

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *Satyam Computer's Ramalingam Raju confesses to massive accounting fraud.*
- *India's inflation declines to 10-month low of 5.9%.*
- *India among top 10 countries with optimistic economic outlook for 2009: TNS Gallup poll.*
- *India has emerged as fastest growing paper market in the world: IPMA*
- *China's Ministry of Industry and Information Technology issued long-awaited 3G licenses to three state-run telecom operators*
- *China Eases Controls for Property Market*

INDIA

DEAL ANALYSIS:

India Rank (Global)	11
India Rank (Asia)	4
India (# of deals)	85
India (Deal value)	13.82B

Includes: IPO, FPOs and Convertibles

Source: The Economic Times, Business Standard and company filings

ECONOMIC NEWS:

- India's inflation continued its downward trend and fell to a 10-month low, giving policy makers room to implement further measures to stimulate economic growth without inflationary concerns. India's wholesale price index (WPI) rose 5.91% during the week ended December 27 versus economists' forecast of 6.14%, following a gain of 6.38% the previous week. Manufacturing-related price inflation, which has a 64% weight in the WPI, fell 0.30%, from a decline of 0.15% the previous week. Prices of fruits, vegetables, eggs, edible oil, clothing and chemicals also declined. Inflation as a whole has eased primarily as a result of weaker crude prices, which have declined more than 50% y/y and enabled the government to cut retail prices of gasoline and diesel by as much as 10%.
- According to a recent year end poll conducted by **TNS Gallup International**, India is among 10 countries with an optimistic 2009 outlook. The survey, which spanned 46 countries and nearly 46,000 people, reveals a consensus view that the global economic environment will continue to be a tough one in 2009, but that three BRIC nations, namely India, China and Russia, are expected to hold up relatively well and post positive gains. Specifically as it relates to India, 42% expect 2009 to be a better year than 2008, with 32% foreseeing the economy as being more prosperous this year. The survey also pointed to the fact that Indians remain concerned about rising unemployment, particularly structural unemployment, despite a general sense of security regarding their present job status.

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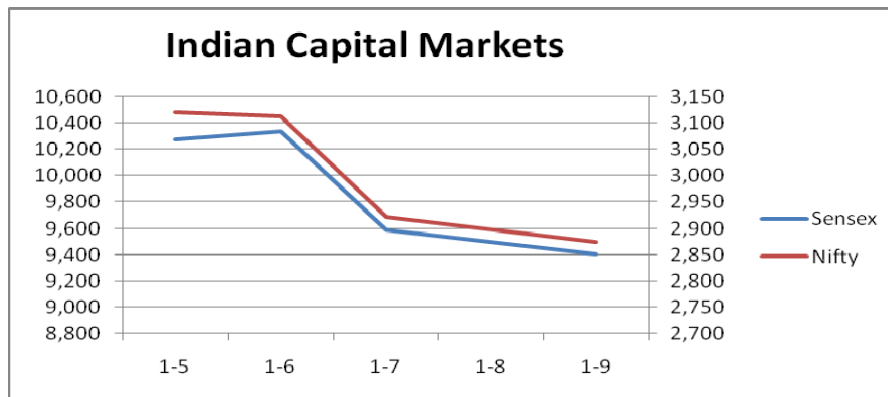
INDUSTRY NEWS:

- According to **The Indian Paper Manufacturers Association (IPMA)**, India has emerged as the fastest growing paper market in the world, registering a 10% increase in per capita consumption of paper to 8.3kg in 2008 from 7.5kg in 2007.

According to IPMA, the Indian paper industry accounts for about 1.6% of the world's paper and paperboard production, approximating turnover of \$5 billion. IPMA also estimates that Indian's pulp and paper industry will grow at an estimated CAGR of 7-8% over the next decade as the installed capacity is projected to grow to 11.2 million tons per year by 2010 from the current level of 9 million tons. Capex should amount to over \$2.6 billion in the next 2-3 years, geared primarily towards capacity expansion and modernization.

