

EMISSARY CAPITAL BUSINESS REPORT

REPORT HIGHLIGHTS:

- *India's wholesale price index falls 1.21%*
- *Domestic steel demand increases to 12.8 million tons in fiscal 1Q10, up from 12.2 million*
- *Fiscal 2009 sales of laptops and desktops declined for first time ever*
- *RBI says government will borrow \$61.5 billion in 1H10*
- *China reports GDP growth of 7.9% in 2Q*
- *June CPI and PPI decline 1.7% and 7.8% y/y, respectively*
- *China Eastern Airlines announces acquisition of rival Shanghai Airlines*
- *China overtakes Japan as world's second largest capital market by value*
- *China State Construction Engineering Corp. to raise up to 50.1 billion yuan (\$7.3 billion), largest IPO since March 2008*

INDIA BUSINESS NEWS

DEAL ANALYSIS:

India (# of deals)	37
India (Deal value)	7.93B
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:

- Inflation fell for a fifth straight week, ahead of a government increase in retail fuel costs that was expected to revive inflation pressures. The wholesale price index declined 1.21% y/y after falling 1.61% the prior week, the largest since December 1978. The decline from a year earlier mainly reflects the spike in crude oil prices last year, when wholesale prices rose at the fastest pace in 13 years. The RBI expects to keep interest rates low, but doing is expected to be challenging as the government plans to increase borrowings to a record 4.51 trillion rupees (\$92 billion) in fiscal 2010.
- The rupee climbed 0.5% to 48.74 per dollar on the week as indications of a global economic recovery stoked demand for emerging-market assets. Foreigners' stock purchases, year to date, have exceeded sales by \$6 billion, an increase of 83% y/y, according to data released by the Securities and Exchange Board of India. Offshore forwards contracts suggest traders are betting that the rupee will decline to 48.81 in a month versus last week's expectation of 49.11.
- According to the RBI, India will borrow a total of 2.99 trillion rupees (\$61.5 billion) in 1H10, lower than expected, but still 580 billion more than the 2.41 trillion target set in a February interim budget. Year to date, 1.77 trillion has been borrowed and an additional 120 billion will follow in the coming week. For the full fiscal year, the RBI plans to borrow a total of 4.51 trillion rupees, or 1.1 trillion over 10 auctions in 2H10. Bonds surged on the lower-than-

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expected borrowing number with the benchmark 6.90% 2019 paper rising to 100.75 from 100.37 rupees.

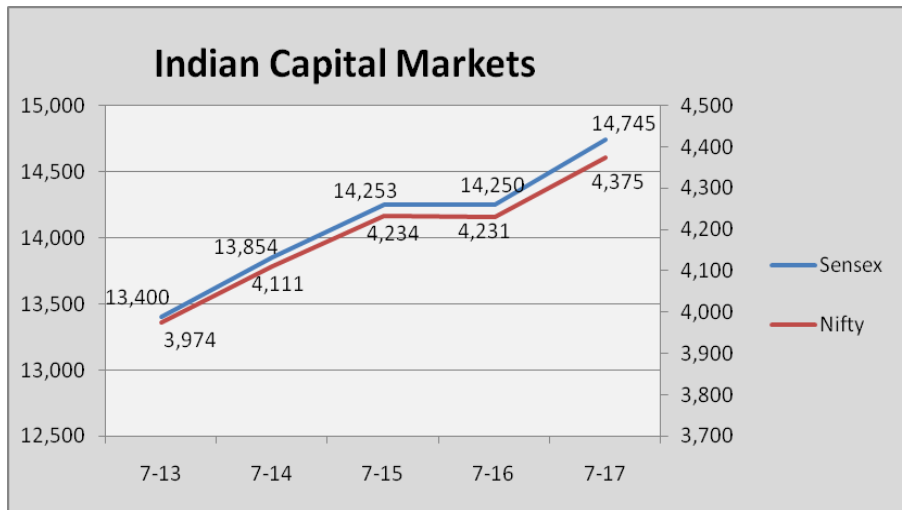
INDUSTRY NEWS:

