

EMISSARY CAPITAL 2008 BUSINESS REPORT

**ECBR Annual Update**

**India - Striving for Superpower Status**

The new millennium has seen India's economy surge ahead, breaking all previous barriers. In the last four years, India's economy has grown at a CAGR of 8.8% - 9.6% between 2006 and 2007, its highest in 18 years, and 9% in 2007 and 2008, emerging as the second fastest growing major economy in the world. Similar to China's meteoric rise over the past decade, India's economic ascension has been bolstered by market reforms, growing foreign exchange reserves, foreign direct investment inflows (FII) and a flourishing capital markets foundation. India's propensity to save and invest has been a meaningful factor as well. According to a recent Economic Advisory Council report, the country's savings and investment rate as a proportion of GDP grew from 29.7% in fiscal 2004 to 34.7% in fiscal 2007, and 28% to 35.1%, respectively. Partially illustrating India's structural transformation, which has given rise to India's overall economic picture, has been the strength of its industrial and services sectors, which have grown by 10.9% and 11%, respectively, in fiscal 2007, from increases of 9.6% and 9.8% posted during fiscal 2006. In the same period, manufacturing grew 12.3% from 9.1%, mining and quarrying by 5.1% from 3.6% and electricity, gas and water supply by nearly 7.5% from 5.3%, respectively. (See Exhibits)

**Proactive fiscal and monetary policy.** For years, as the economy flourished, India's Reserve Bank of India (RBI) aggressively raised interest rates to keep widespread inflation in check, going so far as subsidizing food and requiring state-owned oil companies to sell fuel at below market cost. But over the past year, as the global economic crisis widened, India's economic growth began to decelerate, falling to 7.6% in the recent September 2008 quarter, its slowest rate in four years. Inflation fell to a 10-year low of 6.4% in December 2008, a significant decline from the 13% posted just a few months earlier. In response, the RBI, over the period of a few months, reduced its base-lending rate four times from 9% to its current rate of about 5.5%. The

Ministry of Statistics projects that inflation will likely fall to as low as 5% by the end of the current March quarter, potentially triggering more rate cuts, which would further weaken the rupee, but stimulate export sales. In a follow up plan, the government reduced its cash reserve ratio requirement by 250bp to 6.5% and initiated a \$60 billion fiscal stimulus package, comprising multiple measures geared towards staving off further declines in the economy such as a) enhancing liquidity into the banking system by reducing the repo rate - the rate at which it lends to banks - from 7.5% to 6.5%, and the reverse repo rate - the rate at which banks lend to the RBI - from 6.0% to 5.0%, b) instituting a refinance facility of 70 billion rupees to the Small Industries Development Bank of India to enhance credit delivery to micro and small enterprises, c) approving bank granted loans of under 2 million rupees to real estate and housing finance companies, and d) easing credit for exporters.

As the broader and consequently more adverse affects stemming from the global credit meltdown have become increasingly evident, the RBI took action early and aggressively to help bolster its economy particularly from within its borders. Clearly the RBI is equally as concerned with inflation as it is deterioration caused by the global economic crisis and as an indication that not all may be rosy with the India growth story at least in the near term, a second stimulus package was introduced on January 2, 2009, a plan that a) increases the borrowing limit through foreign institutional investors to \$15 billion rupees from \$6 billion rupees, b) increases government sponsored capital expenditures, and c) calls for additional rate cuts as previously noted.

**But despite efforts geared towards affording long-term sustainability of economic growth, India must still deal with its share of domestic problems today** – issues that have become ever more evident as its economy has ballooned in size. For example, the domestic farm sector currently still employs about 60% of India's 1.1 billion people, which was economically beneficial throughout last year's surge in commodity prices. But commodity prices have since fallen drastically and so has growth within India's agricultural sector - to 2.7% in the September 30 period from the 4.7% increase posted a year earlier. Manufacturing growth has declined to

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5.0% from 9.2%, respectively. Arguably, the global situation bears much of the blame for those drop-offs given that the U.S. remains India's top trading partner. And while India boasts of a prosperous and growing middle class (over 50 million currently projected to grow to 580 million in 2025), more than 200 million people still live in poverty despite government measures to address the issue. India's poor generally do not feel a connection with its financial system – physically, culturally, and socially – particularly in regions that benefit negligibly from any changes, new programs, or financial-stimulus initiatives. The deficiency in India's domestic infrastructure is in some measure reflective of this, as a majority of the country's roads and highway systems are still in need of reengineering, while its power grid remains grossly insufficient for an economy of India's size and prospective growth.

**Notwithstanding India's domestic obstacles, the World Economic Forum and Confederation of Indian Industry forecasts GDP growth between 7.4% and 7.8% for fiscal 2009**, while other observers expect growth to be greater pointing to the RBI's commitment to reduce interest rates and devalue the rupee at any cost to prevent further economic contraction, which they argue India can ill afford. Unquestionably, the global economic crisis has opened up a straightaway into which India's policymakers must continue to shift its policies to refuel its economic engine and re-accelerate growth back towards the 9% level. And despite India's recent economic sputtering, construction and services, two sectors critical to the future well-being of its overall economy have recently posted increases of 9.7% and 10.8%, respectively in December. In addition, like China, India's middle class is still growing in both numbers and overall strength, providing India's economy with a unique advantage and growth lever most countries lack. The McKinsey Global Institute is forecasting domestic household income to grow 11-fold to 51.5 trillion rupees or \$1.1 billion over the next 15 years, changing consumption habits dramatically from household purchases of necessities to discretionary products and services, while the number of households that can afford the latter is expected to grow to 94 million by 2025, from roughly 8 million today.

**Well regulated banking system.** In addition, the absence of huge levels of worthless structured debt instruments that overwhelmingly saddled the balance sheets of numerous foreign financial institutions leaves India's financial system with a significant near to intermediate advantage versus other developed economies. As of the latest reading, roughly \$1 billion of the RBI's \$510 billion loan portfolio, primarily through overseas branches, was estimated to be held in toxic Western assets, which helps rationalize India's inconsequential number of bank failures, recapitalizations, and bailouts, at a time when the global turmoil has led to an unprecedented level of collapses elsewhere around the world. One key reason has been the tight regulation imposed on banks and external capital transactions, which has largely been the result of sound management and foresight by the RBI. Whereas banks and financial institutions around the world were massively lured into investing in assets and derivatives backed by U.S. subprime mortgages, those in India were predominantly admonished to take a step back and reconsider. And it is the quick succession of monetary and fiscal policy measures instituted by the RBI today, that continues to demonstrate the government's will to accept a reputation for being too risk averse or a stifler of growth over one that is irresponsibly aggressive and not long-run in nature.

