

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *India's May industrial output rises by 2.7%, highest in eight months*
- *Inflation falls for fourth consecutive week*
- *India to speed up process of granting S. Korea-based Posco an iron-ore mining license*
- *June vehicle sales rise 7.8% y/y, fifth straight monthly increase*
- *Government to spend 1 trillion rupees (\$21 billion) this year to build roads*
- *China's June exports fall 21.4%, eighth consecutive month of declines*
- *June passenger vehicle sales rise 48% y/y, largest jump since 2006*
- *June steel production increases 7% y/y to 45.4 million tons, highest level of the year*
- *PetroChina obtains government approval to invest in Nippon oil refinery*
- *China's housing market surges 45% y/y year to date*

INDIA BUSINESS NEWS

DEAL ANALYSIS:

India (# of deals)	36
India (Deal value)	6.43B
India Rank (Global)	10
India Rank (Asia)	4

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

ECONOMIC NEWS:

- Wholesale prices fell for a fourth straight week, ahead of a government increase in fuel costs that is expected revive inflation pressures. The wholesale price index declined 1.55% on the week from a year earlier after falling 1.30% the prior week. The y/y drop mainly reflects the spike in crude oil prices last year, when wholesale prices rose at their fastest pace in 13 years and inflation stood at 12.03%. On a week over week basis, the index rose 0.04%.
- May merchandise shipments fell 29.2% y/y to \$11 billion after a 33.2% decline in April, the largest drop on record since April 1995. According to the trade ministry, government assistance has helped exporters narrow their losses, but a sustainable recovery in exports remains critical to achieving the central bank's 8% growth target this year. A recent department of commerce survey indicated that 134,593 jobs were lost in the export sector, primarily reflecting continued sluggishness in demand from markets abroad.
- According to the ministry of statistics, May industrial production increased 2.7% y/y, the fastest pace in eight months, as record-low interest rates and government stimuli helped revive demand and investment. Specifically, manufacturing gained 2.5%, capital goods production shrank 3.6%, and consumer goods production grew 1.2%, thanks to demand for consumer durables. Overall production is expected to increase further in the coming months as the government increases spending on rural jobs and continues to ease tax burdens on companies and consumers. The government also revised April output growth to 1.4% from 1.2%

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- The finance ministry earmarked 40 billion rupees (\$821 million) for spending on housing and the provision of basic services, as part of an ambitious drive to rid the nation of its slums over the next five years. The boost in spending comes alongside a 90% increase in financial support for the Jawaharlal Nehru National Urban Renewal Mission, a massive initiative launched in 2005 to improve urban infrastructure. Despite being one of the fastest growing economies in the world, India is home to some of the biggest slums in the world, where an estimated 60 million people live, according to the 2001 census.

INDUSTRY NEWS:

