

Asian Weekly



Overview

- Asian equities rose last week as expectations of improved corporate earnings outweighed concerns over the unexpected rise in US jobless claims.
- Manufacturing activity in China, Korea and Taiwan eased in July, whereas Australia's manufacturing output grew because of firmer demand in mining-related and consumer-driver sectors. India's PMI benefited from new orders and stronger factory output.
- Indonesia's second-quarter GDP growth was boosted by domestic consumption, exports and investment. The central bank kept policy rates unchanged despite accelerating inflation in July.
- Beijing told banks to assess the impact of a fall of up to 50% in house prices in key cities where prices have risen sharply.
- India exempted state-owned listed companies from the two-month old law requiring them to have at least 25% of their shares traded. Other listed companies will still have to comply with the rule.
- Korean president Lee Myung Bak named a former provincial governor as the next prime minister and replaced half his Cabinet in a mid-term reshuffle to push through his pro-business reforms.

Corporate News

Australia: Rio Tinto's underlying earnings more than doubled in the first half because of strong demand and higher commodity prices. The mining giant declared a US\$0.45 a share dividend; it will invest a further US\$790 million to expand its Pilbara operations. Although **AXA Asia Pacific's** first-half profits fell, operating earnings grew on the back of its booming Southeast Asian businesses.

China/Hong Kong: Interim corporate earnings were broadly upbeat: **Swire Pacific's** results were driven by the sharp turnaround in Cathay Pacific and solid performance by its property arm. **Jardine Strategic** gained from HK Land's property sales and contributions from Astra International. **Convenience Retail Asia** attributed its good results to effective cost control and promotions. **Pacific Basin's** decent results were aided by healthy charter rates and revenues; its purchase of new vessels underlined a positive outlook. **StanChart's** record earnings were boosted by broad-based improvements in asset quality, expenses control and wholesale banking momentum.

India: ICICI Bank's profits rose, as it strengthened its capital base and loan book by selectively pursuing growth. **Jammu & Kashmir Bank** overcame rising regional tension and a difficult operating backdrop to post higher earnings. Paint holdings **Asian Paints** and **Kansai Nerolac** demonstrated their ability to pass on rising costs to customers in their results. **Gail's** earnings rose on higher gas transmissions and robust performances from its LPG and liquid hydrocarbons units. Although **Grasim** suffered from weak cement prices, its viscose staple fibre business reported good results. It is on track in consolidating its cement businesses under Ultratech Cement.

Indonesia: Quarterly results were mixed. **Bank OCBC NISP's** results were lifted by better net interest margins and lower provisions. Higher prices and sales volumes aided **Inco's** earnings. **Merck** posted weak results as higher sales costs eroded revenue growth. **Mustika Ratu** posted marginally better revenue, but net profits rose significantly because of smaller foreign exchange losses. **Ramayana's** margins fell, owing to higher restructuring charges and initial costs of opening new stores. **Telkom's** margins were hurt by rising operating expenses. **United Tractor's** performance reflected margin compression in two key business units.

Japan: First-quarter earnings were positive, but most companies maintained a cautious near-term outlook and kept their forecasts unchanged due to currency volatility and uncertainties over demand when government incentives expire. Auto-related companies, such as parts makers **FCC** and **Aisin Seiki**, and carmaker **Toyota Motor** reported generally better figures as demand recovered, while machinery company **Nabtesco** and robot maker **Fanuc** benefited from rising Asian sales. Results in the financial sector were less inspiring, as regional lenders **Bank of Kyoto** and **Awa Bank** struggled with weak loan demand.

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Korea: The government plans to sell its stake in Woori Finance's two regional banks, Kyongnam and Kwangju, as part of a wider restructuring of the Woori Group. Our two Korean regional bank holdings, **Daegu** and **Busan**, were reportedly interested in the deal which could potentially double the asset size of the successful bidder.

Malaysia: In quarterly earnings news, increased sales volume during the World Cup and higher selling prices underpinned **Guinness Anchor's** profits. **F&N** gained from soft drinks sales, which rose on the back of promotions at major sports events.

Philippines: **Ayala Land** posted decent second-quarter profits because of higher property sales; the developer increased its residential sales target for the year as demand recovers. Separately, its subsidiary partnered Sino-Singapore Tianjin Eco-City Investment and Development to develop a residential project in China.

