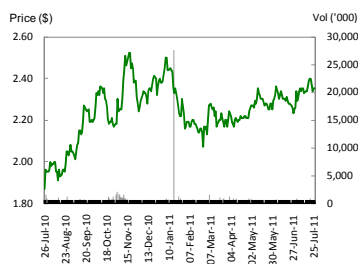



BUY
2Q11 Results**Analyst**

YEAK Chee Keong, CFA
 yeakcheekeong@kimeng.com
 (65) 6433 5730

Price **\$2.35**
Target **\$2.80**
ST Index **3,171.55**

Historical Chart

Performance	1m	3m	6m
Absolute (%)	4.0	6.3	5.9
Relative (%)	0.5	6.3	7.5

Stock Information

Ticker code	RAFG.SI RFMD.SP
Market cap (US\$m)	1,037.8
52-week high (S\$)	2.52
52-week low (S\$)	1.83
Shares issued (m)	533.4
6m avg d.vol (US\$m)	0.6
Free float (%)	55.7
Major shareholders (%)	
Dr Loo Choon Yong, Chairman	(40.0)

Key Indicators

ROE (%)	14.3
Net gearing (%)	1.0
NTA (S\$)	0.59
Interest cover (x)	205

Raffles Medical Group

Ample room for growth

Event

- Raffles Medical Group's (RMG) 2Q11 net profit came in at \$11.6m (+10.1% YoY, +11.0% QoQ) on revenue of \$67.0m (+14.3% YoY, +3.9% QoQ). The results were in line with our expectations with revenue and net profit for 1H11 making up, respectively, 51% and 46% of our full-year forecasts. An interim dividend of 1 cent per share was also declared. Maintain BUY and target price of \$2.80.

Our View

- RMG has delivered another set of consistent results and is on track to meet our full-year forecasts. Revenue for the Healthcare and Hospital Services divisions grew by 12.2% YoY and 14.5% YoY, respectively, in 2Q11. No further breakdown was provided, though management said that approximately half of the increase in revenue came from volume growth and the other half, from price increase.
- The group's Specialist Medical Centre at the newly purchased Thong Sia Building should commence operations in 2H12. The expansion of Raffles Hospital on its existing site by an additional 102,408 sq ft has received the grant of provisional permission from the Urban Redevelopment Authority and completion is slated by 2013. This should help ensure double-digit growth as RMG's existing facilities approaches full capacity.
- Healthcare cost has grown at 2.9% CAGR over the past 20 years, outpacing the inflation rate of 1.4%. This trend is set to continue and would provide a natural environment for RMG to raise prices in the long term. In the short term, the group's prices are on average still below those of Gleneagles and Mount Elizabeth Hospital, giving it room for increase. Rising staff cost would put a squeeze on margins although RMG has done well so far to pace the increase with its revenue growth.

Action & Recommendation

Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam has called on the private sector to play a bigger role in easing public healthcare strain. We believe this would lead to positive benefits for the private healthcare sector if subsidies are provided by the government. We maintain our forecasts and DCF-based target price of \$2.80 for RMG. Reiterate BUY.

Year End	Dec	2009	2010	2011F	2012F	2013F
Sales (S\$m)		218.6	239.1	259.3	285.3	318.6
Pre-tax (S\$m)		45.0	53.1	57.4	65.1	76.2
Net profit - adj (S\$m)		37.3	42.3	48.2	54.8	64.2
EPS (S cts)		7.3	8.6	9.1	10.4	12.1
EPS growth (%)		19.6	18.1	6.1	13.5	17.2
PER (x)		33.6	28.3	26.7	23.5	20.1
EV/EBITDA (x)		22.7	19.2	19.1	16.6	14.2
Yield (%)		1.3	1.5	1.5	1.5	1.5

