

T H R E S H O L D C A P I T A L C O R P

January 7, 2008

The fourth quarter and year-to-date performance of Threshold Capital Corp for the period ending December 31, 2007 was as follows:

	4Q 2007	YTD
Threshold Capital Corp	6.04%	30.39%
DJIA	-(4.54)%	6.43%
S&P 500	-(3.82)%	3.53%
NASDAQ	-(1.82)%	9.81%

Threshold Capital Corp outperformed the market indices in Q4 by maintaining positions in its China based companies; primarily Fushi International, Inc. (NASDAQ:FSIN), China Fire & Security Group, Inc. (NASDAQ:CFSG) and China Yuchai International, Ltd. (NYSE:CYD). Also during the fourth quarter, Threshold Capital was successful in trading China BAK Battery Inc. (NASDAQ:CBAK) and established a new position in ChinaCast Education Corp. (NASDAQ:CAST). China Battery is one of the largest manufacturers of lithium based battery cells in the world. It produces rechargeable battery cells used in cellular phones, laptop computers, portable media, audio, and gaming devices, and cordless power tools. During the quarter, the company signed a non-binding letter of intent with the Hewlett Packard Company to explore the possibility of supplying them with lithium ion battery cells.

ChinaCast provides e-learning and training services in three main education segments: K-12, post secondary, and vocational/career. Its services include interactive distance learning applications, multimedia education content delivery services, English language training and vocational/career training courses. The company is transitioning from a B2B (business to business) e-learning provider to a full service, for-profit B2C (business to consumer) education brand operating both e-learning and traditional school education services. ChinaCast's proprietary strategy is to continue to grow their existing B2B e-learning business, and at the same time, acquire bricks and mortar schools to establish its B2C nationwide brand focusing on post secondary and vocational/career education. The company strives to benefit from the synergies created by the combination of e-learning plus bricks and mortar schools using the education content owned by the schools and distributing it thorough its own nationwide e-learning network. China's formal education market is now the largest and one of the fastest growing in the world comprising over 235 million students, over 500,000 schools, and over 10 million teachers. Executive management of ChinaCast believes the "For-Profit Education" model is the next wave in China. This model is still in its infancy in China and Threshold believes ChinaCast, led by its management who own a 24% stake in the company, will be an industry leader in the "For-Profit Education" space. For more information, please visit the company's website at: <http://ir.chinacast.com.cn/index.cfm>

China Yuchai International, Limited (NYSE:CYD) continues to be a major position as shareholders still wait for the finalized audit for 2006. While holding this position for 2007 has been frustrating for Threshold Capital, I believe we have turned the corner in terms of experiencing better efforts by executive management to enhance shareholder value. During the quarter, the company appointed a new Chief Financial Officer, Mr. Ho Tuck Chuen, who began his duties on November 15, 2007. The company also retained The Global Consulting Group of New York to be its investor relations counsel. The GCG's responsibility will be to develop long-term relationships with the investment community to increase investor awareness and visibility for China Yuchai. On December 4, 2007, the company announced updated sales performance for the year ended October 2007. The company specifically announced the sale of 315,000 diesel engines, an increase of 33.8% over the same period of 2006. The company was also awarded major contract wins with the Beijing and Shanghai bus networks for 2007 – a major milestone for the company. The models sold to these municipalities are Yuchai's heavy duty (and hence, higher margin) diesel engines and shareholders should expect to see a dramatic improvement in gross margins for 2007 when financials are released. On December 28, 2007, the company announced it won three major awards at the China International Summit Forum on the Auto Parts Industry in Beijing. In this release, Mr. Qiwei

Wu, a Vice President of Yuchai Machinery stated “We are on our way to achieve record high diesel engine sales with over 400,000 units in 2007.” For comparison purposes, this would represent an increase of over 100,000 units from 2006. The company also commented that it managed to reduce overall cost per product as compared to the same period in 2006. Threshold believes this is further evidence of superior cost controls implemented by Chinese based management and will result in higher gross margins and profits for financial results in 2007. Threshold Capital still believes the company will report at least US\$1.0 billion in revenues and earn US\$1.00 per share for 2007. With the stock currently trading at US\$9.20, Threshold firmly believes this is a compelling buying opportunity for any investor looking for a China growth idea.