**Depressed stock valuations appear to offer favorable long-term risk reward.** India's stock market went on an impressive five-year bull market run from 2003 to early 2008, fueled by over \$50 billion in FII and an unprecedented 32% annualized surge in corporate earnings (nearly 2x the pace of GDP). While many forecasters around late 2007 had made predictions correctly that India's bull market run would inevitably experience a correction by early 2008, none predicted the depth of the correction that ultimately occurred as a result of the global turmoil that unfolded from the deteriorating credit markets. Inflation, lower industrial production, and several high-profile earnings disappointments were to blame as well, as was the rising dollar, which was beginning to be perceived as a safe haven. As a result, FIIs eventually made a beeline for treasuries and U.S. money markets, pulling out an estimated \$13 billion from the Indian markets. This was India's the first net outflow in 11 years and its most in 15

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years, despite a y/y increase in registered FII investors to 1,600 in 2008 from 1,219 at the end of 2007. The over 50% decline in the benchmark BSE Sensex and the NSE Nifty that ensued throughout 2008, was well beyond any expectation. The Sensex's average P/E contracted from 28x in January of 2008 to 12x by the end of the year, valuing it at less than half its 4-year historical average or 8-9x projected fiscal 2009 earnings versus the 18-19x forward P/E the index was trading at earlier in the year. The percentage drop was India's worst since 1991, a period when the country faced a balance of payments crisis that eventually fueled economic liberalization throughout the 1990s. In 2008, the MSCI World Index, a benchmark of developed and emerging equity markets, declined 45% over the comparable period, while the FTSE and the Dow Jones average each lost 35% of their values.

**Uncertainty continues to linger.** Skeptics are quick to point out that India is now substantially integrated with the global economy, and that with exports and imports now comprising well over 40% of GDP, a global slowdown will surely continue to hit India's stock market harder going forward, particularly as recessions deepen in the U.K. and throughout the rest of Europe, Japan, Canada, and other advanced economies. They argue that this would result in a harder than expected landing for export dependent countries such as India, resulting in more pronounced earnings declines, further operating losses and pressure on valuations. Naysayers also point to a further decline in capital inflows from abroad and growing risk aversion among India's management teams in the aftermath of massive wealth destruction that could further derail India's investment-driven growth theme for an indefinite period of time, resulting in excess capacity, thinning margins, and bankrupt companies. And because of the aforementioned factors, India's savings and investment rates are bound to become more cyclical than structural, and thus are due for material declines over the next several quarters or even years.

Then, there is the issue of whether India can clean up the type of corporate malfeasance that recently came to light following the massive Satyam accounting scandal and mitigate any crises of confidence not only toward India's

offshore services industry, but in its capital markets. The government responded immediately and aggressively by wiping out the entire board, filing executive posts, naming new auditors, and essentially doing everything in its power to prevent an outright collapse by requesting from Satyam's clients, accelerated payments, or if need be, shoring up the company's balance sheet with a capital infusion.

Most analysts and observers view such corruption as being much less pervasive and more reflective of the actions of a crooked few. But, however the Satyam restructuring ultimately shakes out, the government's next order of concern is likely to revolve around vigorously salvaging the image of corporate India, protecting the country's credibility as an outsourcing destination, strictly ensuring institutional integrity of oversight, regulation and corporate governance, and dealing with the fate of potentially thousands of innocent employees hanging in the balance as a result of the actions of a few.

**Long-term growth levers still intact.** On a more reassuring note, however, for the first time in months, December data indicated that FIIs are turning more positive towards India's stock market opportunities, purchasing shares worth 1,217 crore, or the equivalent of about \$250 million. Numerous market observers continue to reckon that the market has bottomed-out, and that such compelling long-term risk reward opportunities rarely present themselves. The question at large remains whether India's economy and its businesses small and large, bolstered by timely and aggressive monetary and fiscal policy, can further withstand the near-term headwinds and set themselves up for sustainable longer-term growth. However it plays out over time, India will continue to benefit from a strong technology base, healthy balance sheets, a competitive cost structure, and growing middle class consumption. Near term, the RBI is expected to introduce its third stimulus package by March 2009.

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**China – from export dependent to home grown-based economic expansion**

Having endured a year of riots, natural disasters, and the logistical nightmare of hosting the Olympics, the global recession now poses the Chinese leadership's greatest challenge during a time when the government is trying to celebrate its 30th year anniversary of open-door reforms that have translated into three decades of nonstop extraordinary growth. However, as the broader and consequently more adverse affects stemming from the global credit crisis became increasingly evident, it would arguably be China's leadership that saw the warning signs earlier and reacted more urgently by reversing the tight monetary policy it had been imposing earlier in the year. In mid-September 2008, the People's Bank of China cut its one-year lending rate by 270bp to 7.2% while lowering the reserve-requirement ratio by 1% to 16.5%, its first monetary policy easing since 2002. A coordinated global central bank rate cut went into effect in October of 2008.

**Stimulus plan features measures to encourage consumers.** Since reporting a deceleration in GDP growth in the September period, (9% vs. 10.4% for the first half of 2008) and registering its first decline in exports (-2.2%) in nearly 10 years, China's central government began to signal that an economic stimulus package was imminent. And in November 2008, China's State Council approved a massive \$586 billion stimulus package further aimed at countering the effects of the global slowdown by bolstering domestic spending on social welfare (affordable housing and environmental protection), infrastructure upgrades and rural incomes. The sheer size and potential thrust of the plan – estimated at roughly 8% of 2009 GDP compared to the 1.2% China responded with during the Asian financial crisis of 1998, and the 1% the U.S. and Germany spent on its recent plans - clearly inspired investor confidence throughout the following day's trading sessions with gains of 7.4% and 3.4% in the Shanghai and Hang Seng indices, respectively. Encouragingly,

according to numerous reports, many of China's ministries have proactively sought to reinforce the central government's message that all of its initiatives, including the spending plan, would pay off by mid-2009.

China's response to the Asian financial crisis in 1998 built the basis for future growth, by spending lavishly on infrastructure and ultimately weathering the crisis without any regime-threatening instability. This time around, China's policies and stimulus plans feature measures to encourage consumers, particularly through greater spending on social services, while repeatedly stressing the need to keep markets open.

**Still dealing with social challenges.** But questions as to how the central government will continue to steer the course and sustain a high rate of growth remains. For instance, will its actions be enough to absorb the increasing number of migrant workers being laid off by factory closures and simultaneous entry of new college graduates into the workforce? Labor officials warn that an estimated 24 million job seekers are likely to enter the workforce in 2009, competing for half as many openings. Unemployment could potentially deprive many citizens of their ability to survive, which could trigger social instability or even shake the rule of the Communist Party. Keeping the middle class content and willing to spend is as vital now in China as it is in any economy, but given China's rudimentary social security system and tendency to save even during the best of times, this could prove a difficult task. Among the most challenging periods for the leadership early in the year will be the Lunar new-year holiday period beginning on January 26<sup>th</sup>, where a growing number of migrant workers from labor-intensive factories catering to Western markets are likely to find their pockets empty or emptier as cash-starved employers hold back wages. Early March of this year marks the fiftieth anniversary of the Tibetan uprising that prompted the Dalai Lama to seek exile in India, which will once again see attention focused on Tibet and Beijing, as many reflect back on the 2007 uprising and the negative political fallout that ensued.

