Being a trusted guide requires a deep understanding of the economies, markets, products, services and above all, your clients' business goals. SMART International Holdings, Inc. continues to pursue a primary advisor/business strategist's role in the areas of global investment strategy, asset allocation, performance analysis, investment product development, wealth management, cross-border business, project initiatives, market regulatory and infrastructure development and capacity building for market intermediaries.

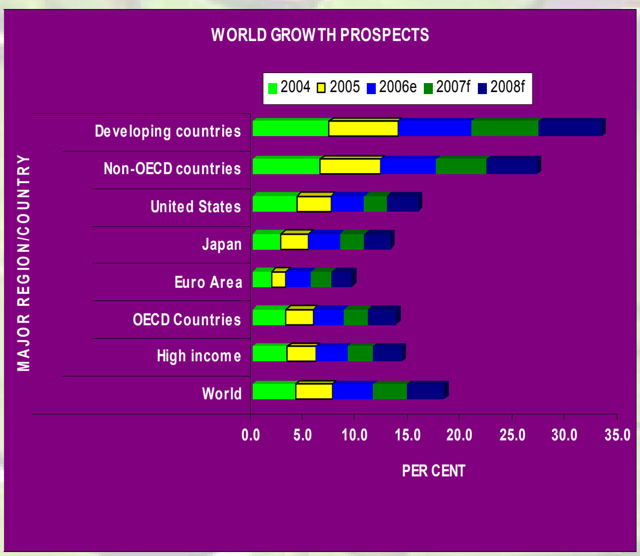
By becoming a trusted guide for our clients, we earn the privilege to serve them with expertise in a wide array of services and products to create solutions specifically designed to suit their business appetite and risk tolerance levels.

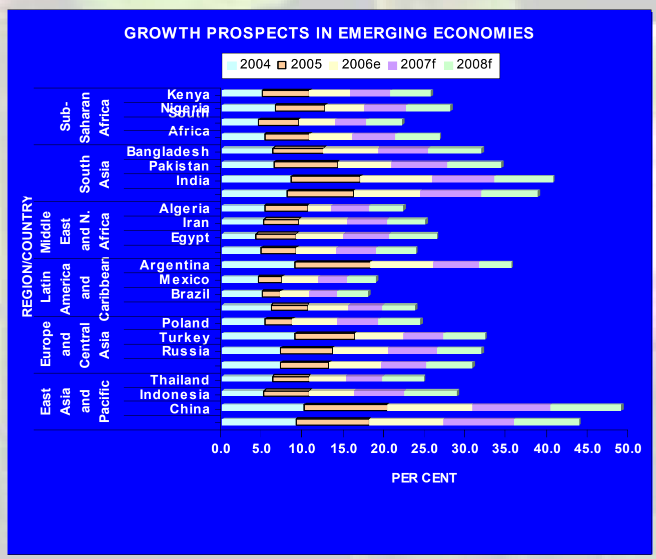
The year 2006 was a challenging year for us, both in terms of building our in-house capabilities and developing our niche business frontiers. We mainly concentrated on harnessing our professional skills in the areas of global investment strategy, asset allocation, performance analysis, product development, cross-border business initiatives and capacity building in capital markets.

Global Markets Review

Global Investment Advisory

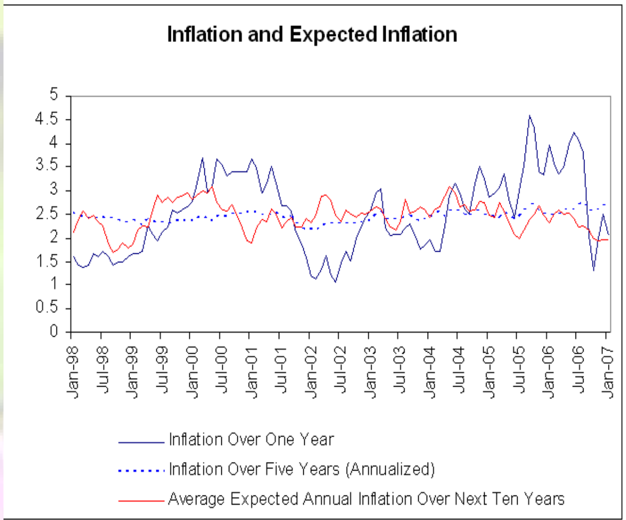
Global economic growth remained on course during 2006, amidst fear of inflation, rising interest rates, global macro imbalances, weakening of the US dollar against all currencies and possible slowdown in the US economy. The fear of inflation kept haunting investors and fund managers through the first quarter of 2007 and growth forecasts for the US were revised downwards for 2007. While growth in developing economies may moderate a little, it is expected to remain robust through 2007.

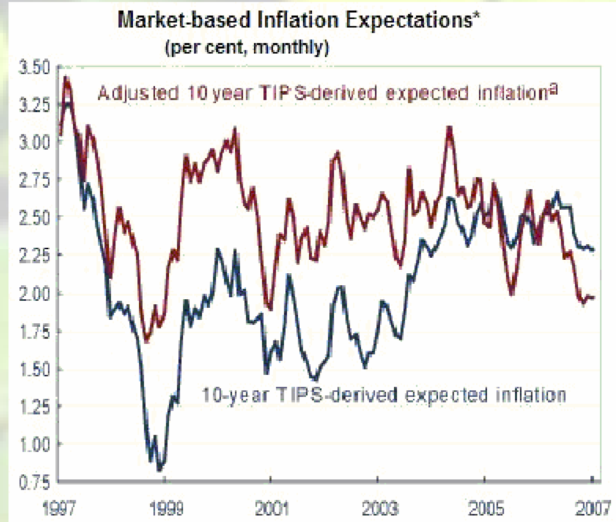




Source: Global Economic Prospects 2007, World Bank (While 2006 figures are estimates, figures for 2007 and 2008 are forecasts only)

In the US, an easing housing market countered the threat of inflation and treasury yields remain relatively range-bound. An inverted US yield curve with 2-year Treasuries now yielding more than 30 years indicate a recessionary trend, however, low mortgage rates, robust employment data, strong corporate balance sheets and moderation in GDP growth in line with expectations, may bring about a soft landing for the US economy, or at least provide some relief in 2007. We expect the 10-year US Treasury yields to flatten a little over this year, to the 4.3 - 4.5% range.

