

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *India's inflation fell to 3.9%.*
- *India's Finance Minister issued interim budget report ahead of general elections*
- *Indian telecom service providers add 15.4 million wireless users in January*
- *BSE Sensex declined over 8%, steepest in four months*
- *Agreement forged calling for Brazil to supply oil to China in exchange for loans*
- *Hunan Valin Iron & Steel Group initiated M&A discussions with Australia's Fortescue Metals*
- *China and Russia signed a \$25 billion, 20-year energy deal*
- *China's January FDI fell 32.6% y/y to \$7.5 billion, the fourth straight month of declines*
- *Mainland stock markets declined after reaching new highs the week prior*

INDIA

DEAL ANALYSIS:

India Rank (Global)	9
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:

- As measured by the Wholesale Price Index, India's inflation rate eased to a 13-month low to 3.92% from 4.39%, suggesting further rate cuts by the RBI may be imminent. The new data represents the fourth straight week of slowing inflation.
- India's acting finance minister issued an interim budget last week, its last before this year's general elections. The report apparently contained no major new stimulus spending or tax reductions, disappointing investors who had hoped the government would break with tradition and announce new initiatives ahead of the elections. The benchmark Sensex index was down as much as 3.5% on the day. Since December, India has announced two fiscal stimulus packages, which included tax cuts, massive infrastructure expenditures, as well as interest rates cuts.
- According to the UN World Food Program, India's overall economic growth has failed to improve food security within its rural regions, which has only enhanced the crisis in its rural economy. India currently ranks 94th out of 119 countries in the Global Hunger Index, but what makes the UN's findings particularly worrying is the fact that an estimated 60% of India's fragmented 1.2 billion population continue to reside in villages of no more than 5,000

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people, and that the number of undernourished people continue to increase, reversing earlier gains made in the 1990s. Falling food production, rising unemployment and declining purchasing power has weighed down on India's rural economy, which has reportedly been growing at only a 2% clip, based on industry forecasts.

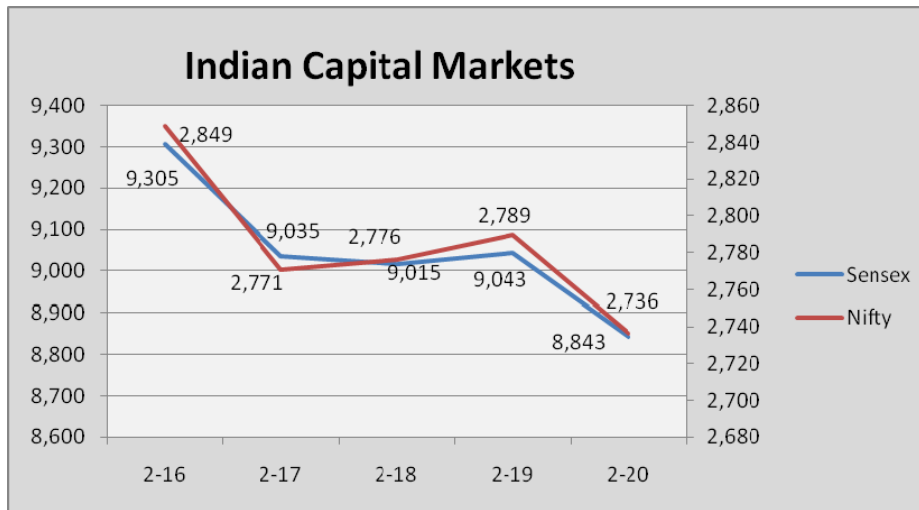
- According to newly required disclosures, several of India's largest groups such as the Tata controlled companies, the Ambani family controlled Reliance and Vijay Mallya's UB Group, have pledged large stakes in their listed companies as collateral to lenders, potentially heightening concerns regarding the hidden indebtedness of India's largest corporations at a time when market values have fallen to new lows. Roughly 500 companies have revealed pledges worth about \$13.5 billion.

INDUSTRY NEWS:

- According to the Telecom Regulatory Authority of India (TRAI) - India's industry regulator - domestic telecommunication service providers, led by Bharti Airtel Ltd., added 15.4 million wireless subscribers in January versus 10.8 million in December 2008. The TRAI pegs India's number of wireless users at 362.3 million. Bharti Airtel, India's top mobile company by users added 2.7 million users, taking its subscriber-base to 88.4 million, Reliance Communications Ltd., the country's second-largest, added 4.95 million users after launching its GSM-based mobile service in December, privately owned Vodafone Essar Ltd. added 2.4 million users, and state-run Bharat Sanchar Nigam Ltd. added 1.3 million subscribers.
- Jet Airways, India's second largest and most-established private airline, has parted ways with its CEO as it implements stringent cost cutting measures to combat a decline in passenger volume. The airline has embarked on a number of cost cutting measures, including 25% salary reductions across managerial-level positions and the withdrawal of three loss making international routes. The airline has also leased out part of its fleet and entered into a code sharing agreement with rival Kingfisher Airlines, which is owned by UB Group. Jet Airways had been one of the best performers in an industry that carried 43 million passengers on domestic flights in 2007, up from only 6m in 2004, but recent government figures have shown that over the past year domestic travelers have been lured by competitive fares from train travel in the midst of the global economic downturn.

