

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *India's inflation decelerates to 5.1%.*
- *France's Areva enters into agreement with India's state run power company.*
- *India's government bans Chinese toy imports for six months*
- *Reliance Money to launch exchange for SMEs*
- *China surpasses U.S. to become world's largest auto market*
- *China's foreign trade reaches \$2.56 trillion in 2008.*
- *Lenovo replaces CEO with its original founder amid record loss.*

INDIA

DEAL ANALYSIS:

India Rank (Global)	8
India Rank (Asia)	5
India (# of deals)	3
India (Deal value)	0 .274B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

ECONOMIC NEWS:

- India's inflation decelerated closer to a one year low, potentially leaving room for the RBI to further cut rates, which were left unchanged last week after the RBI cut them to a record low early January. Versus expectations of 5.25%, wholesale prices increased 5.1% during the week after coming in at 5.6% in the week prior. The index of manufactured products declined 0.5%, while the index of fuel, power and light rose 0.6% on higher prices of naphtha and furnace oil. The RBI's current reverse repurchase rate remains at 4% and the repurchase rate at 5.5%.
- A survey by the Ministry of Labor indicated that India's economy shed half a million jobs during the December quarter with losses more pronounced across the mining, textiles, auto making, transport, metals, jewelry and BPO sectors. Employment of contract workers in the auto industry alone declined 12.5% while the gems and jewelry sector, a traditionally strong export performer, was the hardest hit with a 9% decline. The losses are particularly sensitive as the government faces a general election in April, has already announced plans to create 58 million new jobs over 5 years and has appealed to executives to hold back on job cuts.
- Turbulent financial markets have impacted corporate India's overseas borrowings despite further government efforts to relax overseas borrowings norms. According to latest RBI data pertaining to the October-December 2008 period, inflows through external commercial borrowings (ECB) and foreign currency convertible bonds (FCCB) totalled \$4.5 billion versus \$8.1 billion a year ago, while in December 2008, Indian companies raised \$1.7 billion

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compared to \$2.3 billion in December 2007. For the entire 2008, ECBs and FCCBs declined 32% y/y to \$22.7 billion from \$33.1 billion.

- Reliance Industries's Mukesh Ambani emerged as the third wealthiest chief executive in the world, according to a list of 10 wealthiest CEOs compiled by Forbes magazine. Steel tycoon Lakshmi Mittal, Anil Ambani and Sunil Mittal made the list as well. Despite a 62% drop in the value of his petrochemical firm stake to \$16.8 billion, Mukesh Ambani climbed up three places in the rankings. Lakshmi Mittal, dropped two places to fourth as his stake in Arcelor Mittal declined 73% to \$13.2 billion since January 2008.

INDUSTRY NEWS:

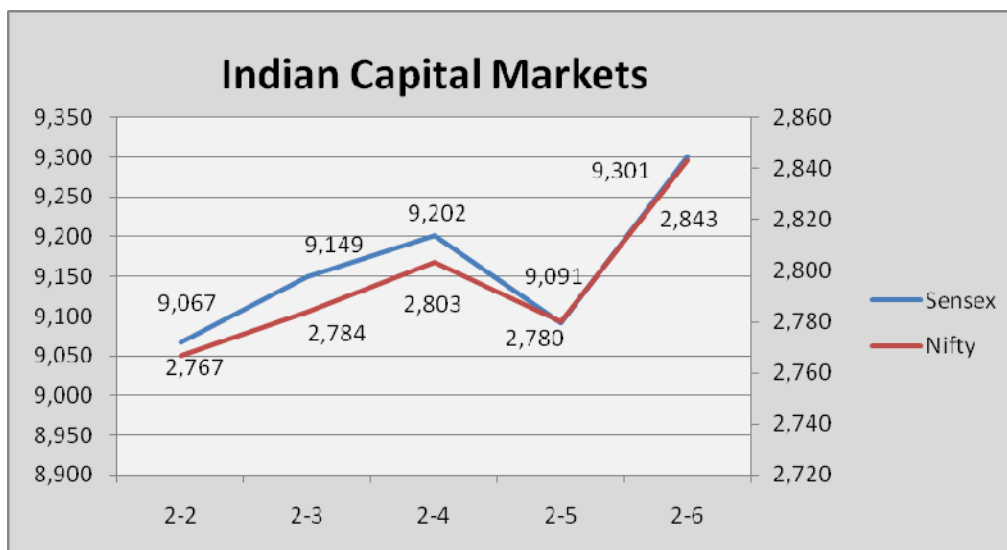
- In one of the first deals since India's nuclear program was brought into the international fold, Areva, the French nuclear group, entered into an agreement to supply India with up to six nuclear reactors. In a preliminary deal worth \$10.3 billion with the state owned Nuclear Power Corporation of India, Areva will provide technical co-operation on two of the heavy-duty 1600MW EPR reactors in the state of Maharashtra, as well as fuel over the expected 60 year lifecycle. Detailed discussions regarding pricing and timing for delivery of the new reactors have already begun and a final contract is expected to be signed by the end of the year.