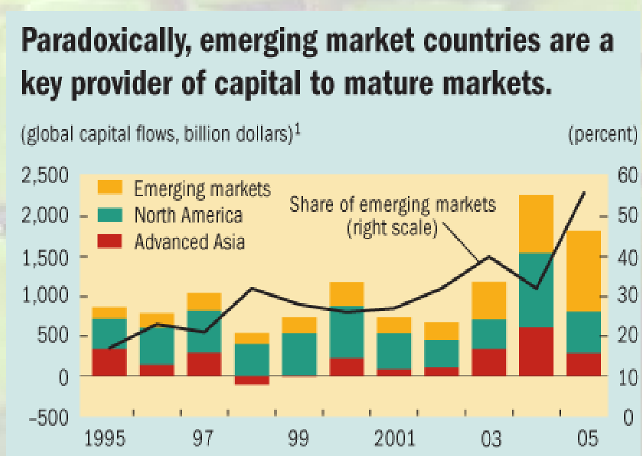




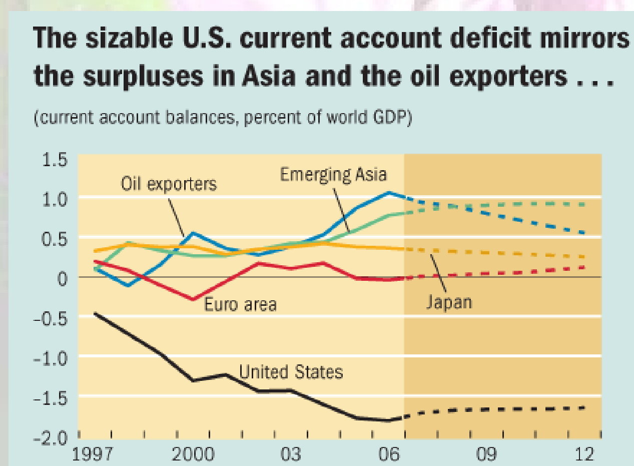
Note: Graph 1: Forecasts of average inflation are actually noisier than average inflation itself. Graph 2: *Derived from the yield spread between the 10-year Treasury note and Treasury inflation-protected securities. a. Ten-year TIPS-derived expected inflation, adjusted for the liquidity premium on the market for the 10-year Treasury note.
Sources: Federal Reserve Bank of Cleveland and Bloomberg Financial Information Services.

On the other side of the developed world, things appear to be quite different. Japan is slowly emerging out of a long recession and the Bank of Japan increased interest rates to 0.5% recently to give it a further boost. In the Euroland, money supply, growth rates and lending activities are at high levels providing a further fillip to growth and higher yields. In Europe, yields improved by 15-30 basis points after bottoming out in the last quarter of 2006. Overall, commodity prices stayed reasonably high, helping many of the emerging market exporters, but not so high as to send inflation alarms through the interest rate markets. With a few notable exceptions like Turkey and South Africa, emerging markets currencies largely strengthened against the US Dollar for the year.

Global capital flows including debt, portfolio and direct investments topped US$ 6 trillion in 2005 and is estimated to have been at least 25 per cent higher at US$ 7.5 trillion in 2006. Europe, the leader of the pack, has enjoyed rapid growth in intra-European flows, fueled by the adoption of the euro as the common currency. The share of emerging markets in global capital outflows witnessed a record 60 per cent increase from 10 per cent to 16 per cent, while Europe's share (excluding UK) witnessed a 46 per cent growth from 35 per cent to 51 per cent over the last decade (1996-2005).



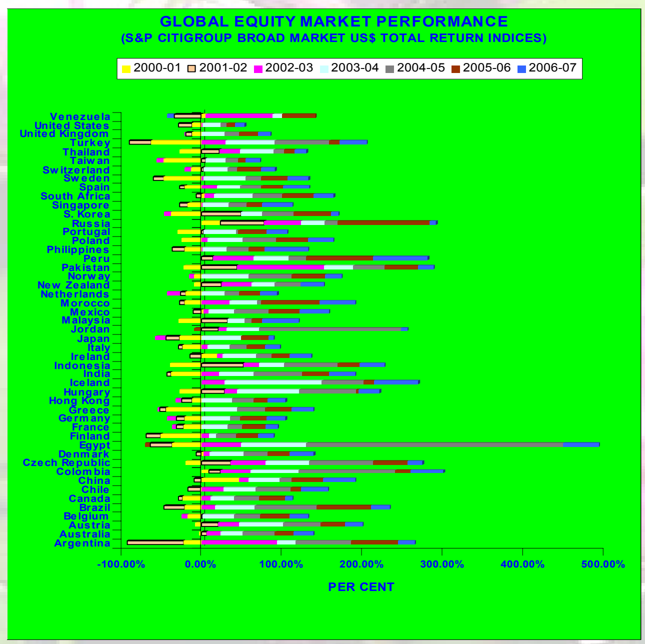
Source: IMF, *International Financial Statistics*.
[1]Excluding United Kingdom and mature Europe.



Sources: IMF staff estimates; Haver Analytics; and IMF, *International Financial Statistics*.

Net private capital flows to emerging markets (based on 30 countries data surveyed by the Institute of International Finance) reached $502 billion in 2006, only marginally below the record high of $509 billion in 2005. A continuation of strong net lending from commercial banks and acceleration in net portfolio equity investment, reflecting a record amount of IPOs, nearly offset a slowdown in direct equity investment and lending by other private creditors (mostly bonds) from their high levels in 2005. The pace of private flows is forecast to ease somewhat in 2007, although the overall level is still projected at $469 billion. Net direct investment is projected to rise to $211 billion from $185 billion last year. China will continue to dominate, accounting for $55 billion of total net direct investment flows to emerging markets. Portfolio equity investment is expected to decline from last year's record $70 billion to $63 billion in 2007, while commercial banks net lending is likely to decline in 2007 to about $101 billion. Emerging Europe, which received the largest share of net lending over the last several years, again will receive the highest amount in 2007, accounting for 70 percent of all such lending to emerging markets. Net non-bank private lending (mostly bonds) may decline to about $93 billion this year, down from $103 billion in 2006.

Global fund flows and market developments follow sustainable development indicators of a country or region- a measure according to us, which heavily relies on economic and social freedom. Economic and social freedom can be measured based on improvement in a country's trade policy, fiscal burden of government, government intervention in the economy, monetary policy, resources, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, informal market activity, human capital and its development, health care and social security. We strongly bet on these criteria and have developed an 'Index of Economic and Social Freedom' which measures a country's sustainable development.



Source: SMART Global Economic Research (All Rights Reserved: SMART International Holdings, Inc.)

