stay cautious on China telecom sector due to the lackluster 2G subscriber growth in China and that the 3G

Year-To-Date Performance



Hang Seng Index

Hang Seng Index Data

Market cap	HKD 5.7 Trillion
52-week Hi / Lo	23,099 / 11,344
3-Mth Return	7.3%
Y-T-D Return	52.0%
50 / 250 Mov.Avg.	21,982 / 18,084
Dividend Yield	2.5%
Historic P/E	22.9x
Estimated P/E	17.2x
Historic P/B	2.1x

Source: Bloomberg L.P.
As of 31/12/2009

business still in pre-mature stage. The three major telecom operators have aggressive network expansion and 3G rollout plans for 2009, which leads to margin contraction. On peaking 3Q capex in 4Q09, marketing competition and tariff reduction as telcos increase penetration into lower value urban customer segments, and rural markets, top line growth of the industry is expected to be slower and street expects industry earnings growth to be flat this year.

Hong Kong Sector Snapshot

On recovery track. HK GDP contracted by 2.4% yoy in 3Q 2009, less than the 3.6% yoy drop in 2Q 2009. On a sequential basis, GDP increased 1.6% qoq which is the second quarter of positive growth after four consecutive quarters of contractions. Private consumption rose by 2% qoq, exports of services surged by 20% qoq due to a further pick up in financial market activities and a rebound in inbound tourism. However, exports of goods fell by 11.6% qoq. The GDP deflator rose marginally by 1.3% qoq indicating overall inflationary pressure in the economy remains modest. Market expects GDP growth to recover from -3% in 2009 to 5% in 2010, with unemployment rate retreat to 4.5% in 2010 from 5.2% in Oct 2009, which will likely buttress further recovery in household consumption.

Asset bubble unavoidable. Liquidity continues to flood the financial system of Hong Kong with the HKMA balance reached historic high at ~HK$300bn. Liquidity from China had boosted the asset prices of Hong Kong and created a bubble in the luxury residential market. Liquidity inflow from the rest of world is accelerating with Hong Kong deemed to be an investment safe haven to ride on China's growth and as a proxy to RMB. In fact, China officials said the asset bubble in Hong Kong is unavoidable given the low interest rate environment on the back of the currency peg. HKMA also warned about the hot money movements and asset bubble. Yet we believe HKD assets shall remain attractive in particular to mainland and overseas investors as a proxy to RMB in the longer term.

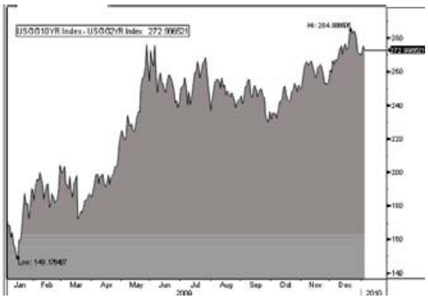
Still prefer asset plays. The HKSAR government had introduced various measures to enhance the "best practice" of property developers, and the HKMA had set guidance to cap mortgage lending to the luxury residential segment i.e. transaction at ~HK$20mn to cool the property bubble. These measures had led to a temporary drop in mortgage volume during October. Yet with the strong pent-up demand to be underpinned by a rise in disposal income, we expect property prices shall remain stable. We continue to overweight property developers. We are neutral on HK banks due to the sluggish recovery of fee income after the Lehman crisis, amid sluggish loan growth. We are neutral with utilities with their stable dividend yields. We underweight conglomerates due to the slow recovery in overseas business.

Index target fine tunned. We expect earnings growth to maintain at ~15% for FY10 and growth may drag by sluggish earnings of the China telecom sector. Assuming PE range at 14-17x taking into consideration of the ample liquidity, then the FY10 fair value range shall be at ~20,600-26,500. We expect index to trade at between 14-16x PE / 20,600 – 23,500 for 1Q10. We expect more visibilities towards global economic recovery and China policies shall be the catalysts for re-rating probably at the end of the year.

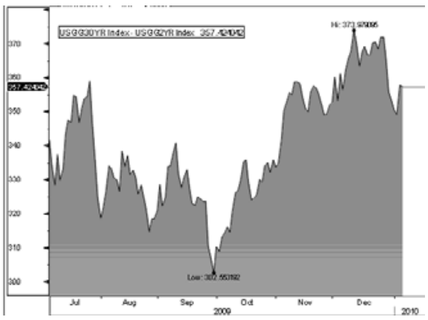
Key risks considerations. I) Massive outflow of hotmoney; ii) hardlanding in China; iii) prolonged global recession; iv) government regulation and v) sharp drop in asset prices.