**Long-term secular growth irreversible.** In 2009 and beyond, domestic and foreign firms will

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continue to assess market potential and learn how best to navigate China's marketplace as a multitude of factors influence which companies succeed, conferring benefits and disadvantages along product lines, between companies and across sectors. As foreign companies continue to shift production to China and look to its markets for growth, they will likely not go unchallenged in their pursuit of Chinese customers, as a higher proportion of products sold in China will presumably be produced by Chinese companies. China's policy makers have been doing most things right to foster the growth of local companies by using the lure of the country's immense market to gain concessions from foreign firms and improve access to intellectual capital and industry expertise. Traditional trade barriers such as tariffs should continue to be used as well, though they are likely to fade as China continues to meet the terms required by the WTO. In addition, China's growing middle class - over 150 million - in proportion to its vast population should also continue to ensure the country's status as a formidable source of low-cost labor for years to come as evidenced by the average city dweller's per capita income of \$2,000 versus the \$1,200 he or she was earning several years earlier. Thus, despite other lower cost destinations in Southeast Asia, China should continue to offer an attractive mix of low wages, high productivity, and a relatively advanced supply-chain infrastructure.

As Chinese companies continue to gain scale and expand internationally, both Chinese and foreign companies will profit from opportunities, new industry leaders will emerge, and previously strong ones will likely stagger or fail. Industries such as basic-materials and auto manufacturing may see the initial benefits ease over the next several years as supply and demand revert to a long-term equilibrium and Chinese companies acquire the expertise to produce best-of-breed products. The clearest long-term beneficiaries continue to operate in areas such as financial services and health care, where the complexity of domestic markets should maintain high barriers to entry for outsiders. China's banking sector, for example, offers significant growth potential and little threat from foreign incumbents given that they continue to operate under the governance of central and local political authorities and lack technical sophistication. But as WTO-mandated

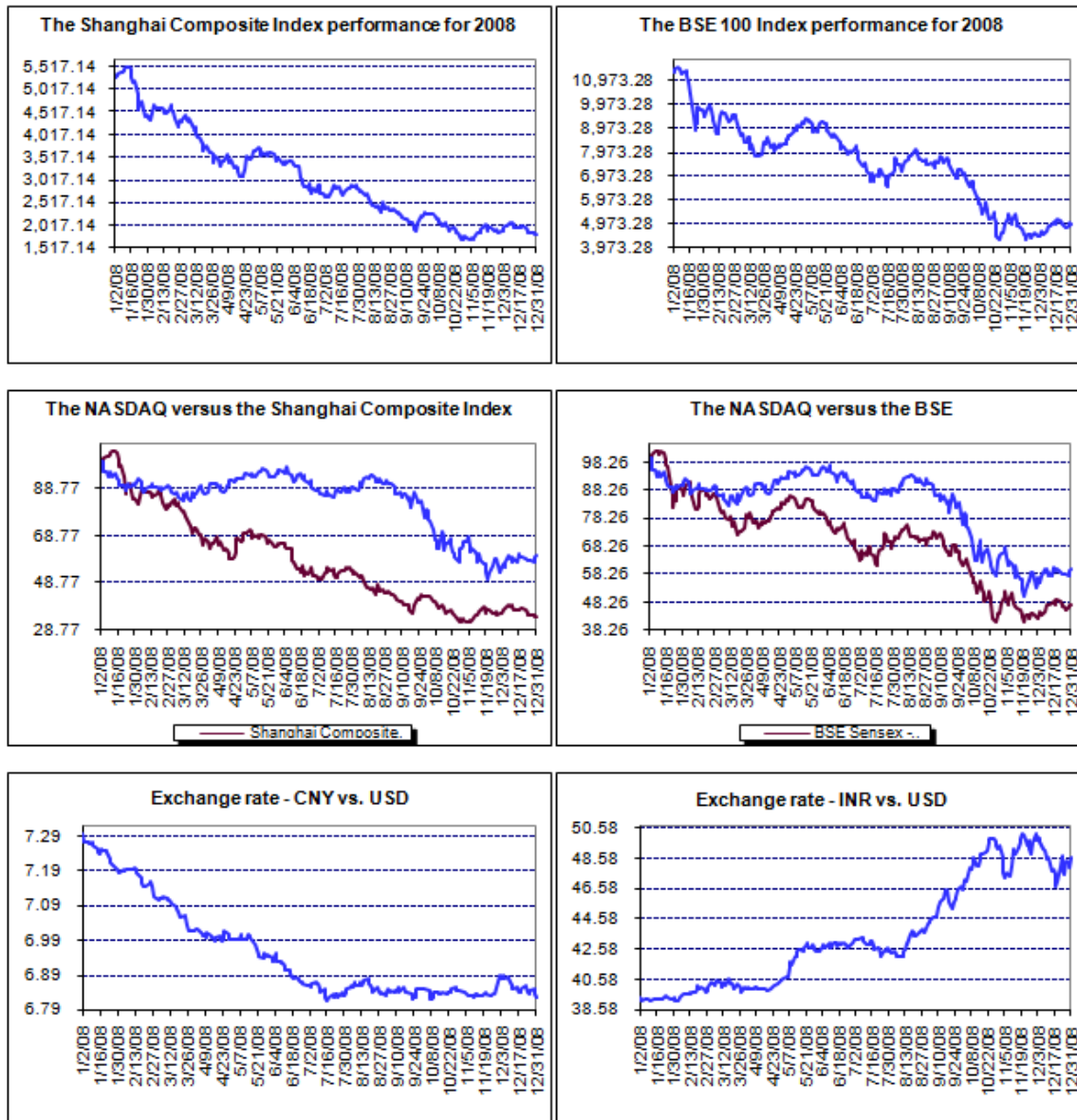
reforms gradually liberalize foreign access to the industry, domestic firms are likely to share in the difficulty of fending off more sophisticated and larger rivals.

**Huge potential to further modernize a largely inefficient and agrarian economy.** China's emergence will continue to capture the imagination of entrepreneurs and companies across many industries around the world, driving a dramatic business cycle of innovation and competition. China's near-10% annual GDP growth over the past 25 years has lifted more people out of poverty than any other period in history, and whose current "go west" policy has the potential to further modernize a largely inefficient and agrarian economy. It goes without saying that China continues to work vigorously to improve its environmental and corporate governance standards towards a level where investors can feel increasingly comfortable that China's business leaders are striving to improve best practices and serve free market interests. Therefore, investors should limit passing judgment on China as to how far it has to go to meet western standards, but rather how far its leadership has taken it, and the enormous potential it has to become an integral economic partner and ally of the U.S. and the global community.

The quick and decisive actions taken by China's leadership from the earlier stages of the current global recession should serve as a clear indication that its policy makers understand the severity of the potential impact brought on by the economic crisis, and that a strong economy serves as the cornerstone to its financial crisis survival. A policy shift geared more towards enhancing domestic productivity versus should ensure that China's economic future holds up better than most other developed economies.