Our advice to our clients to stay invested in equities throughout 2006, hammering down the fear of high inflation, proved our strategy to be correct. Overall, the world equity markets witnessed a price appreciation of around 18 per cent over 2005 according to MSCI World Index. Valuation growth was highest at 36.4 per cent in the Nordic countries including other European countries (Spain 44.8%, Ireland 43.9%, Portugal 43.4%, Norway 41.6%, Sweden 40.5%, Denmark 36.8%, Austria 34.8%, Belgium 33.3%, Germany 33%, France 31.7%, Greece 31.6%), while the World ex-Europe witnessed a valuation growth of 12.7 per cent. The emerging equity markets showed excellent valuation growth at 29.2 per cent, growth being highest at 52.9 per cent in the BRIC region, followed by the emerging Eastern European countries at 43.6 per cent. Among the emerging market countries, China led the pack with an appreciation of 78.1 per cent, followed by

Indonesia 69.6 per cent, Argentina 66.1 per cent, Morocco 62.7 per cent, Venezuela 62.2 per cent, Philippines 55.4 per cent, Russia 53.7 per cent, Peru 52.1 per cent and India 49 per cent, in that order.

It once again re-established our global equity allocation strategy based on the theme of 'Economic and Social Freedom'. Our global equity allocation relies on the following '4R-Factors' in investment:-

Rates- interest, inflation, sustainable growth;
Reform- regulatory, financial, product and labor markets, social, infrastructure, trade and tax;
Resources- human capital and its development; and
Resources- natural resources.

These factors have been combined to produce the 'Index of Economic and Social Freedom' which in turn is used for expected return smoothing. Expected return smoothing based on these factors for the purpose of asset allocation and portfolio optimization has yielded superior returns at lower risks.

There is no doubt that the equity premium will shrink due to expected higher inflation. However, studies show that with expected nominal long-term return on government bonds hovering around 5 per cent in the US and UK capital markets, the cost of capital around the world can be somewhere between 9.5 to 12 per cent. Based on the current inflation rate, the long-term yield on the US government bonds is around 3 per cent, the dividend yield around 1.8- 3.2 per cent and the equity risk premium between 3.3 to 7.2 per cent. Interestingly, the long-term average equity risk premium has remained constant at around 7 per cent, which translates into a P/E ratio of 14. Thus, unless real capital productivity rate falls below the rate of inflation, equity will remain the sought after investment class.

Most market researchers make simple errors in the valuation of equities. Equity valuation involves discounting expected payoffs, and interest rates affect discount rates. Thus, the negative correlation between rising interest rates and equity value is often attributed to changes in the discount rate, the so-called denominator effect in a valuation model. But expected payoffs, the numerator in a valuation model also changes according to changing interest rates. In 1979, Modigliani and Cohn pointed out that investors tend to discount real cash flows using nominal interest rates which may lead to valuation errors. Investors who do not realize that equity earnings provide a hedge against inflation, incorrectly reduce the market values of equities when expectations of inflation (and hence interest rates) rise. Further studies show that the S&P 500 stock index was undervalued during periods of high-expected inflation of the late 1970s and early 1980s and overvalued during periods of low expected inflation of the late 1990s and early 2000s. Moreover, 70 per cent of market volatility from December 1945 to June 2004 was explained by investors irrational risk perception, not by inflation or interest rate changes. Equities are undervalued relative to bonds when the E/P ratio exceeds the nominal bond yield and overvalued relative to bonds when the E/P ratio is below the nominal bond yield. Revising discount rates in a valuation model in response to changes in interest rates is quite a straightforward matter; however, it is not so easy to calculate the impact of changes in interest rates on cost of production, sales, earnings forecast and residual earnings. At this point we may not expect further cost-push inflation led by rise in oil, gas and metal prices and certainly not a hyper- inflationary situation.

Average Real Annual Returns (1870-1999) (Value in percentage)

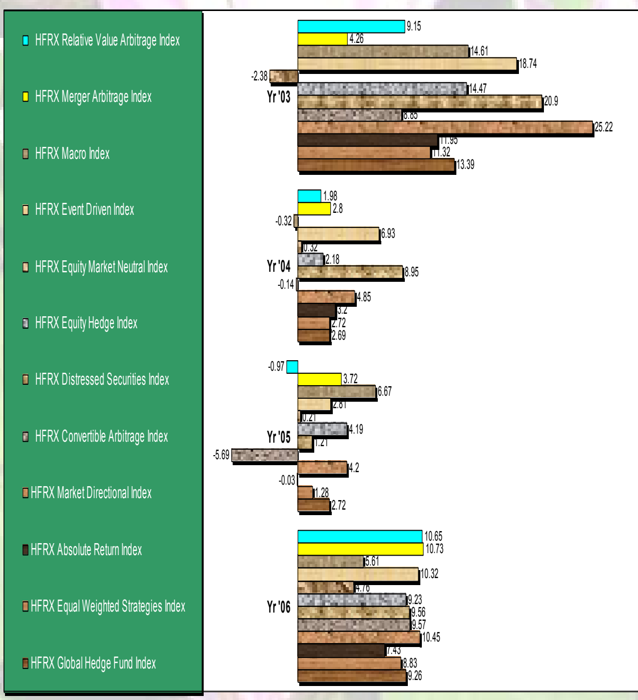
Assets	Deflation (Less than 0%)	Price Stability (0%-2.5%)	Moderate Inflation (2.5%-5%)	Rapid Inflation (Greater than 5%)
Equities	5.3	17.4	5.3	-4.9
Bonds	8.8	1.8	0.4	-6.2
No. of Years	45	18	34	32

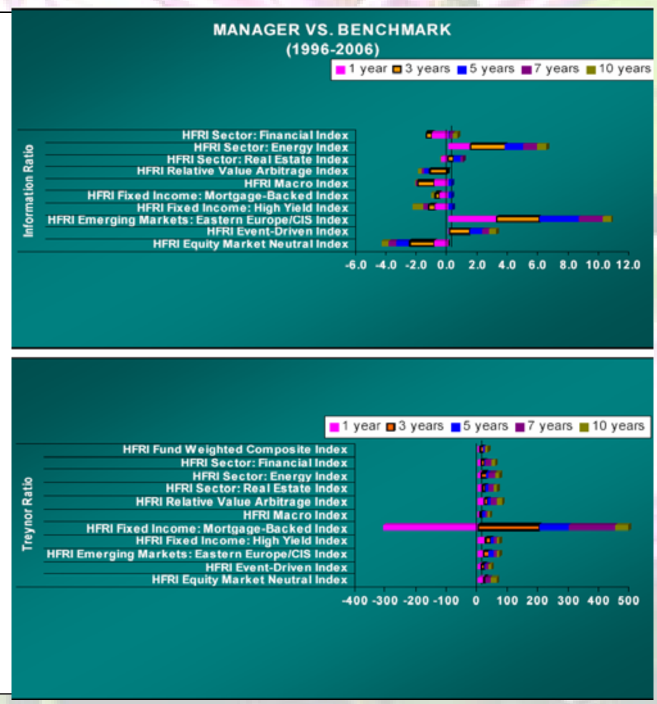
Source: CSFB Equity-Gilt Study and Schroders

There has been, however, an interesting phenomenon in the equity markets around the world. Stocks worldwide are moving closer in tandem than at any time in two decades. The correlation between the MSCI World and the MSCI World Small Cap Index has increased to 0.96, the highest since at least 1995, Bloomberg data shows. The average daily correlation of returns for Morgan Stanley Capital International's World and Emerging Markets Indexes has climbed to the highest since at least 1988.