BONDS

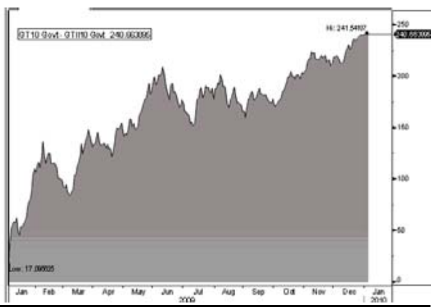
Spread Between 2-year and 10-year UST



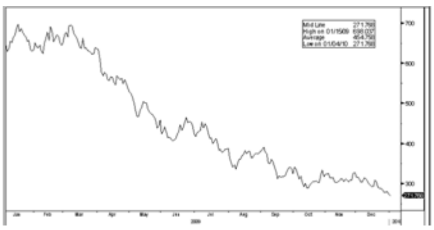
Spread Between 2-year and 30-year UST



10-year TIPS Breakeven



JPM EM+ Plus Index



Timing the Exit and Moving to Neutrality

Since the 2Q of 2009, market investors have been asking the time when the Central Banks would start to tighten and remove excess liquidity from the financial system. Treasury purchase program was ended in Oct and the FED will continue to purchase around $300Bn of agency debt and MBS over Q1 2010. Most liquidity facilities will expire on Feb 1 2010, consistent with its previous announcement. Although liquidity facilities will be expired, it becomes an issue how the FED will unwind existing position on its balanced sheet. To exit “naturally” would not be an option for the FED, as FED’s balanced sheet is approximately 2Trn, which is unprecedented in size and will take many years to unwind without impacting the system. Addition measures to unwind would include reverse REPOs or asset sales, although the latter one is less likely. We presume the FED will only unload its holdings gradually and will not implement such measures before it decides to hike rate.

It then becomes the question whether rate hike is likely to happen in 2010. While Australia started to hike rate three times in 4Q of 2009 and market expects New Zealand to follow suit in 2010, investors have to differentiate the fundamentals among different countries. While Australia and New Zealand have both been benefited from the rise of commodity prices, the US is still entangled with record high jobless rates, stagnant housing market and cautious consumer spending. The FED officials have also stated their stances clearly. St. Louis President Bullard commented that according to history, the time to start rate hike would be some time in 2012. In the latest FOMC statement after rate decision meeting in Dec, the FED reconfirmed that FED Fund Rate would be kept at “exceptionally low levels” for “an extended period.” Inflation is still not a concern for the FED now as the Committee expects that inflation will remain subdued for some time. These provide hints that the FED is in no hurry and we do not expect the rate hike cycle to start until 3Q of 2010. The yield curve is expected to flatten once the FED starts to hike rates as the short-end seems too overpriced at the moment.

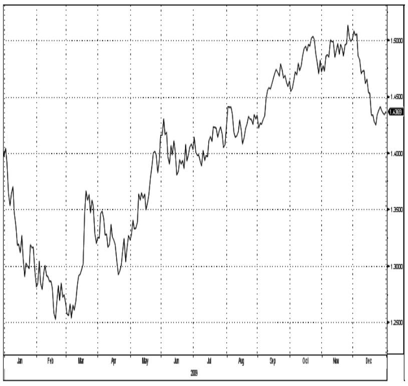
Still Immense Supply, but Expect a Slowdown in 2010

Bond supply is also a key factor affecting the investment horizon in 2010. In order to support the giant-sized quantitative easing, emergency programs and fund its budget deficit, the US Treasury issued approximately a record $1.8Trn of bonds in 2009. This overwhelming supply threatened the market at the outset, but it is now proved that these new issues were well absorbed, thanks to the Central Banks around the world. We believe Government bond supply in 2010 would decrease as a result of recovering economy, termination of emergency packages, and payback of TARP funds. Front end should be heavily loaded, as Foreign Central Banks are only willing to buy short-term bonds and not keen in bidding long-term ones. On the demand side, US’s creditors, including China, may slow down to increase its holdings of US Treasuries as most countries’ holdings have reached historical high levels.

Sovereign Downgrades Remained One of the Key Concerns

In the last quarter of 2009, Dubai became the key focus of the world as Dubai World, a state-owned construction company, sought creditors’ consent to restructure their debts. The issue triggered worldwide concern and the issue was later solved temporarily as Abu Dhabi promised to lend $10Bn to Dubai. European countries were also under spotlight. The credit ratings of Greece, Spain and Portugal were downgraded by credit agencies on their high level of budget deficits. Investors also start to concern on the rating of UK as its debt-to-GDP ratio is growing rapidly. In our opinion, the credit spreads of fundamentally weaker countries will continue to widen as investors will be more risk-averse.