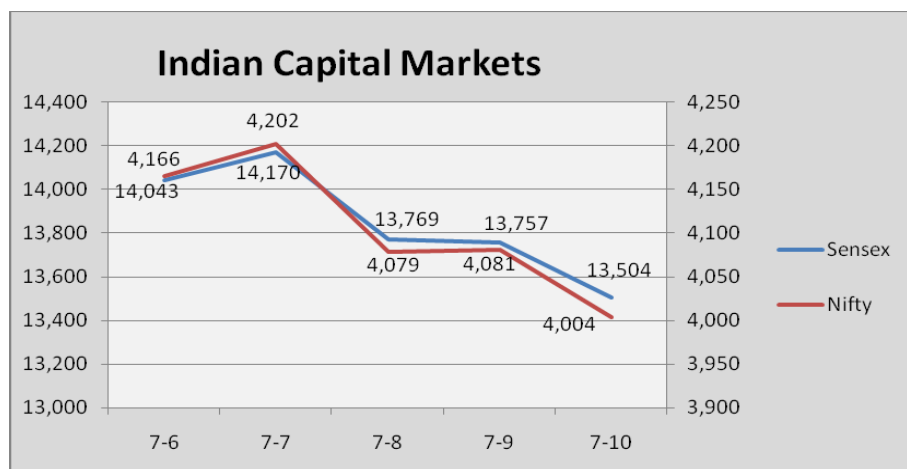
- After a four year wait, India is expected to speed up the process of granting South Korea-based Posco, the world's second largest steel maker by market value, an iron-ore mining license. Jharkhand, Orissa and Chhattisgarh account for 70% of India's coal reserves and 55% of its iron ore, yet land disputes have prevented Posco from securing resources for its planned \$12 billion venture, one of India's largest foreign investments to date. The company has yet to begin construction of the 12 million ton capacity facility in the eastern state of Orissa, which was originally announced in June 2005 and scheduled to start in April 2007. Steel demand is growing faster in India than in Europe and the U.S., but has declined the most since World War II with output set to tumble an additional 15% this year, according to the World Steel Association.
- Reflecting the fifth straight monthly increase, June vehicle sales rose 7.8% y/y to 107,531, primarily as a result of lower lending rates and new model introductions, according to the Society of Indian Automobile Manufacturers (SIAM). Unit sales of trucks and buses, however, slid 12.5% y/y to 36,193 due primarily to a fall in medium and heavy commercial vehicle demand. By automaker, sales at Maruti grew 12% y/y to 54,693 due to higher sales of A-Star, Ritz and Swift cars. Fiat SpA introduced its Grande Punto hatchback last month, lifting unit sales to 2,464 from 500 a year earlier. Hyundai Motor Co. posted a 5.2% increase to 23,013, Tata Motors reported a 3.2% increase to 13,732 and Honda Motor Co. reported an increase of 13.5% to 5,039 boosted by the introduction of the Jazz hatchback model. For the year, SIAM sees local vehicle sales growing by 3% to 5%, truck and bus sales by 7% to 10% and motorcycles and scooters by up to 5%.
- The government plans to spend 1 trillion rupees (\$21 billion) this year to build roads, and in conjunction with ICICI Bank Ltd. will seek part of the investment, roughly \$10 billion over two years, from overseas investors. The nation plans to develop 7,000 kilometers (4,350 miles) of highways annually and will set up toll companies to increase collections, according to the road transport ministry. In the recent fiscal year ended March 31, the National Highway Authority of India generated roughly 26 billion rupees in toll revenue on its 26 national highways compared to 19 billion last year. It also spent 124 billion rupees building national highways versus the 111 billion rupees spent a year earlier.
- As India attempts to boost supplies of clean-burning natural gas, the government, to attract overseas investment, will offer further tax breaks for its production and full tax exemption on its transportation after being withdrawn last year. The oil and gas sector also stands to

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benefit from fresh investments, the recent discovery of natural gas in the KG basin as well as an anticipated 70% expansion of the nationwide pipeline network over the next five years.

- India's iron-ore exports rose in May after falling for two months, as China, the world's largest consumer of iron ore, increased purchases for infrastructure and other projects. Spot market prices for ore rose to a four-month high of \$82.50/ton last week on increased Chinese demand. May sales climbed to 10.6 million tons from 8.99 million tons last year.
- A much publicized liquidity crunch has led state-run carrier Air India to seek 39.8 billion rupees in governmental assistance, comprising of 12.3 billion rupees in an equity infusion and a loan of 27.5 billion rupees at an interest rate of 5%, payable over 15 years after total debt had more than doubled to 152.4 billion rupees in June from 65.50 billion rupees in November 2007. The government is also expected to reorganize management of the company, which has deferred salaries to its 31,000 workers, among the numerous other concessions already made.
- Infosys Technologies reported a 17% increase in first quarter profits as it tapped new markets and added 27 new clients, including the UK's premium food retailer Waitrose as well as leading foreign banks. The rupee's 10% y/y decline against the dollar in June boosted the company's export revenue, prompting it to marginally lift the lower end of its fiscal 2010 revenue forecast to \$4.5 billion. Infosys is reportedly considering purchasing a non-U.S. rival to cut its dependence on clients in a market that contributes 60% of sales.