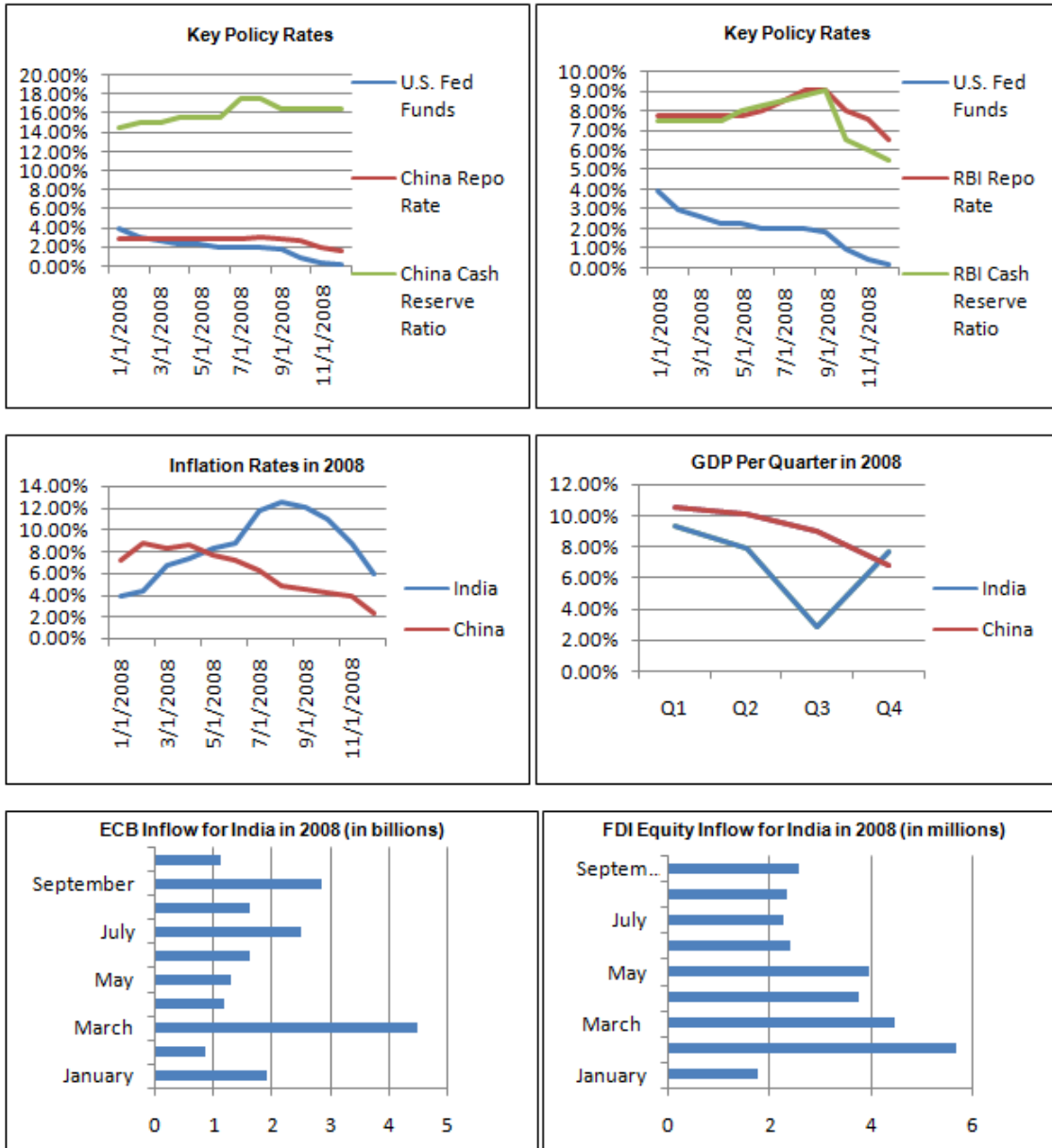
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Exhibit 1: Capital Markets / Macro Trends – India / China



Source: Bloomberg, Capital IQ, RBI, Financial Times

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Source: Bloomberg, Capital IQ, RBI, Financial Times

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Exhibit 2: Emissary Capital Group Small-cap China Composite

