



BUY

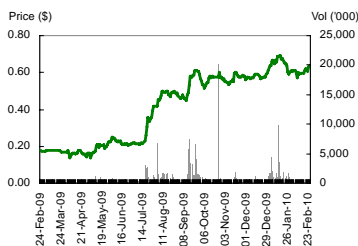
FY09 Results

Analyst

Pauline LEE
paulinelee@kimeng.com
(65) 6432 1453

Price \$0.635
Target \$1.00
ST Index 2,762.14

Historical Chart



| Performance | 1m | 3m | 6m |
|--------------|-----|-----|------|
| Absolute (%) | 0.0 | 8.5 | 27.0 |
| Relative (%) | 1.8 | 9.8 | 20.4 |

Stock Information

| | |
|------------------------|---|
| Ticker code | DESS.SI DSFM SP |
| Market cap (US\$m) | 114.9 |
| 52-week high (S\$) | 0.695 |
| 52-week low (S\$) | 0.140 |
| Shares issued (m) | 255.2 |
| 6m avg d.vol (US\$m) | 0.9 |
| Free float (%) | 49.8 |
| Major shareholders (%) | |
| | Depa (24.7), CEO (5.8) Straits Construction (16.0) |

Key Indicators

| | |
|--------------------|------|
| ROE (%) | 35.6 |
| Net cash (S\$m) | 35.7 |
| NAV (S\$) | 0.28 |
| Interest cover (x) | NA |

Design Studio

Ready for another record year!

DS delivered a superb set of record earnings with net profit doubling to \$25.4m despite the recession last year. A final DPS of 1.25cts was proposed. Firm foundation has been set for an even stronger 2010 as we expect the fast-growing order book to sustain its momentum. The group generates strong cash flow and sits on a net cash of \$35.7m (14cts/share). At ex-cash FY10 PER of just 4x, the stock is a great bargain. Maintain BUY with target price of \$1.00.

Record profits despite the challenging markets

Design Studio achieved a record net profit of \$25.4m in FY09 (+98% yoy), boosted by strong revenue contributions from all business divisions. Bottomline was slightly below our estimate of \$27m, a delay in contract recognition at the Marina Bay Sands (MBS) as the mega project itself was behind schedule. The group proposed a final dividend of 1.25 cents per share, bringing its full-year DPS to 2.5 cents, substantially higher than 1cts in FY08.

Strong earnings momentum into FY10

The group's JV, DDS, still has outstanding orders worth \$40m, largely associated with MBS. We estimate this to translate to associates income of \$1m, which will be recognised in 1H10. Earnings visibility in FY10 is further supported by Design Studio's current order book of \$164m. DDS, which is capable of securing mega contracts in the hospitality and commercial segments in Southeast Asia, will continue to boost earnings upside.

Order book is filling up fast

Earnings sustainability remains strong as the group continues to secure new orders for FY11 and beyond. New residential projects secured include Viva, Meadows on Pierce, 38 Martin Road, Yishun Parcel 52, The Beacon Heights and Aura Park. With an improving economic outlook in Asia, the group remains optimistic about its prospects.

An appealing M&A target

As Design Studio's earnings approach the \$50m-mark in the next 3-5 years, we believe the re-rating process has just started. Its attractive valuations at just 4x ex-cash PER, coupled with strong net cash position, make it a desirable M&A target. We are keeping our target price of \$1, pegged to 7.5x FY10 PER. Maintain BUY.

| Year End Dec 31 | 2008 | 2009 | 2010F | 2011F | 2012F |
|--------------------|------|-------|-------|-------|-------|
| Sales (S\$ m) | 74.4 | 113.9 | 156.4 | 179.9 | 190.6 |
| Pre-tax (S\$ m) | 15.3 | 30.0 | 38.6 | 44.8 | 48.6 |
| Net profit (S\$ m) | 12.8 | 25.4 | 32.0 | 37.1 | 39.9 |
| EPS (cts) | 5.0 | 11.3 | 14.2 | 16.5 | 17.7 |
| EPS growth (%) | 24.3 | 125.0 | 26.3 | 15.9 | 7.3 |
| PER (x) | 12.7 | 5.6 | 4.5 | 3.8 | 3.6 |
| EV/EBITDA (x) | 6.3 | 3.8 | 3.0 | 2.3 | 1.7 |
| Yield (%) | 1.6 | 3.9 | 4.6 | 5.5 | 5.9 |