The agreement follows a civil nuclear agreement with the U.S. at the end of last year that helped clear the way for India to purchase nuclear power plants, technology and fuel from the nuclear club of nations. Analysts now expect other French companies active in the nuclear arena - from reactor operator EDF to turbine maker Alstom - to follow suit into India, with future orders expected to be shared between the U.S. and Russia. International power companies from France, the U.K., Russia, the U.S. and Canada are already flocking to India to help meet its energy demands with more nuclear power contracts likely to be forged over the next few quarters. India currently operates 17 atomic power plants with roughly 4,000MW of installed nuclear power capacity and another 2,600MW under construction. India's national energy plan calls for 30,000MW of nuclear power by 2020 and double that by 2030.

- India's government banned Chinese toy imports for six months, after the Consumer Welfare Association filed a public interest lawsuit citing health concerns posed by Chinese toys, which are suspected of having a high content of lead and other potentially dangerous chemicals. India's health and consumer affairs ministries are now working on a set of mandatory health standards for both local and imported toys. And while the safety issue is cited as the primary rationale for the ban, the move should undoubtedly boost India's domestic toy industry, which has seen China garner 60% of the market.
- Inditex, owner of the Zara fashion chain with a presence in 73 countries, has announced plans to break into the Indian market via a joint venture with Tata Group, the country's largest conglomerate. The Spanish manufacturer and retailer will work with Trent Limited, part of the Tata empire, to open Zara stores in New Delhi, Mumbai and other major cities throughout 2010. Inditex will control 51% of the JV, with Trent holding the rest.

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CAPITAL MARKETS UPDATE:



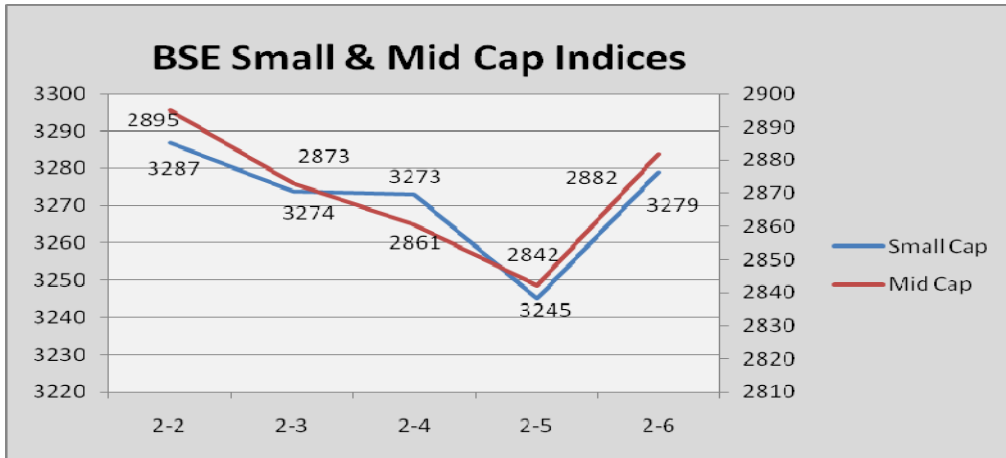
Source: Bloomberg, The Economic Times, The Financial Times

- Despite posting gains on three of five sessions, Indian markets ended on the downside. The Sensex fell 123.4 points or 1.31% to end at 9,300.8, while the broader 50-stock Nifty Index of the National Stock Exchange fell 31.7 points or 1.1% to end at 2,843.1. The mid and small cap indices lost 2% and 1.8%, respectively.
- Realty, oil, metal, bank and IT sectors rallied sharply. Among Sensex gainers were Grasim Industries (+18%), ACC (+6.6%), Ranbaxy Laboratories, ONGC and BHEL (+ 3.4%-3.8%), Bharti Airtel (+2%), ITC, Maruti Suzuki and Reliance Industries (+1.5%) and Tata Steel (+0.8%). Gainers in the Nifty included HCL Technologies (+8%), SAIL, (+5.8%) and GAIL India (+5.3%). Among the decliners were realty play DLF (-22%), Hindalco (-10%), Jaiprakash Associates, Mahindra & Mahindra, HDFC, Tata Motors, Larsen & Toubro and Reliance Infrastructure (declines of 7%-10%), NTPC, Reliance Communications, Sterlite Industries, Wipro, State Bank of India, HDFC Bank and ICICI Bank (declines of 2% to 5%), Unitech (-11.2%) and Reliance Capital (-10.5%).