China continues on its blistering pace of growth – 11.5% GDP growth in Q3. In December 2007, China’s leaders agreed that “overheating” growth and inflation are the two main risks facing the economy in 2008. The Central Bank of China raised interest rates six times in 2007 to a nine-year high of 7.47% while consumer prices climbed approximately 4.7% led by fuel and energy costs. China’s foreign exchange reserves, now the world’s biggest, reached US\$1.4 trillion by the end of October 2007. China Investment Corp., the country’s sovereign wealth fund, currently manages US\$200 billion and made its first investment in May 2007, paying US\$3 billion for a 9.4% stake in Blackstone Group LP and most recently, paid US\$5 billion for a 9.9% stake in Morgan Stanley, the second largest U.S. securities firm. Threshold Capital still believes China presents some compelling investment opportunities; but caution is still needed as the country cannot continue its growth at its existing pace indefinitely. Threshold Capital believes China’s economy will present signs of slowing at the conclusion of the Summer Olympics in Beijing this August.

Threshold Capital Corp’s current long positions are:

ChinaCast Education Corp.	Lingo Media Corp.
China Fire & Security Group Inc.	Altria Group Inc.
China Security & Surveillance Technology Inc.	Gold Fields Ltd.
China Yuchai International, Limited	Newmont Mining Corp.
Fushi International Inc.	Rothmans Inc.
Imperial Tobacco Group Plc	White Mountains Insur.
Johnson & Johnson	Group Ltd.

Investors should be aware that several of Threshold Capital’s China based companies have recently attracted research coverage by Wall Street firms. In early December, Lehman Brothers initiated coverage of China Security & Surveillance Technology Inc. (NYSE:CSR) with a “1-Overweight” rating. Fushi (NASDAQ:FSIN) was picked up by Piper Jaffray with a “Buy” rating and \$30 price target. China Fire & Security Group Inc. (NASDAQ:CFSG) was also picked up by Piper Jaffray, Brean Murray, and Susquehanna Financial, all with “Buy” or “Positive” investment ratings.

During the fourth quarter of 2007 the US economy slowed dramatically. The housing market continued its decline – prices in ten major U.S. metropolitan areas declined an average 6.7% versus last year and unsold inventory of homes now stands at 10 months (approximately 5 million homes). Defaults are beginning to rise for auto loans, credit cards, student loans, and it appears the commercial property market has begun to weaken. All of the above weakness is occurring while the consumer is hit with rising prices: last week, a barrel of crude oil reached the \$100 mark, gasoline is over \$3.00 per gallon, the price of wheat and soybeans rose over 70% in 2007, milk is up over 20% versus last year and the price of an ounce of gold recently reached \$865. Economists now debate whether or not the U.S will experience a recession (we may very well be in one already in Q1 2008). Threshold Capital believes we are currently seeing clear signs of stagflation – a period of slow/stagnant economic growth combined with rising prices (inflation) and rising unemployment. These are precipitous times for the U.S. consumer; but even more for the Federal Reserve Governors. How will they stimulate the slowing economy without stoking inflation? The Wall Street investment banks, along with other financial institutions around the country continue to experience write-downs in their investment portfolios. Threshold Capital speculates there will be more billion dollar write-offs in the near future by these firms. It is difficult to watch some of these stocks trading at levels not seen in years – Citigroup (NYSE:C), Wells Fargo (NYSE:WFC) and US Bancorp

(NYSE:USB) below \$30, Washington Mutual (NYSE:WM) below \$15, Merrill Lynch (NYSE:MER) below \$50, etc. Make no mistake, these companies may still experience financial difficulties; but longer-term, they may present opportunities for Threshold Capital and its clients when their outlooks improve. Currently, the cable companies may also present fantastic longer-term opportunities - namely Cablevision (NYSE:CVC), Comcast (NASDAQ:CMCSA), and Time Warner Cable (NYSE:TWC). These companies have traded down due to a slowing housing market and competition by the telephone companies. Threshold Capital Corp has not established positions in the above industries as of yet – I will be patient and take a “wait and see” stance to determine how much and how hard the economy slows in 2008. Investors should continue to be cautious heading into 2008; I will persist in my efforts to identify companies with great businesses and outstanding managements and will take advantage of any market weakness.

As Threshold Capital Corp is pleased with its fourth quarter and 2007 performance, no assurances can or will be made to continue to outperform the US market indices. Please feel free to contact me with any questions, comments, or ideas. Thank you for your continued support.

Sincerely,

Peter A. Delgado II
Principal
Threshold Capital Corp