- According to data from **India Venture Capital Report**, compiled jointly by **Venture Intelligence** and **Global Indian Venture Capital Association**, domestic venture capital firms invested \$81 million over 16 deals during the December 2008 period, significantly lower than the preceding quarter, which saw \$275 million in investments across 50 deals and the December 2007 period, which saw \$227 million invested over 45 deals. During 2008, approximately \$740 million in investments were made over 125 deals compared to \$876 million and 144 deals, respectively during 2007.

CAPITAL MARKETS UPDATE:



Source: The Economic Times, The Financial Times, Yahoo Finance!

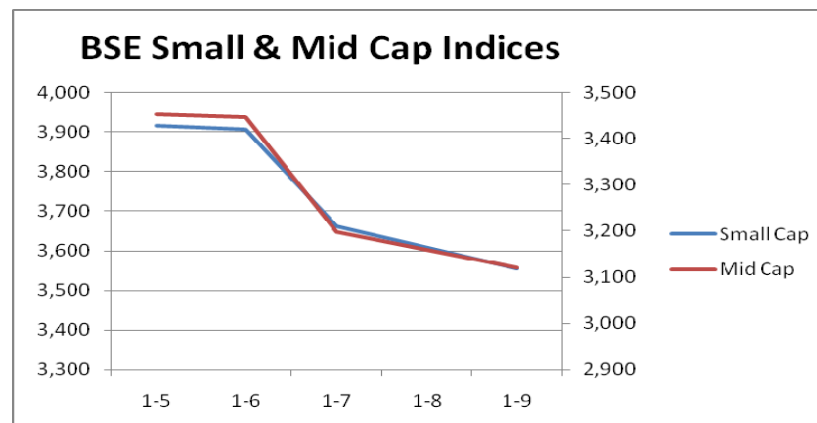
- The Sensex 30-share index plunged 551.75 points, or 5.5%, to 9,406.47 during the week ended January 9, 2009. Major gainers included **Grasim Industries** (12.31%), **Mahindra & Mahindra** (8.26%), **Tata Consultancy Services** (7.71%), **Maruti Suzuki India** (7.59%), and **Housing Development Finance Corporation** (6.63%) while decliners included **Satyam**

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Computer Services (86.57%), **DLF** (27.61%), **Reliance Communications** (25.44%), **Jaiprakash Associates** (21.51%), and **Reliance Energy** (18.11%).

- The broad based **NSE Nifty** declined 173.7 points, or 5.7%, to 2,873. Mid-caps plunged by 7.9% to 270.4 points to 3,120.79, while small-caps declined by 314.8 points, or a comparable 8.1%, to 3,555.60 during the week.
- By indices, realty shares declined 24.6%, **BSE Consumer Durables** fell 9.74%, **TECK** lost 9.5%, **Capital Goods** declined 8.3%, and **Oil & Gas** fell 7.4% among the major losers of the week. **Auto** was the only gainer with a 0.10% increase.
- In the wake of Satyam affair, India's market regulator, SEBI, announced that financial statements of all companies included in the Sensex and Nifty will be reviewed by a third party auditor after being reviewed by their respective statutory auditors. Such a review would cover latest quarterly and annual results and would include some listed companies not included in the Nifty and Sensex. The SEBI-appointed auditors will start its review of the recently ended December 2008 period and finalize them by the end of February.

SME / SMALL & MID CAP NEWS:



- On December 12, 2008, India's parliament passed the **Limited Liability Partnership Bill, 2008 (LLP Bill)** which is expected to provide adequate breathing room for SMEs, by providing benefits in corporate structure while doing away with the limitations of proprietorship and partnership structures. The rules related to the bill are still under consideration and being finalized. But the new law will enable SMEs to convert their businesses to a LLP structure.

While SMEs have been given special protection under the India's Industrial Policy of 1948 – which require banks and financial institutions to issue loans on a priority basis – they have been hard pressed to raise funds. Some of the essential features of the bill include



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eliminating the upper limit on the maximum number of partners and enabling individuals, corporations and foreign LLPs to serve and invest as partners under an LLP-structured SME. The bill should also benefit the professional services sector such as chartered accountants and lawyers as well retailers, family owned businesses, etc.

