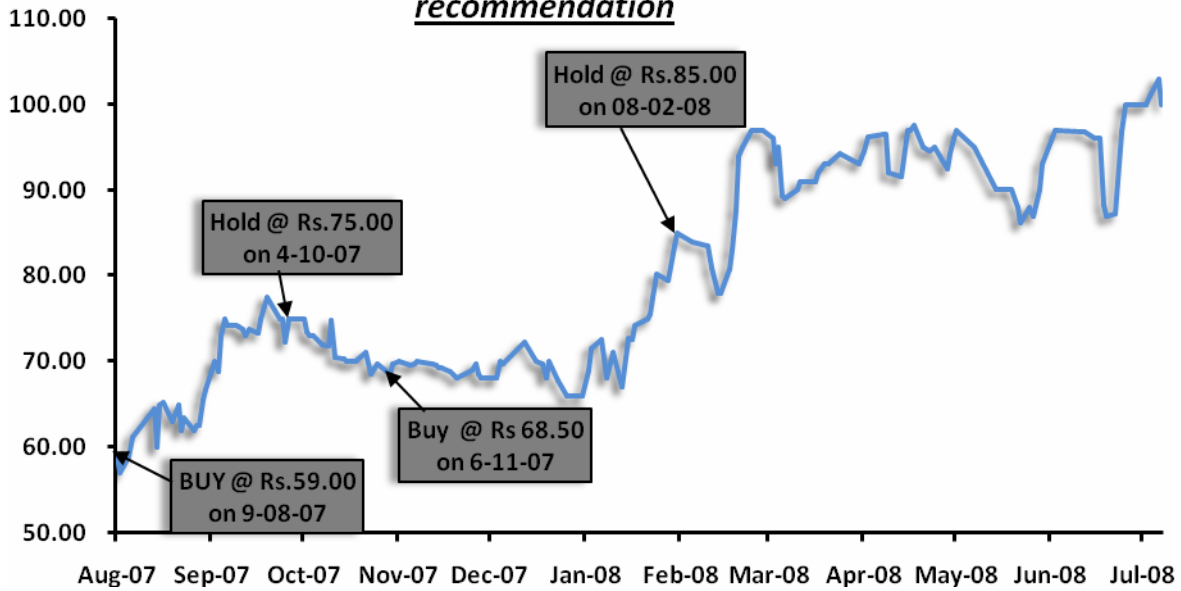


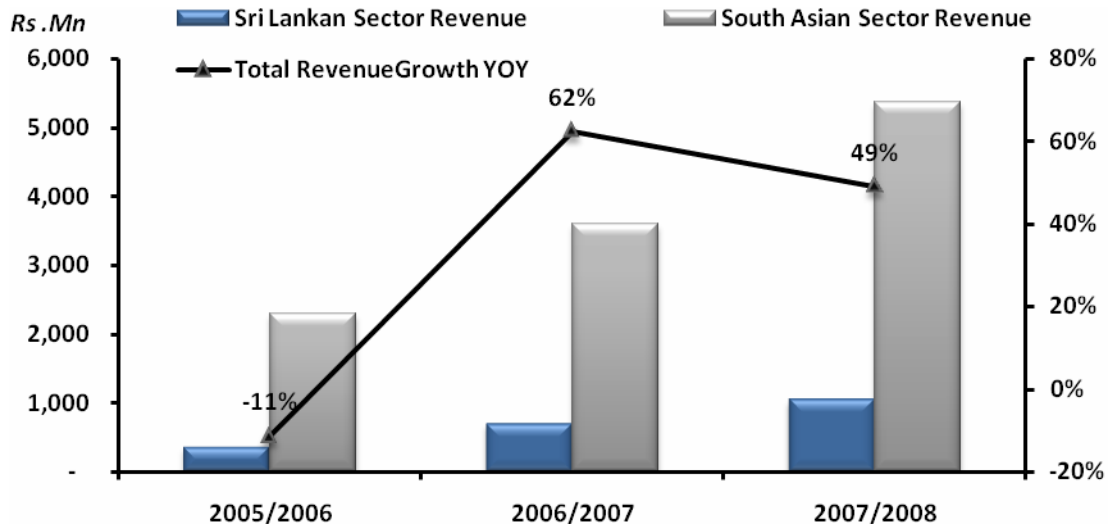
<b>Recommendation</b> <b>Unchanged</b>	<b>Aitken Spence Hotel Holding Ltd (AHUN)</b>	<b>HOLD</b>
	<b>Valuation Update</b>	

