Quarterly Earnings Update

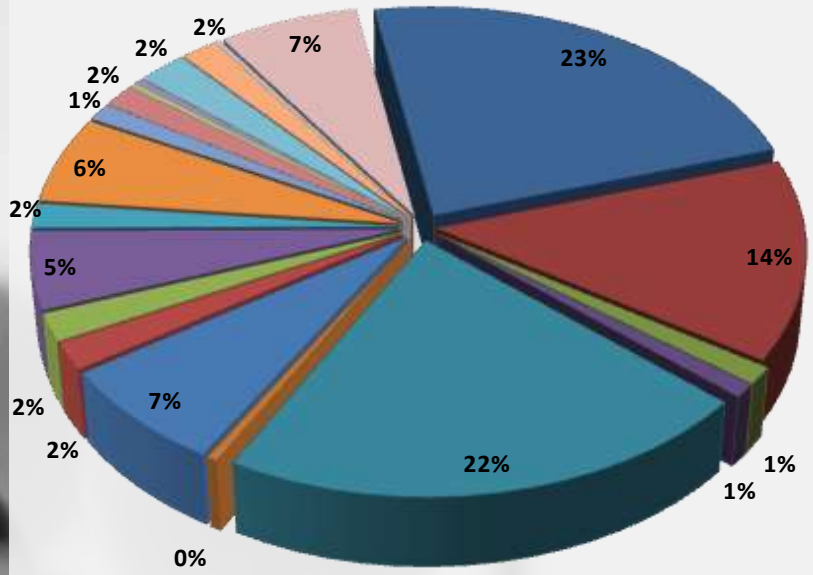
December 2011

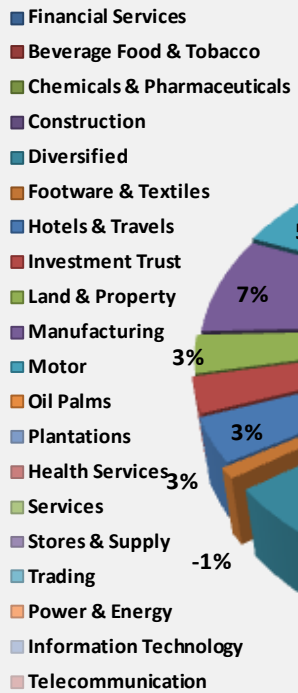
Asia Wealth Management Co.(Pvt) Ltd

ASIA WEALTH MANAGEMENT CO. (PVT) LTD.

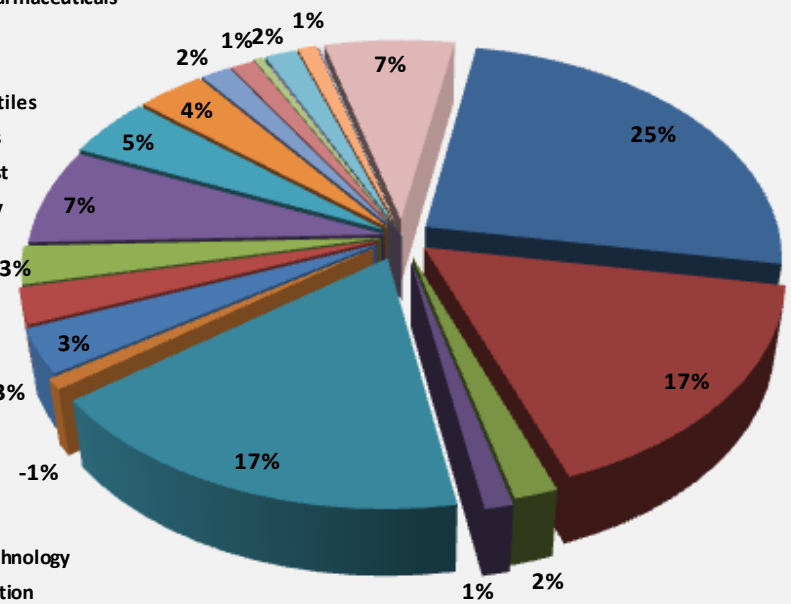
Market In a Nutshell……..