FOCUS OF THE WEEK:

Satyam Computer Services' chairman confesses to a massive accounting fraud:

The week was dominated by the startling confession of Ramlingam Raju, the chairman of **Satyam Computer Services**. In a letter to the board and the SEBI, Mr. Raju acknowledged artificially inflating the balance sheet assets and overstating revenue and earnings of India's fourth-largest IT company. Satyam shares fell nearly 78% on the news, eroding \$2.2 billion in shareholder wealth and taking the Sensex down 7.3% along the way. Mr Raju and his brother Rama were arrested as the government began investigation and are likely to be charged with forgery, breach of trust and criminal conspiracy, which carry a maximum sentence of 10 years. India's accounting body is separately examining the role of the company's auditor **PricewaterhouseCoopers** LLC. The Bombay Stock Exchange removed Satyam from its benchmark sensitive index as did the National Stock Exchange from the Nifty.

A government priority is to ensure that operations continue uninterrupted as Satyam employs roughly 53,000 people with offices in the U.S., the U.K., Brazil and Australia, among other countries. Satyam develops software and manages IT systems for blue chip clients such as **ArcelorMittal**, the world's largest steelmaker, **Nissan Motor Co.**, Japan's third-biggest automaker, as well as multinationals such as **Nestle**, **General Motors**, and **General Electric**.

The fraud began to be uncovered several weeks ago when Satyam proposed a \$1.6 billion buyout of **Maytas Properties Ltd.** and **Maytas Infra Ltd.**, companies with economic ties to his family, only for it to be dropped 12 hours later due to shareholder dissent.

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CHINA

DEAL ANALYSIS:

China Rank (Global)	7
China Rank (Asia Pacific)	2
China (# of deals)	115
China (Deal value)	18.43B

Includes: IPO, FPOs and Convertibles

Source: China Daily, Financial Times and company filings

ECONOMIC / BUSINESS NEWS

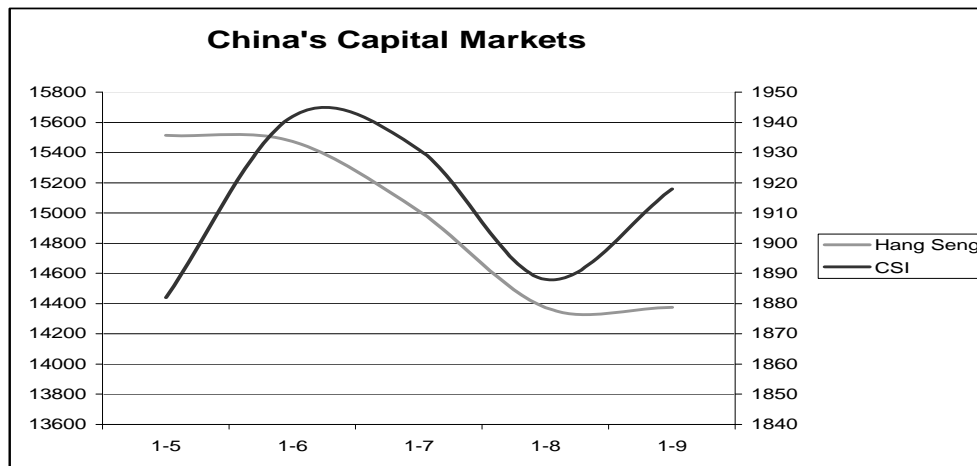
- **China's Ministry of Industry and Information Technology** issued long-awaited 3G licenses to three state-run telecom operators. China Mobile, the world's largest mobile carrier, was licensed to develop the TD-SCDMA network, a domestic technology. China Unicom will operate a WCDMA network, while China Telecom will run a CDMA2000 network, both of which are in wide use around the world. The government expects 3G services to improve telecom competition and boost domestic consumption. China could be the only country to operate three different 3G networks.
- According to official data released by the government, China's manufacturing sector contracted again last month, but the pace of decline slowed as output and new orders improved slightly. The purchasing managers' index (PMI) published by **China's Federation of Logistics and Purchasing** (CSLA) rose to 41.2 in December from a record low of 38.8 in November. Readings below 50 for purchasing managers' indices signal a decline in manufacturing activity.
- The **People's Bank of China** and **SAFE (State Administration of Foreign Exchange)** shuffled top mid and top level officials. In recent moves, the central bank named current Tianjin branch chief Guo Qingping and SAFE official Li Dongrong to a pair of new assistant governor posts. The jobs were created as part of a high-level staff expansion announced in August 2008. In addition, a department chief at SAFE was ousted for corruption allegations and replaced with an official more experienced in investigating illegal foreign exchange deals.
- Through 2010, airlines will be exempt from paying taxes on passenger fuel surcharges according to the **China's Ministry of Finance and the State Administration of Taxation**. The tax cut is part of broader policies to support the airline industry during the current economic downturn.