Among sectoral indices, BSE Realty declined 15%, the Consumer Durables index lost 8.9%, BSE Auto, Bankex, CG and Power indices lost between 2% and 3%, Healthcare index fell 1.2% and the IT index eased by 1.4%. BSE Teck and PSU ended lower by 0.9% and 0.6%, respectively. The Metals, FMCG and Oil & Gas indices gained marginally between 0.7% and 1.3%.

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SME / SMALL & MID CAP NEWS:



- Reliance Money, a Reliance Capital subsidiary and a division of the Anil Dhirubhai Ambani Group announced initial plans to launch a stock exchange for SMEs. The company is expected to hold an initial stake of 26% in the venture and will be seeking additional partners throughout the year. The Securities and Exchange Board of India (SEBI) had recently issued guidelines for SME exchanges, including the \$20 million minimum net worth requirement. In accordance with SEBI guidelines, the company's 26% stake in the exchange would eventually have to come down to 15% as well.

FOCUS OF THE WEEK:

Satyam appoints new CEO and advisors

Satyam Computer Services Ltd., the IT outsourcer at the center of India's largest ever corporate fraud inquiry, named company veteran A.S. Murty as CEO, ending a four-week leadership vacuum following the founder's arrest. Homi Khusrookhan, a former managing director at Tata Chemicals Ltd., and Partho Datta, a chartered accountant, were named as special advisors to the board as well. Mr. Datta, who will oversee financial operations, and Mr. Murty, an electrical engineer and 15-year veteran as Satyam's Chief Delivery Officer, will chart a 30-60-90 day plan to address investors concerns, evaluate long-term strategic options and address legal liabilities such as class action lawsuits. The company has hired Wachtell, Lipton, Rosen & Katz as legal advisor. Goldman Sachs Group was hired to seek strategic investors or a possible buyer after Larsen, India's biggest engineering company, tripled its stake to 12% and noted that other bidders were interested.

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Mr. Datta will work closely with KPMG and Deloitte Touche Tohmatsu to restate Satyam's accounts after PricewaterhouseCoopers LLP's Indian unit reckoned that its reports could no longer be relied upon. Completing the complex financial restatement exercise and ensuring prudent financial operations will be the primary focus over the next few weeks.

CHINA

DEAL ANALYSIS:

China Rank (Global)	1
China Rank (Asia Pacific)	1
China (# of deals)	6
China (Deal value)	6.05B

Includes: IPO, FPOs and Convertibles (2009 YTD)
Source: China Daily, Financial Times and company filings

ECONOMIC / INDUSTRY NEWS:

- Based on January sales, analysts reckon that China may have surpassed the U.S. to become the world's largest auto market after outpacing Japan to become the world's number two in 2006. General Motors estimates China sold roughly 790,000 vehicles in January, which, if accurate, would mark the first time in history that China passed the U.S. in monthly sales. Industry observers are projecting China's auto output to reach 10.7 million vehicles in 2009, nearly a million units more than previous forecasts calling for 9.8 million units.

The central government recently passed a stimulus package for the auto sector, which cut by half to 5%, the purchase tax on vehicles with engine capacity of less than 1.6 liters. 5 billion yuan or \$730 million is also being spent on subsidies to farmers that opt to replace three-wheeled vehicles or outdated trucks with smaller, 1.3-liter or less, vehicles. The government's intention is to promote greater usage of energy efficient vehicles, while improving the competitiveness of the country's highly fragmented auto industry. A further 10 billion yuan or \$1.4 billion has been earmarked towards upgrading automakers' technology and developing alternative energy vehicles.