Singapore: Quarterly corporate results were generally healthy. Fees, commissions, as well as lower provisions and better asset quality underpinned **OCBC's** second-quarter net profits. **Sembcorp Marine** reported robust profit growth as margins improved. **ST Engineering's** better net profits were attributed to all its main business segments. Although **Venture** was dragged down by the exit from low-margin printing & imaging, the profitability of its core businesses continued to improve. **Singapore Exchange's** full-year net profits were aided by securities trading and a revival of primary market activities. In other news, **Keppel Corp** will increase its stake in two Philippine associates to raise its presence there. **Eu Yan Sang** acquired a stake in Australia's Healthzone, giving it access to markets in Australia and China. Astra's automotive division and rupiah appreciation drove **Jardine Cycle & Carriage's** results.

Sri Lanka: The stockmarket regulator imposed a daily 10% upward and downward price band on all listed securities, after heavy speculation last week led to 'unusual price increases' in some counters. In earnings news, **Aitken Spence's** strong first-quarter results were supported by its tourism, logistics, and services segments. **Commercial Bank of Ceylon** reported good results, although the stronger rupee affected income from abroad.

Thailand: In quarterly corporate results, **Thai Reinsurance's** profits fell, as higher claims outweighed the improvement in investment income. Higher revenue supported **Advanced Info Service's** earnings, while the profits of both **Home Product Center** and **LPN Development** rose because of better sales and margins.

We hold all the above companies highlighted.

Asian Fixed Income

Inflows into Asian bonds saw lower yields in several markets. Indonesia outperformed, but yields in Korea and Thailand rose as markets priced in further tightening. Asian currencies strengthened against the US dollar, led by the won, Philippine peso and ringgit.

Indices Performance Table

	WOW	YTD	WOW (US\$)	YTD (US\$)	06/08/2010
Australia All Ords	1.75%	-6.07%	2.93%	-4.34%	4,586.30
Hang Seng	3.09%	-0.89%	3.15%	-1.00%	21,678.80
MSCI China (US\$)	2.13%	-1.62%	2.13%	-1.62%	63.76
MSCI Zhong Hua (US\$)	2.54%	-0.07%	2.54%	-0.07%	331.62
India NSE50	1.33%	4.58%	2.06%	5.44%	5,439.25
Indonesia JCI	-0.28%	20.76%	-0.39%	27.36%	3,060.59
Japan Topix	1.37%	-5.11%	2.81%	2.82%	861.17
Aberdeen Global Japanese Smaller Co	1.17%	2.69%	2.61%	12.20%	509.75
Korea KOSPI	1.39%	6.01%	3.52%	6.56%	1,783.83
FTSE Bursa Malaysia KLSE	-0.03%	6.89%	1.28%	16.71%	1,360.45
New Zealand 50	0.33%	-5.74%	0.98%	-5.35%	3,044.63
Pakistan KSE100	-1.94%	9.89%	-2.46%	8.15%	10,315.20

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Philippines PCOMP	2.61%	15.19%	4.02%	18.46%	3,516.28
Straits Times Index	0.25%	3.36%	1.16%	7.73%	2,995.06
Taiwan TWSE	2.61%	-2.75%	3.29%	-2.00%	7,963.30
Thailand SET	2.25%	19.13%	3.01%	24.19%	875.07
Sri Lanka	-1.87%	49.61%	-1.50%	52.25%	5,065.07
US DJ	1.79%	2.16%	1.79%	2.16%	10,653.56
UK FTSE 100	1.41%	-1.49%	3.15%	-2.62%	5,332.39
Nasdaq Composite	1.50%	0.85%	1.50%	0.85%	2,288.47
MSCI AC AP Free X Japan (US\$)	2.39%	0.56%	2.39%	0.56%	418.87
MSCI AC Asia Pac X Japan Small Cap (US\$)	2.59%	2.18%	2.59%	2.18%	902.87
Merrill Lynch Asian US Dollar Bond	0.56%	9.52%	0.56%	9.52%	294.58
JPM Singapore Govt Bonds	-0.45%	5.20%	0.46%	9.64%	158.13

Source: Aberdeen Asset Management Asia Limited, Bloomberg, Reuters, IRESS.

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