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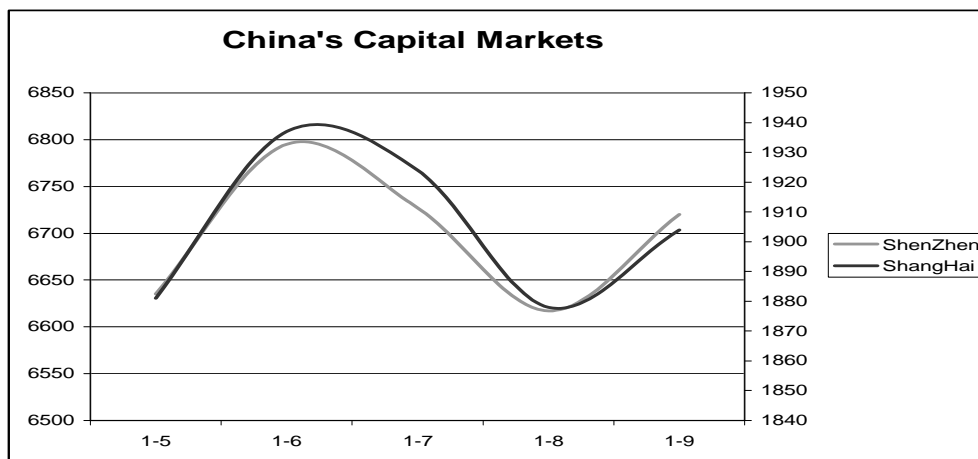
Cathay Pacific forecasted a loss of HK\$ 7.6 billion in fuel hedging-related bets in 2008 - HK\$300 million in cash - up from the previous estimate made in November of HK\$ 4.8 billion. According to the Hong Kong based airline, the losses should spread as contracts run through 2011. The airline is forecasted losses of HK\$4.9 billion, HK\$2.2 billion and HK\$ 500 million in 2009, 2010, and 2011, respectively. Operating profits also declined sharply during November and December due to weak demand.

- Maintaining a steady growth path in 2009 will be an arduous task as the impact of the global financial crisis spreads, reiterated **Vice Premier Li Keqiang**. The government is now targeting a still healthy growth level of 8% in 2009, following a 9% increase during the 3rd quarter of 2008, the slowest pace in five years. Some analysts have predicted a much sharper slowdown to as low as 5% for the world's fourth-largest economy, as factory output growth decelerates and exports shrink from their year-earlier levels. The **PBOC** report also estimates that consumer prices would rise by less than 3% in 2009, after an estimated increase of 6% in 2008.

CAPITAL MARKETS UPDATE:



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Source: FT, WSJ, Bloomberg, Xinhua

- The CSI 300 Index, which tracks yuan-denominated A shares listed on China's two exchanges, climbed 30.37, or 1.6%, to 1,918.36 on Friday, boosting the weekly advance to 5.5%. The Shanghai Composite Index, which tracks the bigger of China's stock exchanges, added 4.62% to 1,904.86. The Shenzhen Composite Index rose 3.61% to 6719.88.