Sector Market Capitalisation



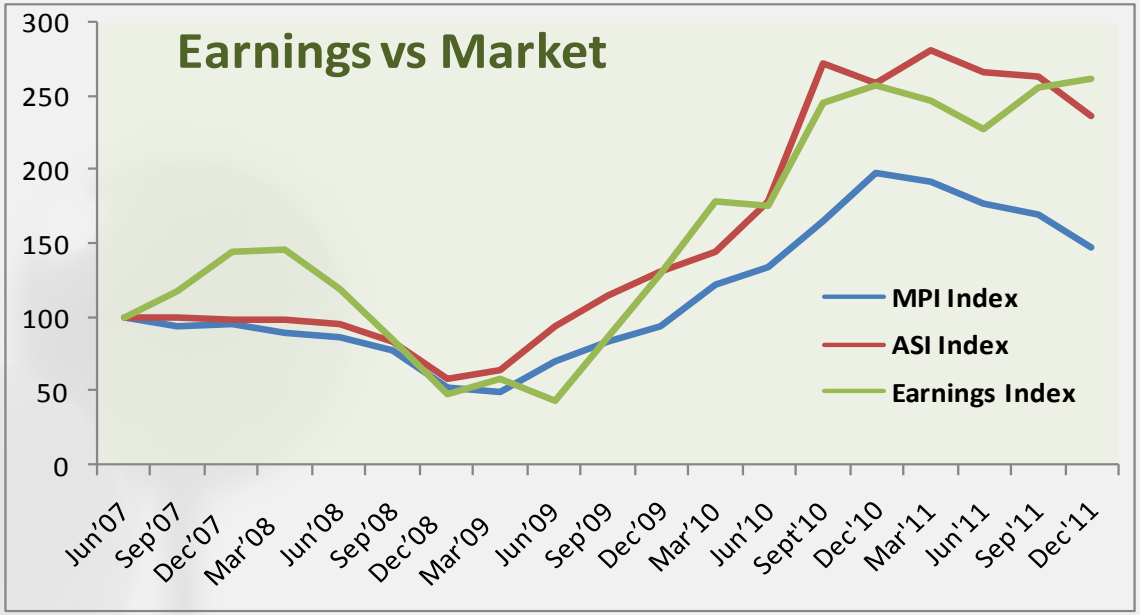


Sector Earnings

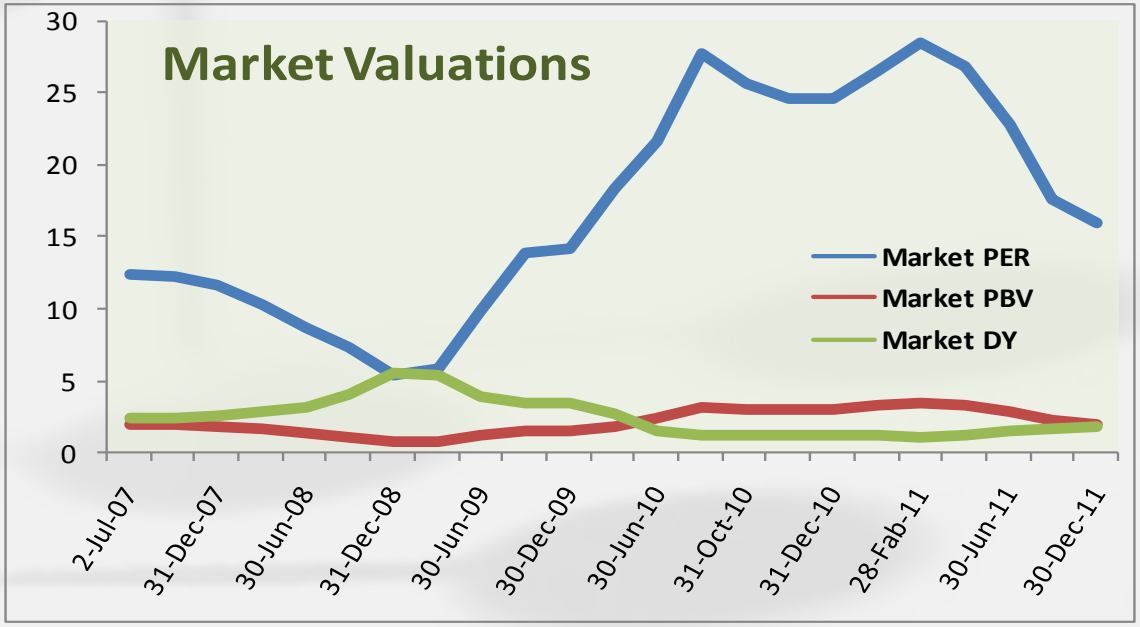


- Overall market earnings of the Colombo bourse recorded 2% QoQ growth achieving LKR39.5bn during the Dec'2011 quarter, meanwhile total earnings depicts 6.2% YoY growth in comparison to corresponding Dec'2010 earnings of LKR37.2bn.
- Market capitalisation has been predominantly dominated by the financial services sector hence, accounting for 24% by the end of Dec' 2011, also the sector shows its dominance in terms of earnings, contributing 25% to total market earnings, the highest by any sector.
- Financial services sector market capitalisation is followed by the diversified, beverages food & tobacco and Hotels & Travels and Telecommunication sectors.
- Meanwhile diversified and beverages food & tobacco sectors contributed 18% and 17% respectively to the total market earnings.
- Favorable seasonal revenue flows (Eg: festive season, tourism influx) helped the Hotels, Beverages Food & Tobacco and Diversified sectors show healthy earnings growth. Nevertheless overall corporate earnings shows satisfactory growth supported by favorable economic conditions persisted during the period.

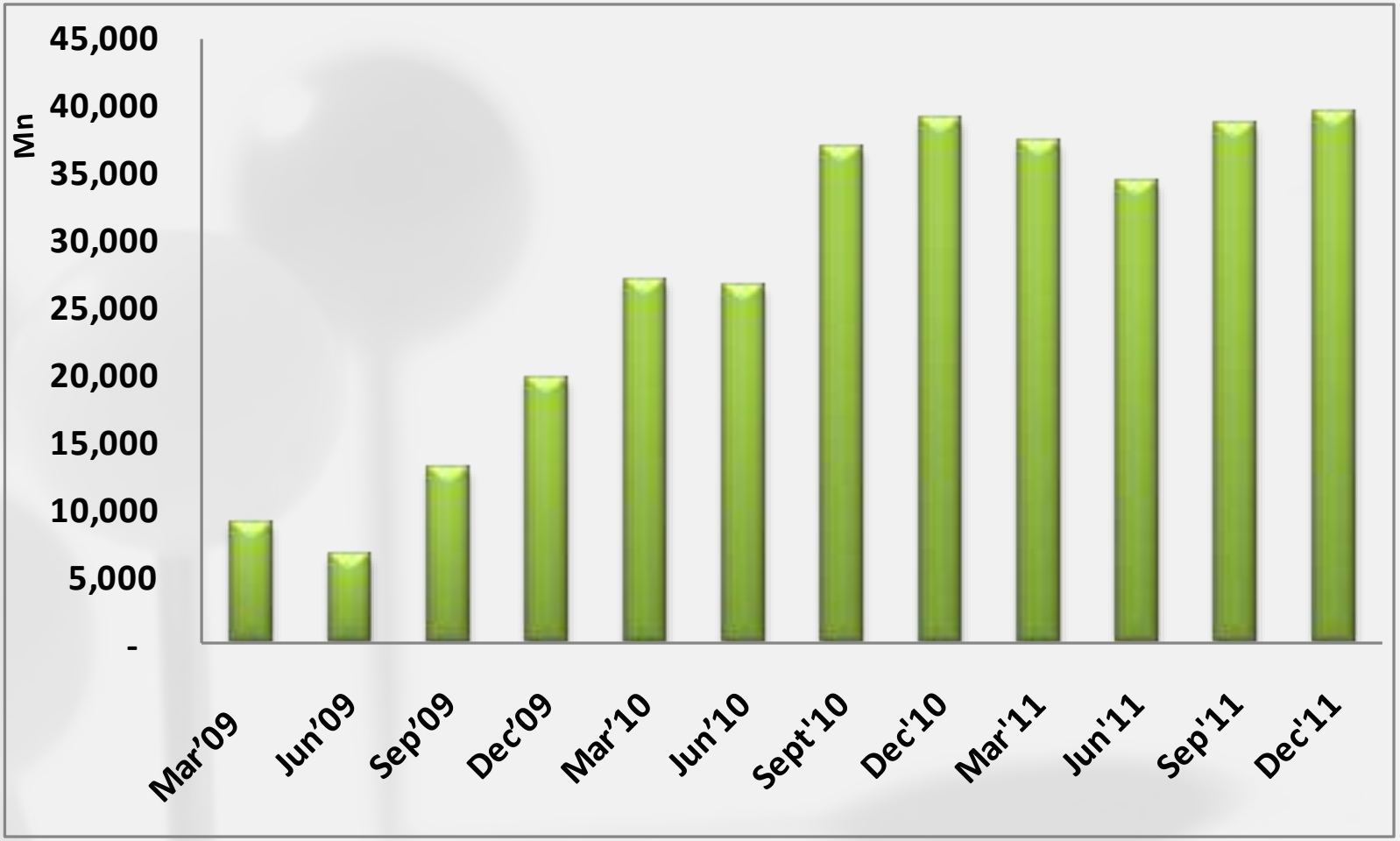
Corporate Earnings Surpassed Market Performance



Performance of the Market Price Multiples



Quarter on Quarter Market Earnings



Performance Summary- Dec' 2011

Top 5 Contributers to Earnings(Sector)	
Financial Services	25%
Diversified	18%
Beverages Food & Tobacco	17%
Manufacturing	7%
Telecommunication	7%

Top 5 Sector Earnings Growth(YoY)	
Power & Energy	2144%
Information Technology	794%
Health Services	402%
Land & Property	261%
Manufacturing	129%

Top 5 Contributers to Earnings(Company)	
John Keels Holdings	7%
Overseas Realty	6%
Hatton National Bank	6%
Commercial Bank	5%
Ceylon Tobacco	5%

Top 5 Company Earnings Growth(YoY)	
C W Mackie	22177%
Renuka Holdings	4562%
Sathosa Motors	1121%
HDFC	954%
Singer Finance	893%

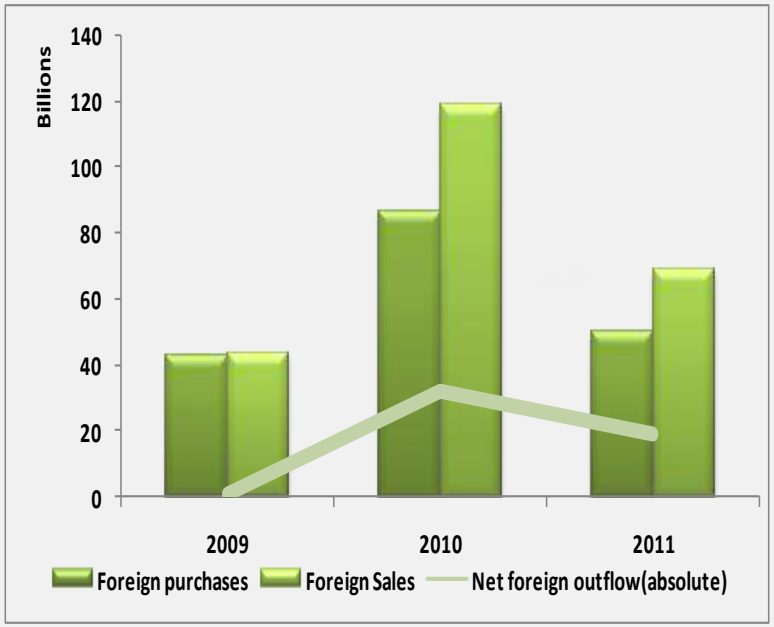
Earnings Comparison

('mn)	Dec' 2011	Sep'2011	% QoQ	Dec' 2010	%YoY	4 Qtr Trailing
Market	39,531.3	38,636.8	2%	38,938.3	2%	149,672.3
Telecommunication	2,704.2	2,450.5	10%	2,817.3	-4%	10,134.6
Bank Finance & Insurance	10,558.8	10,777.4	-2%	10,384.0	2%	37,478.1
Beverages Food & Tobacco	5,321.3	6,096.0	-13%	5,506.7	-3%	24,851.5
Chemicals & Pharmaceuticals	725.6	413.8	75%	1,332.6	-46%	2,585.9
Constructions	592.2	492.4	20%	859.6	-31%	1,672.6
Diversified	6,097.2	6,480.3	-6%	5,569.5	9%	26,072.9
Footwear and Textiles	(104.8)	(177.1)	-41%	(658.0)	-84%	(1,239.9)
Hotels & Travels	1,821.5	635.4	187%	1,183.2	54%	5,056.5
Investment Trust	(171.1)	691.1	-125%	179.8	-195%	4,026.7
Land & Property	2,685.8	402.5	567%	753.2	257%	4,298.8
Manufacturing	2,935.0	4,500.1	-35%	2,246.7	31%	10,892.0
Motor	2,129.6	2,082.3	2%	1,741.6	22%	6,860.0
Oil Palms	276.5	876.4	-68%	641.5	-57%	5,319.6
Plantations	842.8	(238.9)	62%	1,567.0	-46%	2,355.4
Health Services	916.3	545.8	68%	295.6	210%	1,953.7
Services	57.0	88.5	-36%	112.1	-49%	674.2
Stores & Supplies	50.8	(141.2)	-136%	333.1	-85%	128.6
Trading	639.1	1,613.2	-60%	2,313.1	-72%	2,521.9
Power & energy	807.1	484.7	66%	900.1	-10%	1,510.8
Information technology	54.0	71.2	-24%	-		131.3