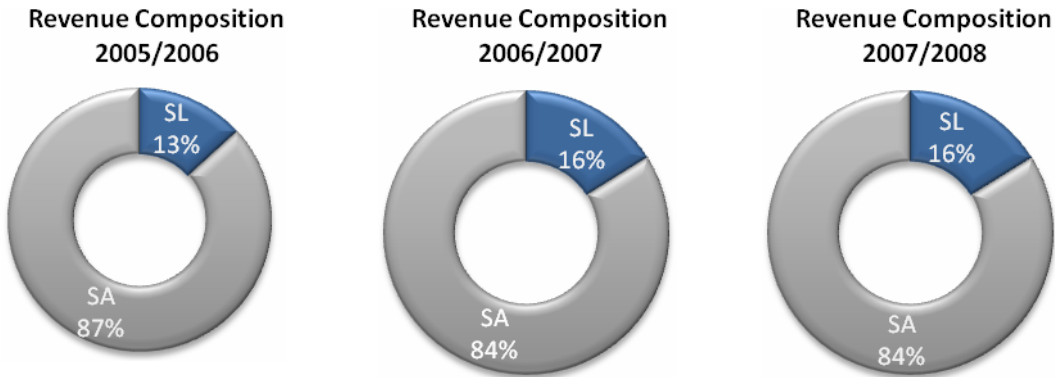
<p><b>Recommendation</b></p> <p><b>HOLD</b></p> <p><b>Share Price</b></p> <p><b>Rs.109.75*</b></p> <p><b>ASPI</b></p> <p><b>2,415.86 *</b></p> <p><b>MPI</b></p> <p><b>2,881.86 *</b></p> <p><b>Analyst</b></p> <p><b>Varuni De Silva</b></p> <p><i>*CSE data as on 17<sup>th</sup></i></p> <p><i>July 2008</i></p>	<ul style="list-style-type: none"> <li>➤ We are maintaining our hold recommendation on AHUN despite the sharp increase in AHUN’s share price during the past couple of weeks.</li> <li>➤ Stronger than expected performance in both, the Sri Lankan sector and South Asian sector of AHUN and the strong upside potential of AHUN’s expansion overseas has pushed up the valuation of AHUN’s share price.</li> <li>➤ Our revised 12 month forward target price for the counter is Rs.120 from the Rs.93 it was at previously.</li> <li>➤ However considering the fact that on a twelve month horizon the counter would provide only a 9% return, a Hold recommendation would be more appropriate than a Buy recommendation.</li> <li>➤ Our initial Buy recommendation was on 9<sup>th</sup> August 2007 when the counter was trading at Rs 59. Since then the share price has provided a return of 69%.</li> </ul>
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**Movement of AHUN Share price since our initial recommendation**



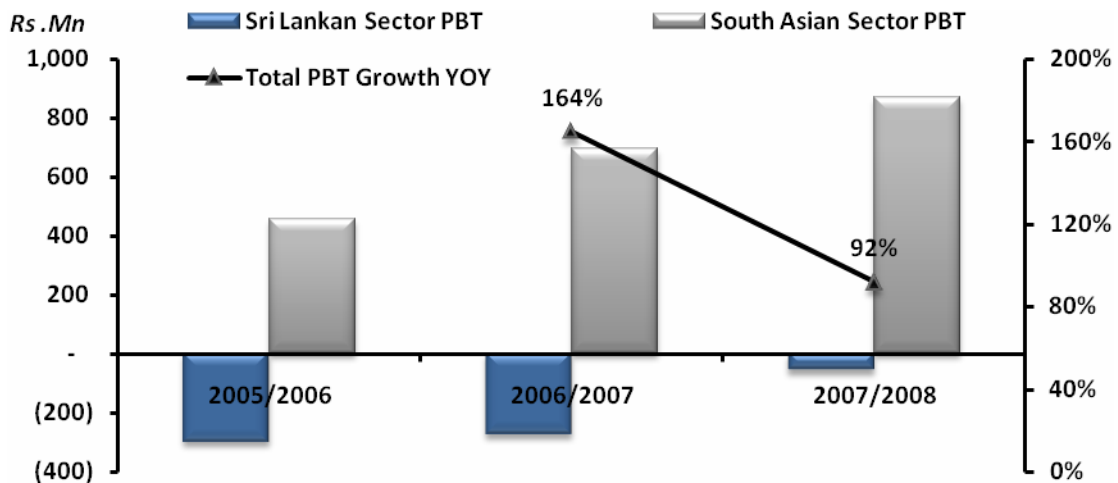
**2007/2008 Results Review & Valuation Update**





For the year ended 2007/2008 AHUN's Sri Lankan resort sector has done relatively better than we expected considering Sri Lanka's Tourism sector performance. AHUN's Sri Lankan revenue increased by 50% and losses decreased by 79%.