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1: 2Q11 results

YE Dec (\$m)	2Q11	2Q10	% YoY growth	1Q11	% QoQ growth	1H11	1H10	% YoY growth
Sales	67.0	58.6	14.3%	64.4	3.9%	131.4	114.8	14.5%
Other operating income	0.0	0.2	-95.7%	0.0	n.m.	0.0	0.2	-95.7%
Inventories & consumables	(7.6)	(6.7)	15.0%	(7.4)	2.9%	(15.1)	(13.0)	15.7%
Purchased & services	(5.3)	(4.3)	21.6%	(4.8)	9.5%	(10.1)	(8.2)	23.6%
Staff costs	(31.7)	(27.8)	14.1%	(31.7)	0.1%	(63.4)	(55.4)	14.4%
Depreciation	(2.0)	(1.7)	16.4%	(1.9)	4.8%	(3.8)	(3.4)	13.6%
Operating lease	(1.5)	(1.3)	8.3%	(1.4)	2.1%	(2.9)	(2.7)	7.6%
Other operating expenses	(4.6)	(4.0)	14.4%	(4.4)	4.5%	(9.0)	(8.2)	9.4%
Operating profit	14.3	12.9	11.0%	12.8	11.8%	27.1	24.0	12.9%
Finance income	0.0	0.1	-61.6%	0.1	-72.1%	0.2	0.2	5.5%
Financing costs	(0.1)	(0.1)	11.1%	(0.0)	66.7%	(0.1)	(0.1)	-16.4%
Pretax income	14.3	12.9	10.4%	12.9	10.7%	27.2	24.1	13.0%
Income taxes	(2.6)	(2.3)	11.3%	(2.4)	11.0%	(5.0)	(4.3)	14.2%
Minority interest	0.1	0.0	51.4%	0.1	-30.0%	0.1	0.1	47.8%
Net income	11.6	10.6	10.1%	10.5	11.0%	22.1	19.6	12.6%

Source: Company data, Kim Eng

Net profit growth slows

Compared to a year ago, net profit grew more slowly than revenue. This was because cash grants under the Jobs Credit Scheme were absent as the scheme ended in June last year. In addition, management said that startup costs for the group's Shanghai Medical Centre also affected the bottomline. Normalising the effects of the Jobs Credit Scheme, net profit would have grown by 12.5% YoY.

From net cash to net debt

RMG also went from a net cash position of \$71m in 1Q11 to its current net debt position of \$3.2m following the payment of the balance of \$83m for the purchase of Thong Sia Building in April.

Positive macro factors herald growth opportunities

New supply limited; population and patient admission on the rise

According to statistics from the Ministry of Health, there were a total of 10,387 hospital beds as of 2009 – 8,456 from the public sector and 1,931 from the private sector. With the opening of Khoo Teck Puat Hospital last year, we estimate the total number of beds at approximately 11,000. A fresh supply of hospital beds will only come on-stream from 2013 with the arrival of two new private hospitals, Farrer Park and Novena (Figure 2). A new public hospital, Ng Teng Fong Hospital, is slated for opening in 2014. Despite the new supply, healthcare services in Singapore would continue to be stretched with admission rates clearly on the uptrend, in tandem with strong population growth and an ageing population. (Figures 4 and 6).

Figure 2: Number of hospital beds in the pipeline

Public hospital		
Ng Teng Fong Hospital	700 beds	2014
Private hospitals		
Farrer Park	350 beds	2013
Novena	200 beds	2013

Source: Kim Eng

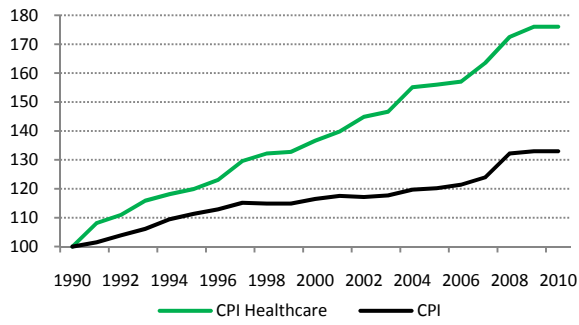
Healthcare cost to continue to increase

The cost of healthcare usually outpaces the rate of inflation. Over the past 20 years, it rose at an average rate of 2.9% pa compared to inflation rate of 1.4% pa (Figure 3). This trend is set to persist and offers a natural environment for RMG to raise prices. Besides, the group's current prices are on average below those of Gleneagles and Mount Elizabeth Hospital (Figures 7 and 8), giving it room for increase in the short term. Rising staff cost would also be a concern going forward, although RMG has demonstrated discipline in cost control over the past years, pacing the increase with its revenue growth.