- Footwear & Textiles, Oil Palms, Plantations and Trading sector earnings have diminished relative to the corresponding quarter(2010).
- Meanwhile footwear and textiles, Investment Trust registers negative returns during the period under review.
- Adverse climate conditions prevailed in cultivated areas, wage increase for plantation workers together with adverse price fluctuations persisted in the world market caused the plantation sector earnings to show a dive.

Slowdown in activity in equity markets…

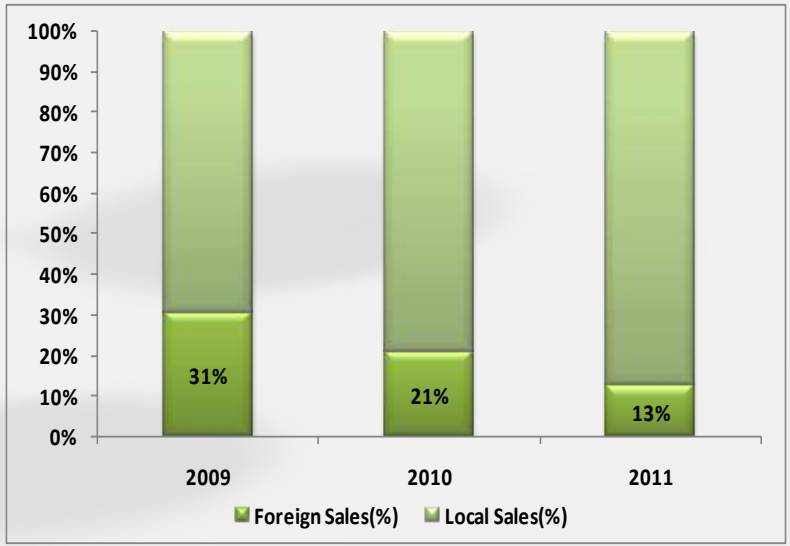
- An overall decline in foreign institutional and high net worth interest continued to be observed over the period as uncertainty in the developed world led to a "flight to safety" as portfolio managers reduce their exposure to risky frontier markets.
- A YTD net foreign outflow of LKR 19bn was recorded by the end of December 2011
- A marked decline was also witnessed amongst local retail investors who gravitated towards fixed income assets with the rise in interest rates brought about by the devaluation of the Rupee through the government budget proposal for 2012



Source: CSE
** 2011 contains 9-months worth of data*

Local Vs. Foreign - Purchases

Local Vs. Foreign - Sales



Local & foreign Investor Activity Assessed via the Top Market Cap Counters (Excluding Firms with Low Free Float)

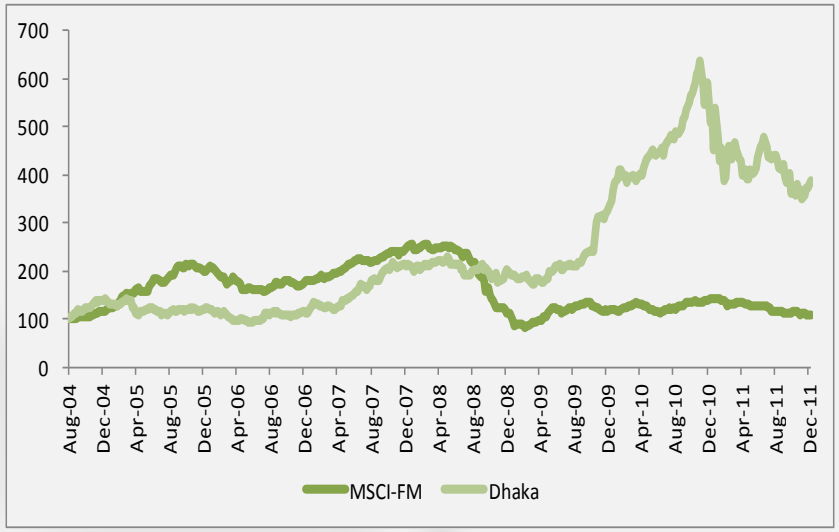
John Keells holdings	Change(%)
Mr. S E aptain	-2.3
Employee provident fund	0.3
Melstacorp(pvt) Ltd	0.9
Deutsche Bank AG - London	-0.1
Aberdeen emerging markets	-0.4
Commercial Bank	**Change(%)**
Employee provident fund	0.9
SBI Ven holdings	-1.27
Aberdeen Asia pacific fund	-0.14
BNYM- The Walter fund	-4.94
Deutsche Bank- National equity fund	-0.37
Dialog Axiata	**Change(%)**
HSBC Genesis companies	-
Employee provident fund	0.08
Morgan Stanley asset management	-
Northern trust	-0.32
BNY Ruffer investments	-
Aitken Spence	**Change(%)**
Aberdeen commingled fund	0.04
Janus overseas fund	-
Aberdeen investment fund	-
Mellon Bank- Florida retirement system	-
HSBC emerging markets fund	-
Hatton national bank	**Change(%)**
Employee provident fund	0.02
Janus overseas fund	0.01
National savings bank	0.01
Bank of NY Mellon	0.01
Standard Chartered bank	0.01

Limited activity...

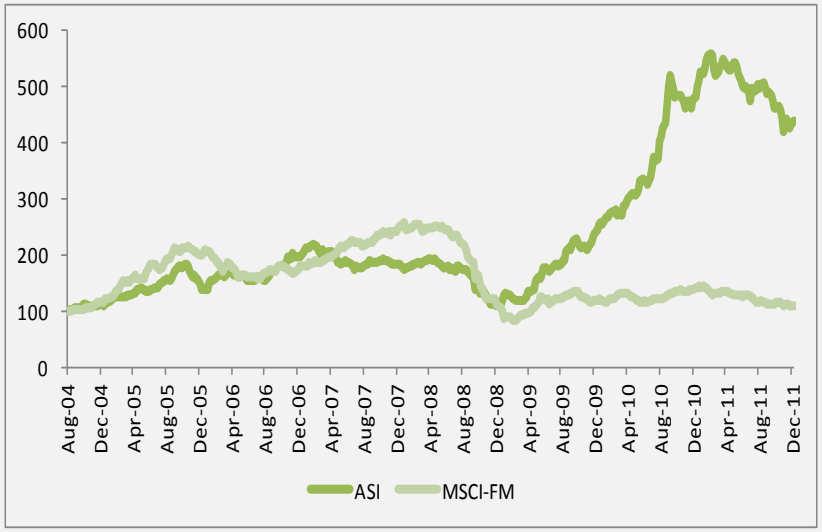
- An analysis of the top five shareholders over 3QFY12 for stocks which commanded the highest market cap revealed that large movements in foreign institutional ownership were not observed.
- Heightened local high net worth interest was however witnessed in large cap counters such as John Keells and Aitken Spence.
- Going forward, a revival in foreign institutional interest maybe observed in large cap counters which have continued to deliver impressive earnings despite internal macroeconomic imbalances.
- However market volatility and a weakened external position prevalent in the economy may triumph any fundamental motives for investing in large cap counters.