As the Sri Lankan operations continue to generate negative cash flows we continue to value the Sri Lankan operations of AHUN using the adjusted book value based approach. Thus using the same methodology we used in our previous reports the valuation that we arrived for the Sri Lankan sector of AHUN's operation is Rs.52.





AHUN's South Asian sector revenue growth for the year was an impressive 49% YOY basis. During 2007/2008 AHUN continued to expand their overseas operations in Maldives, India and entered in to new markets in the Middle East. The South Asian sector was able to increase it's profit before taxes by 25% on YOY basis.

Our valuation for AHUN's Maldivian operations in our previous report was based on the assumption of 8% annual rupee depreciation against the USD in 2008/2009. We continue to maintain the same rupee depreciation rate against the USD. However the valuation of the Maldivian operations has been revised upward due the better than expected results during the last quarter of 2007/2008 financial year and the addition of a new resort to AHUN's Maldivian Resort portfolio. As a result our valuation for AHUN's Maldivian operations would be revised to Rs.92 per share.

### **Recent Expansion Strategy of AHUN**

The recent additions to AHUN's Maldivian resort portfolio Hudhranfushi in 2006/2007 financial year and Vadoo in 2007/2008 financial year are both 100% owned by Aitken Spence Hotels International Ltd, which is a 51% is owned subsidiary of AHUN. The remainig 49% of Aitken Spence Hotels International Ltd is owned by AHUN's parent company Aitken Spence PLC(SPEN).

The recent addition of the management of four Oman based hotels, and the operations and expansion in India are carried out through Aitken Spence Hotel Management Asia (Pvt) Ltd. which is also a 51% owned subsidiary of AHUN whilst the rest is owned by SPEN.

Considering the recent expansions and the future expected expansions disclosed in AHUN's annual report a major feature that we notice in AHUN's expansion strategy is the move to jointly carry out new expansions with AHUN's parent SPENC. This Strategy could prove to be beneficial for AHUN to obtain additional financing to its expansions. But it creates ambiguity in properly valuing the future benefits AHUN would gain through these expansions.

Thus we have not included the potential benefits AHUN would gain from the expansion in its operations in India, Andaman Island and Oman in to our main valuation.