Private sector to help ease public healthcare strain

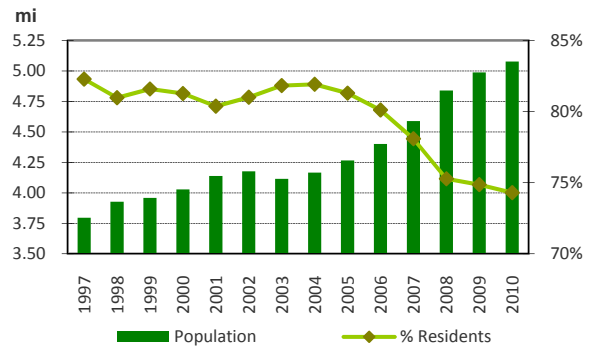
Speaking at RMG's 35th anniversary dinner on 9 July 2011, Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam called on the private sector to assume a bigger role in easing public healthcare strain. In our opinion, this could lead to the public sector outsourcing some of its services to the private sector. However, we believe that this would only work if some forms of subsidies are provided by the government on the medical expenses. While there are no concrete plans outlined, we believe the potential benefits to RMG could be positive. Reiterate BUY and target price of \$2.80.

Figure 3: Healthcare cost vs inflation rate



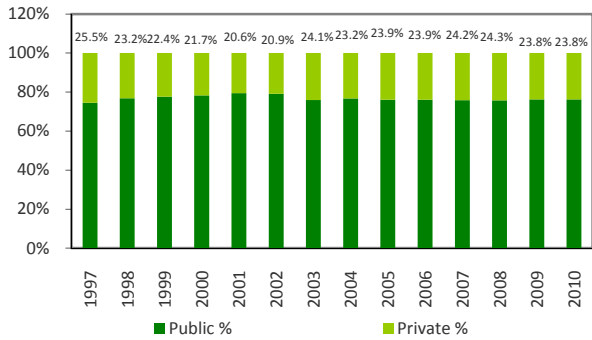
Source: Bloomberg, Singstats

Figure 4: Population grows and grows



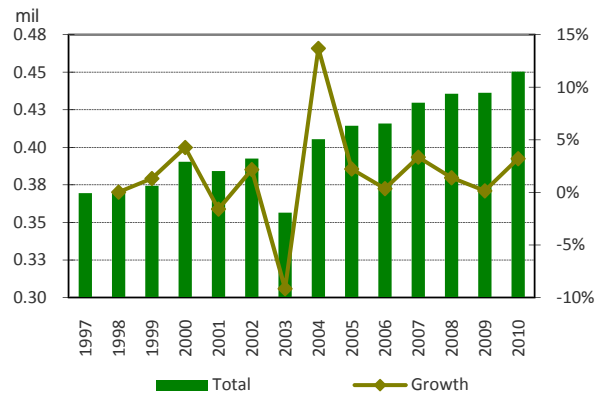
Source: Singstats

Figure 5: Patient load – public vs private hospitals



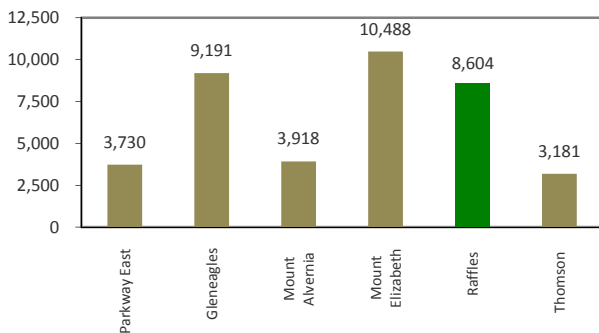
Source: Ministry of Health

Figure 6: Patient admission – Numbers creeping up



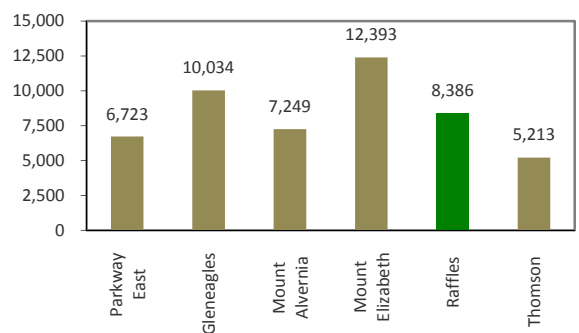
Source: Ministry of Health

Figure 7: Medical bill – average total in 2010 (\$m)