Source: Bloomberg, Capital IQ, First Call

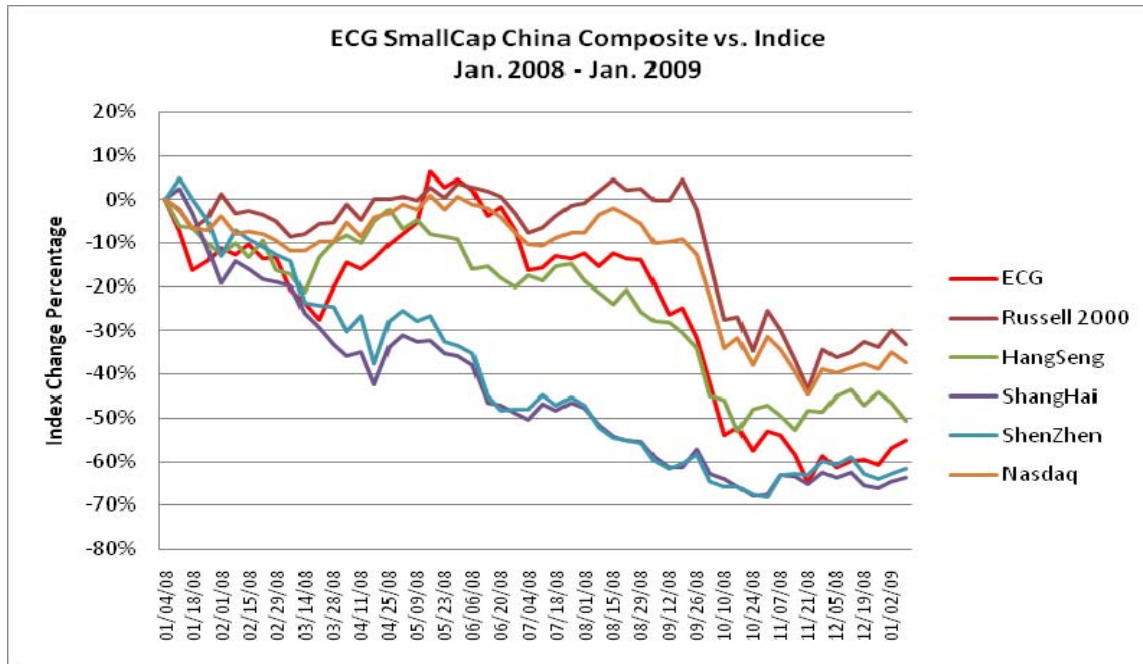
Company Name	Exchange	Ticker	Industry	Market		Enterprise		LTM		NTM			LTM			
				Cap.	Value	Revenue	Gross income	EBITDA	Net income	Total debt	EV/EBITDA	P/E	PEG	EV/EBITDA	P/E	P/BV
Fushi Copperweld, Inc.	NasdaqGS	FSIN	Electrical Components and Equipment	492.8	155.8	229.4	63.0	47.2	33.2	72.1	3.1x	4.8x	-	3.4x	6.7x	0.7x
51job Inc.	NasdaqGS	JOBS	Human Resource and Employment Services	489.8	27.0	121.6	66.7	19.5	12.2	0	2.0x	17.7x	0.6x	1.5x	17.4x	1.0x
Chinsure Inc.	NasdaqGS	CISG	Insurance Brokers	489.5	94.6	105.3	50.7	30.3	22.2	0.288	2.3x	8.9x	0.3x	3.6x	14.3x	1.4x
VisionChina Media Inc.	NasdaqGM	VISM	Advertising	470.9	327.1	39.6	21.7	15.2	15.2	0	5.5x	8.7x	0.3x	25.1x	27.9x	2.7x
Synthesis Energy Systems, Inc.	NasdaqGM	SYMXX	Independent Power Producers	437.0	(74.2)	0.453	(9.19)	(31.7)	(32.2)	12.4	-	-	-	2.3x	NM	0.2x
Cogo Group, Inc.	NasdaqGS	COGO	Communications Equipment	411.4	82.2	279.7	49.3	23.3	19.7	0	4.2x	9.3x	0.4x	4.2x	18.0x	1.0x
Qiao Xing Mobile Communication Co., Ltd.	NYSE	QXM	Communications Equipment	406.9	(136.0)	342.2	125.9	104.1	79.8	175.9	-	2.3x	-	NM	1.9x	0.3x
China Sunergy Co. Ltd.	NasdaqGM	CSUN	Electrical Components and Equipment	384.5	187.1	253.7	15.5	(2.09)	(9.68)	173.2	-	-	-	NM	NM	0.7x
Spreadtrum Communications Inc.	NasdaqGM	SPRD	Semiconductors	372.2	(29.1)	148.2	66.7	12.5	(15.7)	3.67	-	-	-	NM	6.5x	0.2x
AsialInfo Holdings Inc.	NasdaqGM	ASIA	Internet Software and Services	363.7	218.3	162.6	79.7	19.5	25.0	0	8.7x	21.9x	0.5x	11.2x	31.6x	1.8x
Jade Art Group, Inc.	OTCBB	JADA	Distributors	359.9	289.4	46.4	29.8	25.3	63.5	10.0	-	-	-	10.6x	18.2x	4.3x
Harbin Electric, Inc.	NasdaqGM	HRBN	Electrical Components and Equipment	359.9	145.4	105.4	45.3	35.6	23.5	41.2	2.8x	4.9x	-	4.4x	9.0x	1.0x
Wuhan General Group (China) Inc.	NasdaqGM	WUHN	Industrial Machinery	345.0	146.6	112.7	32.9	22.5	17.2	33.5	-	-	-	6.4x	12.5x	1.7x
China Architectural Engineering, Inc.	NasdaqGS	CAEI	Building Products	338.2	125.3	148.4	44.5	30.2	25.6	36.3	7.3x	9.6x	0.6x	4.5x	6.7x	1.4x
China Information Security Technology, Inc.	NasdaqGS	CPBY	Application Software	324.0	123.1	78.0	35.2	27.9	21.6	5.88	3.7x	5.0x	0.1x	5.1x	9.7x	1.4x
Xinhua Finance Media Limited	NasdaqGM	XFML	Advertising	307.9	63.6	185.1	71.5	35.6	(19.2)	39.1	-	4.7x	-	1.9x	28.6x	0.1x
China Fire & Security Group, Inc.	NasdaqGM	CFSG	Industrial Machinery	301.4	171.9	62.2	35.6	22.2	21.9	0	6.4x	8.2x	0.3x	8.3x	15.5x	2.9x
Zhongpin, Inc.	NasdaqGS	HOGS	Packaged Foods and Meats	299.8	294.8	500.6	62.8	39.1	30.9	89.7	6.6x	7.1x	0.3x	8.1x	14.6x	1.5x
Actions Semiconductor Co., Ltd.	NasdaqGS	ACTS	Semiconductors	291.5	(125.9)	111.4	57.6	34.2	45.4	1.5	-	11.1x	-	NM	4.2x	0.4x
Tonglitang Chinese Medicines Co.	NYSE	TCM	Pharmaceuticals	286.8	24.1	75.3	48.3	4.29	6.58	36.5	-	18.3x	-	5.9x	17.6x	0.5x
Wonder Auto Technology, Inc.	NasdaqGM	WATG	Auto Parts and Equipment	270.7	97.1	136.7	35.3	27.1	19.9	37.3	3.1x	3.4x	0.2x	3.6x	4.6x	0.7x
China Finance Online Co. Ltd.	NasdaqGM	JRJC	Internet Software and Services	267.8	76.0	49.8	41.9	12.9	4.47	0	3.5x	11.3x	-	6.4x	16.7x	1.7x
BMP Sunstone Corporation	NasdaqGM	BJGP	Healthcare Distributors	262.9	183.3	87.4	40.2	1.99	(11.2)	29.7	8.4x	81.3x	8.1x	73.2x	NM	1.2x
AgFeed Industries, Inc.	NasdaqGM	FEED	Agricultural Products	259.5	31.4	109.6	30.4	22.9	15.4	3.15	2.1x	4.2x	-	1.6x	3.3x	0.4x
Oplink Communications Inc.	NasdaqGM	OPLK	Communications Equipment	252.8	15.9	170.1	29.6	(4.31)	(11.5)	0	15.5x	24.4x	0.9x	NM	NM	0.7x
3SBio Inc.	NasdaqGS	SSRX	Biotechnology	248.3	19.7	33.4	30.2	8.86	8.6	0	-	9.9x	0.5x	3.0x	16.0x	0.9x
General Steel Holdings, Inc.	NYSE	GSI	Steel	242.4	502.6	1,358.3	50.5	36.1	10.4	340.1	4.0x	5.5x	-	14.2x	47.8x	1.7x
Gulf Resources, Inc.	OTCBB	GFRE	Commodity Chemicals	234.2	35.0	78.7	31.4	3.3	18.8	27.0	-	-	-	1.3x	2.0x	0.8x
HLS Systems International, Ltd.	NasdaqGS	HOLI	Electronic Equipment and Instruments	233.6	68.4	129.4	39.8	-	15.3	28.0	-	4.9x	0.2x	-	8.8x	0.7x