SEE APPENDIX I FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Figure 1 : Earnings summary

| YE Dec (\$m) | 4Q09 | 4Q08 | % change | FY09 | FY08 | % change |
|--------------------------------------|-------------|-------------|-----------------|-------------|-------------|-----------------|
| Turnover | 24.7 | 27.9 | -11.3 | 113.9 | 74.4 | 53.2 |
| <i>Residential property projects</i> | 12.2 | 16.4 | -25.2 | 57.1 | 46.1 | 23.9 |
| <i>Interior fitting-out projects</i> | 10.9 | 11.4 | -4.4 | 52.0 | 26.2 | 98.3 |
| <i>Distributorship</i> | 1.6 | 0.1 | nm | 4.8 | 2.0 | 139.4 |
| <i>Other income</i> | 0.1 | 0.0 | nm | 0.3 | 0.0 | nm |
| Cost of sales | -16.9 | -16.8 | 0.4 | -78.3 | -50.4 | 55.5 |
| Gross profit | 7.8 | 11.0 | -29.1 | 35.6 | 24.0 | 48.4 |
| Gross margin | 31.7 | 39.6 | -8.0 %pt | 31.3 | 32.3 | -1.0 %pt |
| Operating expenses | -2.3 | -3.8 | -38.6 | -9.9 | -8.3 | 19.5 |
| Interest expenses | 0.0 | 0.0 | nm | 0.0 | 0.0 | 0.0 |
| <i>Associates income</i> | 2.3 | -0.1 | nm | 4.0 | -0.4 | nm |
| PBT | 7.9 | 7.1 | 9.9 | 30.0 | 15.3 | 96.4 |
| Pre-tax margin | 31.8 | 25.6 | 6.1 %pt | 26.3 | 20.5 | 5.8 %pt |
| Tax | -1.1 | -0.9 | 24.9 | -4.6 | -2.5 | 85.1 |
| Effective tax rate | 14.6 | 12.9 | 1.8 | 15.3 | 16.2 | -0.9 |
| Minority | 0.0 | 0.0 | nm | 0.0 | 0.0 | nm |
| NPAT | 6.7 | 6.2 | 7.7 | 25.4 | 12.8 | 98.5 |
| Net margin | 27.1 | 22.3 | 4.8 %pt | 22.3 | 17.2 | 5.1 %pt |

Source: Company data

Profit and Loss

| YE Dec (\$m) | 2008 | 2009 | 2010F | 2011F | 2012F |
|------------------------------|-------------|--------------|--------------|--------------|--------------|
| Sales | 74.4 | 113.9 | 156.4 | 179.9 | 190.6 |
| Cost of goods sold | (50.4) | (78.3) | (109.5) | (125.9) | (133.4) |
| Gross Profit | 24.0 | 35.6 | 46.9 | 54.0 | 57.2 |
| Marketing & dist exp | (3.5) | (2.9) | (5.9) | (7.2) | (7.6) |
| General and adm exp | (4.8) | (7.0) | (9.4) | (10.4) | (11.1) |
| Operating Profit | 15.7 | 26.0 | 31.6 | 36.3 | 38.5 |
| Net interest | (0.0) | (0.0) | 0.0 | 0.0 | 0.0 |
| Interest income | 0.2 | 0.1 | 0.3 | 0.3 | 0.3 |
| Interest expense | (0.3) | (0.1) | (0.3) | (0.3) | (0.3) |
| Net investment income/(loss) | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Net other income.JV+Assoc | (0.4) | 4.0 | 7.0 | 8.4 | 10.1 |
| Net exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax income | 15.3 | 30.0 | 38.6 | 44.8 | 48.6 |
| Income taxes | (2.5) | (4.6) | (6.6) | (7.6) | (8.8) |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 12.8 | 25.4 | 32.0 | 37.1 | 39.9 |
| EBITDA | 18.3 | 28.5 | 36.3 | 41.7 | 43.3 |
| EPS (\$ cts) | 5.01 | 11.3 | 14.2 | 16.5 | 17.7 |

