

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *RBI cuts benchmark interest rates*
- *India's exports fell the most in over a decade in January 2009*
- *Boards of India's Reliance Industries and Reliance Petroleum approve share swap*
- *China's Geely Holding Group makes bid for Ford's Volvo unit*
- *CLSA China Purchasing Managers Index decline*
- *is expected to launch a Nasdaq-like exchange for start-up companies called Growth Enterprise Market*
- *Baosteel Group acquires 56.1% stake in Ningbo Iron and Steel for 2 billion RMB*
- *Coca Cola announces \$2 billion China investment for next three years*

INDIA

DEAL ANALYSIS:

India Rank (Global)	12
India Rank (Asia)	7
India (# of deals)	4
India (Deal value)	0 .279B

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

ECONOMIC NEWS:

- For the fifth time since October 2008 and to increase the flow of credit, the RBI reduced both the benchmark lending rate by half a percent to 5% and the borrowing rate (reverse repurchase rate) by the same amount to 3.5%. The cash-reserve ratio was left unchanged at 5% due to sufficient liquidity in the banking system.
- According to the Association of Mutual Funds in India (AMFI) Indian mutual funds' AUM grew by 8.7% from January to February, despite a 6% decline in the benchmark stock index. Specifically, total AUM at the end of February was 5.01 trillion rupees (\$96.65 billion) compared to 4.61 trillion rupees at the end of January, a 9.5% increase from AUM at the end of December 2008. The Sensex has declined 13% year to date, but larger asset management firms have benefited as investors have sought out safer havens such as Reliance Mutual Fund (+7.1% to 816.27 billion rupees), HDFC Mutual Fund (+11% to 568.64 billion rupees) and ICICI Prudential (+13% to 535.14 billion rupees).
- India's commerce ministry reported that India's January exports fell by 15.9% y/y to \$12.3 billion, its sharpest decline since January 1998 when exports fell 16.1%. Imports declined 18.2% y/y to \$18.4 billion in January, narrowing the trade deficit to \$6.1 billion from \$7.6 billion at the end of 2008 and \$7.8 billion in 2007. Oil imports declined 47.5% y/y to \$4.5 billion and non-oil imports declined by 0.5% to \$13.9 billion. Exports have now declined for four consecutive months, as key trading partners such as the U.S. and Europe have suffered

EMISSARY CAPITAL BUSINESS REPORT

worse than expected. As a result, India's government lowered its export target for fiscal 2009 to \$170-\$175 billion, from its previous target of \$200 billion.

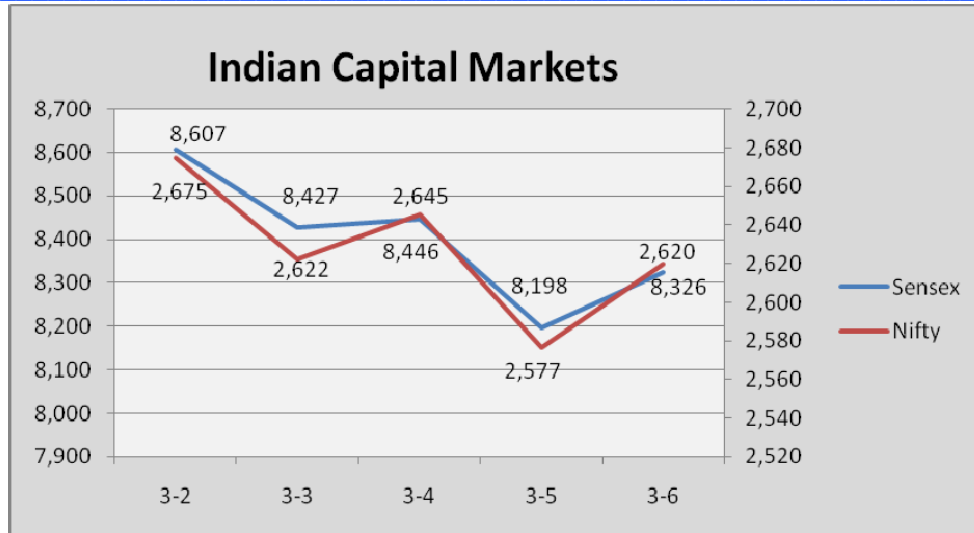
INDUSTRY NEWS:

- The boards of Reliance Industries Ltd. and its unit Reliance Petroleum Ltd. approved a share swap agreement allowing the parent company to absorb a 70.3% stake in the refiner, creating one of the world's top privately owned refiners companies. The merged entity will operate two refineries with daily production capacity of 1.24 million barrels, and it is expected that the integration will help reduce costs and be accretive to earnings for Reliance Industries. Investors will receive one Reliance Industries share for every sixteen Reliance Petroleum shares owned and will be retroactive to April 1, 2008 due to audit requirements. Reliance Industries will issue 69.2 million new shares, which increases its equity capital by 4.4% to 16.4 billion rupees, potentially reducing the founders' stake to 47% from 49%.
- Asarco LLC, an integrated U.S.-based copper miner and refinery currently operating under chapter 11, announced it has forged a deal with London-based metals and mining company Vedanta Resources PLC, to divest all of its operating assets for \$1.7 billion. Vedanta, which has a majority of its assets in India, is using its Mumbai-listed Sterlite Industries (India) Ltd. subsidiary to acquire Asarco's assets. This would make the company one of the world's largest copper mining operators, expanding its reach to North America, India, Zambia and Australia. The deal marks Vedanta's second attempt to buy Asarco in a bid to gain a foothold in the U.S., after its \$2.6 billion bid in 2008 was challenged and opposed by Grupo Mexico, which owns Asarco. The deal subsequently fell through after commodity prices freefell and credit markets tightened.

CAPITAL MARKETS UPDATE:

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EMISSARY CAPITAL BUSINESS REPORT

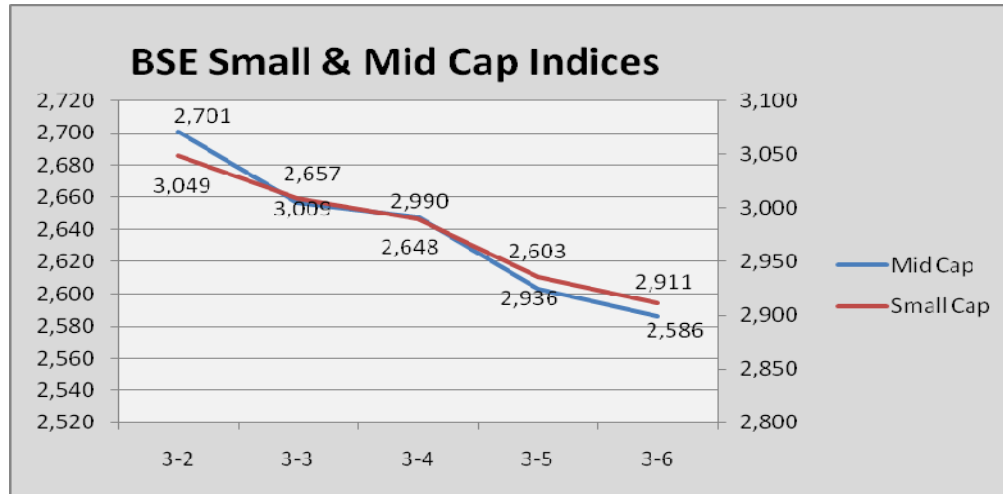


Source: The Economic Times, The Financial Times, Yahoo Finance!

- Indian stocks reversed losses from earlier in the week and finished the week on an up note boosted by short covering and bargain buying in select blue chips and technology shares. The Sensex finished the week 1.6% higher at 8,325.8, but has lost nearly 14% of its value year to date, after declining 52% in 2008. On the National Stock Exchange, the 50-stock S&P CNX Nifty finished the week 1.7% higher at 2,620.1. Shares of Reliance Industries, India's largest company by market value, increased 1.9%, telecom Bharti Airtel increased 2.2% and engineering and construction company Larsen & Toubro gained 2%. Satyam rallied 20% on news that it received approval by regulators to sell a 51% stake to a committed investor.
- According to 3iGroup Plc, India-focused private-equity investors continue to receive attractive offers for stakes in companies with compelling valuations as hedge funds and banks are finding it increasingly difficult to offload investments held for several years. Based on estimates by TPG Inc. and Bain Capital, domestic private-equity investments could fall to \$5 billion this year, almost half the \$10.7 billion invested throughout 2008, a period during which IPOs declined 46% y/y to \$3.5 billion.