CAPITAL MARKETS UPDATE:



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

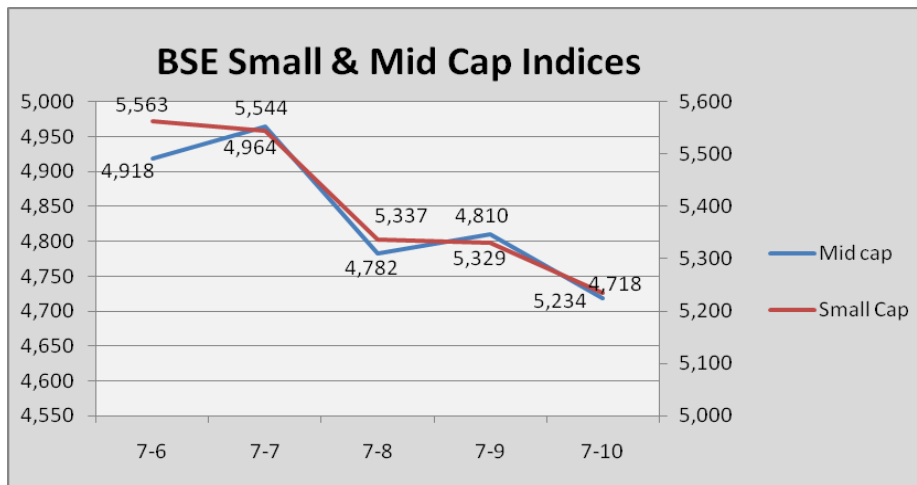
- The Sensex closed down 1.8% or 253.2 points on the final day of trading last week to finish at 13,504.2. The gauge dropped 9.5% on the week, the worst since October 24, 2008, after the ministry of agriculture said monsoon rainfall has been deficient, or approximately 8%

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below normal. According to the Indian Meteorological Department, rainfall has been 50% below normal in northwestern India, a region that includes the largest grain growing states of Punjab, Haryana and Uttar Pradesh. Farmers in India, the world's second-biggest producer of rice, wheat and sugar, depend on the timing of monsoon rain to decide which crops to grow.

The S&P CNX Nifty Index fell 1.9% to 4,003.90, after dropping as low as 3,976.80. It was the first time the index finished near 4,000 since election results in mid-May.

SME / SMALL & MID CAP NEWS:



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CHINA

DEAL ANALYSIS:

China (# of deals)	80
China (Deal value)	19.28B
China Rank (Global)	4
China Rank (Asia Pacific)	2

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

ECONOMIC NEWS:

- According to the General Administration of Customs, June exports fell 21.4% y/y on the heels of a May decline of 26.4%, as the global recession continued to weigh down on demand. The eighth straight month of declines is the longest run since 1996. Imports fell a less-than-forecasted 13.2% y/y following a May decline of 25.2%, narrowing the trade surplus to \$8.25 billion. According to economists, export growth should to return to more normalized levels by the end of the year or early 2010.
- According to the central bank, new lending surged fivefold y/y in June to 1.53 trillion yuan (\$224 billion) from 664.5 billion yuan in May, bringing new yuan-denominated loans in the first half of the year to 7.37 trillion yuan, far exceeding the yearly target of 5 trillion. On the heels of both a 45.3% increase in housing sales during the period and the recent failure to complete a 28 billion yuan (\$4.1 billion) government bond sale, the China Banking Regulatory Commission continued to warn of possible risks in the financial system posed by the rapid increase in credit and a concentration of loans in specific industries and businesses. The central bank is expected to tighten new lending over the near-term and sell one-year bills to neutralize a liquidity flood.
- China's foreign-exchange reserves grew by \$67.8 billion q/q to \$2.02 trillion as of June 30, topping \$2 trillion for the first time ever. The country's reserves have more than doubled in two and a half years primarily as a result of the trade surplus, higher valuations for non-dollar denominated assets due to the dollar's weakness, and inflows of speculative capital. The central bank remains concerned that its \$763.5 billion of Treasury holdings could fall in value as the U.S. issues record levels of debt to fund stimulus spending.