Year-To-Date Performance



EUR/USD

EUR/USD Data

ECB Refin. Rate	1.00%
52-week Hi / Lo	1.5144/ 1.2457
3-Mth Return	-2.18%
Y-T-D Return	2.51%
50 / 250 Mov.Avg.	1.4750/ 1.3967
Historical High	1.6038
Historical Low	0.8230

Source: Bloomberg L.P.
As of 12/31/2009

EUR/USD

INVESTMENT SUMMARY

- A weak-dollar fuelled rally seems to have come to an end
- Plan for exit — "Term Deposit Facility" by the Fed
- Imbalances in economic recovery within the euro area

Retrace from the high. During the first two months of the fourth quarter, euro climbed gradually mostly on the weakness of the dollar. The monetary policy of the European Central Bank (ECB), mainly focused on the size of quantitative easing for that period, was largely expected to stay unchanged because of its cautious style. Yet on the other hand, the market worried that its counterpart, the Federal Reserve, had more room to increase the size of money printing to boost the U.S. economy. This possible increase in the supply of greenback benefited the euro and it once surged to levels above 1.51 against the USD. However, more data released in December indicated a clear improvement in the U.S. economy recently, including the housing market and more importantly, the notable slowdown in job cuts. Besides, U.S. retail sales also rose an estimated 3.6% this holiday season from a year earlier, helped by online shopping and purchases of electronics, data from MasterCard Advisors' SpendingPulse showed after the Christmas holiday. All the inspiring clues of recovery triggered another concern, which is the Fed may soon withdraw the government-injected liquidity in the market. As the action could reduce the supply of the dollar, the impact on euro is therefore quite negative.

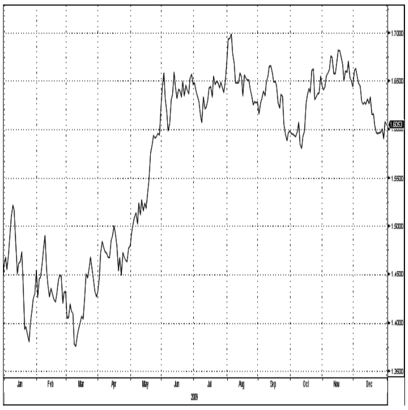
The implement of exit strategy is just a matter of time. The Fed has proposed a program called a term deposit facility. This will allow banks to collect interest on longer-term loans to the Fed. These term loans would be between six months and a year and the rate paid will be decided through a competitive auction. These loans would be available to financial institutions that are eligible for federal deposit insurance. Although the short-term threat of this proposal is not significant to euro, yet after witnessing a series of bullish economic data, the Federal Reserve has started to plan for their 'exit strategy,' or basically, how they will take some of the liquidity out of the economic system. They pumped liquidity into the economy to prevent financial collapse last year and now must think about taking some of it out gradually to prevent inflation.

Half of the Euro-Zone nations are troubled by public debt crisis. The European Commission warns late December that public finances in half of the 16 euro-zone nations are at high risk of becoming unsustainable, making investors nervous about the economic outlook of the euro area and it will probably limit the ECB to withdraw its injected fund from the market, thus hinder the future performance of the euro. Even the staunchest optimists in Brussels and Frankfurt see a rocky process, with rating firms poised for more downgrades. Greece and Spain saw their ratings downgraded. Ireland and Portugal have been warned they could be next. Even broader downgrades threaten if other European governments don't shape up.

Risk Considerations: 1) The Fed acts too slowly in withdrawing the government capital; 2) The U.S. government fails to lower the unemployment rate and encouraging consumer spending; 3) The euro area sees robust recovery with public debt crisis eased.

GBP/USD

Year-To-Date Performance



GBP/USD

GBP/USD Data

BOE Base Rate	0.50%
52-week Hi / Lo	1.7043/ 1.3503
3-Mth Return	1.18%
Y-T-D Return	10.81%
50 / 250 Mov.Avg.	1.6406/ 1.5708
Historical High	2.6440
Historical Low	1.0520

Source: Bloomberg L.P.
As of 12/31/2009

INVESTMENT SUMMARY

- Limited upside and kept range trading
- Uncertainty in economic outlook
- Quantitative easing measures are not yet ruled out
- Not aggressive on budget deficit cuts

Not among the investment choices for 2010. After some rebound in the second quarter of 2009, the sterling looks quite dull for the rest of the year. Although some positive signs were seen in the British housing market, the nation's economy still stays weak compared to the U.S. and the Europe, who has stepped out of recession and resumed positive growth in the third quarter. The deficit was another major problem facing the U.K. government. Rating agency Fitch said "the largest budget adjustment" among countries it rates AAA. However, the Band of England (BOE) has not totally ruled out the possibility of adding the size of quantitative easing programs, which is another great uncertainty for the outlook of the pound. We believe the downside of the pound is limited as the current level is relatively low compared to its historical levels, but the potential for the sterling is also small given a weak economic recovery in U.K.

