

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *India's inflation falls to 4.4%*
- *India's foreign exchange reserves increases by \$2.9 billion, hits \$251 billion*
- *Tata Communication invests \$430 million in Asia-Pacific region expansion*
- *Chinese central government report forecasts 8.5% growth for Guangdong province*
- *Stimulus package taking positive effect on China's economy according to survey*
- *China's Ministry of Commerce announces new strategy to boost rural consumption*
- *Rio Tinto to receive \$19.5 billion cash infusion from state-owned Chinalco*
- *Franshion Properties (China) Ltd announces \$340 million rights offering.*

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:

- According to figures released by the RBI in its weekly statistical supplement, India's foreign exchange reserves increased by \$2.9 billion to \$251.5 billion, primarily as a result of improved supply of dollars. In addition, continuing its downward trend primarily as a result of an 18 point correction in the fuel price index, inflation fell to 4.3% from 5.07% a week earlier, the lowest rise since January of 2008, when inflation was at 4.36%. The Indian government had cut retail fuel prices by up to 11% during the last week of January, its second reduction in nearly two months.
- After contracting for the first time in 15 years in October, and despite a stimulus package swiftly introduced by the government, India's industrial production declined 2% in December versus the 8% increase registered a year ago. The manufacturing sector, which comprises roughly 80% of the Index of Industrial Production, posted a 2.5% decline versus an 8.6% rise in December of last year, while mining and electricity output grew by only 1% and 1.6%, respectively versus 5% and 3.8% in the comparable year ago period. Production of consumer durables and non-durables fell as much as 12.8% as well. For the first nine months of fiscal 2009 (2008-2009), industrial growth came in at 3.2% compared to 9% a year ago.
- An interim budget delivered by the RBI ahead of parliamentary elections sparked fears that the country may be returning to an era of big budget deficits as it insulates itself from the global financial crisis. India's finance minister publicly recognized recently that a high fiscal deficit was inevitable to weather the challenges posed by the global recession.

EMISSARY CAPITAL BUSINESS REPORT

Additional spending by the government was expected to push the fiscal deficit to 6% of GDP in 2009 versus the initial targeted rate of 2.5%, though economists reckon that a consolidated fiscal deficit, which takes into account state spending, would likely yield a deficit closer to 10%.

INDUSTRY NEWS:

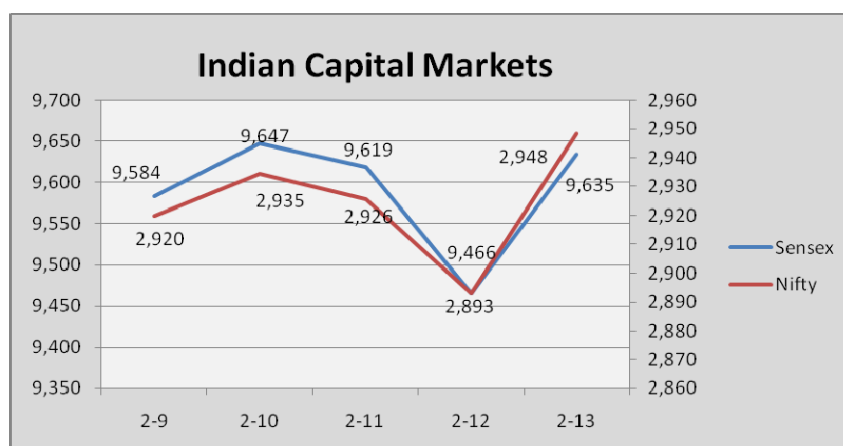
- Global data and internet provider Tata Communications unveiled a \$430 million investment in the Asia-Pacific region as it seeks to boost its presence in emerging markets to counter the recession in developed markets. Proceeds will be used for a new data center in Singapore and to help complete construction of the main segment of the TGN-Intra Asia cable system, which is expected to provide internet and voice operation services to Hong Kong, Japan, Vietnam and the Philippines. Over the past year, Tata Communications has expanded operations into the Middle East, China and Africa by way of a strategic alliance with UAE mobile operator Etisalat, the acquisition of a 50% stake in China Enterprise Communications and the acquisition of a controlling stake in Neotel, South Africa's second-largest telecom operator.
- India's retail sector is undergoing its worst slowdown since the boom of the 1990s, as several medium and large-sized groups have decelerated expansion plans and shut underperforming stores. Pantaloon Retail, one of India's largest retailers, announced that January same-store sales declined to a five-year low, while Subhiksha Trading Services, the country's biggest discount retail chain, has been forced to shutter most of the stores it added to its store-base over the past three years owing primarily to its failure to pay lease payments and wages.
- India's organic food industry continues to growth at a healthy rate of 10-12%, according to major Indian organic product companies Fabindia - which markets over 120 categories of cereals, spices, honey, and herbs - and South Indian Hyderabad city-based Sresta Bioproducts, a producer of ready to eat organic products and fruit juices, which retails its brand "24 Letter Mantra" through the Spencer's retail chain across India.