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CAPITAL MARKETS UPDATE:



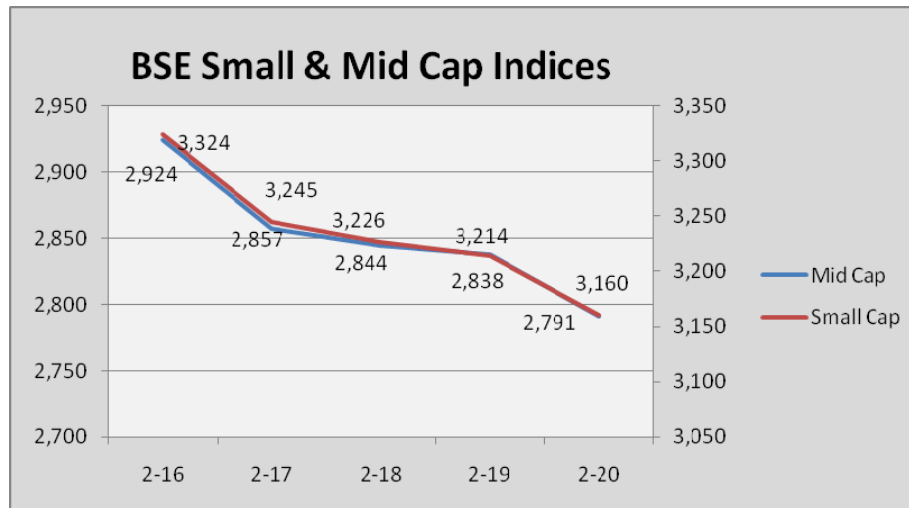
Source: The Economic Times, The Financial Times, Yahoo Finance!

- The BSE Sensex fell 8.2% this week, its biggest decline since the week ended October 24. The S&P CNX Nifty Index on the National Stock Exchange declined 1.9% to 2,736.45, while the BSE 200 Index retreated 2.1% to 1,044.

Among decliners were Infosys, Tata Consultancy Services, Wipro, ICICI, and Housing Development Finance Corp, which fell 2.6%, 3.2%, 2.3%, 7.1%, and 2.9%, respectively. Among the most active were: ABB Ltd. (+1.6%), after the builder of electricity networks announced a 7% increase in earnings on new orders, Areva T&D India Ltd (decline of 3.4%) after the maker of nuclear reactors announced a 34% decline in profits due to higher raw-material costs, Bharat Heavy Electricals Ltd (decline of 1.4%) after the top power-equipment maker indicated earnings would decelerate to 10% for fiscal 2009 on higher raw-material costs and wages, Educomp Solutions Ltd (decline of 12%) after India's largest computer training company came under government scrutiny, Kingfisher Airlines Ltd. (decline of 3.5%) after India's regulators asked the Indian carrier owned by the nation's largest brewer to pay a portion of its dues for the use of airports by March.

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SME / SMALL & MID CAP NEWS:



- The Economic Times India recently organized a MSME summit attended by India's top policy makers and industry leaders including the Planning Commission's deputy chairman who acknowledged that both the availability of credit to Indian SMEs was easing and that a country without a healthy MSME sector cannot have a healthy industrial sector. He also invited the group to come up with a list of measures that the sector urgently needed.

India's state finance minister noted that while the MSME sector has suffered the most throughout the crisis, the government, five years ago, had taken a decision to double the y/y credit to SMEs only to surpass the target from \$16.8 billion in 2004 to \$49.2 billion in March 2008, a 193% increase.

The secretary of the ministry of MSME noted that growth rates remain higher in MSMEs versus that of larger companies and that jobs at MSMEs particularly within rural areas are likely to help curb migration into urban locations. The secretary of the Ministry of Commerce noted that India's exports for fiscal 2009 as of January were up 27% y/y, though he acknowledged certain sectors experienced unsustainable growth from a base of zero, while others dropped significantly. He continued to stress that India's banks should support SMEs across the board with additional lending.

- Foreign and domestic private equity firms seeking opportunities in India are banding together and forming syndicates to acquire stakes in Indian companies in order to limit funding requirements and spread risk. According to industry observers, the amount of capital required to get a funded company to a certain maturity level has increased, therefore requiring additional participants to fund deals. During the January-July 2008 period, an estimated 18% of all private equity transactions were syndicated, but since August 2008, over 29% or six deals, each between \$15 and \$23 million in size, have involved syndicates.