The similar movement of global indexes has been mostly a boon to investors during the four-year bull market. Indexes in the U.S., Europe, and Japan reached six-year highs early this year, while MSCI's gauge of developing markets climbed to a record high. Volatility in the markets is also on the rise. The Chicago Board Options Exchange's SPX Volatility Index, which measures expected market swings, also had its biggest one-day increase ever on Feb. 27. The globalization of international trade and economies, greater ease in investing overseas through exchange-traded funds and the proliferation of hedge funds pursuing similar strategies have also helped spur the increase in correlations and volatility in the markets.

This has led to institutional investors queuing up for hedge funds. Data released by Bloomberg shows that hedge fund assets worldwide amount to about one-tenth of the $20.5 trillion managed by mutual funds in Europe and the US. However, the differences in hedge funds' performance across different strategies have also narrowed down over the past few years, mostly notably during 2006, leaving hedge fund strategists wondering if at all, they can outsmart the markets.

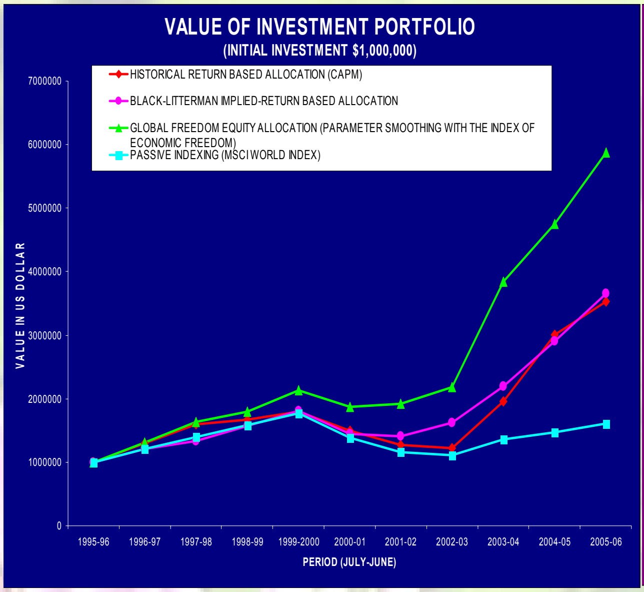


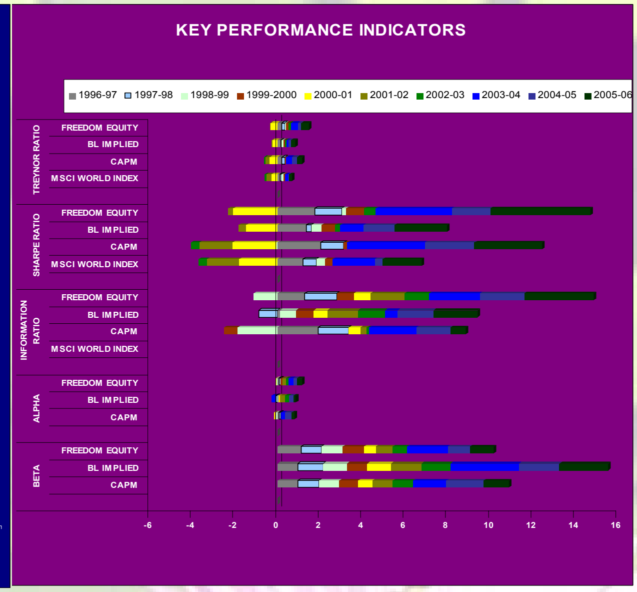


Source: HFRI

Surprisingly, none of the hedge fund strategies have been able to out perform the markets in 2006 nor have any of them shown consistency in performance over a period.

We are sure investors would like to see both better performance and consistency in performance in a global investment advisor. Correlation and volatility alone cannot provide that. We must adhere to a more sustainable aspect of risk and return such as our theme of 'Economic and Social Freedom'. Our flagship product 'Global Freedom Equity' has been back-tested over the past 11 years. It has not only consistently outperformed the market benchmark but also other traditional asset allocation models. Our strategy is proven and can provide superior return at reduced risks.



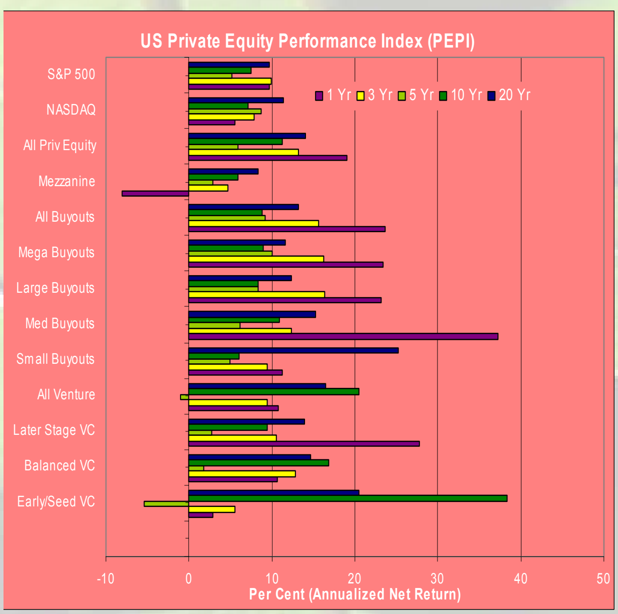


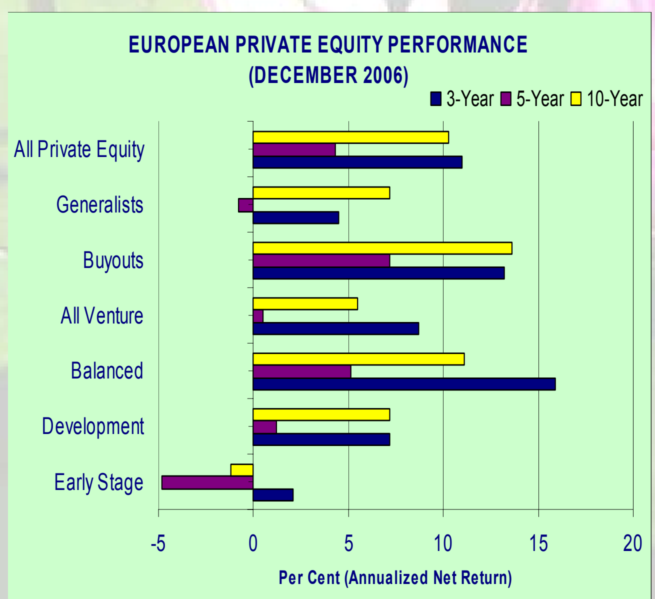
Source: SMART Asset Allocation Division ()

Our Asset Allocation Division has also developed many other products which are ready for launch.