Source: Ministry of Health

Figure 8: Surgical bill – average total in 2010 (\$m)



Source: Ministry of Health

Profit and loss						Cashflow					
YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F	YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
Sales	218.6	239.1	259.3	285.3	318.6	Operating cash flow	47.2	49.2	57.1	67.1	78.0
Consumables & services	(40.5)	(44.1)	(46.7)	(51.1)	(56.7)	Pretax profit	45.0	53.1	57.4	65.1	76.2
Staff costs	(104.9)	(115.8)	(123.2)	(134.1)	(148.1)	Depreciation & amortization	6.9	7.0	8.2	9.0	9.4
Depreciation	(6.9)	(6.9)	(8.2)	(9.0)	(9.4)	Change in working capital	0.6	(2.5)	(0.5)	1.8	2.3
Operating lease	(5.1)	(5.6)	(5.6)	(5.6)	(5.6)	Others	(5.4)	(5.4)	(7.9)	(8.8)	(9.9)
Other op expenses (net)	(15.7)	(13.4)	(17.8)	(19.6)	(21.8)	Investment cash flow	(3.5)	(3.4)	(141.9)	(34.9)	(34.8)
Operating profit	45.5	53.3	57.9	65.9	76.8	Net capex	(3.7)	(3.8)	(142.0)	(35.0)	(35.0)
Financing costs	(0.4)	(0.2)	(0.6)	(0.8)	(0.6)	Acquisition of sub	0.0	0.0	0.0	0.0	0.0
Share of joint entity	0.0	0.0	0.0	0.0	0.0	Others	0.4	2.1	0.2	0.2	0.2
Pretax income	45.0	53.1	57.4	65.1	76.2	Financing cash flow	(13.7)	(12.8)	16.3	(21.1)	(33.6)
Income taxes	(7.0)	(7.6)	(8.9)	(10.1)	(11.8)	Dividends	(13.0)	(15.7)	(18.5)	(18.5)	(18.5)
Minority interest	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	Net change in debt	(2.0)	(1.4)	34.9	(2.5)	(15.0)
Net profit attributable	37.9	45.3	48.2	54.8	64.2	Issue of shares	1.3	4.3	0.0	0.0	0.0
Net profit (normalized)	37.3	42.3	48.2	54.8	64.2	Others	(0.1)	0.0	0.0	0.0	0.0
EPS (SG cents)	7.3	8.6	9.1	10.4	12.1	Net cash flow	30.0	33.1	(68.4)	11.1	9.6
EBITDA	52.4	60.3	66.1	75.0	86.3	<i>Source: Company data, Kim Eng estimates</i>					