China BAK Battery, Inc.	NasdaqGM	CBAK	Electrical Components and Equipment	230.4	238.3	245.3	30.9	12.8	(7.94)	183.5	-	-	-	19.1x	NM	0.6x
VancelInfo Technologies Inc.	NYSE	VIT	Application Software	218.8	129.6	91.9	35.7	17.1	14.1	0	5.7x	13.2x	0.4x	7.9x	13.1x	1.7x
Qiao Xing Universal Telephone Inc.	NasdaqGS	XING	Communications Equipment	211.1	(142.3)	437.7	125.1	91.6	(102.4)	265.0	-	-	-	NM	1.7x	0.1x
Acom International, Inc.	NYSE	ATV	Catalog Retail	206.8	(58.7)	246.6	133.1	(1.7)	(15.4)	1.02	-	-	-	30.1x	NM	0.5x
Noah Education Holdings, Ltd.	NYSE	NED	Education Services	204.2	(57.4)	88.6	45.3	8.29	19.8	0	-	6.8x	0.4x	NM	7.6x	0.5x
Yucheng Technologies Limited	NasdaqGM	YTEC	IT Consulting and Other Services	199.4	77.9	82.8	28.3	14.2	10.7	9.7	-	6.0x	0.2x	5.9x	13.6x	1.2x
eLong Inc. (NasdaqGM:LONG)	NasdaqGM	LONG	Hotels, Resorts and Cruise Lines	197.3	45.6	47.3	25.6	(1.29)	(12.3)	0	-	-	-	NM	NM	1.2x
China-Biotics, Inc.	NasdaqGM	CHBT	Biotechnology	196.4	119.4	47.9	33.7	20.2	19.7	22.7	-	8.5x	0.3x	5.9x	13.5x	3.1x
China GrenTech Corp. Ltd.	NasdaqGS	GRRF	Communications Equipment	195.3	102.3	137.6	45.5	13.0	1.61	84.4	-	-	-	8.0x	25.8x	0.1x
PerfectEnergy International Limited	OTCBB	PFY	Electrical Components and Equipment	189.3	9.96	45.6	3.0	(2.6)	7.59	0	-	2.3x	-	NM	3.8x	1.1x
Jimpan International Ltd.	NasdaqGS	JST	Electrical Components and Equipment	186.2	120.3	163.6	55.6	27.9	21.8	22.8	-	-	-	4.5x	7.2x	1.1x
Origin Agritech Limited	NasdaqGS	SEED	Agricultural Products	185.0	62.3	78.8	7.24	(13.8)	(18.0)	58.8	-	-	-	NM	NM	1.0x
China 3C Group	OTCBB	CHCG	Technology Distributors	184.9	14.0	294.8	46.5	32.5	24.1	0	-	-	-	0.5x	2.3x	0.6x
China Techfaith Wireless	NasdaqGM	CNTF	Communications Equipment	180.2	(43.1)	202.7	47.3	14.2	10.4	0	-	-	-	NM	10.5x	0.3x
Fuqi International, Inc.	NasdaqGM	FUQI	Apparel, Accessories and Luxury Goods	179.1	93.7	293.2	32.7	25.8	25.6	22.0	2.6x	4.6x	0.1x	4.0x	8.3x	1.1x
Kongzhong Corp.	NasdaqGS	KONG	Application Software	170.8	1.38	89.8	41.5	(0.96)	(20.5)	0	-	28.1x	1.9x	10.0x	148.1x	0.8x
China Sky One Medical, Inc.	NasdaqGM	CSKI	Pharmaceuticals	169.6	145.3	78.6	60.0	32.3	26.0	0	-	-	-	4.9x	10.0x	2.4x
Shiner International, Inc.	NasdaqGM	BEST	Commodity Chemicals	168.9	28.8	55.7	12.1	8.73	7.12	3.29	2.6x	3.4x	-	3.6x	6.2x	1.0x
China Natural Gas, Inc.	OTCBB	CHNG	Gas Utilities	167.9	82.4	60.6	28.6	21.1	13.8	23.9	-	-	-	3.9x	7.6x	1.2x
Sutor Technology Group, Ltd.	NasdaqGM	SUTR	Steel	161.3	148.3	420.3	47.0	47.6	34.6	94.0	3.3x	2.5x	0.1x	3.3x	3.3x	0.5x
ChinaCast Education Corporation	NasdaqGM	CAST	Thriffs and Mortgage Finance	161.0	33.4	38.8	20.5	13.7	10.0	12.6	1.8x	6.7x	0.2x	3.0x	9.5x	0.8x
Sinovac Biotech Ltd.	AMEX	SVA	Biotechnology	159.1	61.2	43.3	35.1	17.4	7.63	7.34	-	5.7x	-	3.5x	7.3x	1.4x
MEMSIC, Inc.	NasdaqGM	MEMS	Semiconductor Equipment	157.4	(25.2)	21.4	11.4	0.6	1.61	0	-	-	-	NM	37.6x	0.4x
Tiens Biotech Group USA Inc.	AMEX	TBV	Personal Products	156.9	144.2	72.0	50.6	36.9	26.8	5.33	-	-	-	3.8x	7.7x	1.2x
China Automotive Systems Inc.	NasdaqGM	CAAS	Auto Parts and Equipment	147.6	139.4	122.6	48.7	29.2	14.1	59.2	4.0x	5.2x	-	4.8x	7.4x	1.1x
China TransInfo Technology Corp.	NasdaqGM	CTFO	Application Software	144.1	54.9	26.6	12.8	9.19	7.79	3.04	-	4.8x	-	5.4x	10.0x	1.6x
ChinaEdu Corporation	NasdaqGM	CEDU	Education Services	129.7	48.9	45.4	30.3	13.3	0.789	0	3.0x	23.8x	0.9x	3.7x	13.5x	1.0x
Vimicro International Corp.	NasdaqGM	VIMC	Semiconductors	129.7	(49.2)	88.6	27.4	(4.93)	(3.97)	0	-	-	-	9.3x	NM	0.5x
China Biologic Products, Inc.	OTCBB	CBPO	Biotechnology	128.6	34.0	40.5	29.2	18.2	9.36	0.771	-	-	-	2.1x	4.7x	1.4x
Sinoenergy Corporation	NasdaqGM	SNEN	Oil and Gas Equipment and Services	124.1	40.9	77.0	15.4	10.3	16.1	46.5	-	-	-	7.7x	6.0x	0.8x
Jingwei International Limited	OTCBB	JNGW	Internet Software and Services	122.8	19.8	32.4	16.6	13.0	11.0	0.555	1.5x	2.0x	-	1.7x	2.8x	0.6x
Genesis Pharmaceuticals Enterprises, Inc.	OTCBB	GNPH	Pharmaceuticals	120.6	(12.5)	110.5	86.8	35.4	22.4	11.4	-	1.9x	-	NM	2.2x	0.4x