EMISSARY CAPITAL BUSINESS REPORT

SME / SMALL-CAP UPDATE:



- Approximately 2% of India's 12.8 million SMEs are receiving or are currently eligible for bank financing. To improve this, India's credit rating agencies are pursuing opportunities to generate revenue opportunities by tapping into this huge market opportunity. The recent entrance of ICRA Ltd into the SME rating business has intensified competition with existing market leaders, SME Rating Agency of India Ltd and Crisil Ltd. ICRA formed a special purpose vehicle, ICRA Online Ltd. and set up a specialist SME credit rating division in the southern city of Chennai and scale nationwide over time.

FOCUS OF THE WEEK:

India's market regulator allows sale of majority stake:

The Securities and Exchange Board of India has approved Satyam's request to sell a majority stake or 51% to a committed investor, a decision that could lead to an outright sale of the company. Several suitors have expressed interest, but Spice Group, an Indian conglomerate, is expected to make a formal bid for 51% of Satyam's shares. Engineering group Larsen & Toubro hired Citigroup to advise them on a potential Satyam offer and remains undecided. Shares of Satyam traded up nearly 20% on the news, boosting the company's market value to \$550 million, a fraction of the \$7 billion the company was worth at its peak in mid-2008.

Satyam's board further indicated that as part of a two-phase sale of the company, the potential suitor would acquire newly issued equity to a level not to exceed 31% of the total shares outstanding. The acquirer would then make a public offer to buy a minimum of 20% or more in the open market, as required by Indian law. If the investor cannot attain 51% from the open markets, the investor can subscribe to additional equity. The successful bidder will have all its shares locked up for three years after the acquisition.

EMISSARY CAPITAL BUSINESS REPORT

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CHINA

DEAL ANALYSIS:

China Rank (Global)	3
China Rank (Asia Pacific)	2
China (# of deals)	10
China (Deal value)	6.24B

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

ECONOMIC NEWS

- The National People's Congress Standing Committee, China's highest legislative body, passed its first ever food-safety law and established a cabinet-level commission to direct regulations following a series of scandals that weighed down on consumer confidence throughout 2008. The law is intended to reduce regulatory overlap, boost the legal liability of food producers and increase criminal and civil penalties for violations committed by food producers and managers.
- China's exporters called on the central government to weaken the RMB to 7 RMB to the dollar after exporters recorded its largest decline in over a decade. The move puts businesses at odds with the People's Bank of China, which has pledged to keep the currency stable following allegations of manipulation by the U.S. Treasury Secretaries of both current and past administrations. In related news, it was announced that a pilot project, that uses RMB to settle foreign trades, was being launched, which would serve as an important step toward internationalizing its currency.
- The Purchasing Managers' Index (PMI), an indicator of manufacturing activity, came in at 45.1 in February, marking the seventh consecutive month of contraction. While still weak overall, the latest figure also marked the third consecutive month of improvements compared to when the PMI hit a record low of 40.9 in November 2008. Analysts and observers view this trend as an early sign that a recovery is underway following the passage of the company's \$600 billion stimulus package.

BUSINESS / INDUSTRY NEWS:

- According to reports, Geely Holding Group is ready to submit a bid as early as next week to acquire Ford Motor Co.'s Volvo unit, in what is being viewed as an attempt by a Chinese automaker to expand internationally amid the global downturn. In mid-January during the

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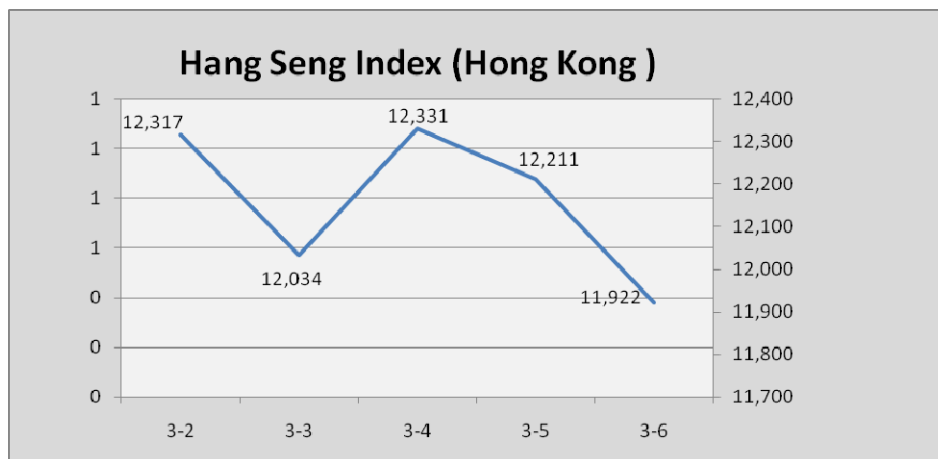
Detroit auto show, the two sides reportedly convened in Dearborn, Michigan, where Ford is based. The global auto industry is expected to experience a fresh wave of consolidation brought on by the economic crisis and the prospects of shifting towards less expensive labor production in China remain very high.