Source: Company data, Kim Eng estimates

Balance Sheet

| YE Dec (\$m) | 2008 | 2009 | 2010F | 2011F | 2012F |
|-----------------------------|-------------|--------------|--------------|--------------|--------------|
| Total assets | 86.2 | 101.3 | 134.6 | 160.9 | 199.0 |
| Current assets | 74.4 | 85.5 | 120.4 | 149.1 | 189.0 |
| Cash & ST investment | 31.2 | 36.4 | 35.6 | 45.3 | 67.5 |
| Inventories | 40.6 | 13.3 | 65.8 | 60.1 | 88.2 |
| Accounts receivable | 2.6 | 34.4 | 17.7 | 42.3 | 31.9 |
| Others | 0.1 | 1.4 | 1.4 | 1.4 | 1.4 |
| Other assets | 11.8 | 15.8 | 14.2 | 11.8 | 10.0 |
| LT investments | 1.8 | 5.9 | 5.9 | 5.9 | 5.9 |
| Net fixed assets | 9.3 | 9.8 | 8.2 | 5.8 | 4.0 |
| Others | 0.6 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total liabilities | 34.7 | 30.0 | 37.7 | 34.2 | 40.4 |
| Current liabilities | 31.7 | 29.8 | 37.5 | 34.0 | 40.3 |
| Accounts payable | 6.3 | 5.7 | 12.6 | 8.4 | 13.9 |
| ST borrowings | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 |
| Others | 24.8 | 24.0 | 24.7 | 25.5 | 26.2 |
| Long-term liabilities | 3.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| Long-term debts | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Convertible notes | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others (Deferred tax) | 0.05 | 0.14 | 0.14 | 0.14 | 0.14 |
| Shareholder's equity | 51.6 | 71.3 | 96.9 | 126.6 | 158.5 |
| Paid-in capital | 30.1 | 30.1 | 30.1 | 30.1 | 30.1 |
| Reserve | 21.5 | 41.2 | 66.8 | 96.5 | 128.4 |
| Net Tangible Assets | 51.6 | 71.3 | 96.9 | 126.6 | 158.5 |

Source: Company data, Kim Eng estimates

Cash Flow

| YE Dec (\$m) | 2008 | 2009 | 2010F | 2011F | 2012F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Operating cash flow | 13.5 | 18.6 | 8.6 | 20.2 | 33.2 |
| Net profit | 15.3 | 30.0 | 32.0 | 37.1 | 39.9 |
| Depreciation & amortisation | 2.6 | 2.5 | 4.7 | 5.4 | 4.8 |
| Change in working capital | (3.2) | (6.5) | (28.1) | (22.3) | (11.5) |
| Others | (1.2) | (7.3) | 0.0 | 0.0 | 0.0 |
| Investment cash flow | (3.5) | (4.4) | (3.0) | (3.0) | (3.0) |
| Net capex | (1.5) | (3.0) | (3.0) | (3.0) | (3.0) |
| Change in LT investment | (2.3) | (1.4) | 0.0 | 0.0 | 0.0 |
| Change in other assets | 0.2 | (0.1) | 0.0 | 0.0 | 0.0 |
| Cash flow after invt. | 9.9 | 14.2 | 5.6 | 17.2 | 30.2 |
| Financing cash flow | (0.8) | (9.6) | (6.4) | (7.4) | (8.0) |
| Change in share capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net change in debt | (1.1) | (3.3) | (0.0) | (0.0) | (0.0) |
| Change in other LT liab. | 0.2 | (6.3) | (6.4) | (7.4) | (8.0) |
| Net cash flow | 9.1 | 4.6 | (0.8) | 9.8 | 22.2 |