CSE CONTINUES TO OUTPERFORM FRONTIER MARKET PEERS

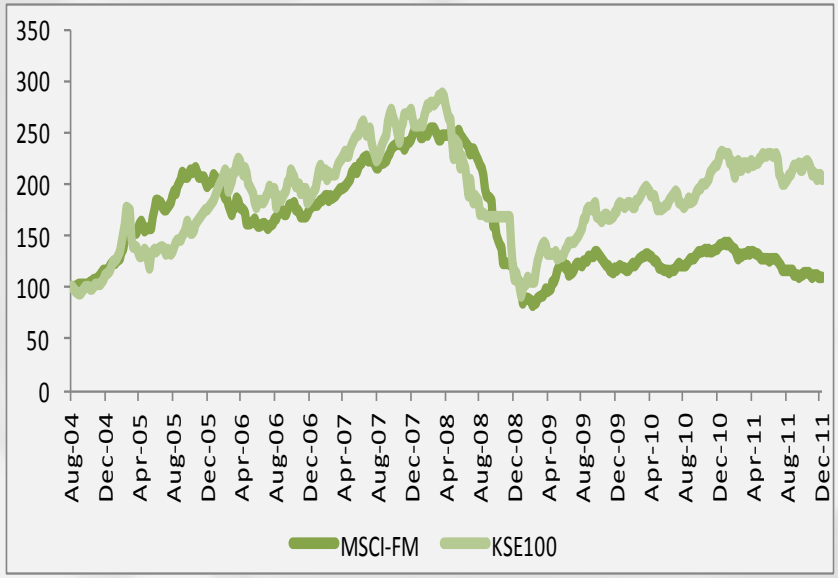
Bangladesh



Sri Lanka



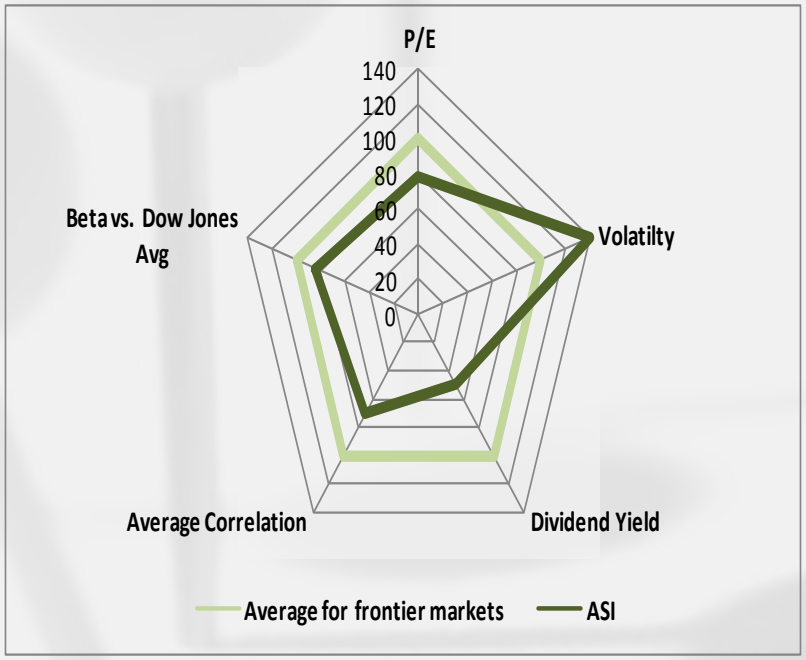
Pakistan

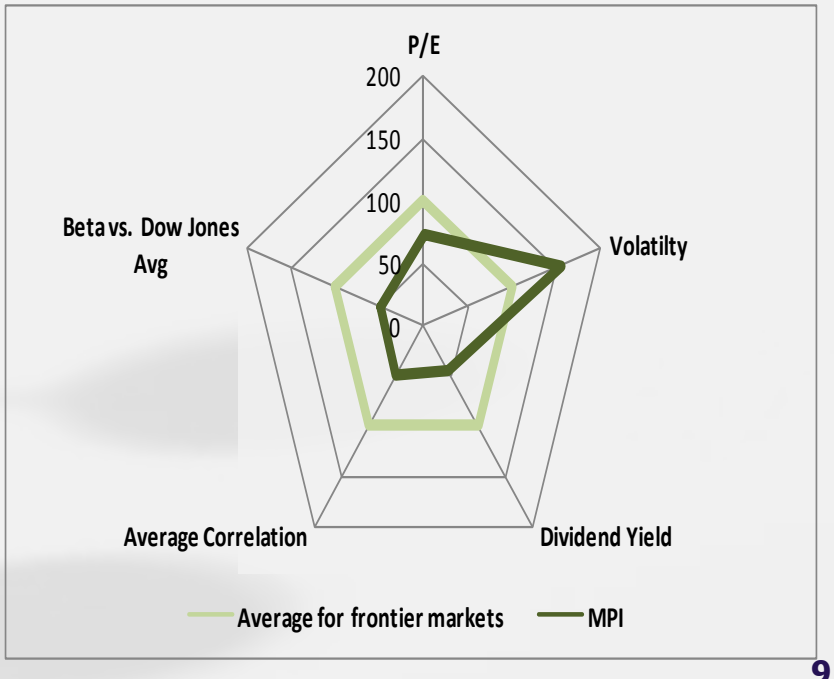


Vietnam

Comparison of Sri Lanka with Other Frontier Markets…

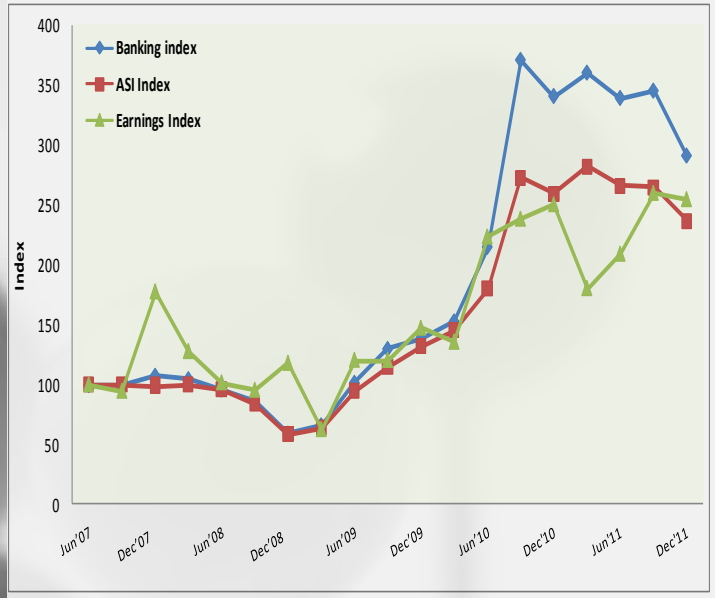
Country	Vietnam	Bahrain	Oman	Tunisia	Sri Lanka	Sri Lanka*
Bloomberg code	VNINDEX	BHSEASI	MSM30	TUNINDEX	CSEALL	CSESML
Market cap(USD Bn)	2.48	16.18	5.69	2.44	19.57	19.57
P/E	10.23	29.72	15.75	17.04	**14.24**	**13.25**
Volatility	19.98%	4.70%	10.92%	8.62%	**15.42%**	**17.16%**
Beta Vs. dow Jones Avg	0.18-0.64	0.03-0.02	0.2-0.6	(0.004)-0.14	**0.08-0.3**	**(0.12)-0.34**
Correlation range	0.07-0.48	0.06-0.3	0.38-0.54	(0.003)-0.4	**0.07-0.32**	**(0.02)-0.3**
Dividend yield	3.90%	5.36%	1.57%	1.97%	**1.57%**	**1.45%**
YTD market return	-4.74%	-12.22%	-15.10%	-10.92%	**3.78%**	**-11.61%**