- Deficient monsoon rains have continued to cause acreage of all major crops to lag versus year ago levels, according to the farm ministry. Specifically, soybean has been planted in 7.14 million hectares year to date versus 7.24 million last year, oilseeds in 10.7 million versus 11.03 million hectares, rice in just 11.46 million hectares versus 14.52 million, and corn in 4.62 million versus 4.74 million hectares. According to the government, an increase in farm output is needed to lift economic growth back to a 9% level this year.
- Domestic steel demand increased to 12.8 million tons for the June 30 quarter, up from 12.2 million tons last year. NMDC Ltd., India's largest iron-ore producer, sees full year demand (March 30) rising by more than 13% y/y with shipments growing to more than 30 million tons, primarily due to demand from local steelmakers, who account for nearly 90% of NMDC's iron-ore sales. Global iron ore demand continues to be driven by demand for steel in China.
- India, the world's second-largest purchaser of vegetable oils, continues to rely on imports to satisfy half domestic cooking oil demand. In the November to June 2009 period, vegetable oil imports surged 79% y/y to 5.82 million tons, crude palm oil imports spiked 66% to 3.49 million tons, and soybean oil purchases gained 86% to 660,504 tons. The trade ministry has no plans to raise duties from the current 7.5% on imports of palm oil, which makes up nearly 90% of India's overall edible oil purchases.
- According to the Bombay Bullion Association, India's 1H09 gold imports plunged to 61.8 tons from 139 tons last year and are unlikely to experience a pick up, despite Hindu festivals that drive typically drive peak gold sales. In addition to both high prices (14,500 rupees per 10 grams) and a doubling on import duties, weak monsoons are expected to hurt demand from rural consumers, who account for 60-70% of domestic consumption.
- According to the Civil Aviation Ministry, state-run Air India will receive an additional 25 billion rupees (\$514 million) from the government to remain in business, after reporting a loss of 72 billion rupees in the year ended March 31. Among other concessions, the company will ask to defer capital loans due for repayment, return some of its leased aircraft, seek extensions on credit periods from state-run oil retailers on jet-fuel purchases, and delay or cancel orders placed with aircraft makers.
- Bajaj Auto Ltd., India's second-largest motorcycle maker, posted its largest profit increase in five quarters due to sales of pricier, higher-engine capacity models such as the Pulsar. The company reported a June quarter net income improvement of 67% to 2.93 billion rupees (\$60 million), as spending on raw materials fell 12.5% to 14.2 billion rupees due to lower vehicle sales. Operating margin improved to 19.5% as a result. In the month of June, the company sold 42,000 Pulsar motorcycles versus an average of 28,000 units per month last year.

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- Adani Power Ltd. plans to raise as much as 33.2 billion rupees (\$681 million) in what is expected to be India's largest IPO in 18 months. The company is constructing two power plants in western India with projected capacity of 6,600 megawatts and aims to be a 20,000-megawatt producer by 2020. Peak-hour electricity shortfalls across India are forecasted to hit 12.6% by March 2010 from 11.9% a year earlier, according to the Central Electricity Authority.
- According to the Manufacturers Association for Information Technology (MAIT), fiscal 2009 sales of laptops and desktops declined for the first time ever. Specifically, unit sales of desktops fell 4% y/y to 5.28 million yielding a 1% revenue decline to 103.25 billion rupees (\$2.11 billion). Unit sales of laptops declined 17% to 1.52 million units or 19% to 18.86 billion rupees by revenue. Unit sales of PCs are still expected to increase by over 7% y/y to 7.3 million.

CAPITAL MARKETS UPDATE:

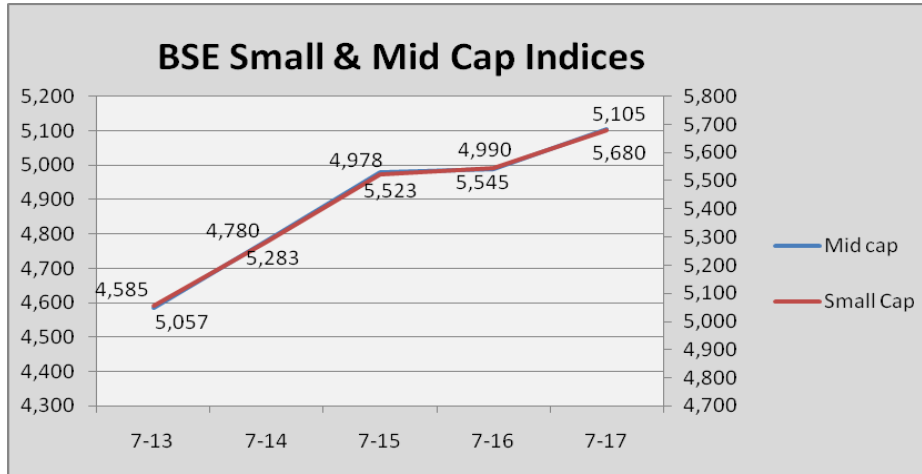


Source: The Economic Times, The Financial Times, Yahoo Finance!