- It was reported that labor-related lawsuits nearly doubled in China throughout 2008 after new labor contract laws went into effect at the start of the year. Most were filed in the export hub of Guangdong, where approximately 62,400 businesses, primarily SMEs and factories, were closed down in 2008.
- Shanghai Baosteel Group acquired a 56.1% stake in Ningbo Iron and Steel Co. for 2 billion yuan, the first major public acquisition in the sector after the government issued its stimulus plan for the steel sector and encouraged consolidation. With the addition of Ningbo's 4 million ton annual capacity, the transaction increases Baosteel's annual production capacity to 10 million tons. To finance the acquisition, Baosteel received a total of 1.55 billion RMB in loans from the Construction Bank of China and the Bank of Communications.
- Following the recently announced \$25 billion loans-for-oil agreement between the two countries, China and Russia are in discussions to build a \$4 billion oil refinery in the city of Tianjin, which is expected to be completed by China National Petroleum Corp. (CNPC) and Russia's Rosneft sometime in 2012. The refinery would have annual crude oil production capacity of approximately 10 million tons.
- Despite sluggish international travel, China's civil aviation sector reported a profit of 40 million RMB in January due to pent up domestic passenger traffic, which increased 21% and 13.5% in January and February, respectively.
- Mediatek, Taiwan's largest chip design house and leading provider of chips used in low-price mobile phones in China, is on course for stronger-than-expected first-quarter sales owing to a rebound in demand. Revising an earlier outlook calling for a sequential decline of 8%-16%, the company now forecasts revenue growth of 8%-13% in the current March quarter due to growing demand within China's rural regions where subsidies are now offered on electronic products purchases, including handsets.
- After nine years of research and preparation, China is expected to launch a Nasdaq-like exchange for start-up companies called Growth Enterprise Market (GEM) beginning as early as May 2009. The exchange will cater to start-up firms, particularly those in the high-technology sector. The China Securities Regulatory Commission will issue and finalize rules and regulations for the GEM following the currently ongoing annual meeting of the National People's Congress. Companies must generate a minimum of 10 million RMB (\$1.5 million) of accumulated after tax income for two years prior to a listing, which compares to at least 30 million RMB in accumulated net income over three years required for IPO issuers on the main and SME exchanges.
- Coca Cola announced plans to invest \$2 billion in China over the next three years, investments of which include a \$90 million technology center in Shanghai. The company's proposed investment is 25% more than the \$1.6 billion it has already spent in China since returning in 1979. Funds will also be used to finance the \$2.4 billion acquisition of China

EMISSARY CAPITAL BUSINESS REPORT

Huiyuan Juice Group Ltd., which was announced in September and currently awaiting government approval. Pepsi announced on November 3 that it plans to invest \$1 billion in China over four years. In January, Japan's Asahi Breweries Ltd. paid \$667 million for a 19.9% stake in Tsingtao Brewery Co., China's largest beer company. According to Euromonitor International, Coca-Cola, which controls 54% of the domestic soda market versus Pepsi's 31%, grew revenue 19 % in the domestic market while revenue in North American fell by 1%.

CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

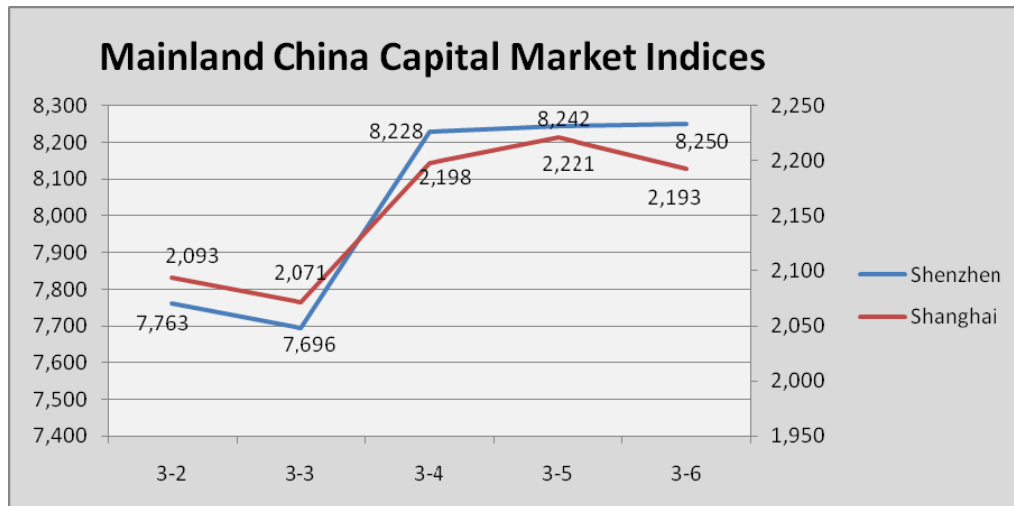
- Reversing recent declines, China's equity markets advanced on the week as expectations for a new stimulus package during the meeting sessions of National China's Congress grew. The Shanghai Composite Index gained 5.3% to close at 2,193.01, the CSI 300 Index increased 6.8% to 2,286.58, the Shenzhen market advanced 8.4% to finish at 8,249.8 and the Shanghai index closed at four month highs.

Gains were made by steel and resource related stocks on hopes a turnaround for the commodities sector was beginning to gain ground. Aluminum Corp of China closed up 9%, Baoshan Iron & Steel gained 4.7% and Angang Steel gained 5.4%. Poly Real Estate and China Vanke increased 8.9% and 6.5% respectively. A statement by China's Premier indicating that 8% economic growth was achievable in 2009, weighed down on the markets as it indicated that the government might not see the need to expand the recent \$600 million stimulus plan.

- China may end a five-month moratorium on initial public offerings after the Shanghai Composite Index rallied 20% this year to become the world's best performing stock benchmark. The Vice Chairman of the China Securities Regulatory Commission told reporters in Beijing that new issuances would begin soon, after halting IPOs issuances in September due to valuations and weak demand.

EMISSARY CAPITAL BUSINESS REPORT

- NYSE Euronext and the Shanghai exchange agreed to expand an existing memorandum of understanding to develop indexes and exchange traded funds (ETFs) tied to global stocks on the Chinese exchange. The development would give Chinese investors growing exposure to international investments. At the end of 2008, 3% of AUM in Chinese mutual funds were eligible to invest overseas.
- The Hang Seng fell 7% to close at 11,921.52, its second largest decline this year, sending the benchmark index to a four-month low and an average P/E of 10.1 times forward. Stimulus measures have been offset by mounting concerns about the deepening global situation and negative near-term outlook.



Source: FT, WSJ, Bloomberg, Xinhua

FOCUS OF THE WEEK:

Highlights in Premier Wen Jiabao's Government Report to the annual session of the National People's Congress

Premier Wen Jiabao reaffirmed China's 8% GDP growth target for 2009, which he stressed was necessary to expand job opportunities, increase household income and protect social stability.

China has set a consumer price index (CPI) growth target of about 4% for 2009 versus 5.9% in 2008, which was driven by significantly higher food and fuel prices for several key months in 2008.

China's budget deficit is forecasted at 950 billion yuan for 2009, nearly triple the 2003 record of 319.8 billion RMB. The projection includes a 750 billion RMB deficit for the central government from 570 billion in 2008, as well as roughly 200 billion RMB in spending by local governments

EMISSARY CAPITAL BUSINESS REPORT

through bond issuances from the Ministry of finance. The projected deficit still is expected to remain under 3% of GDP.

Power pricing reform remains on the government agenda in 2009, with a particular focus on resolving conflicts between coal producers and power generators through price reforms and tariffs. In 2008, high coal prices was an issue with China's power companies, which absorbed heavy losses.

Capital markets reforms was given top priority by the central government's working report which called for stabilization of the stock market, bond market development and regulation, and develop of a futures market.

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