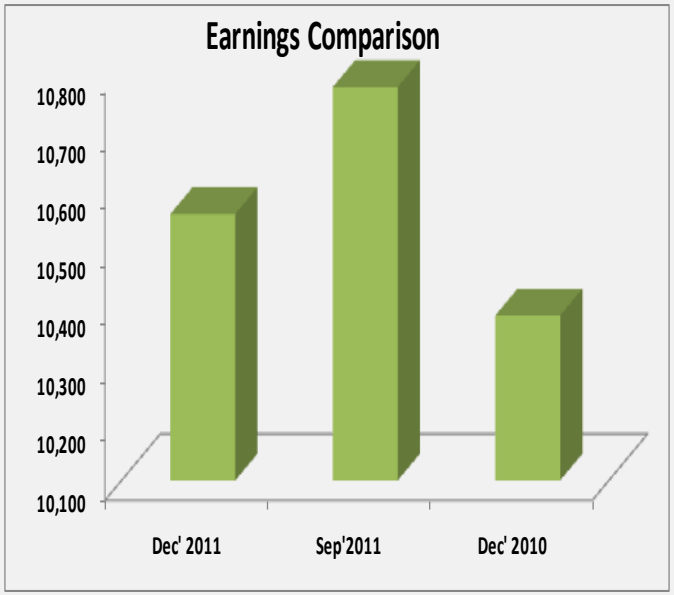




Performance Review of Key Sectors

Bank Finance & Insurance



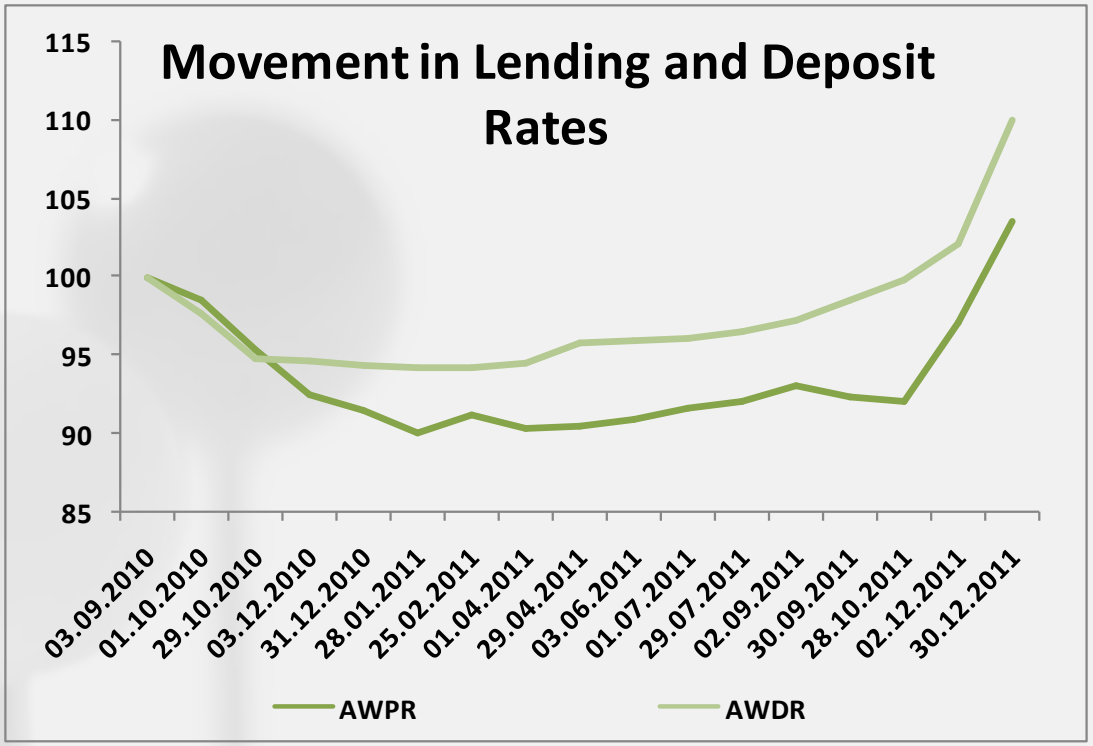


Sector P/E	12.60
Sector PBV	1.91
Sector ROE	15.2%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

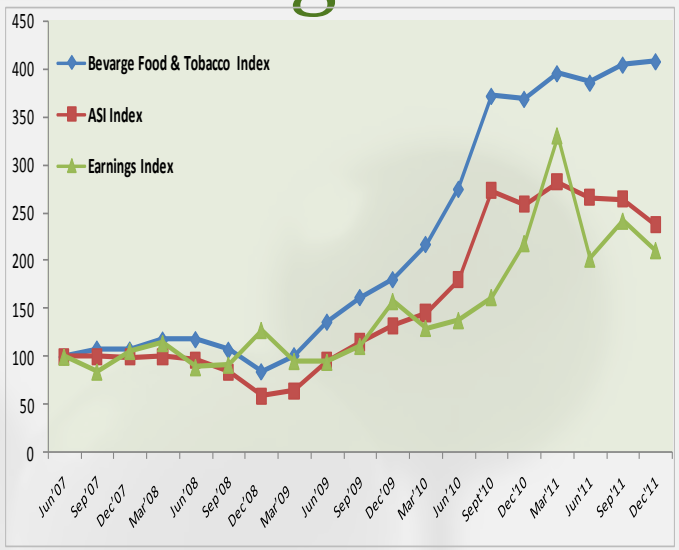
- The overall market went through a period of downward pressure, so did the banking and finance sector. However, prior to the December quarter the fluctuations in both ASI and the BFI had been similar. Conversely, during December 2011, the BFI had taken a much deeper slump irrespective of flourishing earnings recorded by sector key performers.
- Referring to December quarter 2011, Banking Finance and Insurance sector has made a contribution of 24% to the total market capitalization whilst giving a contribution of significant 30% to the total market earnings, securing its position as the single largest contributor to both market capitalization and market earnings.
- Current performance compared with the December quarter 2010, it clearly shows an improvement of 2% YoY. However, a clear dip of 2% in earnings is evident when compared with the previous quarter September 2011.

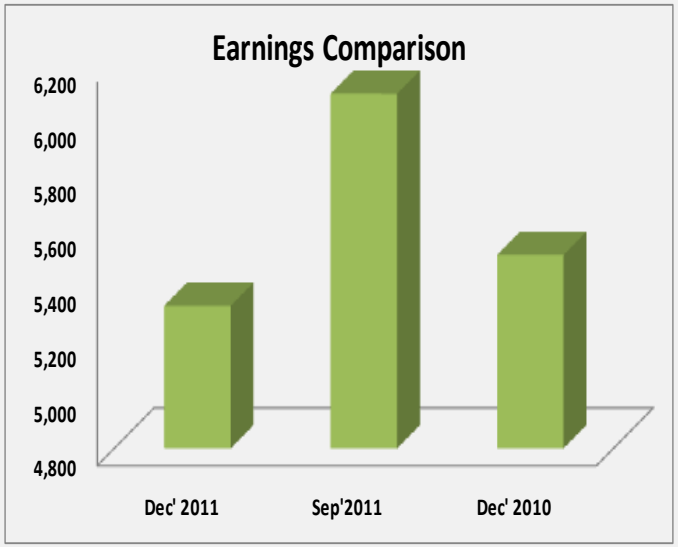
Bank Finance & Insurance



- Major reason for the relative decline in earnings by 2% QoQ was that, during September 2011, the economy was at peak in credit demand with steadily rising lending rates. On the contrary, during December 2011, the credit demand has eased with a noticeable decline in lending rates whilst fundraising costs still continuing an uptrend. However during latter part of the quarter, the lending rates picked up with rising deposit rates', narrowing down the interest spreads.
- In terms of relative valuation, the sector is attractive with a PE multiple of 13.0x and sector PBV of 2.0, as oppose to a market PE of 14.6x and market PBV of 2.3.