Source: Company data, Kim Eng estimates

Balance Sheet						Key ratios					
YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F	YE Dec (\$\$ m)	2009	2010	2011F	2012F	2013F
Total assets	336.8	371.8	441.6	482.1	521.6	Growth (% YoY)					
Current assets	104.5	138.3	74.3	88.8	102.8	Sales	8.9	9.4	8.4	10.0	11.7
Cash	74.4	107.1	38.6	49.6	59.1	Operating Profit	16.6	17.3	8.6	13.8	16.6
Inventories	5.3	5.1	5.9	6.4	7.1	EBITDA	14.8	15.1	9.6	13.4	15.1
Receivables	24.3	26.1	29.8	32.8	36.7	Net Profit	18.2	13.4	14.1	13.5	17.2
Others	0.6	0.0	0.0	0.0	0.0	EPS	19.6	18.1	6.1	13.5	17.2
Long term assets	232.3	233.5	367.3	393.3	418.8	Profitability (%)					
Plant and equipment	146.4	144.3	278.1	304.1	329.6	Gross margin	Na	Na	Na	Na	Na
Intangibles	0.4	0.3	0.3	0.3	0.3	Operating margin	20.8	22.3	22.3	23.1	24.1
Investment properties	85.0	88.0	88.0	88.0	88.0	EBITDA margin	24.0	25.2	25.5	26.3	27.1
Others	0.5	0.9	0.9	0.9	0.9	Net profit margin	17.3	18.9	18.6	19.2	20.1
Total liabilities	86.7	84.8	124.9	129.1	123.0	ROA	11.3	12.2	11.0	11.4	12.4
Current liabilities	65.2	65.1	73.2	77.4	86.3	ROE	15.2	15.9	15.3	15.6	16.2
Payables	52.0	51.0	55.1	60.3	67.1	Stability					
ST borrowings	4.5	4.6	7.5	5.0	5.0	Gross debt/equity (%)	9.8	7.9	18.2	15.6	10.0
Others	8.7	9.5	10.7	12.1	14.2	Net debt/equity (%)	(8.1)	(20.0)	(29.5)	6.0	1.5
Long-term liabilities	21.4	19.7	51.7	51.7	36.7	Int. coverage (X)	110.9	223.2	100.8	79.9	128.1
LT borrowings	20.0	18.0	50.0	50.0	35.0	Int. & ST debt coverage (X)	9.2	11.1	7.2	11.3	13.7
Others	1.4	1.7	1.7	1.7	1.7	Cash flow int. coverage (X)	73.1	138.3	(118.9)	13.5	16.0
Shareholder's equity	249.8	286.4	316.2	352.4	398.1	Cash flow int. & ST debt (X)	6.1	6.9	(8.5)	1.9	1.7
Paid-in capital	172.7	177.0	177.0	177.0	177.0	Current ratio (X)	1.6	2.1	1.0	1.1	1.2
Reserve	77.1	109.4	139.2	175.4	221.1	Quick ratio (X)	1.5	2.0	0.9	1.1	1.1
Minority interests	0.4	0.5	0.5	0.5	0.5	Net debt/(cash) (\$ m)	(49.9)	(84.6)	18.9	5.4	(19.1)
<i>Source: Company data, Kim Eng estimates</i>						Per share data (SG cent)					
						EPS	7.3	8.6	9.1	10.4	12.1
						CFPS	5.5	6.1	(12.5)	2.0	1.8
						BVPS	48.0	54.5	59.8	66.7	75.4
						SPS	40.4	43.8	47.3	52.0	58.1
						EBITDA/share	9.7	11.1	12.1	13.7	15.7
						DPS	3.0	3.5	3.5	3.5	3.5
						<i>Source: Company data, Kim Eng estimates</i>					

SINGAPORE

Stephanie WONG *Head of Research*
Regional Head of Institutional Research
 +65 6432 1451 swong@kimeng.com

- Strategy
- Small & Mid Caps

Gregory YAP

+65 6432 1450 gyap@kimeng.com

- Conglomerates
- Technology & Manufacturing
- Transport & Telcos

Rohan SUPPIAH

+65 6432 1455 rohan@kimeng.com

- Airlines
- Marine & Offshore

Wilson LIEW

+65 6432 1454 wilsonliw@kimeng.com

- Hotel & Resort
- Property & Construction

Anni KUM

+65 6432 1470 annikum@kimeng.com

- Conglomerates
- REITs

James KOH

+65 6432 1431 jameskoh@kimeng.com

- Finance & Banking
- Logistics
- Resources

Eric ONG

+65 6432 1857 ericong@kimeng.com

- Marine & Offshore
- Energy

OOI Yi Tung

+65 6433 5712 ooiyitung@kimeng.com

- Property & Construction

YEAK Chee Keong, CFA

+65 6433 5730 yeakcheekeong@kimeng.com

- Retail & Consumer
- Engineering
- Infrastructure

HONG KONG / CHINA
Edward FUNG *Head of Research*

+852 2268 0632 edwardfung@kimeng.com.hk

- Power
- Construction

Ivan CHEUNG

+852 2268 0634 ivancheung@kimeng.com.hk

- Property
- Industrial

Ivan LI

+852 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

Jacqueline KO

+852 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

Robert WANG

+852 2268 0630 robertwang@kimeng.com.hk

- Auto

Andy POON

+852 2268 0645 andypoon@kimeng.com.hk

- Telecom & related services

Samantha KWONG

+852 2268 0640 samanthakwong@kimeng.com.hk

- Consumer Discretionaries

Alex YEUNG

+852 2268 0636 alexyeung@kimeng.com.hk

- Industrial

INDIA
Jigar SHAH *Head of Research*

+91 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas
- Automobile
- Cement