The year 2006 also witnessed heightened activities in other alternative investment areas such as private equities and venture capital, real estate and other natural resources.

U.S. private equity and venture capital firms fund-raising jumped 33% in 2006 to a record $215.4 billion breaking the previous fund-raising record of $177.1 billion set in 2000. The leveraged buyout firms represent 69% of the fund-raising in 2006, with $148.8 billion of the total raised in 2006. U.S. Venture capital funds accounted for 11.7% of the total capital raised, with 119 funds raising $25.1 billion, a 2% decline from 2005. The major sectors which witnessed higher investments were life sciences, energy- particularly alternative and clean energy, media and entertainment, telecom.

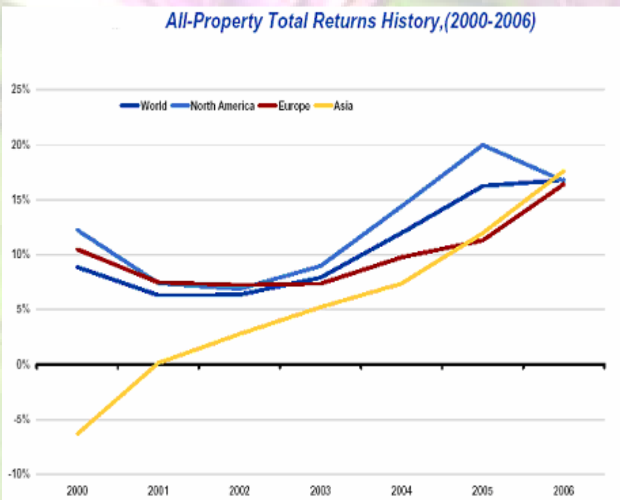


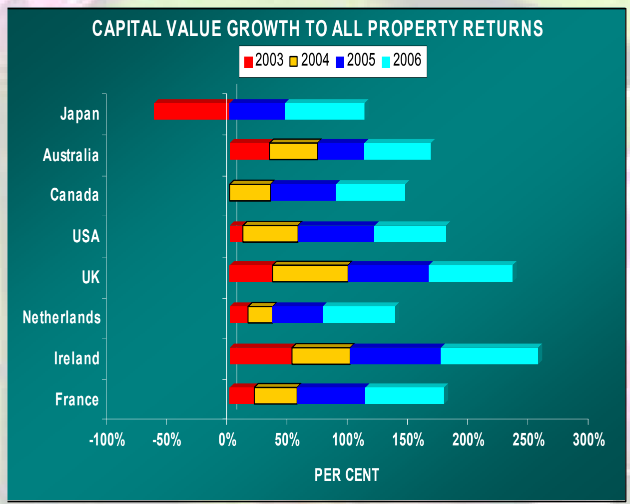


Source: Thomson Financial, NVCA and EVCA

In Europe, private equity firms raised a record € 90 billion, approximately 79 per cent of which went to buyouts. Buyouts, remained the top performing segment both in the US and Europe. In Europe, buyouts provided top quarter return of an IRR of 37.6 per cent, while in the US, medium-size buyouts stole the show with a 37.2 per cent return, followed by late-stage venture capital financing. Robust growth of 29 per cent in emerging market private equity fund raising continued in 2006 taking the total funds raised to US$ 33 billion, surpassing the 2005 record of US$ 25.8 billion. China and India alone accounted for US$6.8 billion, or 35% of Asian fund totals, and nearly 20% of the overall total. Latin America, Sub-Saharan Africa, and Middle East and North Africa all experienced dramatic year-over-year growth in total funds raised, at 109%, 198%, and 54% respectively. Strong growth in fundraising in Central and Eastern Europe and Russia continued as well, at a 21% increase over 2005. While private equity aggregate return data on the emerging markets are not available, large investments on a selective basis have returned over 300-600 per cent over 3 to 5-year holding periods.

Global real estate investments reached US$ 600 billion in 2006 as sustained strong investment performance of real estate has led to increased interest in the asset class from a wide range of institutional, retail and high net worth investors. There has been a surge of cross-border investing too, which reached to US$ 116 billion in 2006, 20% of the global total. US investors continue to dominate cross-border activity in Europe, the most preferred destination being the UK which accounted for 43 per cent of total European investments. A surge of activity was also noticed in Germany. Capital continues to flow strongly into the Asia Pacific region. Investment activity in this region reached US$ 63 billion, a five-fold increase since 2001. Global real estate total returns in 2006 were estimated to be around 17 per cent, similar to the level in 2005, on account of strong cap rate compression and the recovery in rental markets. Much of this strong performance was due to capital value growth which contributed to over 60% of total returns across a number of major markets, including Australia, Ireland, UK and the US.