According to a recent International Competence Center for Organic Agriculture report, 3-5% of India's \$116 billion food industry will turn organic despite pricing that is 15-40% greater than non-organic counterparts. Drivers for the industry are expected to include non-resident Indians and expats, as well as the hospitality industry, which is taking further interest in the organic segment as a result of customer requests.

- The government-appointed board of Satyam Computer Services is seeking a quick sale of the company for at least \$1 billion, according to its chairman as well as industry observers. While bids have yet to be made, a Japanese and U.S. group have expressed interest, while Larsen & Toubro, an Indian engineering group and Hinduja Global Solutions, the IT arm of the Hinduja conglomerate, are among Indian companies that have showed a clear interest in cutting a deal. Buyers remain concerned over the outcome of ongoing lawsuits and the state of Satyam's accounts, which had been manipulated for several years.

EMISSARY CAPITAL BUSINESS REPORT

CAPITAL MARKETS UPDATE:



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

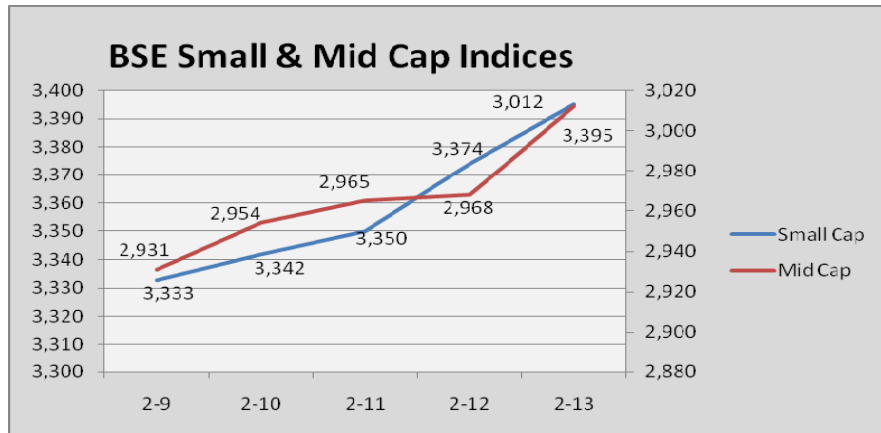
- Three of five trading sessions experienced gains in the past trading week, with the Sensex ending the week at 9634.7 on the heels of a 333.88 point increase or 3.6%. The broader 50-stock Nifty index of the National Stock Exchange settled at 2948.3, gaining 105.2 points or 3.7% from the prior week. The BSE Mid and Small-cap indices ended stronger by as much as 4.5% and 3.5%, respectively.

Realty stocks, led by heavyweight DLF (+16.3%), once again bolstered the indices amid hopes of a major stimulus for the sector. In other gainers, telecom play Reliance Communications was up nearly 12%, Larsen & Toubro and BHEL, both capital goods majors, increased 9.8% and 7.4% respectively, while Jaiprakash Associates, HDFC, Maruti Suzuki, ACC, State Bank of India, ICICI Bank, Tata Power, Reliance Infrastructure and HDFC Bank all gained between 5% and 9.5%. Metal plays, Tata Steel, Sterlite Industries and Hindalco advanced 4.3%, 4.1% and 3.6% respectively, while Index heavyweights and oil majors Reliance Industries and ONGC increased 3.5% and 3.3%, respectively. Tata Consultancy Services, NTPC, Sun Pharmaceuticals, Bharti Airtel and Tata Motors ended with minor gains, while Wipro and Hindustan Unilever finished the week flat.

Sensex decliners included Ranbaxy Laboratories (-5.3%), Grasim Industries (-3.3%), Infosys Technologies (-2.5%) and ITC (-1.9%), while Nifty losers included HCL Technologies (-9.2%), ABB (-3.4%) and Cairn India (-1.1%).