Anubhav GUPTA

+91 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining
- Capital goods
- Property

Haripreet BATRA

+91226623 2606 haripreet@kimeng.co.in

- Software
- Media

Ganesh RAM

+91226623 2607 ganeshram@kimeng.co.in

- Telecom
- Contractor

INDONESIA
Katarina SETIAWAN *Head of Research*

+6221 2557 1125 ksetiawan@kimeng.co.id

- Consumer
- Infra
- Shipping
- Strategy
- Telcos
- Others

Ricardo SILAEN

+6221 2557 1126 rsilaen@kimeng.co.id

- Auto
- Energy
- Heavy Equipment
- Property
- Resources

Rahmi MARINA

+6221 2557 1128 rmarina@kimeng.co.id

- Banking

Lucky ARIESANDI, CFA

+6221 2557 1127 lariesandi@kimeng.co.id

- Cement
- Construction
- Pharmaceutical
- Retail

Adi N. WICAKSONO

+6221 2557 1130 anwicaksono@kimeng.co.id

- Generalist

Arwani PRANADJAYA

+6221 2557 1129 apranadjaya@kimeng.co.id

- Technical analyst

VIETNAM
Michael Kokalari, CFA *Head of Research*

+84 838 38 66 36 x 116 michael.kokalari@kimeng.com.vn

- Strategy

Nguyen Thi Ngan Tuyen

+84 838 38 66 36 x 163 tuyen.nguyen@kimeng.com.vn

- Conglomerates
- Confectionary and Beverage
- Oil and Gas

Ngo Bich Van

+84 838 38 66 36 x 171 van.ngo@kimeng.com.vn

- Banking
- Insurance

Nguyen Quang Duy

+84 838 38 66 36 x 162 duy.nguyenquang@kimeng.com.vn

- Industrial
- Property

Trinh Thi Ngoc Diep

+84 422 21 22 08 x 102 diep.trinh@kimeng.com.vn

- Property & Construction
- Power

Dang Thi Kim Thoa

+84 838 38 66 36 x 164 thoa.dang@kimeng.com.vn

- Consumer
- Services

Hoang Nam Phu

+84 838 38 66 36 x 171 phu.hoang@kimeng.com.vn

- Technology & Telecom
- Transport
- Resources

Truong Quang Binh

+84 838 38 66 36 x 169 quangbinh.truong@kimeng.com.vn

- Pharmaceutical
- Plantation & Fishery

THAILAND
Stephen LOWY *Head of Research*

+ 662 658 6300 x 4760 stephen@kimeng.co.th

Watchara SATITPORNUNUAY

+ 662 658 6300 x 4770 watchara.s@kimeng.co.th

- Retail
- Bank

Puttikul ACKARACHALANONTH

- Utilities

PHILIPPINES
Luz LORENZO *Head of Research*

+63 2 849 8836 luz_lorenzo@atr.com.ph

- Strategy

Laura DY-LIACCO

+63 2 849 8840 laura_dyliacco@atr.com.ph

- Utilities
- Conglomerates
- Telcos

Lovell SARREAL

+63 2 849 8841 lovell_sarreal@atr.com.ph

- Consumer
- Media
- Cement

Kenneth NERECINA

+63 2 849 8839 kenneth_nerecina@atr.com.ph

- Conglomerates
- Property
- Ports/ Logistics

Katherine TAN

+63 2 849 8843 kat_tan@atr.com.ph

- Banks
- Construction

ECONOMICS
Luz LORENZO *Economist*

+63 2 849 8836 luz_lorenzo@atr.com.ph

- Philippines
- Indonesia

REGIONAL
ONG Seng Yeow

+65 6432 1832 ongsengyeow@kimeng.com

- Regional Products & Planning

TAIWAN
Gary Chia

Head of Greater China Research

+886 2 3518 7900 gary.chia@yuanta.com

Boris Markovich

COO, Greater China Research

+852 3969 9518 boris.markovic@yuanta.com

John Brebeck, CFA

Head of Taiwan Strategy

Head of Research, Taiwan

+886 2 3518 7906 john.brebeck@yuanta.com

George Chang, CFA

Head of Upstream Tech

+886 2 3518 7907 george.chang@yuanta.com

Vincent Chen

Head of Downstream Tech

+886 2 3518 7903 vincent.chen@yuanta.com

Dennis Chan – NB Supply Chain

+886 2 3518 7913 dennis.chan@yuanta.com

Andrew C Chen – IC Backend

+886 2 3518 7940 andrew.chen@yuanta.com