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CHINA

DEAL ANALYSIS:

China Rank (Global)	2
China Rank (Asia Pacific)	1
China (# of deals)	8
China (Deal value)	6.2B

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

ECONOMIC NEWS:

- China's key interbank rate rose to a four-week high as the central bank drained funds from the financial system for a third week to absorb excess cash. Chinese government bonds and the yuan were little changed. The PBOC has stepped up sales of so called sterilization bills in open market operations to bolster money-market rates, which fell to record lows in January and have been fluctuating below 1% throughout February. China has cut rates five times since September 2008 to spur domestic spending and revive the economy, which expanded in the last quarter at the slowest pace in seven years. The seven-day repurchase rate, a measure of liquidity between banks, rose 2bp this week to 0.99% after the PBOC sold a combined \$22.7 billion of bills in an auction and repurchase deals, resulting in a net outflow of \$9.2 billion from the money market versus \$8.8 billion absorbed a week earlier.
- Highlighting the "Buy American" provisions in the newly passed U.S. stimulus package requiring public works projects funded by the stimulus to use only U.S.-made goods, China's Commerce Ministry, among other governmental agencies, expressed concern over looming protectionism measures being adopted by nations across the world economy, arguing that over the long-run, such policies degenerate international business activity and cause significant damage to less developed countries.
- January FDI declined 32.6% y/y to \$7.5 billion, marking the fourth consecutive month of declines. In response, the State Administration of Foreign Exchange (SAFE) will step up its efforts to regulate cross-border capital movement and use its foreign exchange reserves to continue to help boost imports and domestic demand. SAFE also announced measures to provide funding for Chinese firms looking to expand overseas, such as domestic oil companies seeking to acquire overseas natural resources.

INDUSTRY NEWS:

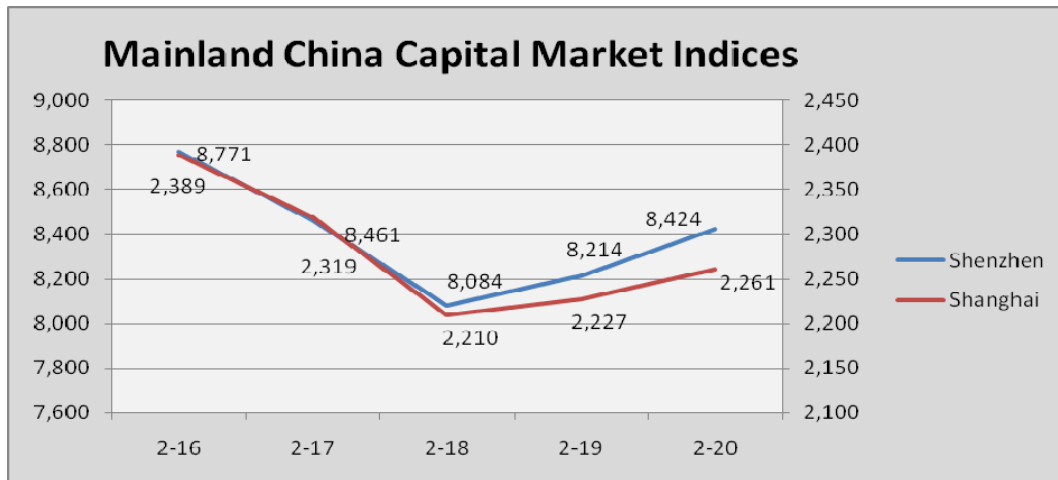
- China and Brazil forged an agreement that will see the South American country supply China with oil in exchange for loans. Brazil's state-owned oil firm Petrobras will supply China between 100,000 and 160,000 barrels per day while China, in return will provide loans of up to \$10 billion to help Petrobras and other private sector partners develop reserves of oil and

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gas recently discovered in coastal waters. The deal comes on the heels of an alliance struck with Venezuela calling for the renewal of a \$6 billion China-Venezuela development fund.

- China and Russia signed a \$25 billion, 20-year energy deal in which the China Development Bank will lend \$15 billion to Rosneft, Russia's state-owned oil major, and another \$10 billion to pipeline monopoly Transneft, both of which have recently struggled to raise capital due to tightened lending practices and declining oil prices. Russia, in return, will provide China with 15 million tons of oil each year for 20 years.
- Hunan Valin Iron & Steel Group held initial discussions with Fortescue Metals, Australia's third-largest iron ore producer behind Rio Tinto and BHP Billiton. The focus on Fortescue comes as China attempts to make large investments in Australia's resources sector on the heels of Chinalco's proposal to invest \$19.5 billion into Rio Tinto, and the \$1.7 billion takeover of Australia-based OZ Minerals by China Minmetals, a leading diversified metals producer. Analysts anticipate Fortescue will seek a cash injection to fund the expansion of its iron ore operations in the Pilbara region of Western Australia, which will cost an estimated \$3 billion to reach 55m tons of annual iron ore production.