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Huiheng Medical, Inc.	OTCBB	HHGM	Healthcare Equipment	115.7	-	14.0	10.5	8.42	7.17	0	-	-	-	9.1x	17.6x	3.8x
SORL Auto Parts, Inc.	NasdaqGM	SORL	Auto Parts and Equipment	115.2	39.1	138.3	36.8	19.7	13.0	2.0	-	2.6x	-	2.1x	3.6x	0.4x
China Bio Energy Holding Co., Ltd.	OTCBB	CBEH	Healthcare Distributors	114.5	110.4	179.1	25.5	25.6	24.2	2.27	-	-	-	4.3x	8.0x	1.6x
China Housing and Land Development, Inc.	NasdaqCM	CHLN	Real Estate Development	114.1	75.0	73.8	28.4	22.0	16.8	51.1	11.2x	10.8x	-	3.6x	4.0x	0.6x
Universal Travel Group	OTCBB	UTVG	Hotels, Resorts and Cruise Lines	110.6	23.6	64.8	20.3	14.8	11.5	0	-	2.2x	-	1.7x	3.5x	1.0x
HQ Sustainable Maritime Industries Inc.	AMEX	HQS	Packaged Foods and Meats	108.3	41.1	63.9	27.1	13.7	5.36	6.47	2.7x	5.4x	0.2x	3.2x	17.1x	1.1x
Sinobiomed Inc.	OTCBB	SOBM	Biotechnology	106.6	14.7	1.07	0.348	(4.89)	(7.25)	10.7	-	-	-	NM	NM	NM
Kandi Technologies, Corp	NasdaqGM	KNDI	Motorcycle Manufacturers	106.2	48.6	40.2	10.0	8.43	5.8	37.5	-	2.7x	-	6.2x	6.1x	1.0x
Ninetowns Internet Technology Group	NasdaqGM	NINE	Application Software	106.0	(57.0)	15.9	11.5	(11.8)	(35.0)	0	-	-	-	4.8x	NM	0.2x
China Pharma Holdings Inc.	OTCBB	CPHI	Pharmaceuticals	105.0	42.8	44.7	22.4	18.3	16.5	0	-	2.6x	0.1x	2.6x	4.7x	0.8x
China Shenghuo Pharmaceutical Holdings, Inc.	AMEX	KUN	Pharmaceuticals	99.2	24.4	26.4	18.1	(2.12)	(4.17)	16.1	-	-	-	NM	NM	1.1x
T-Bay Holdings, Inc.	OTCBB	TBYH	Electronic Manufacturing Services	96.3	(9.77)	54.7	23.9	22.0	18.9	4.26	-	-	-	NM	1.0x	0.2x
Deswell Industries Inc.	NasdaqGM	DSWL	Electrical Components and Equipment	90.2	8.77	134.2	22.4	8.99	3.61	0	0.8x	4.2x	-	0.9x	11.1x	0.2x
China Fortune Acquisition Corp.	OTCBB	CFAQ.F	Asset Management and Custody Banks	87.2	89.7	0	-	-	1.53	0	-	-	-	-	89.8x	1.8x
Sino Gas International Holdings, Inc.	OTCBB	SGAS	Gas Utilities	86.7	5.84	24.3	10.8	7.83	5.11	4.38	-	-	-	0.7x	2.6x	0.2x
China Education Alliance Inc.	OTCBB	CEUA	Internet Software and Services	85.4	7.04	20.5	16.7	9.7	4.88	0	-	-	-	0.7x	8.4x	0.9x
China Organic Agriculture, Inc.	OTCBB	CNOA	Agricultural Products	85.1	29.0	74.1	19.5	16.9	13.0	8.97	-	-	-	1.6x	1.6x	0.6x
Winner Medical Group Inc.	OTCBB	WMDG	Healthcare Supplies	84.9	33.3	85.5	21.4	11.4	5.07	15.0	-	-	-	3.7x	9.7x	0.5x
China GengSheng Minerals, Inc	OTCBB	CHGS	Diversified Chemicals	84.1	17.3	47.7	17.4	4.05	2.74	2.24	-	3.1x	0.1x	4.4x	7.0x	0.4x
China Wind Systems, Inc.	OTCBB	CWSI	Industrial Machinery	81.4	20.4	39.2	10.2	8.36	2.93	1.02	-	-	-	2.7x	6.4x	0.7x
Linktone Ltd.	NasdaqGM	LTON	Wireless Telecommunication Services	78.6	(57.4)	73.4	17.0	(9.85)	(24.2)	0	-	-	-	5.7x	NM	0.4x
China RuiTai International Holdings Co., Ltd.	OTCBB	CRUI	Commodity Chemicals	72.8	-	41.3	12.7	9.4	5.33	61.2	-	-	-	9.2x	6.8x	2.1x
Hurray! Holding Co. Ltd.	NasdaqGM	HRAY	Internet Software and Services	72.6	(22.8)	55.4	18.2	3.99	(34.3)	0	-	-	-	NM	17.0x	0.4x
Scopus Video Networks Ltd.	NasdaqGM	SCOP	Communications Equipment	71.1	43.5	71.9	35.1	0.618	0.314	0	36.6x	25.9x	-	69.2x	NM	1.7x
New Oriental Energy & Chemical Corp	NasdaqGM	NOEC	Fertilizers and Agricultural Chemicals	69.5	37.7	65.0	8.18	6.04	2.42	26.9	-	1.9x	-	6.5x	6.3x	0.8x
China Shen Zhou Mining & Resources, Inc.	AMEX	SHZ	Diversified Metals and Mining	67.8	36.0	7.13	0.419	(5.17)	(10.4)	25.2	-	-	-	NM	NM	0.5x
China Yingxia International, Inc.	OTCBB	CYXI	Agricultural Products	65.2	10.2	21.5	11.6	9.88	8.42	0	-	-	-	1.0x	3.2x	0.3x
Benda Pharmaceutical, Inc	OTCBB	BPMA	Pharmaceuticals	64.8	35.6	30.4	12.4	6.31	(4.76)	23.0	-	-	-	5.6x	NM	0.3x
Orsus Xelent Technologies Inc.	AMEX	ORS	Communications Equipment	62.5	19.9	110.4	15.3	12.6	10.8	9.79	-	-	-	1.7x	1.6x	0.3x
China Agritech Inc.	OTCBB	CAGC	Fertilizers and Agricultural Chemicals	55.6	25.9	47.3	21.5	15.0	9.03	0	1.4x	2.2x	0.1x	1.8x	3.0x	0.4x
Shengtai Pharmaceutical Inc.	OTCBB	SGTI	Pharmaceuticals	54.0	55.6	89.6	18.9	14.0	8.79	34.3	-	2.2x	-	4.0x	4.3x	0.5x
Puda Coal Inc. (OTCBB:PUDC)	OTCBB	PUDC	Coal and Consumable Fuels	48.4	(4.73)	227.1	32.2	28.4	18.0	11.6	-	-	-	NM	1.4x	0.3x
Fuweil Films (Holdings) Co., Ltd.	NasdaqGM	FFHL	Commodity Chemicals	47.9	33.4	68.7	11.3	8.74	3.75	24.3	-	0.1x	-	4.0x	4.3x	0.1x
Shine Media Acquisition Corp.	OTCBB	SHND	Asset Management and Custody Banks	47.8	50.7	0	0	-	(0.757)	0.08	-	-	-	-	NM	1.7x
Telestone Technologies Corp.	NasdaqGM	TSTC	Communications Equipment	47.7	18.2	33.6	16.8	7.12	6.06	2.89	-	-	-	2.6x	4.3x	0.5x
China Properties Developments, Inc.	OTCBB	CPDV	Real Estate Operating Companies	47.5	-	30.8	18.4	15.3	13.5	34.4	-	-	-	2.5x	0.6x	0.2x
New Dragon Asia Corp.	AMEX	NWD	Packaged Foods and Meats	45.6	13.9	58.7	10.2	9.1	7.89	3.52	-	-	-	1.8x	12.9x	0.2x
ChinaGrowth South Acquisition CORP	OTCBB	CGSX.F	Asset Management and Custody Banks	45.4	48.5	0	0	-	1.4	0	-	-	-	-	52.1x	1.6x
ChinaGrowth North Acquisition Corp.	OTCBB	CGNY.F	Asset Management and Custody Banks	44.9	47.5	0	0	-	0.484	0	-	-	-	-	157.4x	1.5x
Diguzang International Development Company Ltd.	OTCBB	DGNG	Electronic Components	44.7	0.405	61.2	7.83	0.598	(2.98)	5.24	-	-	-	0.8x	NM	0.1x
Songzai International Holding Group Inc.	OTCBB	SGZH	Coal and Consumable Fuels	43.7	80.9	34.2	19.0	16.5	13.3	31.3	-	-	-	5.0x	6.0x	3.6x
PacificNet, Inc.	OTCBB	PACT	IT Consulting and Other Services	43.6	7.19	18.7	2.59	(13.2)	(18.0)	7.36	-	-	-	NM	NM	0.4x
China Clean Energy, Inc.	OTCBB	CCGY	Coal and Consumable Fuels	43.5	(1.0)	21.0	5.14	3.46	2.48	0.313	-	-	-	NM	2.4x	0.1x
Intermost Corp.	OTCBB	IMOT	Alternative Carriers	41.5	11.2	0.019	(0.012)	(1.61)	(1.61)	0.064	-	-	-	NM	NM	3.1x
Gold Horse International Inc.	OTCBB	GHII	Construction and Engineering	40.5	15.3	86.7	13.9	12.4	6.18	6.6	-	-	-	1.2x	0.7x	0.2x
Lotus Pharmaceuticals, Inc.	OTCBB	LTUS	Pharmaceuticals	39.9	20.7	67.0	30.4	12.1	11.5	7.07	-	-	-	1.8x	2.6x	0.4x
Pantheon China Acquisition Corp.	OTCBB	PCQC	Asset Management and Custody Banks	39.4	-	0	0	-	0.036	0.035	-	-	-	-	NM	1.4x
China Recycling Energy Corp	OTCBB	CREG	Technology Distributors	37.9	18.3	7.1	2.24	(0.028)	(0.643)	5.44	-	-	-	NM	103.7x	0.6x
China Wind Energy, Inc.	OTCBB	CWEY	Office Services and Supplies	36.5	31.5	0.148	(0.056)	(0.775)	(0.958)	0.852	-	-	-	NM	NM	1.5x
China Industrial Waste Management, Inc.	OTCBB	CIWT	Environmental and Facilities Services	34.4	30.4	13.0	8.97	6.04	5.08	3.36	-	-	-	4.4x	6.9x	1.1x
e-Future Information Technology Inc.	NasdaqCM	EFUT	Systems Software	33.7	14.4	11.5	6.74	2.54	(3.76)	0.989	-	-	-	5.9x	NM	1.0x
China Yongxin Pharmaceuticals, Inc.	OTCBB	CYXN	Healthcare Distributors	33.0	10.3	56.0	9.98	5.27	5.38	3.58	-	-	-	2.0x	0.9x	0.3x
China Medicine Corporation	OTCBB	CHME	Healthcare Distributors	31.9	11.8	45.4	14.2	10.5	8.39	0	-	-	-	1.1x	2.1x	0.4x
China Sun Group High-Tech Co.	OTCBB	CSGH	Commodity Chemicals	31.3	8.34	34.8	13.6	13.3	9.56	0	-	-	-	0.7x	2.6x	0.8x
China Mobile Media Technology, Inc.	OTCBB	CHMO	Communications Equipment	29.7	50.2	(5.49)	(17.4)	(31.8)	(45.0)	35.3	-	-	-	NM	NM	NM
Environment Ecology Holding Company of China	OTCBB	EVEH	Environmental and Facilities Services	29.1	0.117	21.5	5.92	4.5	2.58	1.1	-	-	-	0.0x	0.4x	0.1x
Sunwin International Neutraceuticals, Inc.	OTCBB	SUWN	Pharmaceuticals	25.2	22.7	25.8	6.44	1.87	0.231	0.157	-	-	-	15.5x	86.2x	1.1x
<b>Mean</b>				<b>161.4</b>	<b>53.3</b>	<b>100.5</b>	<b>28.3</b>	<b>14.2</b>	<b>6.5</b>	<b>22.6</b>	<b>5.1x</b>	<b>9.2x</b>	<b>0.7x</b>	<b>6.6x</b>	<b>15.3x</b>	<b>1.0x</b>
<b>Median</b>				<b>123.5</b>	<b>33.4</b>	<b>63.1</b>	<b>22.4</b>	<b>12.7</b>	<b>7.6</b>	<b>3.6</b>	<b>3.2x</b>	<b>5.3x</b>	<b>0.3x</b>	<b>4.0x</b>	<b>7.2x</b>	<b>0.7x</b>