- The Sensex soared 494 points to finish at 14,744.92 on the final day of trading, taking gains for the week to 9.2%, the best among major markets in Asia. The index dipped 9.4% the week prior after the federal budget projected the widest fiscal deficit in 18 years. Markets rallied on news that the government was going to introduce laws in Parliament to push reforms and that it had identified several state-run companies for selling minority stakes. The 50-stock S&P CNX Nifty index rose 3.4% to end at 4,374.95 with auto, banks and technology stocks leading gains.

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SME / SMALL & MID CAP NEWS:



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CHINA

DEAL ANALYSIS:

China (# of deals)	86
China (Deal value)	20.47B
China Rank (Global)	5
China Rank (Asia Pacific)	3

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

ECONOMIC NEWS:

- Reflecting an improvement from the 6.1% growth reported in 1Q09, 2Q09 GDP growth came in at 7.9%, driven by a 33.6% y/y surge in urban fixed-asset investment in 1H09, record lending exceeding \$1 trillion, and a June increase in industrial production of 10.7% y/y. The consensus GDP forecasts for this year and 2010 stand at 8.1% and 9.1%, respectively.
- While economists urge the government to fine-tune its expansionary policies to lower the risks of asset-price bubbles and inflation, the National Bureau of Statistics insists that prices remain on the decline and industries continue to face excess capacity. The CPI fell 1.7% y/y in June, the fifth consecutive monthly decline, while the PPI declined 7.8% y/y, the seventh straight monthly drop. Concerns about deflation, as well as continued worries about unemployment, are likely to keep pressure on the government to continue stimulus efforts.
- According to the commerce ministry, FDI fell y/y for a ninth straight month as businesses continued to pare spending to weather the global financial crisis. June investment slid 6.8% to \$8.96 billion, but the pace of the decline slowed from 17.8% in May and 17.9% in the first six months of the year. Foreign-invested businesses account for 30% of industrial output, 55% of trade and 11% of urban jobs.

INDUSTRY NEWS:

- State-owned cement supplier BBMG Corp. plans to raise up to \$765 million by selling a 25% stake in what is expected to be the second-largest IPO in Hong Kong year to date. The company stands to benefit from the government's closure of low-grade cement makers representing 18% of total output, as well as from stimulus spending, which is forecasted to boost cement demand by 100 million tons this year and next.
- In what is expected to be the world's largest IPO since March 2008, China State Construction Engineering Corp., the nation's largest housing contractor, will raise up to 50.1 billion (\$7.3 billion) to fund at least 40.5 billion yuan (\$5.9 billion) worth of projects. The company will sell as many as 12 billion shares, or a 40% stake, at 3.96 to 4.18 yuan each, which would value the company as high as 125.5 billion yuan or 51x 2008 earnings. A slowdown in the property market and higher raw material costs weighed down on profits by 44% y/y in 2008 to 4.92

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billion yuan, but the company is looking to benefit from the anticipated recovery property sales later this year.