EMISSARY CAPITAL BUSINESS REPORT

SME / SMALL & MID CAP NEWS:



- The RBI threatened tough action against private and foreign banks that fail to improve lending practices to micro, small and medium-sized businesses, which are reeling from the impact of global downturn. The warning came in conjunction with comments from India's Commerce Secretary at a seminar organized by the Federation of Indian Micro and Small & Medium Enterprises, where he insinuated that non public sector banks were deliberately abandoning the small, medium and micro enterprise market.

FOCUS OF THE WEEK:

India's Railway Minister presents interim budget:

Indian Railways, the state-run network that transports 15 million people daily, reduced passenger fares and unveiled new routes ahead of India's general elections. Railway Minister Lalu Prasad, presenting an interim budget before general elections, cut fares for air-conditioned and cheaper passenger trains by 2% and announced that beginning April, 43 new train routes would be in operation. The government is expected to follow these reductions by lowering excise and customs taxes for cement, steel, and other commodities, all in a bid to stimulate economic growth and prevent further job losses. Indian Railways, which does not publish detailed financial results, projects that it will have a cash surplus of close to \$3 billion by the end of the current March period, and that as a result, will ramp up spending by as much as 15% to 844.2 billion rupees throughout the new fiscal year. Indian Railways, which has more than 1.4 million people on its payroll, has presented its own budget since 1925, after British colonial rulers separated its finances from the federal government's accounts.

EMISSARY CAPITAL BUSINESS REPORT

CHINA

DEAL ANALYSIS:

China Rank (Global)	1
China Rank (Asia Pacific)	1
China (# of deals)	7
China (Deal value)	6.2B

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

ECONOMIC / BUSINESS / INDUSTRY NEWS:

- According to a recent government report, Guangdong's GDP is expected to increase 8.5% to roughly \$566 billion off of last year's growth of 10.1% and 4.6% in 2007. Guangdong, China's largest province in terms of GDP, will likely face a tough road throughout 2009, though a slight recovery in the back half of the year would not be inconceivable, according to its Governor Huang Huahu. Guangdong's foreign trade, which accounts for approximately one third of China's total, fell to just 7.8% in 2008 to \$683.3 billion, from an increase of 20.3% in 2007. The report further noted that as a result of the global situation, a growing number of export-oriented firms in the Pearl River delta region have shut down, as foreign orders fell by 30-50% last year and financial organizations remain slow to extending loans to export-oriented firms in area.

According to the governor and in an effort to ameliorate the situation, the province will intensify efforts to develop new markets in Africa, the ASEAN (Association of Southeast Asian Nations), the Middle East and South America. The government will also arrange a digital foreign trade network in 2009, to promote online exhibition and trade for export-oriented firms.

- China's January consumer price inflation of 1% versus 1.2% in December was its lowest level since 2006 despite pent up consumption surrounding the Lunar New Year holiday. Producer prices contracted as well, falling 3.3% y/y following a 1.1% decline in December. The figures continue to prompt speculation that the central bank is facing increasing pressure to lower interest rates in the near future following five rate cuts and four reserve ratio requirement reductions in 2008. As expected, the central government maintains its stance of leaving open room for further rate cuts to stimulate the economy and hold back deflation, without having to resort to Japan's zero interest-rate policy. The benchmark deposit rate and 1-year lending rate stands at 2.25% and 5.31%, respectively.
- According to customs data, China's January exports fell 17.5% from a December decline of 2.8%, representing the sharpest drop in more than a decade and the third straight month of declines. Meanwhile, imports fell by 43%, resulting in a trade surplus of \$39.1 billion, slightly