Still stay in recession in 3Q09. The U.K. economy shrank 0.2% in the third quarter on a quarterly basis, signaling the nation was still in recession while its counterparts in U.S. and Euro area have both resumed growth by then. The economy failed to grow as the slump in industrial production unexpectedly deepened, according to the National Institute of Economic and Social Research (Niser). As the British commercial banks are still reluctant to lend money to the local companies to foster the recovery, it still remains a question that whether the U.K. economy could resume growth in the fourth quarter.

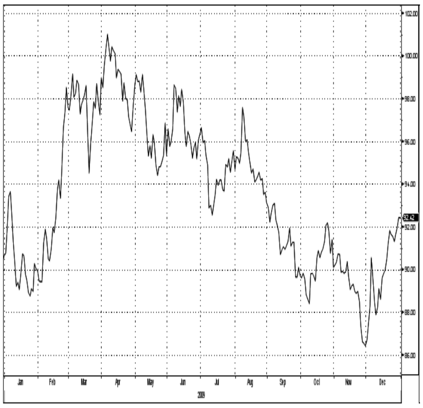
The BOE is "open mind" for more quantitative easing. With the weak recovery, the BOE has been very aggressive on expanding the bond-purchase plan, or known as quantitative easing programs. By the time that the other major central banks began to consider exit strategies, the BOE is still holding the possibility of enlarge the program. Governor Mervyn King commented in November that the door is kept open to more emergency policy action. King said that he has an "open mind" on further bond purchases and signaled the central bank may still have room to expand its asset-buying plan from 200 billion pounds because inflation will undershoot the 2% target in the two-year policy horizon. The excess supply of the pound in the market will hinder the performance of the sterling.

Growth has the priority and deficit cuts will be "sensible" and "fair". British Prime Minister Gordon Brown said the country's effort to trim its budget deficit must be "sensible" and "fair" to keep alive the economic recovery, setting the tone for next year's general election, which must happen by before the middle of June. In his view of message, Brown said he will have to make "tough decisions" about the pace of public spending. The Treasury expects its deficit to top 12% of gross domestic product this year, the most in the Group of 20 nations. S&P has suggested the U.K.'s top-notch credit rating isn't compatible with the Treasury's borrowing.

Risk Considerations: 1) Aggressive monetary policy successfully boost the economy; 2) Double-dip of global economy

USD/JPY

Year-To-Date Performance



USD/JPY

USD/JPY Data

BOJ O/N Rate	0.10%
52-week Hi / Lo	101.45/ 84.83
3-Mth Return	3.70%
Y-T-D Return	2.63%
50 / 250 Mov.Avg.	89.81/ 93.72
Historical High	358.44
Historical Low	79.75

Source: Bloomberg L.P.
As of 12/31/2009

INVESTMENT SUMMARY

- Trend changed at the end of 2009
- Global exit strategies and the yen
- The government aims to fight deflation and boost economy
- Possibility of the return of "carry trade"

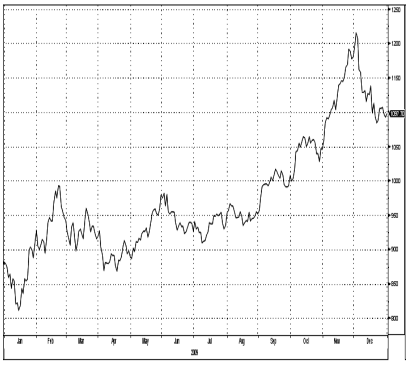
Volatile in 4Q09 and ended with a weak momentum. The stance of the Japanese government towards the yen showed a notable change at the end of November. Before that, government officials expressed several times of their unwillingness of bringing down the surging yen by intervention and emphasized that the strength of yen mostly came from the weakness of the dollar. However, after the yen was pushed to as high as around 85 against the USD right after the credit crisis of Dubai World, the government finally began to show serious concerns over the rising yen, which could hinder the recovery of the country. Japan's domestic economy has been abating as the massive stimulus packages of other western countries spurred demand for cars and electronics goods. But what worries the government is that exports may turn weak again when the worldwide stimulus packages come to an end and fades out in 2010 or in other words, the trend of global exit strategy implementation. The latest consumer price index in Japan just highlighted the problem of deflation. There is a good chance that the Japanese government will count on a weaker yen to boost the economy during this year.