Beverages Food & Tobacco



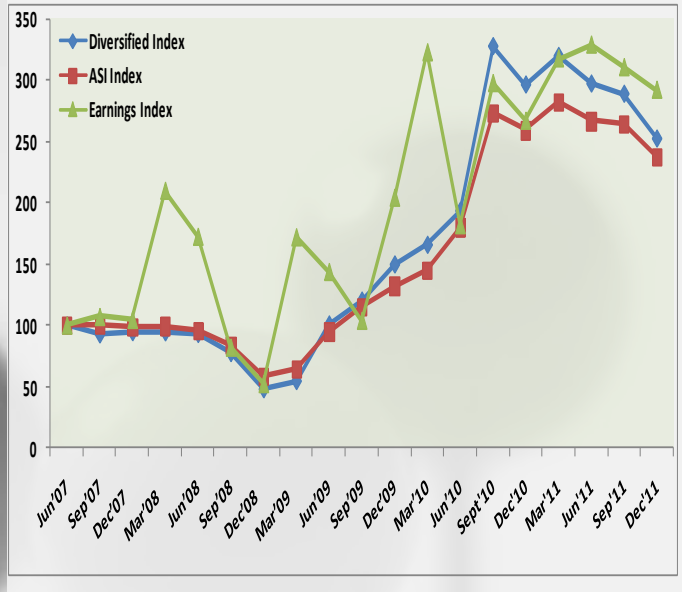


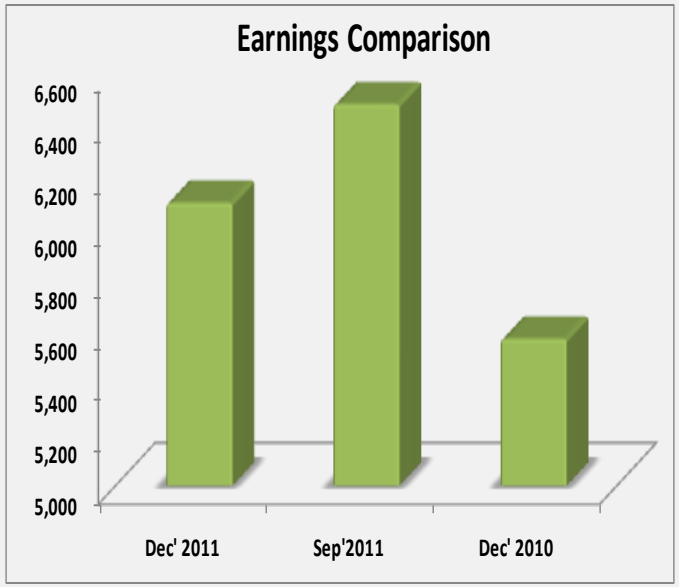
Sector P/E	12.78
Sector PBV	3.95
Sector ROE	30.9%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- Beverages food & Tobacco sector earnings were mainly dominated by Ceylon Tobacco(36%), Nestle Lanka(11%), Ceylon Tea Services(9%), Ceylon Brewery(8%) and Ceylon Cold Stores(7%).
- The sector has outperformed the market well above irrespective of the decline in earnings, portraying the strong investor sentiment on the sector. Nevertheless top earnings contributors to the sector such as Ceylon Tobacco, Distilleries Company, recorded decline in returns, thus resulting overall sector earnings to dip during the period under review.
- Increase in Tariff rates for Cigarettes during the year resulted the Ceylon Tobacco earnings to drop sharply compared to corresponding period in 2010. Substantial fall in fair value of investments led Distilleries company to show significant decline in earnings which adversely impacted on overall sector earnings.
- With the increasing population in the country together with increase in tourist arrivals, we anticipate the consumption level to improve and it would invariably positively impact on the sector. Nevertheless, the devaluation of rupee would negatively hit on more import dependent counters and increase in energy cost would have adverse affect across the board.

Diversified



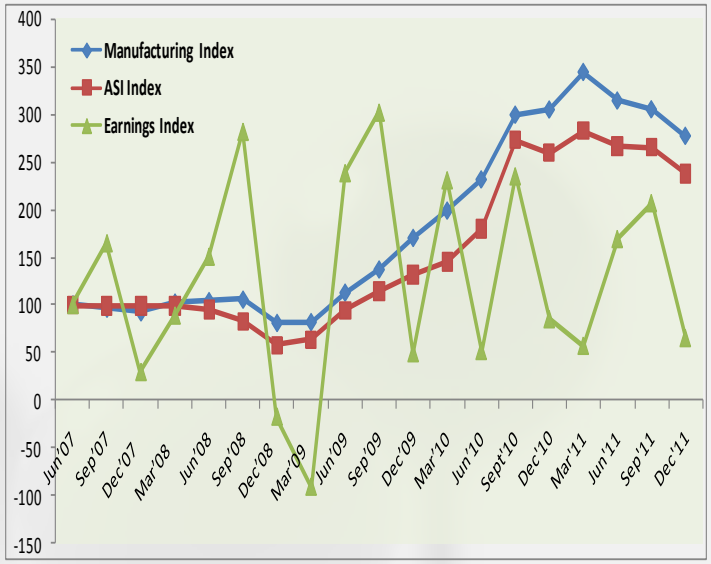


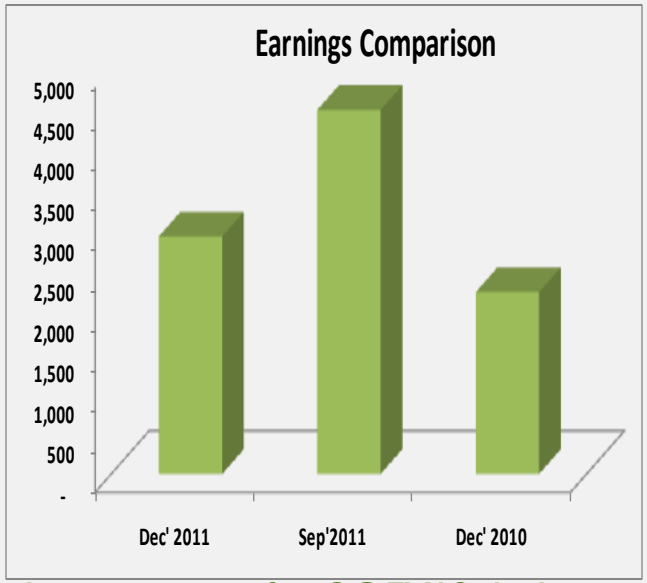
Sector P/E	17.04
Sector PBV	2.45
Sector ROE	16.8%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- The earnings index has frequently outperformed both the market and diversified index over the year.
- John Keells Holdings & Aitken Spence Plc recorded the highest 3QFY12 earnings with a combined contribution of circa 58% towards total sector earnings.
- Diversified entities posted mixed results especially companies which are into tea plantation experienced an adverse condition whereas companies which have exposure to leisure, construction, power & energy and logistics revealed positive earnings for the quarter.
- Almost all counters in this sector are trading at high multiples relative to the market.
- Moving forward, earnings acceleration is expected, backed by robust growth prospects in the other sectors coupled with booming economy at an 7.0% growth rate in real GDP.

Manufacturing





Sector P/E	10.82
Sector PBV	2.18
Sector ROE	20.2%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

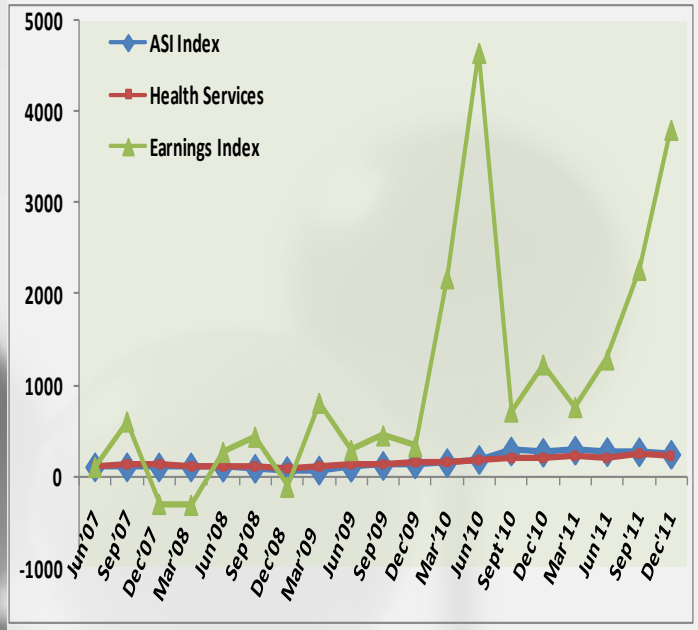
- The sector witnessed a 31% YoY growth in earnings for 3QFY12, bolstered by rising disposable incomes and an increase in spending on durables during the holiday season.