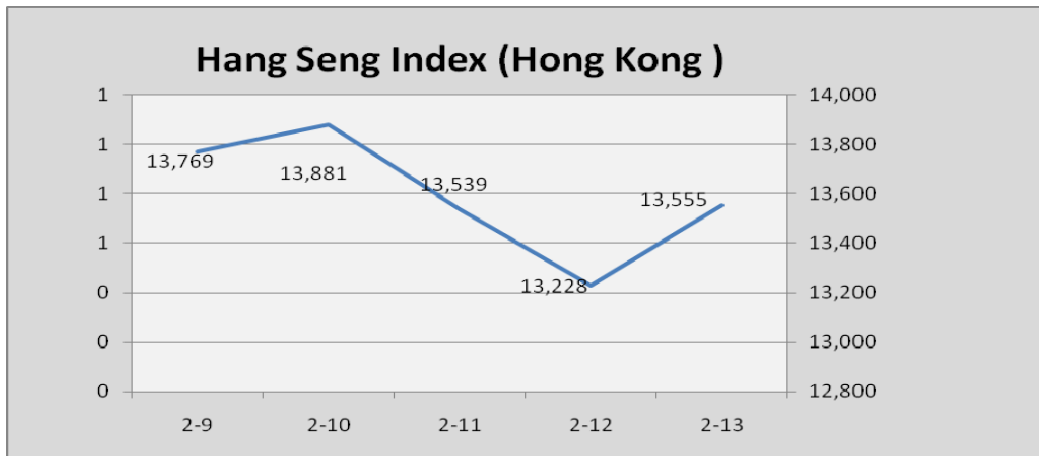
EMISSARY CAPITAL BUSINESS REPORT

above the \$39 billion trade gap registered in December, despite a 1.9% widening to \$12.3 billion in its surplus with the U.S.

- Franshion Properties (China) Ltd., the real estate unit of Sinochem Corp., announced that it will raise \$348 million in a rights offering to help finance the acquisition Shanghai hotel operator, China Jin Mao (Group) Co. The company will issue 1.63 billion shares at HK\$1.67 a share, 1.03 billion shares of which Sinochem Hong Kong (Group) Co. has agreed to purchase. In June 2008, Franshion agreed to buy Jin Mao for \$1.6 billion, stating at that time that it would pay 6 billion yuan for the 55% Jin Mao stake held by Sinochem Hong Kong. Proceeds will also be used to make a HK\$2.7 billion cash payment due to Sinochem Hong Kong by June 30.
- Indian officials expressed interest in holding talks with their Chinese counterparts over a ban on Chinese toy imports that went into effect last month (citing health concerns), though its trade minister remained firm on holding the ban until India's government was satisfied that conditions were being met. Since October 2008, India has launched 17 trade investigations against Chinese-made goods totaling over \$1.5 billion including penicillin, hot-rolled steel, vehicle axles and linen.
- A week after laying out a plan to increase planting subsidies and stockpiles of domestic agricultural products, China's Ministry of Commerce announced a new strategy to boost rural consumption, one that involves rural job creation, lowering distribution costs as well as product quality improvements. As part of these efforts, 150,000 stores will be set up throughout the countryside in 2009, which is expected to create 775,000 new jobs by 2010.
- According to China's Vice Commerce Minister, China will not impose policies that strictly encourage companies and consumers to buy Chinese-made goods and services as part of its overall strategy to boost domestic consumption. The news came after several U.S. lawmakers proposed "Buy American" provisions in President Obama's stimulus plan and India banned a range of Chinese-made toys in January.
- Australian mining group Rio Tinto will receive a \$19.5 billion cash infusion from Chinese state-owned mining firm Chinalco. Rio Tinto will issue \$7.2 billion in convertible bonds, which is expected to increase Chinalco's stake in the company to 18% from its current 9%. To round out the financing, Chinalco will also invest \$12.3 billion into three strategic partnerships with Rio's copper, aluminum and iron ore divisions and receive one seat on Rio's board with the right to another seat at a later date. The deal is currently pending regulatory approval in both countries.