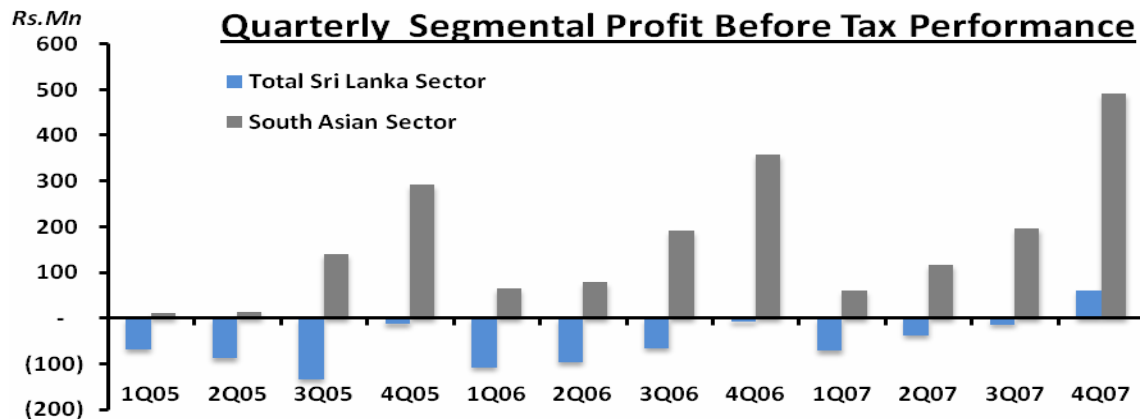
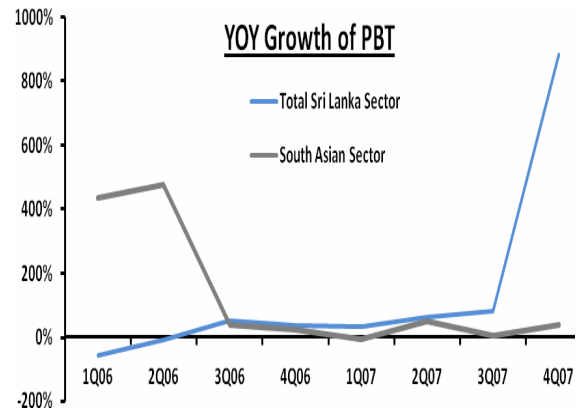
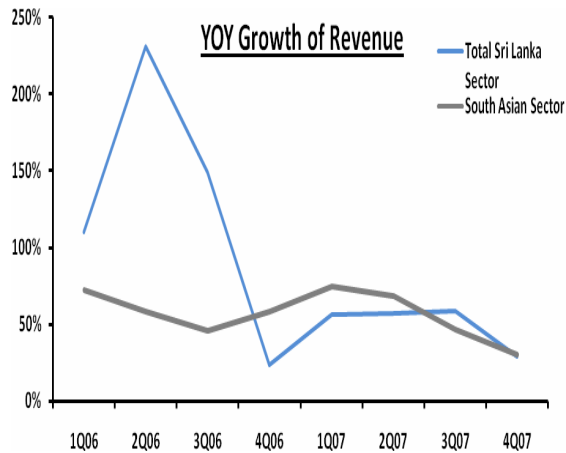
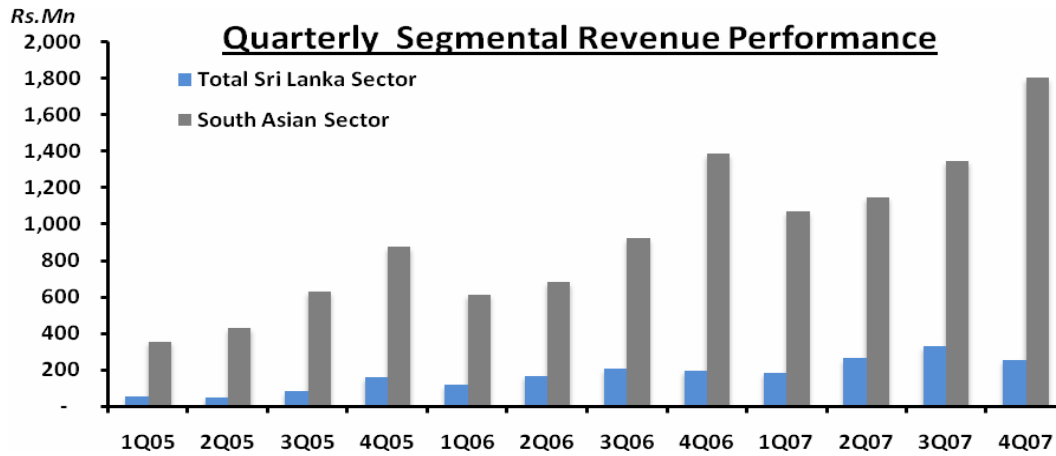
Therefore our main basis for AHUN's valuation is its Maldivian operations and Sri Lankan operations. This provides us with a fair value of Rs.133 per share. We have discounted the fair value obtained to reflect the continued risk AHUN faces in operations in Sri Lanka due to the impact potential terrorist activity could have on the tourism industry. In our previous report except the most recent report the discount factor that we used was 20%. However we have reduced the discount factor to 10% to reflect the reduced terrorist threats in Maldives and to reflect the upside potential AHUN's other foreign expansion projects would have on the company.