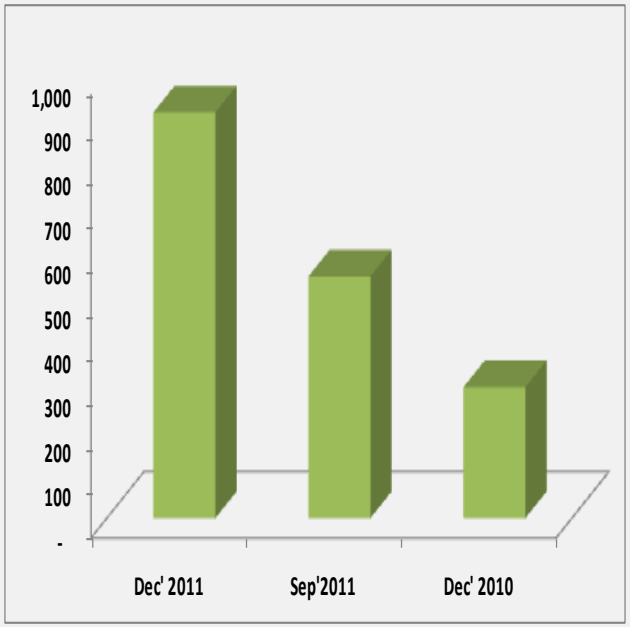
- Chevron lubricants saw its earnings rise on account of rising crude oil prices while Royal ceramics was a beneficiary of the construction boom taking place in the island. They jointly contributed nearly 40% towards sector earnings.

- Moving forward, manufacturing counters geared towards exports such as Dipped products and Hayleys exports stands to benefit from the depreciation of the Rupee.

- However, the rise in interest rates due to a combination of a domestic credit growth and a rise in policy rates by the Central bank to curb inflation could disproportionately raise interest expense for companies in this sector who tend to be relatively highly leveraged. However high earnings accompanied by higher margins ensure high interest overage ratio and limits the possibility of insolvency.

Health Services





Sector P/E	17.74
Sector PBV	2.04
Sector ROE	11.5%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

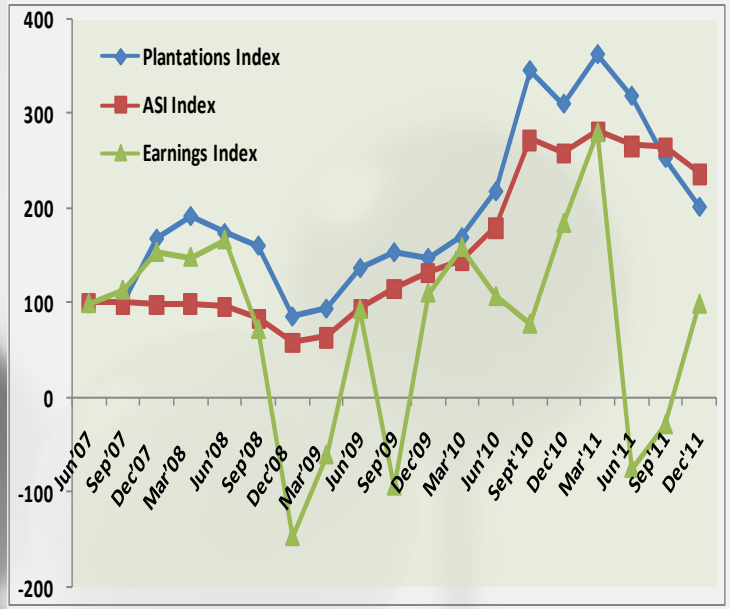
- Asiri Surgical & Lanka hospitals recorded the highest 3QFY12 earnings with a combined contribution of 56% towards total sector earnings.

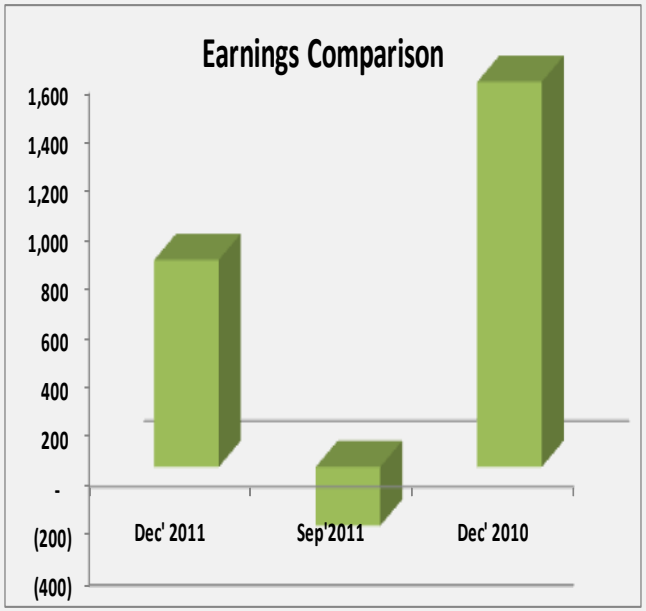
- The earnings index has consistently outperformed both the market and health services index over the year. However Almost all counters in this sector are trading at high multiples relative to the market.

- The 60 years and older segment of the population is expected to increase at a faster pace than the broader population growth rates . This would create a sustainable demand for the health services in future.

- The continuous depreciation of the rupee will increase the cost of importing pharmaceuticals and medical equipment squeezing the margins of the hospitals. Further the rise in the interest rates could hinder the ongoing and expected capacity expansion plans on some of the counters.

Plantations





Sector P/E	10.54
Sector PBV	1.34
Sector ROE	12.7%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- Top 5 contributors for the quarter were Kelani Valley Plantations, Watawala Plantations , Kegalle Plantations , Kotagala Plantations and Namunukula Plantations.

- Most plantation companies witnessed a major turnaround in the December quarter profits (62% up QoQ) amidst the volatility in the tea market . A precipitous slump in the June quarter results was observed mainly due to the wage hike. However the healthy margins from rubber and oil palm helped to recover previous losses hence improving the overall profitability in the December quarter.

- The continuation of the declining buying power from the Middle East and Europe ,coupled with the Iranian turmoil created adverse implications for the tea prices.

- On a futuristic perspective we firmly believe that counters which have a mix of rubber and palm oil would sustain robust earnings.

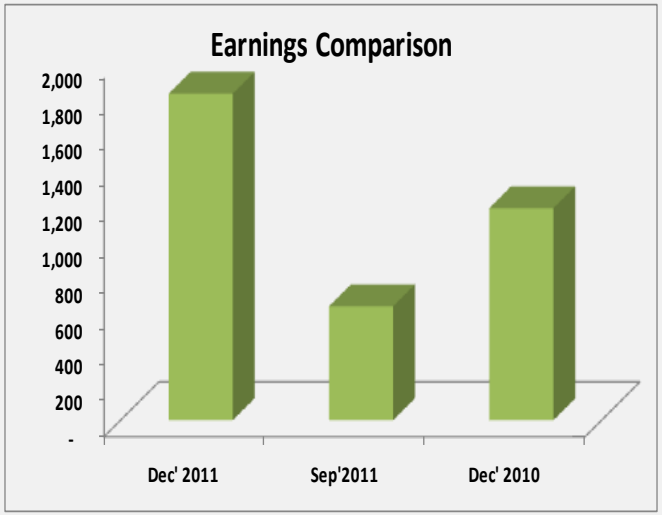
Crop Mix Based on Output

Kg(%)	2008			2009			2010			2011		
	Tea	Rubber	Palm Oil	Tea	Rubber	Palm Oil	Tea	Rubber	Palm Oil	Tea	Rubber	Palm Oil
Kegalle	34	66		33	67		35	65		40	60	
Namunukula	22	13	65	11	10	78	10	10	80	16	10	74
Kelani Valley	58	42		64	36		61	39			N/A	
Kotagala	63	37		64	36		67	33		69	31	
Agalawatta	26	33	42	23	26	51	15	29	56		N/A	
Kahawatte	81	19		84	16		78	23			N/A	
Watawala	56	6	38	54	5	41	57	4	39	63	4	33
Horana	72	28		71	29		72	28		74	26	
Elpitiya	34	8	58	33	7	60	33	7	60	37	7	57
Malwatte	77	23		80	20		77	23			N/A	

N/A – The output is not available as it is released on a yearly basis.

- Counters which have mixed crops such as Rubber or Palm Oil such as Kelani Valley, Watawala, Namunukula and Kegalle have posted sustainable earnings despite the volatility in the tea sector.
- For instance in Kegalle Plantations healthy margins in the rubber segment helped to cushion the fall in the tea segment . During 3QFY12 tea segment in Kegalle made a loss of LKR114.7mn while rubber segment recorded a profit of 579.8mn. The Recent depreciation of the exchange rate would make international tea prices cheaper in dollar terms. However considering the inelastic demand for this segment it is unwise to expect a sudden growth in the quantity demanded in the shorter run.
- The plantations sector is trading at a discount to the market P/E demonstrating signs of possible accumulation in future.