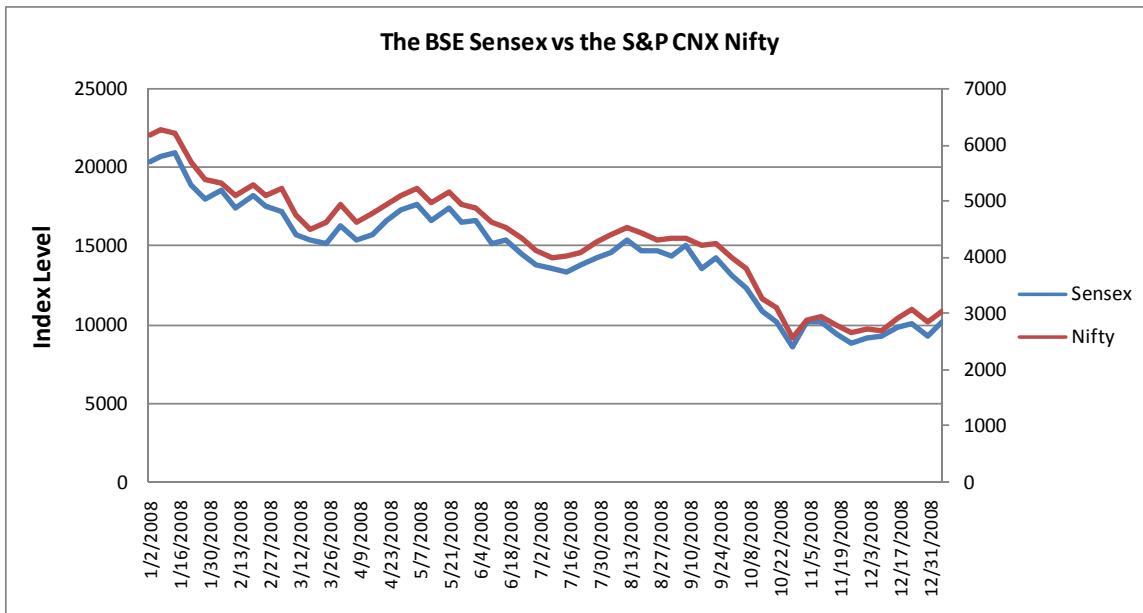
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Exhibit 3: Performance of relative indices, January 2008 – January 2009



Source: Bloomberg, Capital IQ

Exhibit 4: BSE Sensex versus Nifty, January-December 2008



Source: Bloomberg, Capital IQ

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