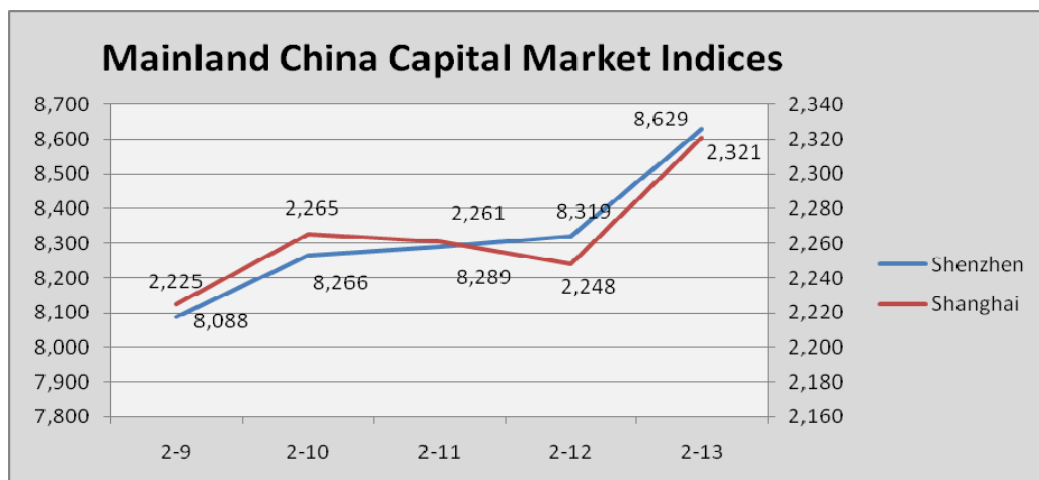
EMISSARY CAPITAL BUSINESS REPORT

CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

- The Hang Seng index gained 326.37 points to 13,554.67 on news that the U.S. government will subsidize troubled homeowners' mortgage payments. Among gainers were HSBC Holdings (+4.3%), Industrial & Commercial Bank of China Ltd (+3.2%), China Life Insurance (+3.8%), and Chinalco (+ 3.3%) on news that its parent company was investing \$19.5 billion into mining giant Rio Tinto. Phone operator PCCW declined 1.5% after the company postponed a court hearing on its \$2 billion deal to take the company private.



Source: FT, WSJ, Bloomberg, Xinhua

- China's stock markets advanced, driving the benchmark index higher for a fifth week in a row on optimism that government spending plans will revive growth and bolster corporate

EMISSARY CAPITAL BUSINESS REPORT

earnings. The Shanghai Composite Index gained 6.4% to 2,320.7, the CSI 300 Index increased 7.2% to 2,399, and the Shenzhen market advanced 11% to close at 8,628.75. Raw materials producers and consumer related stocks were the top industry gainers on the CSI 300 Index. Volume on the Shanghai and Shenzhen exchanges rose to 32.96 billion on Friday, the highest level in at least three years, compare to a daily average over 18.3 billion today and 15 billion in 2007.

- Among gainers were Sichuan Changhong Electric Co. and GD Midea Electrical Appliances Co., which both surged 10% over speculation that the government was planning to invest \$88 billion in the electronics industry. Shares of China Railway Group Ltd. gained 7.7% following construction contract wins and Aluminum Corp. of China Ltd. increased 8.8% after its parent bought into Rio Tinto Group. According to analysts, while rallies are being fueled by expectations of additional incentives for various sectors, they are unlikely to be sustainable over the long run in the absence of hard data indicating that the stimulus plan is having a positive material impact. Shares in the world's third-largest stock market by capitalization have rallied since early November, and the indices have gained 27% year to date as the government has systematically unveiled plans to come to the aid of industries ranging from shipbuilding to textiles.
- The China Securities Regulatory Commission's (CSRC) Vice Chairman is expected to step down from his position and will likely be replaced by Liu Xinhua, currently an assistant to the CSRC's Chairman. The change is not expected to skew CSRC policies which are set by the Chairman, though speculation is swirling that the Chairman himself may leave the CSRC to take up the position as the central bank's governor.

FOCUS OF THE WEEK:

Chinese economy shows sign of stimulus package taking effect:

According to median estimates of 14 economists surveyed by Bloomberg, China's economy is already showing signs that the \$585 billion stimulus package that recently went into effect is having a positive impact. The survey suggests that the world's third largest economy could expand 6.6% in the June 2008 period after decelerating to a projected 6.3% during the March period, China's slowest pace since 1999. China is aggressively working on reversing the economic freefall that has cost 20 million jobs, which raises the risk of social unrest as exports continue to fall and property markets sags. Early indications are already pointing to China as the first major economy to likely recover from the global meltdown as pent up infrastructure spending on roads, railways and housing has boosted prices for iron ore, placed a floor on industrial output levels and helped initiate a record \$237 billion in new loans in January. Projects such as the 3.5 billion yuan worth of public housing construction in Shaanxi province and Shanghai are already well under way, as are three new major railway lines in Shandong province.

Economists also point to indicators such as the government-backed Purchasing Managers Index, which reflected back to back monthly increases following a record low in November, as well as commodity pricing tied to mounting raw material inventories at Chinese companies. China's imported iron ore has grown 28% to 690 yuan per metric ton since the end of October, hot-rolled



EMISSARY CAPITAL BUSINESS REPORT

steel has surged 41% to 4,027 yuan per metric ton, while the Baltic Dry Index, a measure of shipping costs for commodities, has more than doubled since January 28.

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