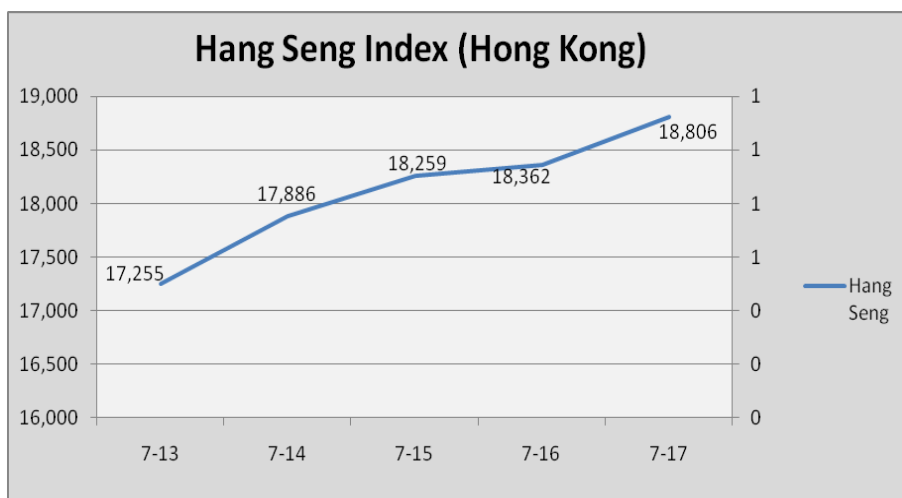
- China National Petroleum Corp. saw overseas crude output hit 31.29 million tons in the first half of the year, generating profits of \$470 million on revenue of \$3.77 billion. Domestic crude oil production totaled 51.04 million tons, and is expected to increase 4.2% in the next year on an economic recovery, according to the International Energy Agency. The company also recently announced that it had achieved exploration breakthroughs in Chad, Niger and Algeria.
- Domestic steelmakers, failing to reach a contractual agreement with Rio Tinto Group, have accepted a provisional 33% iron ore price cut versus the 45% discount sought out, according to the China Iron and Steel Association. Negotiations have been overshadowed by the detention of four Rio executives several weeks ago by Chinese authorities for allegedly stealing state secrets. The contract price for the Rio product was settled at roughly \$61 a ton, excluding freight costs, for Japanese and Korean mills. The price of iron ore for immediate delivery to China rose 5.5% to \$87 per ton, including freight costs.
- Domestic steelmakers continue to invest in Australia to secure iron ore supplies to feed rising demand at home. Australian iron ore miner Aurox Resources Ltd. has signed sales agreements with Hebei Iron & Steel Group and Tianjin-based RockCheck Steel Group, and is reportedly in discussions with another steel producer to secure funding for a A\$1 billion (\$803 million) project. Aurox plans to pipe output 110 kilometers (69 miles) from its Balla Balla mine site to Port Hedland in northern Western Australia for shipping, and will begin shipments at an annual rate of 6 million tons of magnetite iron ore concentrate by March 2012, expanding to 10 million tons annually by 2014.
- According to China's National Statistics Bureau, domestic crude steel production rose 1.2% y/y to a record 266.6 million tons in 1H09, beating a 263 million ton estimate made by the Umetal Research Institute. Chinese steelmakers posted aggregate profits in May for the first time in eight months due to a 17% increase in benchmark steel prices since April 1 and higher demand from bell weathers Baoshan Steel and Wuhan Steel.
- China Eastern Airlines Corp. announced it will acquire rival Shanghai Airlines for roughly 9.5 billion yuan (\$1.4 billion), to become the nation's second-largest carrier and gain control of about 47% of air travel that goes through Shanghai. Under the plan, each share of Shanghai Airlines will be exchanged for 1.3 China Eastern shares, equating to a premium of about 17% to Shanghai Airlines latest share price before the announcement was made. The combination will leave China Eastern with over 306 planes and a total of 50,000 employees, and is expected to help pricing by ending a price war between the rivals, immediately boosting China Eastern's earnings by as much as 3 billion yuan.
- According to the China Internet Network Information Center, the domestic internet user-base increased 13.4% y/y to 338 million as of June 30, 2009, but continues to lag behind developed countries in terms of penetration, which reached 25.5% compared to 22.6% at the end of 2008.

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The domestic mobile internet user-base totaled 155 million or 46% of the overall internet population, which is expected to ramp with the launch of 3G mobile phone networks.

- China Investment Corp. (CIC), the nation's \$200 billion sovereign wealth fund, agreed to purchase 40% of Citic Capital Holdings Ltd., which is 50% owned by Citic Pacific Ltd. and Citic International Financial Holdings Ltd. Citic Capital had approximately HK\$3 billion (\$387 million) of capital by the end of 2008 and manages \$2 billion from international investors.

CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

- The Hang Seng rose 443.7 points, or 2.4% on the final day of trading to finish the week at 18,805.66. The index rose 6.2% on the week. Hong Kong's property sub-index rose 3.6%, outperforming the broader market. China-focused blue chips extended gains on confidence over the mainland's ability to sustain its economic recovery after posting a 7.9% GDP increase in the 2Q. The H-share index rose 2.2% on the last day of the week after rising 6.1% in the previous three sessions.
- The benchmark Shanghai Composite Index closed Friday up 0.2% to close the week at 3,189.74. The index gained 2.4% for the week. The Shenzhen Composite Index rose 0.7% to finish at 1,084.39. China also overtook Japan as the world's second-largest stock market by value for the first time in 18 months. The Shanghai Composite sent the value of China's domestic stock market to \$3.21 trillion on the heels of a year to date gain of 75%, compared with Japan's \$3.20 trillion Nikkei 225 Stock Average, which has advanced 5.5%.

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Source: FT, WSJ, Bloomberg, Xinhua

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