- According to figures released by China's General Administration of Customs, China's foreign trade value topped \$2.56 trillion in 2008, but the 17.8% y/y growth fell below 20% for the first time in seven years. Exports grew 17.2% to \$1.43 trillion and imports increased by 18.5 % to \$1.13 trillion, reflecting growth deceleration of 8.5% and 2.3%, respectively. China's trade surplus stood at \$295.4 billion, an increase of 12.5%. The European Union remains China's

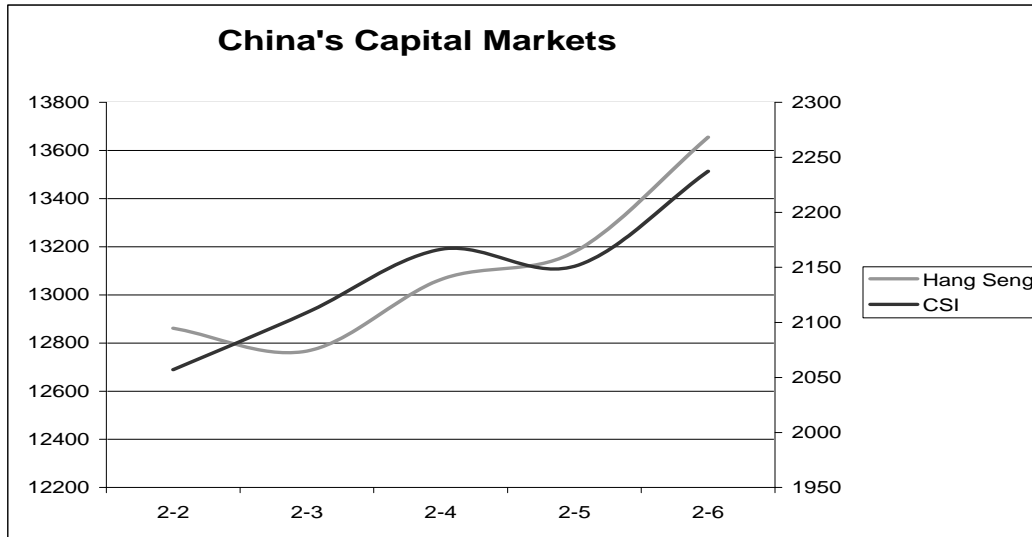
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most significant trading partner with bilateral trade value tallying \$425.5 billion, an increase of 19.5%, while Sino-US trade totaled \$333.7 billion, the smallest increase since China joined the WTO seven years ago. Japan maintained its position as China's third largest trading partner with a 13% increase in trade volume to \$266.7 billion in 2008. Trade between China and India, China's tenth largest trade partner, increased 34% to \$51.78 billion, but still reflected a 21.5% drop from a year ago.

- The Ministry of Commerce reported that domestic consumer spending rose strongly during the week-long Lunar New Year holiday ending February 1. Retail sales grew 13.8% y/y to 290 billion yuan or \$42.5 billion after posting a 19% increase in December 2008. The Purchasing Managers' Index rose to 45.3 in January from 41.2 in December 2008. With a reading below 50, the latest figure suggests that while manufacturing contracted for the sixth straight month, it may also signal a bottom relative to the timing the stimulus package.
- To aid unemployed emigrant workers - estimated at 20 million – China's state council announced plans to increase planting subsidies by 17 billion yuan to 120 billion yuan (\$17.5 billion) in 2009 from 102.9 billion yuan a year ago. The government also plans to increase stockpiles of domestically produced grains, cotton, vegetable oils and pork to support farm incomes and raise floor prices for rice by as much as 17%. As part of the broader restructuring plan, the government announced plans to inject 200 billion yuan (\$30 billion) into the Agricultural Bank of China to encourage and boost lending within rural areas.
- China's state council approved measures to boost the equipment-manufacturing industry, including increased use of domestic-made parts in major construction projects. The government will also increase spending on technical upgrades, credit support for exports and export tax rebates for textiles and garments to 15% from 14%.
- China declared an emergency over a drought which could damage the important wheat crop, threatening further hardship for farmers. The dry winter gripping parts of central and northern China sent Zhengzhou wheat futures up 5% this week but physical prices have remained unchanged. Most investors remain confident that China's reserves and last year's big harvest can offset any fall in wheat production this spring.
- Lenovo announced a management reshuffle whereby Liu Chuanzhi, founder of the company, will serve as new chairman, and Rory Read, former vice president, will replace Mr. Amelio as president. The reorganization comes after the PC producer reported a loss of \$97 million in 3Q08. The company recently initiated job cuts as part of a broader restructuring effort, which is expected to save the company \$300 million.