INDUSTRY NEWS:

- PetroChina, which is expanding its presence in overseas refining, obtained government approval to invest in Nippon Oil Corp.'s Osaka refinery, marking the nearing of another overseas refinery stake acquisition. Nippon will hold a 51% stake and operate the 115,000 barrel-a-day plant in Osaka, while PetroChina owns the remainder and handles crude purchases and product sales. PetroChina, which is reportedly also in talks with U.K. chemicals on investing in a giant oil refinery in Scotland, recently finalized the \$1 billion

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purchase of a 45.5% stake in Singapore Petroleum Co., which has a 50% interest in Singapore Refining Co., a 285,000 barrel-a-day refinery. China has spent as much as \$5.4 billion since December on oil assets in Singapore, Syria and Kazakhstan after crude prices fell from a record \$147.27 a barrel on July 11.

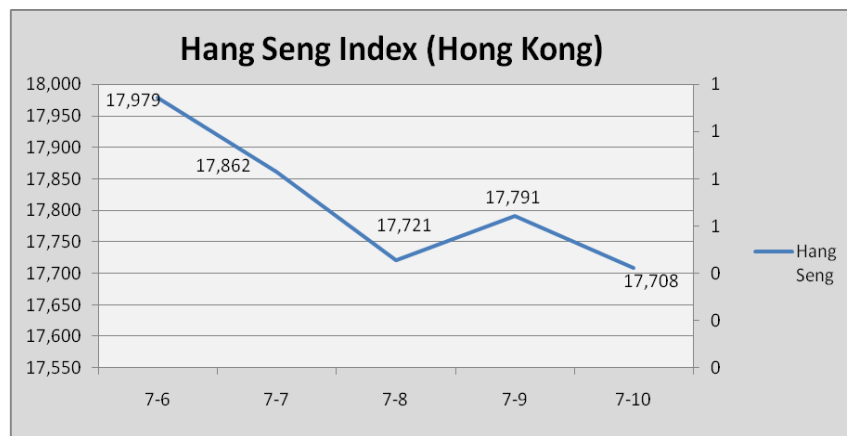
- Jiangsu Rongsheng Heavy Industry Group Co., China's largest shipbuilder, is expected to follow through on a \$2 billion IPO in Hong Kong as early as this year after suspending its plans last year amid the credit crunch. Shipyards in China, the world's second largest shipbuilding nation, had 152 orders scrapped in the eight months to May and may face more cancellations, according to the China Association of Shipbuilding Industry. However, timing of the Rongsheng IPO is expected to coincide with an anticipated revival in demand for new ships. The company recently announced that it signed an order for four large carriers with Oman Shipping Co. reportedly worth over \$480 million.
- According to the China Association of Automobile Manufacturers (CAAM), June passenger vehicle sales rose 48% y/y to 872,900 units, the biggest jump since February 2006. Overall auto sales, including buses and trucks, grew 36% y/y to 1.14 million, prompting CAAM to raise its full year vehicle sales forecast to 11 million from 10.2 million. Year to date sales increased 18% y/y to 6.1 million units after the government reduced retail taxes and issued subsidies in rural areas to spur demand.
- According to the Umetal Research Institute, domestic June crude steel production rose 7% y/y to 45.4 million tons, the highest level of the year, 1% less than the record 46.9 million tons set in June 2008, and 7% higher on a sequential monthly basis. Benchmark steel prices have rallied 15% since April 1 as major steel producers such as Wuhan Iron & Steel Co., Baoshan Iron & Steel Co. and rivals have taken advantage of recovering demand stemming primarily from infrastructure related stimuli. June iron ore imports rose 3.4% to 55.3 million tons, the second highest level this year.
- State-owned Cofco Ltd. and private equity firm Hopu Investment Management Co. are teaming up to invest HK\$6.12 billion (\$790 million) for a 20% stake in Mengniu Dairy Co., which would make them the largest shareholders in the nation's largest producer of liquid milk. Mengniu will issue 173.8 million new shares, while subsidiaries Jinniu Milk Industry Ltd., Yinniu Milk Industry Ltd., and Inner Mongolia Laoni Community Welfare Development Association issues an additional 173.8 million. The investors are expected to help modernize management and operations, which is consistent with the central government's call to improve quality in the dairy industry in the wake of last year's melanine scandal.
- Suntech Power Holdings Co., the world's largest maker of silicon solar panels, expects China to account for as much as 20% of its revenues over the next three years. China plans to boost solar energy production capacity ten-fold to 10 gigawatts by 2020 from 1.8 gigawatts currently. Suntech has seen its ADRs gain 42% in the second quarter alone, after profits plunged 96% in the first quarter as the global recession reduced demand for renewable energy.
- State-owned Beijing Automotive (BAIC) reportedly faces long odds in its bid to acquire European carmaker Opel from bankrupt U.S. parent GM, the largest foreign automaker in China, which is also in negotiations with Canadian auto parts supplier Magna. BAIC is