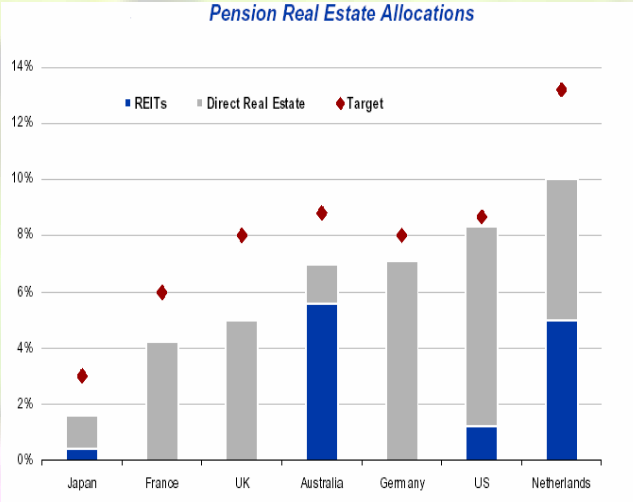


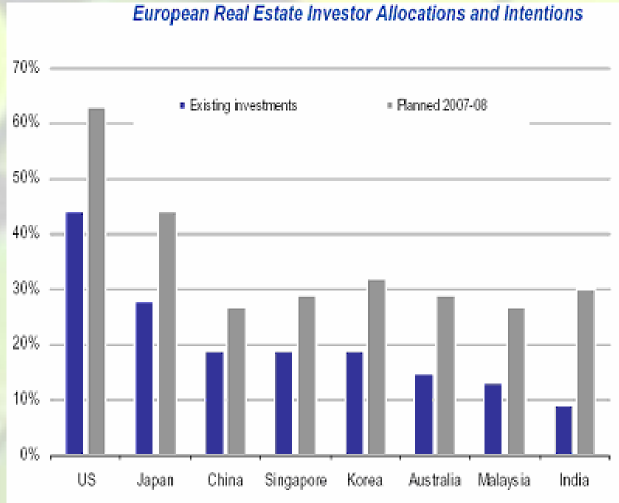


Note: Regional aggregates and figures for France, Netherlands, Australia, and Japan are RREEF estimates
Source: RREEF Research, IPD, NCREIF, PCA, Property Council of New Zealand

However, investors' appetite continues to remain strong in the first quarter of 2007 as dependency ratios of the ageing population in the developed world are on the rise and the inclination to increase allocation to alternative investments such as real estate, among institutional investors and pension funds.

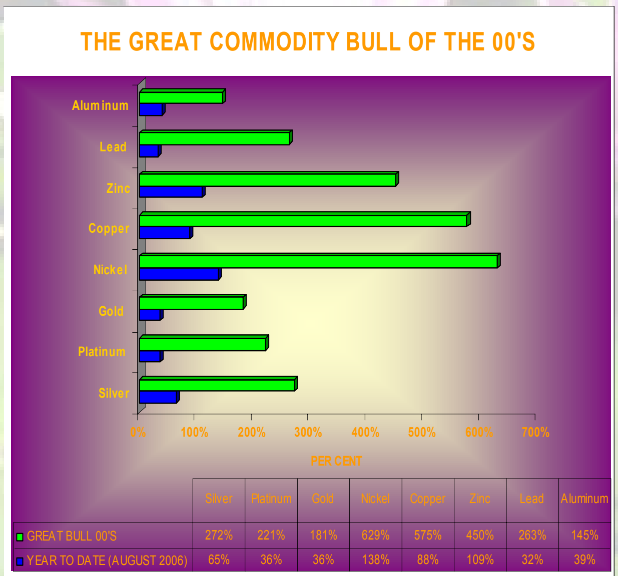
Despite a fear that both rent growth and financing prospects may take a beating on account of higher interest rates and inflation, pension funds and other large institutional investors have increased their allocation to real estate investment to improve the benefit of diversification.



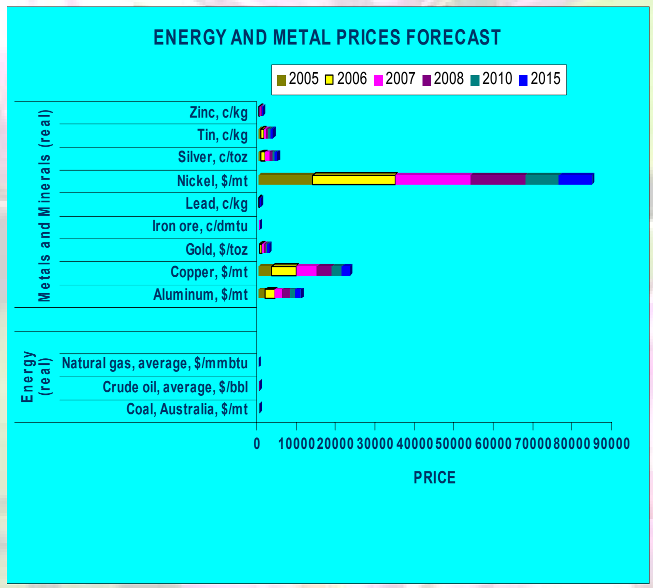


Source: RREEF Research; UBS, IREI/Kingsley, Mercer, JP Morgan, PGGM, ABP and INREV (for European Real Estate Investor Allocations and Intentions)

Investing in commodities as an asset class gained significant momentum particularly since 2001, as strategists' strong positive outlook signals an excellent rally. Precious metals, base metals, oil and gas have all had a field day since then.



Source: SMART Global Investment Research 2006



Source: Prospects for the Global Economy 2007, World Bank

Base metals clearly led the pack spurred by strong demand growth from China, India and other developing countries to meet their industrial demands. According to IMF reports, China's share in the overall growth in global consumption of industrial commodities between 2002 and 2005 was massive – 51% for copper, 48% for aluminium, 110% for lead, 87% for nickel, 54% for steel, 86% for tin, 113% for zinc, and 30% for crude oil. The Energy Information Administration of the US envisages a 47% increase in global demand from 2003 to 2030, and that non-OECD Asia (including China and India) will account for 43% of that increase. We are still at the stage where supply is struggling to match this huge increase in demand. Unless the world economy really hits the buffers and we are plunged into a global depression, the relentless demand for industrial materials of all kinds from the likes of China and India is set to continue. However, the dramatic rallies in base metal prices are going to smoothen down further as futures markets over the past few years have already discounted much of the story and some corrections in the near term are expected. However, base metals are definitely in for a strong long-term rally.

Precious metals such as gold and silver never had a rally matching the six to seven fold increase in copper and nickel prices, mainly because their industrial demand is somewhat lower, in the range of 12 to 15 per cent. Much of their usage is ornamental and discretionary but growing at an unabated pace in traditional regions like India, Middle East and East Asia. As long as the US Dollar remains soft and the need for asset diversification increases, precious metals will definitely find a place in an investment portfolio. Historically, of the seven asset classes, a precious metal is the only one with a negative average correlation to the other asset classes. It is also worth noting that, excluding cash, precious metals is the only asset class with a positive correlation coefficient with inflation, which is further evidence that precious metals act as a hedge against inflation.