Ellen Chiu – Taiwan Consumer

+886 2 3518 7936 ellen.chiu@yuanta.com

Danny Ho – Taiwan Petrochemical

+886 2 3518 7923 danny.ho@yuanta.com

Min Li – Alternative Energy

+852 3969 9521 min.li@yuanta.com

May Lin – Taiwan Telecom

+886 2 3518 7942 may.lin@yuanta.com

Tess Wang – Taiwan Financials

+886 2 3518 7901 tess.wang@yuanta.com

Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY

-15% to +15%: HOLD

-15% or worse: SELL

**APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLOSURES
AND
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Singapore

Kim Eng Securities Pte Ltd
Kim Eng Research Pte Ltd
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989

Tel: +65 6336 9090
Fax: +65 6339 6003

LAU Wai Kwok (sales)
lauwk@kimeng.com

Stephanie WONG (research)
swong@kimeng.com

Hong Kong

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: +852 2268 0800
Fax: +852 2877 0104

Ray LUK (sales)
rluk@kimeng.com.hk

Edward FUNG (research)
edwardfung@kimeng.com.hk

Philippines

ATR-Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: +63 2 849 8888
Fax: +63 2 848 5738

Lorenzo ROXAS (sales)
lorenzo_roxas@atr.com.ph

Luz LORENZO (research)
Luz_lorenzo@atr.com.ph

South Asia Sales Trading

Connie TAN
connie@kimeng.com
Tel: +65 6333 5775
US Toll Free: +1 866 406 7447

London

Kim Eng Securities (London) Ltd
6/F, 20 St. Dunstan's Hill
London EC3R 8HY, UK

Tel: +44 20 7621 9298
Dealers' Tel: +44 20 7626 2828
Fax: +44 20 7283 6674

Giles WALSH (sales)
gwalsh@kimeng.co.uk

Geoff HO (sales)
gho@kimeng.co.uk

James JOHNSTONE (sales)
jjohnstone@kimeng.co.uk

Thailand

Kim Eng Securities (Thailand)
Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road, Pathumwan,
Bangkok 10330, Thailand

Tel: +66 2 658 6817 (sales)
Tel: +66 2 658 6801 (research)

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Vietnam

Kim Eng Vietnam Securities Joint Stock
Company
1st Floor, 255 Tran Hung Dao St.
District 1
Ho Chi Minh City, Vietnam

Tel: +84 838 38 66 36
Fax: +84 838 38 66 39

Vo Doan Trang (sales)
Trang.vo@kimeng.com.vn

Nguyen Thi Ngan Tuyen (research)
Tuyen.nguyen@kimeng.com.vn

North Asia Sales Trading

Eddie LAU
eddielau@kimeng.com.hk
Tel: +852 2268 0800
US Toll Free: +1 866 598 2267

New York

Kim Eng Securities USA Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: +1 212 688 8886
Fax: +1 212 688 3500

Thanh C NGUYEN (sales & trading)
tnguyen@kesusa.com

Indonesia

PT Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: +62 21 2557 1188
Fax: +62 21 2557 1189

Harianto LIONG (sales)
hliiong@kimeng.co.id

Katarina SETIAWAN (research)
ksetiawan@kimeng.co.id

India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
Plot No.16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: +91.22.6623.2600
Fax: +91.22.6623.2604

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Jigar SHAH (research)
jigar@kimeng.co.in

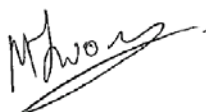
Taiwan

Yuanta Securities Investment
Consulting Co.
10/F, No 225, Nanking East Rd
Section 3
Taipei 104, Taiwan

Tel: +886 2 8770-6078
Fax: +886 2 2546-0376

Arthur LO (sales)
Arthur.lo@yuanta.com.tw

Gary CHIA (research)
Gary.chia@yuanta.com.tw



Stephanie Wong
CEO, Kim Eng Research