	August Valuation	October Valuation	November Valuation	February Valuation	Current Valuation
Maldivian Operations	65.52	59.69	68.16	62.68	92.11
SL Operations	41.20	41.20	50.31	50.31	51.56
Adjustment	(9.80)	(9.80)	(9.80)	(9.80)	(10.46)
Fair Value	96.92	91.09	108.68	103.19	133.22
20% Discount to Target price	<b>77.54</b>	<b>72.87</b>	<b>86.94</b>	82.55	106.57
10% Discount to Target Price	87.23	81.98	97.81	<b>92.87</b>	<b>119.89</b>

### Summary of the Financial Forecast

Rs.(000)	2006/2007	2007/2008	2008/2009F	2009/2010F	2010/2011F	2011/2012F	2012/2013F
Gross Revenue	4,299,987	6,412,699	6,617,987	8,229,827	10,279,331	12,900,151	16,271,118
<b>YOY</b>	<b>68%</b>	<b>49%</b>	<b>3%</b>	<b>24%</b>	<b>25%</b>	<b>25%</b>	<b>26%</b>
Profits operating activities	657,879	1,140,470	1,140,838	1,426,299	1,794,336	2,271,656	2,894,385
<b>YOY</b>	<b>273%</b>	<b>73%</b>	<b>0%</b>	<b>25%</b>	<b>26%</b>	<b>27%</b>	<b>27%</b>
<b>Profits after tax &amp; Minority interest</b>	<b>202,591</b>	<b>512,651</b>	<b>590,771</b>	<b>776,116</b>	<b>1,015,075</b>	<b>1,324,990</b>	<b>1,729,317</b>
<b>YOY</b>	<b>117%</b>	<b>153%</b>	<b>15%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>
<b>EPS</b>	<b>4.88</b>	<b>13.34</b>	<b>15.37</b>	<b>20.19</b>	<b>26.41</b>	<b>34.48</b>	<b>45.00</b>
<b>EPS growth</b>		<b>173%</b>	<b>15%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>	<b>31%</b>

## Quarterly Performance



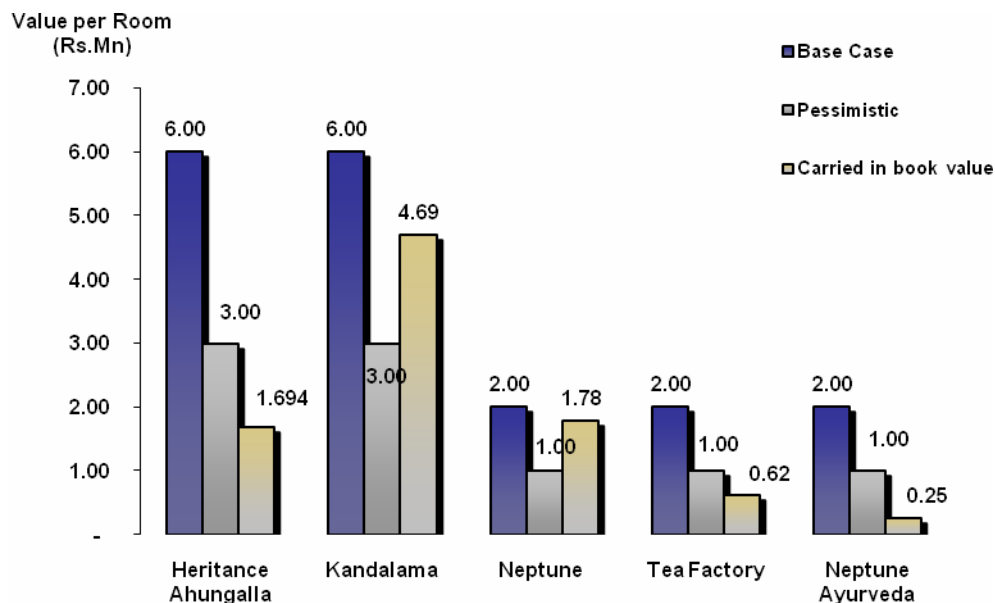
## Appendices

### Recap from previous reports

#### Valuation Basis

- To fully reflect the value of the company’s overseas operations we did the preliminary valuation of the company on a “Sum of Parts basis” valuing the operations in different regions separately.
- To value the operations in Maldives we looked at a discounted cash flow valuation methodology as AHUN has a finite lease period on these resorts which are generating revenues.
- As the Sri Lankan operations are currently generating significant negative cash flows, and a discounted cash flow approach would be very sensitive to assumptions regarding the timing of a return to peace, we looked at an adjusted book value based approach to the Sri Lanka operations.
- Further we upgraded the value of Sri Lankan assets of AHUN using the acquisition values of Confifi Hotels by Keels Hotels as a bench mark.

#### ➤ Value per room valuation of AHUN’s Sri Lankan Hotels



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