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CAPITAL MARKETS UPDATE:

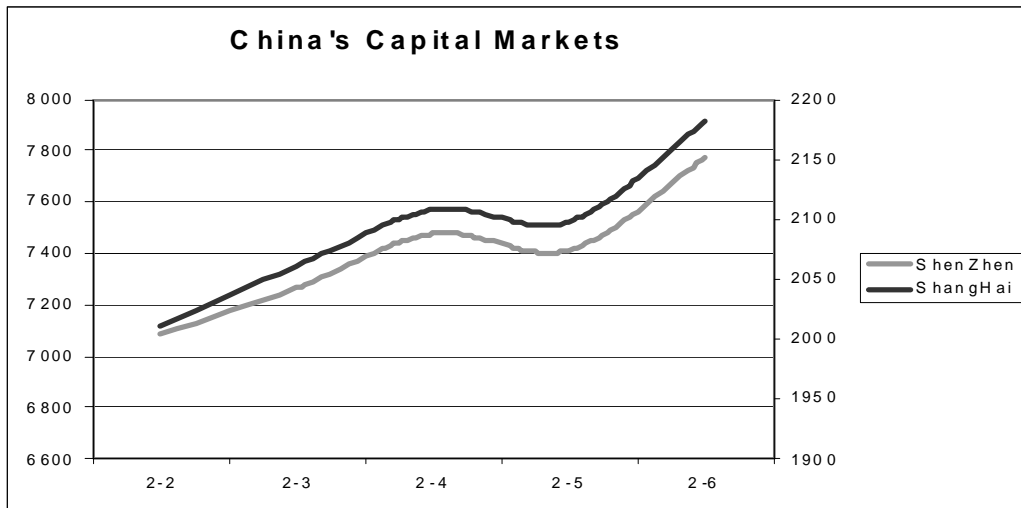


Source: FT, WSJ, Bloomberg, Xinhua

- China's stocks rallied to the highest level in more than four months, completing the biggest weekly gain since mid-November amid expectations that government stimulus measures will positively kick in by the second half of this year. The Shanghai Composite Index gained 9.6% to 2,181.2, the highest since Sept. 26, while the CSI 300 Index, which measures blue chips on both Shanghai and Shenzhen exchanges, gained 10% to 2,237.2. The Shenzhen advanced 757 points to close at 7,771.9.
- Agricultural stocks rose on speculation that the government would boost subsidies to farmers and increase stockpiles to boost prices of agriculture products, lifting shares of Gansu Yasheng Industrial (Group) Co. and Shandong Huayang Technology Co. Later in the week, bank and auto stocks led the advance on speculation that the central bank would allow banks to offer lower interest on loans by widening the permissible discount to benchmark rates to 20% from the current 10%. Bank of China Ltd., the nation's third-largest, and Bank of Communications Ltd. both climbed 4.5% while Anhui Jianghuai Automobile Co. and Beiqi Foton Motor Co. both increased 10% after the government offered subsidies for alternative-energy vehicles. SAIC Motor and Dongfeng Automobile rose 4.9% and 5.7%, respectively.
- The Hang Seng increased 2.8%, or 376.8 points, to close at 13,655 on further speculation the U.S. would announce plans to ease its financial crisis. Among the gainers were Industrial & Commercial Bank of China Ltd. (+4.6%), China Life, the world's largest insurer

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by market value (+4%), Yue Yuen Industrial (Holdings) Ltd., the largest supplier of athletic shoes to Nike Inc. (+3.2%), Geely Automobile Holdings Ltd., China's largest privately owned automaker (+17%) and China Overseas Land (+6%).



Source: FT, WSJ, Bloomberg, Xinhua

FOCUS OF THE WEEK:

Lenovo replaces its American CEO with its Chinese founder amid record loss:

Lenovo, the world's fourth-largest PC maker replaced CEO Bill Amelio with Yang Yuanging, founder in 1989, in a drastic step aimed at cutting losses and losing market share. Liu Chuanzhi, who co-founded Lenovo's predecessor 25 years ago, replaced Mr. Yang as chairman and Rory Read, senior vice president, was appointed president and COO. The reshuffle came as the company reported a \$97million quarterly loss on a 20% decline in sales to \$3.59 billion on the heels of a 78% earnings decline in the September quarter. Following its acquisition of IBM's PC unit, Lenovo's business has been dominated by sales of commercial PCs to large corporate customers – a segment of the market where IT spending has declined even more sharply than in the consumer market.



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