Historical Correlations (1972 - 2004)

Asset Class	US Large Cap Stocks	US Small Cap Stocks	International Equity	Spot Precious Metals Index (SPMI)	US Long-term Govt. Bonds	US Inter-mediate- term Govt. Bonds	Cash (US 90 Day Treasury Bills)	US Inflation
US Large Cap Stocks	1.00	0.79	0.59	-0.10	0.28	0.22	0.04	-0.22
US Small Cap Stocks	0.79	1.00	0.47	0.05	0.13	0.10	-0.01	-0.06
International Equity	0.59	0.47	1.00	0.04	0.08	-0.02	-0.10	-0.19
Spot Precious Metals Index (SPMI)	-0.10	0.05	0.04	1.00	-0.18	-0.19	-0.03	0.43
US Long-term Government Bonds	0.28	0.13	0.08	-0.18	1.00	0.93	0.04	-0.39
US Intermediate Term Bonds	0.22	0.10	-0.02	-0.19	0.93	1.00	0.29	-0.22
Cash (US 90 Day Treasury Bills)	0.04	-0.01	-0.10	-0.03	0.04	0.29	1.00	0.63
US Inflation	-0.22	-0.06	-0.19	0.43	-0.39	-0.22	0.63	1.00
Average Correlation (Excluding Inflation)	0.26	0.22	0.15	-0.06	0.18	0.19	0.03	-0.15

Source: Ibbotson Associates

The other commodities that we may need to watch out for, are agricultural commodities, which along with growth in global demand, are going to become dearer.

So, both money managers and intelligent investors have a lot of home work to do before they come to play on the turf of asset allocation and portfolio optimization. Money managers across the world are constantly looking for opportunities in various investment segments and spinning products that they feel will outsmart markets. More hedge funds, ETFs, real estate and private equity funds are being added to the basket of assets every year, than probably the underlying returns from these assets.

Asset allocation and portfolio optimization is more than just an econometric framework of historical risk and return optimization. It is about adopting the right methodology to forecast risk and return with some lead indicator and finding an appropriate benchmark. It is also about comparing performance of investment products and fund managers for consistency of superior return without the peer group or survivorship or end-of-period bias.

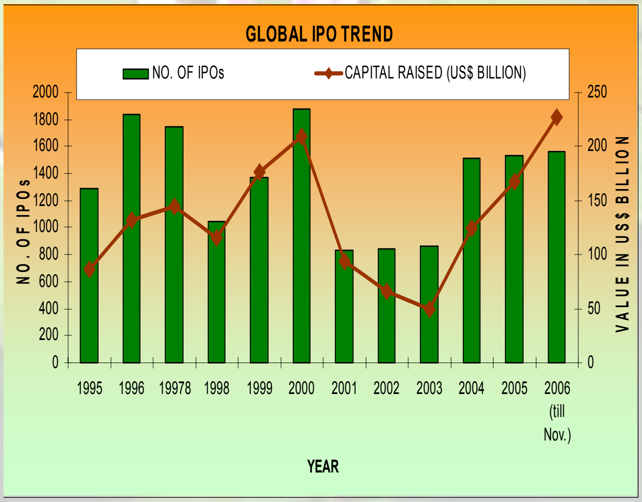
In order to avoid these common errors, we develop customized policy benchmarks that are truly reflective of a client's Investment Policy Objectives and Asset Allocation Strategy. Our custom benchmark is a composite benchmark that is produced by weighting a set of asset class indices that appropriately captures both forward-looking market systematic factors and managers' skills within a risk-return optimization framework. Once the custom benchmark is built, it is easier for us to evaluate the performance of a fund manager against it and segregate a fund manager's performance that is attributable to his idiosyncratic skills or style such as investing in the right style, active stock-picking, sector bets, or market timing from the general market or asset class performance. We perform attribution analysis over various rolling-windows of 12 months to 36 months both on in-sample and out-of-sample basis using the Bayesian Black-Litterman Approach in order to ascertain consistency in performance and style.

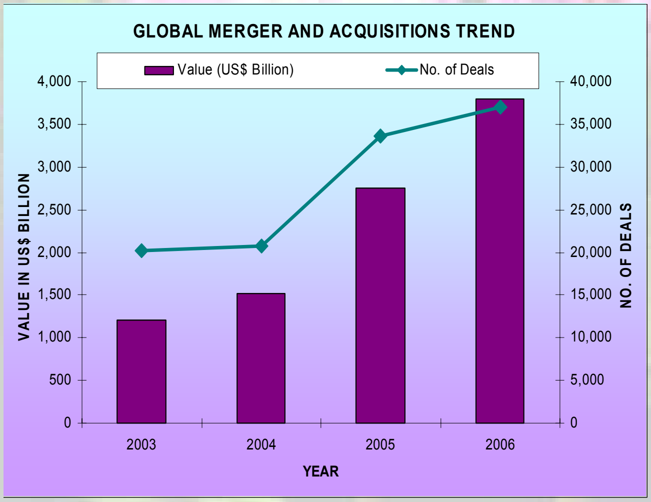
Our Asset Allocation Division is fully equipped to provide global investment advisory services to company-sponsored mutual funds and discretionary managed account services for high net worth individual and institutional clients including foundations, pension funds, endowment funds, corporations, institutions and business houses. It also assists in-house investment managers in structuring customized investment products and solutions either in generic or fund of funds (FoF) version and offers off-the-shelf investment products.

Taking a step further, our Wealth Management Division adopted a theme of 'Lifestyle, Freedom and Legacy' to provide one-stop comprehensive wealth management solutions to high net worth investors and business families in the areas of customized investment products, trust formation and management, tax, health, estate and philanthropic planning. We tailor customized wealth management solutions based on initial confidential feedback on risk-return profile, consumption and life-time goals from the clients. We have built a strong network of third-party solution providers both in onshore and offshore jurisdictions to carry out a client's wealth management objectives.

Global Capital Markets Advisory

Global capital markets witnessed hectic activities during 2006 in cross-border IPOs, de-equitisation and mergers and acquisitions. Global IPOs crossed the US$ 253 billion mark. Globally, technology, materials, financial services, and consumer products and services produced the highest number of deals in 2006, and energy and power as well as financial services dominated the top 20 IPOs by capital raised. Emerging markets were the centre-stage of action. Notably, companies and industrial houses from China and Russia led the bandwagon accounting for US$ 65 billion worth of IPOs. This year, IPO activities are expected to be higher than in 2006. U.S. initial public offerings raised 18% more money in the first quarter of 2007, tipping the scales at nearly $12 billion. Large corporate buyouts by private equity firms will look for an exit via IPO as the most logical option. In 2006, the US regained the No.1 status from Europe as the world's most active private equity market, with $403 billion of announced deals, three times that of 2005. De-equitisation is increasingly becoming a market phenomenon. The value of companies taken private also reached record levels in 2006, with New York and London's stock markets taking the brunt of the $150 billion of de-equitisation. The New York Stock Exchange saw a net withdrawal of listed





Source: Thomson Financial and Ernst & Young capital of $38.8 billion, while NASDAQ suffered a net withdrawal of $11 billion. In the US, nearly $97 billion worth of public-to-private deals were consummated by private equity investors. LBO firms have announced about $185 billion of takeovers since the end of 2006, up 40 percent from a year earlier.