CAPITAL MARKETS UPDATE:



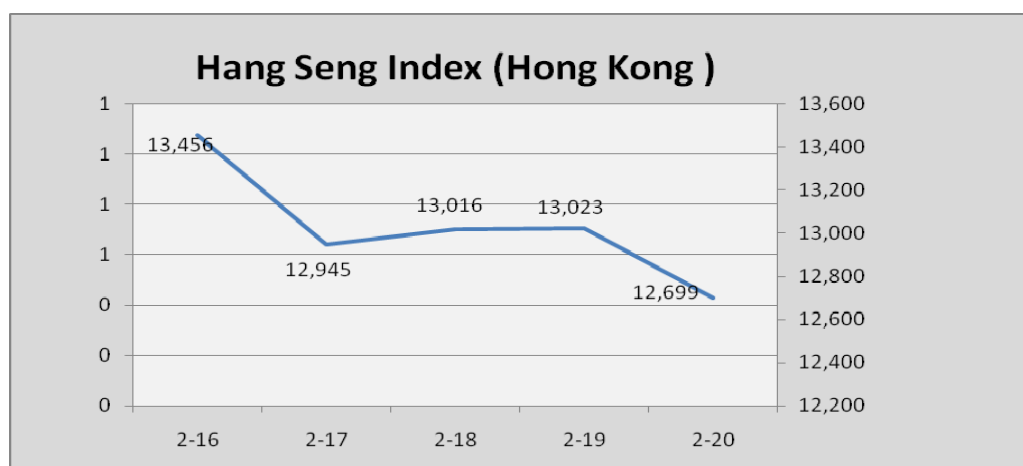
Source: FT, WSJ, Bloomberg, Xinhua

- Investors took profits and mainland stock markets declined after reaching new highs the week prior. The Shanghai Composite Index fell 2.6% to close at 2,261.4, the CSI 300 index dropped 2.3% to 2,344.3 and the Shenzhen market retreated 2.4% to close at 8,423.7. The decline in the Shanghai was in response to news that the CBRC was probing illegal fund inflows to the market, which it suspects may have been the result of misused bank loans. Under Chinese law, money borrowed from banks is not allowed to be invested in the stock market. Pockets of strength were experienced across the chemical sector, which saw

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shares rise after the government announced plans to bolster the light industry and petrochemical sectors.

- Advances in mainland indices over the past several weeks drew in new investors at the fastest pace in 11 months, with 427,460 new individual stock trading accounts opened last week, almost double the prior week, according to data from China Securities Depository & Clearing Corp. The year to date performance of China's A-share market has led to expectations of a rebound in listing activity, and the CSRC, as a result, is expected to resume listing review processes, which it had suspended in September.
- The Hang Seng ended the week 324.2 points or 6.3% lower to close at 12,699.1. Declines were led by local property stocks, which fell on expectations that developers would slash prices on long-awaited new launches particularly luxury residential complexes. A slumping rental market in the commercial properties has also weighed down on the sector. Top developer Sun Hung Kai Properties declined 3.2%, while Li Ka-shing's Cheung Kong Holdings fell 2.9%. Zijin Mining, which has risen nearly 20% since the beginning of February, slid 5.4%. Chaoda Modern Agriculture declined 7.5% after announcing a \$50.4 million stock sale to its chairman at an 11% discount to its closing price.



Source: FT, WSJ, Bloomberg, Xinhua

FOCUS OF THE WEEK:

Following three months of negotiations, China and Russia reached a set of agreements on a \$25 billion loans-for-oil deal. Russia, which shares a 4,300-kilometer (2,700-mile) border with China, has been in quest of increasing its presence and influence in East Asian markets, particularly in China - building oil and gas pipelines through neighboring Kazakhstan, commencing deliveries of liquefied natural gas and serving as host of the 2012 APEC summit. Conversely, China, the world's second largest importer, has been seeking a stable and more diversified oil supply to feed its increasing energy demand. As stipulated in the agreements, Russia will deliver 15 million



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metric tons annually or 301,000 barrels a day for the next two decades, and as part of the deal, the two sides will also build an extension of the Russian Siberia-Pacific pipeline that flows towards China, which will allow oil from Siberia to be pumped into the north of China. In return, oil producer Rosneft and pipeline operator Transneft will receive from the China Development Bank, \$25 billion in loans at a reduced annual interest rate of 6%.

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