Hotels & Travels

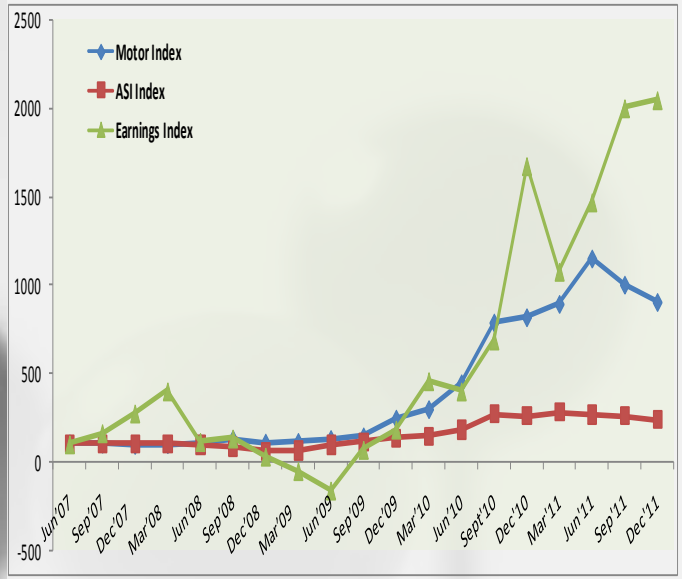


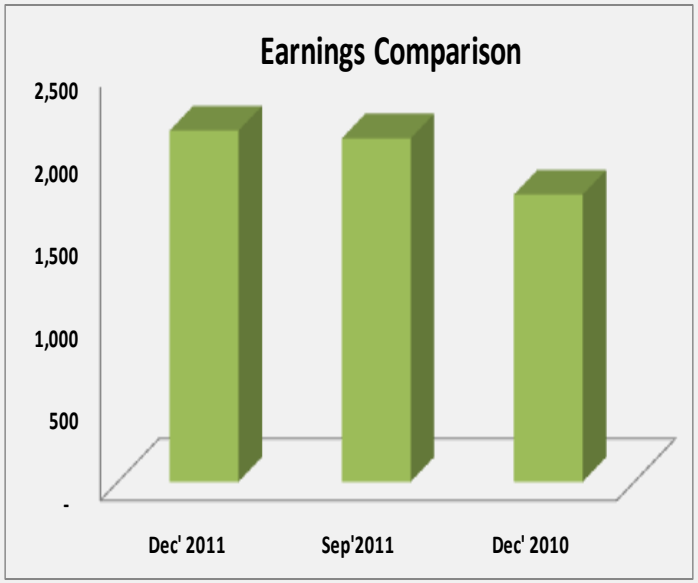
Sector P/E	26.63
Sector PBV	2.48
Sector ROE	7.3%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- The highest contribution was from Asian Hotels and Properties, Cinnamon Lakeside ,John Keells Hotels , Aitken Spence Hotels Holdings and Renuka City Holdings. The hotel sector earnings index shows a seasonal pattern where higher earnings are recorded during December and March quarters.
- Accordingly, with the boom in tourist arrival which resulted an increased occupancy levels and ARR, tourism sector recorded outstanding performance during 3QFY12.
- The hotels and travels sector is trading at a premium to the market P/E. Despite of this, the leisure industry remains to be an emerging sector which welcomed 800,000th tourist arrival in December; breaking the country's record visitor arrivals in any given year by recording 855,975 at the end of the year.
- The average occupancy rate in the island has recorded 70% and during peak season it hit 90%.The government expects to achieve a tourist arrival of 2.5 million by 2016 and the current room capacity should be doubled to accommodate this influx. Thus, tourism industry is heading towards brighter future hence leading the hotels to record stronger revenues and broader margins.

Motors



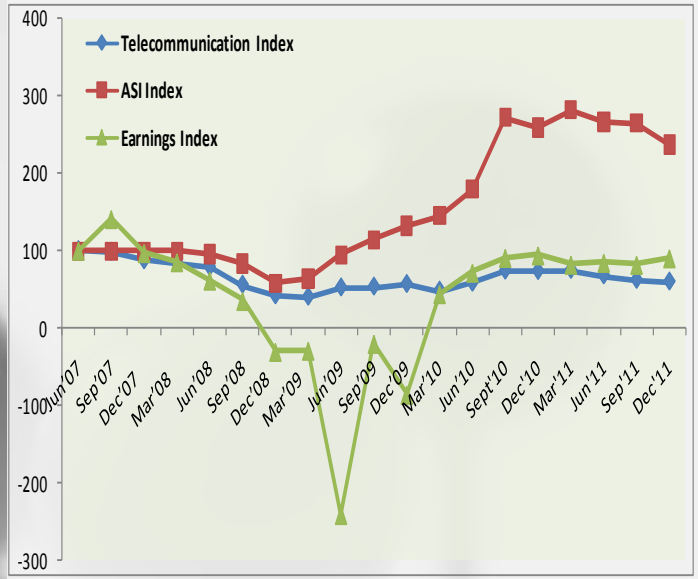


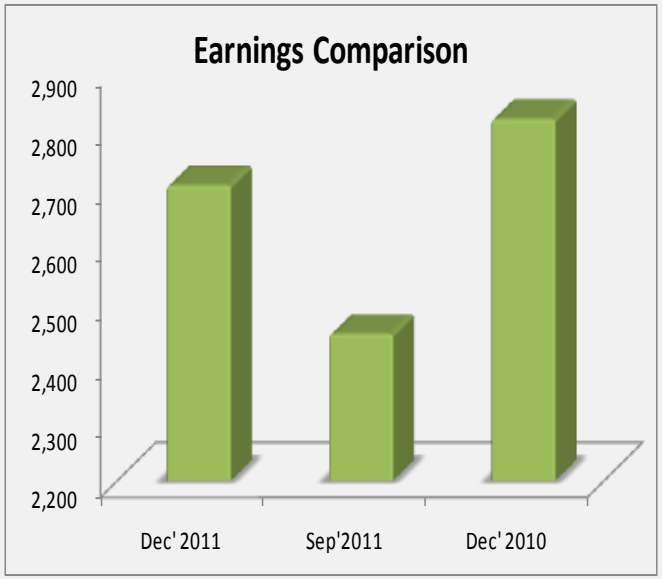
Sector P/E	5.60
Sector PBV	2.22
Sector ROE	39.7%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- Motor sector is the most undervalued sector in terms of Price Earnings valuation and currently the sector trades 5.6X as opposed to the overall sector PE of 14.2X. Major earnings contributors in this sector were DIMO(34%), United Motors(29%), Lanka Ashok Leyland(15%), Colonial Motors(9%).
- Reduction in Vehicle import Taxes and Duties coupled with strong demand persisted in the domestic automotive sector led to show impressive results during the period under consideration. Motor sector cumulative earnings depict 2% QoQ growth whilst in comparison to corresponding quarter in 2010 the sector shows 90% increment in earnings. The year 2011 was remarkable year for the domestic automotive sector which recorded 150% growth in new vehicle registrations.
- Nevertheless, going forward in the short term the growth of the sector would be curtailed with the devaluation of rupee, increase in interest rates together with rise in fuel prices. However in long term basis, the sector would benefit with development in the road network as a result of reconnecting the previously combat North & East, and expected increase in per capita income in the country. However, the counters that would be more skewed towards luxury segment would not get affected as opposed to the counters more skewed towards the mass market vehicles.

Telecommunication





Sector P/E	14.97
Sector PBV	1.73
Sector ROE	11.6%
Market P/E	14.24
Market PBV	2.24
Market ROE	15.8%

* P/E and ROE ratios are based on trailing earnings

- Though the telecommunication sector is made up of Dialog Axiata and Sri Lanka Telecom, the sector contributes 6.85% to the total market capitalisation and 6.88% to the total Market earnings.
- Earnings of the sector during Dec'2011 depicts satisfactory 10.4% compared to Sep'2011, whilst on YoY basis the Telecommunication sector shows 10.2% growth. Significant cost restructuring on Dialog Axiata helped the company to show healthy growth in earning during the period. Nevertheless the counter would be adversely affected with the devaluation of currency, since Dialog has obtained a syndicated dollar loan from Axiata Investment Ltd. In addition, dense competition in the industry coupled with heavy depreciation charges leads to erode margins of the industry as a whole.
- Nevertheless moving forward, we expect better prospects especially in Broadband and corporate solutions segments with the technological advances in the industry with high penetration levels in the country together with improved per capita income and advancements in corporate requirements.

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