Global mergers and acquisitions clocked record deals of US$ 3.8 trillion in 2006. About $1.07 trillion of takeovers were announced so far this year, almost 10 percent more than the $950 billion in the first quarter of 2006.

The pace of M&As was fastest in the Asia-Pacific region during the first quarter, with the value of transactions rising 19 percent. Indian companies are aggressively hunting on foreign turf for strategic acquisitions. Outbound mergers and acquisitions from India sky-rocketed in 2006 to US$ 23.1 billion, from US$ 4.47 billion in 2005. During the first quarter of this year, US$10.7 billion worth of deals have already been struck by Indian companies- that is a huge 60 percent of the total from Asia (excluding Japan). Mergers and acquisition activities in India are clearly poised for further growth- if we compare total deal value as a per cent of GDP for India (2.4%) with those of Asia (3.6%), Europe (7.5%) and the US (9.8%).

Our Capital Markets Advisory Services Group has positioned itself as a comprehensive player to take advantage of this evolving scenario. We apply macro vision and highly sophisticated quantitative valuation models based on different growth matrices to find out the right strategic fit. We work on assigned mandates for large globally-oriented companies on a highly confidential basis. We also scout for potential acquirers who are looking for strategic acquisitions in a particular industry or country. Starting from deal sourcing until it is finally consummated, we supervise and co-ordinate the whole process including overseas fund raising programs, listing and public floatation, market making and regulatory compliance.

As the future points towards increasingly large number of complex financial transactions globally, both markets and market intermediaries need to harness their skills to handle such transactions in an extremely competitive environment. In a continuously evolving market place scenario where demutualization, for-profit market organizations, cross-border convergence, vertical and horizontal integrations have taken center-stage, competition among existing stock exchanges or marketplaces has grown more than ever. Developed markets or exchanges are striving to grab market share and attract companies across the continent in fast developing countries such as China and India. They are even following the acquisition route to grab market share so that they can reduce cost and improve productivity by leveraging on existing infrastructure such as trading system, information dissemination mechanism, clearing houses, expertise in introducing new products and even growing into related product areas where their existing infrastructure could provide a ready launching pad.

At the upper end of these markets comprising prime established companies, there is a huge threat from ECNs as they provide better price realizations and trading algorithms. ECNs, which started off as a natural consequence to OTC markets' inefficiency in the US after RegATS was implemented in 1998, have clearly emerged as strong contenders for listed market places and have increased their market share significantly, particularly after RegNMS was implemented by SEC. In order to retain market share in the order-driven market, exiting stock exchanges initiated both quote-driven and order-driven trading systems (Direct+ by NYSE and SuperMontage by NASDAQ) and also acquired a few existing ECNs. In Europe, between 1992(Germany) and 1999(Norway and Austria), the European stock exchanges installed central limit order book (CLOB) system that provides the main features of an ECN. Implementation of 'Markets in Financial Instruments Directive (MiFID)' by the European Union with effect from April 30, 2007 will provide for order pass-through so that securities orders can be executed on any stock exchange or ATSs. A third category of marketplace 'crossing system' was started by institutional investors to facilitate trading by members, for example, Liquidnet. A similar trend is being noticed around the globe.

Market consolidation has also gained pace recently. NYSE had taken over LIFFE a couple of years back and now the merger of NYSE with Euronext, creating the first trans-Atlantic stock exchange, is a major step in that direction. NYSE expects to save US$ 375 million on costs, with some $250 million coming from integration of their technology platforms. NYSE-Euronext is certainly looking for further consolidation with other European exchanges and has evinced interest in Deutsche Boerse AG's cash equities business. It has also signed an expanded partnership with the Tokyo Stock Exchange (TSE) and bought a stake in India's National Stock Exchange. Rival NASDAQ already has a 29 per cent stake in LSE, but failed in its bid for a complete takeover. At the moment, a merger between LSE and NYSE-Euronext appears to be the most logical option in market consolidation. LSE, on the other hand, has its own market consolidation game plan and is currently weighing the idea of a possible partnership with the Bombay Stock Exchange (BSE) in India. Similarly both NASDAQ and LSE are trying for a partnership with the TSE.

In the near future, we will witness more and more vertical and horizontal integration of market places around the world, whether it is acquisition of market places and order driven platforms, or entry into strategically related markets such as, trading in derivatives, foreign exchange and commodities and clearing and settlement operations.

As technology, consolidation, cost reduction, synergy, market share and speed become the buzz words, geo-political boundaries of markets are vanishing into oblivion. In such a situation, both markets and market intermediaries need to reassess their unique strength and business strategy in order to protect their territories and stay afloat.

Rapid deployment of technology, complex products and global uncertainties have also increased market risks across the globe. Markets are more uncertain and volatile now, then ever. It is therefore important that market risks are reassessed and realigned on a continuous basis with the organization's evolving business strategy.

Our deep understanding of global economies, markets, intermediaries and investment products has helped us to focus on these niche areas where we can provide our expertise and value-added services. Our Capital Markets Capacity Building Services Division provides consulting services in the areas of capital market regulations and development, establishment of stock/commodity exchanges, alternative trading systems, stock depositories, on-line trading, straight-through-processing, index development and benchmarking, and market-risk assessment. We assist clients in providing market assessment and development reports, technology and vendor selection, project implementation, recruitment and training in the areas of market regulations and setting up of market intermediaries. We often work with other partner agencies in undertaking and delivering projects related to development, modernization and regulation of capital markets.

Our Financial Risk Solutions Services Division provides comprehensive and customized credit risk, market-risk and asset-liability risk solutions according to the Basel II norms to various financial institutions such as banks, large investment companies, pension funds and insurance companies.

Our Training and Other Capital Markets Services Division conducts various training programs and courses at its state-of-the-art facility in Mumbai, India. It provides both residential and non-residential programs for various global certification courses of recognized institutions, training in financial and risk management software, process engineering programs and executive development programs in the financial services industry. It also provides customized on-site training and development programs as per client's request. Currently we are in the process of setting up a state-of-the-art knowledge process outsourcing (KPO) facility in Mumbai and another in Bhubaneswar, India. These facilities will be managed by our Indian associate company TRANSOCEANIC FINANCIAL ENGINEERING PRIVATE LIMITED and will be used for transaction processing, research, business development and relationship management for our in-house as well as our clients' requirements.

------x------