The urgency of overcoming deflation. Japan's government said it aimed for economic growth of more than 2% over the next decade, but its long-term plan unveiled on Dec. 30 lacked details needed to convince investors that the goal is realistic. The government said in its 30-page growth blueprint it would work with the Bank of Japan to overcome deflation as early as possible, but markets wanted to see how the authorities planned to achieve that. Doubts about Prime Minister Yukio Hatoyama's ability to act decisively on the economy and diplomacy have eroded support for this government to below 50% from initial highs above 70% and the growth blueprint aimed to dispel such concerns.

Yen may become the "carry trade" currency again. Yen used to be the major carry trade currency before the outbreak of financial tsunami in 2008, mainly because of its low borrowing cost and the bullish investment sentiment at that time. However, the benchmark 3 month LIBOR rate for the USD dropped below the corresponding rate for yen in August last year, which means the borrowing cost of dollar fell below that of the yen by that time. As a result, the USD was short sold as a replacement of the yen and took place of its traditional role of carry trade currency. However, the trend may reverse since the Fed will need to withdraw its quantitative easing programs and raise interest rate with the gradual improvement in the economy, while Japan is still struggling with deflation and its ability of rate hiking is therefore greatly limited.

Risks Considerations: 1) Double-dip of global economy; 2) Return of inflation in Japan; 3) Government 's stance on the yen

Year-To-Date Performance



GOLD/USD

Gold Data

52-week Hi / Lo	1,226.56/ 802.59
3-Mth Return	8.86%
Y-T-D Return	18.38%
50 / 250 Mov.Avg.	1,118.68/ 979.66
Historical High	1,226.56
Historical Low	35

Source: Bloomberg L.P.
As of 12/31/2009

GOLD/USD

INVESTMENT SUMMARY

- Record high tested, potential still exists
- Accumulation of gold reserves by the central banks
- Increasing investment demand
- Indian consumers keeps buying gold jewellery at levels above USD1,000 per oz

A rally to USD1,200 mark. Spot gold kept good momentum during October and November and reached a historical high of USD1,226.56 per oz at the beginning of December before the notable correction. There have been several factors explaining the surge in gold price and the breakthrough of the psychological level of USD1,000 per oz. First of all, with ample liquidity generated from the global quantitative easing measures, the appeal of gold as a hard currency was promoted. Later with more signs of worldwide economic recovery, inflation concerns were triggered and gold became more attractive as an inflation hedge. Besides, several central banks opted to increase their gold reserves to diversify the concentration risk of the US dollar denominated assets. The biggest gold producer, Barrick Gold Corp, announced to have completely eliminated its fixed-price hedge book on Dec. 1, allowing the company to take full advantage of rising gold. Investment demands for gold also mounted. However, profit taking emerged during last month and gold price dropped amid the dollar's rebound. Look forward to 2010, we are still bullish about the yellow metal and believe it will benefit from the improvement of economy and the possible pick-up in inflation expectations.

Central banks' increasing holding of gold. Reserve Bank of India announced on Nov. 2 that 200 tonnes of gold were bought from the IMF at an average price of USD950 per oz. The action was followed by the central bank of Mauritius and Sri Lankan later in November, who purchased 2 tonnes and 10 tonnes of gold from IMF at an average price of USD1,016 and USD1,063 per oz, respectively.

Demand for the gold becomes more investment-oriented. According to World Gold Council, all three sectors of gold demand, including jewellery, industrial & dental and investment, experienced an increase in tonnage in 3Q09 relative to 2Q09, but a decline relative to 3Q08, when the demand for safe haven was enormous. The biggest decline relative to year-earlier levels was in identifiable investment, which fell 46%. However, using the five year average benchmark, investment recorded a 73% rise.

The acceptance of high gold price by consumers. Gold sales during Diwali in India (the first important festival after India's monsoon season) increased by 5.7% from a year ago at an average spot gold price at USD1,057 per oz. India is the biggest gold importer in the world. According to WGC, around 60% of the gold demand comes from gold jewellery 20% of gold jewelry demand comes from India.

Risks Considerations: 1) Rapid interest rate hike; 2) Movements in global equities; 3) Global exit strategies

Next Weekly Market Commentary will be available on 12 January 2010

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