Gains in the indices were led by power producers, on speculation they would receive government subsidies, after **Guangxi Guiguan Electric Power Co.**, a unit of China's second-biggest electricity producer was granted 30 million yuan (\$4.4 million) of government aid. **Datang International Power Generation Co.**, controlled by the same parent as Guiguan, jumped 8%, the most in two months. Other companies in the power and utility industry stand to benefit as the government continues to seek measures that would help minimize losses under state-capped electricity tariffs and record coal prices.

Shares of China's largest banks led the decline in the financial sector on news that **Bank of America** sold \$2.8 billion of **China Construction Bank Corp.**'s Hong Kong-traded shares on Wednesday and that **billionaire Li Ka-shing** unloaded 2 billion **Bank of China** shares (between HK\$1.98 to HK\$2.03) following a three-year restriction period relating to the 2006 IPO.

In addition, RBS is apparently in discussions to sell its 2 billion pound (\$3 billion) stake in Bank of China, which could be an indication that foreign investors in Chinese banks may be prone to sell and take profits this year when holdings become freely tradable. **UBS** sold its entire stake in Bank of China on Dec. 31, 2008.

- Hong Kong stocks fell over four days on concerns over the U.S.'s worst jobs report since 1945 and that China's December exports numbers were going to come in worst than the forecasted 5.3% decline following a decline of 2.2% in November, the highest level in more than a decade. **Shenyin & Wanguo Securities**, in a report this week, also lowered its 2008

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earnings growth assumption for industrial companies to 4.9% from 16.8%, citing decelerations in export growth and property investment, and shrinking industrial output likely to put a damper on near-term corporate earnings.

Late in the week, **Lenovo** shares fell 26%, its steepest decline since 1998, as the company indicated that the slump in the PC market would extend beyond 1Q09. The company also forecasted its first major loss in three years and announced that it planned to cut 11% of its workforce, or 2,500 employees, as a result, which would save the company about \$300 million. A partnership between **Deutsche Bank** and **Shanxi Securities** was approved by the government. Deutsche Bank will hold a 33.3% stake in the new joint venture with \$147 million in registered capital, and Shanxi Securities the remaining portion.

FOCUS OF THE WEEK:

China Eases Controls for Property Market

After a year of tightening real estate credit controls, the central government started switching gears in October with a series of stimulus policies aimed at boosting the country's gloomy property market, first by allowing commercial banks to offering more favorable loan terms for first-time homebuyers. In a December 17 follow up, the State Council announced another round of measures to ease rules for buyers of second homes. Some industry insiders criticized the package as narrow and one that would encourage consumption, and disproportionately disfavor controls for property developers. Others claimed the government was being far more cautious than the market anticipated. While the central bank's credit-easing announcement in October offered a measure of hope, its follow-up announcement two days later -- warning commercial banks about mortgage risks -- did little to sustain it, prompting commercial banks to think twice about loosening credit controls on housing loans. Some banks suspended mortgage services. A **China Construction Bank** representative noted that the bank stopped processing individual mortgages between the October policy announcement and November 26, as loan application guidelines were still being finalized.

According to an official at the **Ministry of Housing and Urban-Rural Development**, some local governments attempted earlier on to loosen controls on second home purchases, but the **CBRC** and senior officials were concerned more about speculation. Despite government support, commercial banks have remained cautious about lending in an uncertain market, which are expectedly forcing property developers to hold back on business expansions. Major developers such as **Vanke** and **China Overseas Property** have cut back on new projects for 2009, while others such as **Gemdale** purchased no new land plots in the past year.

In an initiative reasserted this week by the vice minister of housing, China's central bank and banking regulator are formulating a plan that would enable developers to raise funds through REITs, which would help restart construction projects hamstrung by financing issues. Most immediately to benefit would be the developers that postponed projects midway due to halts in funding. Under the REIT system, cash inflows would come earlier, ensuring that adequate levels of funding visibility are in place and that projects can be completed from start to finish in a timely

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fashion. The State Council's Financial 30 list of financial market incentives released in December 2008 included first-time support for REITs as a vehicle to diversify financing channels and help stabilize the property market as a whole. **CBRC** and the China Securities Regulatory Commission are actively working on the details of the plan and the goal is to launch the system in 2009 on the interbank market and all the major stock exchanges.

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