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reported to have offered to inject \$923 million in equity for a 51% stake in Opel, leaving 49% for GM.

- Driven by a fivefold increase in new loans, China's housing market experienced a 45.3% y/y surge in sales over the first five months of the year, leading developers such as Shanghai-based Shui On Land Ltd., the real estate subsidiary of Shui On Group, to accelerate construction. Shui On Land recently announced that it will team up with Europe's Redevco, to invest a combined 2 billion yuan (\$293 million) to build a shopping center in Wuhan, in what will be Redevco's first property project in Asia. Banks in cities such as Hangzhou, however, are tightening requirements for second-home mortgages, a clampdown that is expected to affect developers.

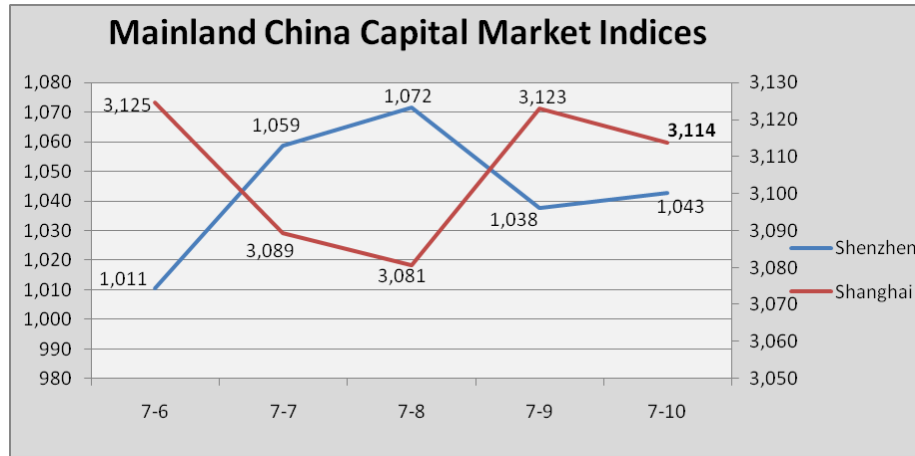
CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

- Hong Kong stocks fell on the last day of the trade dragging the Hang Seng down by 0.5% to 17,708.4, its lowest close in more than two weeks. The gauge, which now trades at an average forward P/E 15.7x from 10.6x at the start of the year, declined 2.7% on the week after rallying 56% from the four-month low reached on March 9.
- The Shanghai Composite fell 9.1 points or 0.3% on the last day of trade, but gained 0.8% on the week to finish at 3,113.9, led by raw materials producers, which rallied on higher metals prices. The CSI 300 Index rose 0.1% to close at 3,398.3. The Shenzhen Composite gained 0.5% led by Guilin Sanjin Pharmaceutical Co. and Zhejiang Wanma Cable Co., both of which surged on their trading debuts as they became China's first companies to go public since September.

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Source: FT, WSJ, Bloomberg, Xinhua

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