Source: Company data, Kim Eng estimates

Key Ratios

| YE Dec | 2008 | 2009 | 2010F | 2011F | 2012F |
|------------------------------|-------|-------|-------|-------|-------|
| Growth (% YoY) | | | | | |
| Sales | -2.7 | 53.2 | 37.3 | 15.0 | 6.0 |
| OP | 39.3 | 65.3 | 21.7 | 15.0 | 6.0 |
| EBITDA | 35.4 | 55.2 | 27.5 | 15.0 | 3.7 |
| NP | 46.0 | 98.5 | 26.3 | 15.9 | 7.3 |
| EPS | 24.3 | 125.0 | 26.3 | 15.9 | 7.3 |
| Profitability (%) | | | | | |
| Gross margin | 32.3 | 31.3 | 30.0 | 30.0 | 30.0 |
| Operating margin | 21.1 | 22.8 | 20.2 | 20.2 | 20.2 |
| EBITDA margin | 24.7 | 25.0 | 23.2 | 23.2 | 22.7 |
| Net Profit margin | 17.2 | 22.3 | 20.5 | 20.7 | 20.9 |
| ROA | 16.3 | 27.1 | 27.2 | 25.1 | 22.2 |
| ROE | 27.5 | 41.3 | 38.1 | 33.2 | 28.0 |
| Stability | | | | | |
| Gross debt/equity (%) | 6.7 | 0.3 | 0.2 | 0.2 | 0.1 |
| Net debt/equity (%) | -53.7 | -50.7 | -36.5 | -35.6 | -42.5 |
| Int. coverage (X) | 57.3 | 242.5 | 105.3 | 121.1 | 128.4 |
| Int. & ST debt coverage (X) | 18.9 | 89.8 | 65.5 | 75.4 | 79.9 |
| Cash flow int. coverage (X) | 49.1 | 173.8 | 28.7 | 67.4 | 110.5 |
| Cash flow int. & ST debt (X) | 16.2 | 64.4 | 17.9 | 41.9 | 68.8 |
| Current ratio (X) | 2.3 | 2.9 | 3.2 | 4.4 | 4.7 |
| Quick ratio (X) | 1.1 | 2.4 | 1.5 | 2.6 | 2.5 |
| Net debt/(cash)(\$ m) | -27.7 | -36.1 | -35.4 | -45.1 | -67.3 |
| Per share data (cts) | | | | | |
| EPS | 5.0 | 11.3 | 14.2 | 16.5 | 17.7 |
| CFPS | 7.2 | 12.6 | 13.2 | 15.2 | 15.3 |
| BVPS | 22.9 | 31.7 | 43.1 | 56.3 | 70.4 |
| SPS | 33.0 | 50.6 | 69.5 | 79.9 | 84.7 |
| EBITDA/share | 8.1 | 12.6 | 16.1 | 18.5 | 19.2 |
| DPS | 1.0 | 2.5 | 2.9 | 3.5 | 3.7 |

Source: Company data, Kim Eng estimates

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

Pauline LEE
 +65 6432 1453 paulinelee@kimeng.com

- Bank & Finance
- Consumer
- Retail

Wilson LIEW
 +65 6432 1454 wilsonlieu@kimeng.com

- Hotel & Resort
- Property & Construction

Anni KUM
 +65 6432 1470 annikum@kimeng.com

- Industrials
- REITs

James KOH
 +65 6432 1431 jameskoh@kimeng.com

- Infrastructure
- Resources

David LOOMIS
 +65 6432 1417 dloomis@kimeng.com

- Special Situations

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

Ivan LI
 +852 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

TAM Tsz Wang
 +852 2268 0636 tamtszwang@kimeng.com.hk

- Telcos
- Small Caps

Emily LEE
 +852 2268 0631 emilylee@kimeng.com.hk

- Retail

Jacqueline KO
 +852 2268 0633 jacquelineko@kimeng.com.hk

- Food & Beverage

INDIA

Jigar SHAH *Head of Research*
 +91 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas
- Transportation

Anubhav GUPTA
 +91 22 6623 2605 agupta@kimeng.co.in

- Property
- Capital goods

R. SRINIVASAN
 +912266232625 rsrinivasan@kimeng.co.in

- Banking and Financial services

Nikhil Agarwal
 +912266232611 nikhil@kimeng.co.in

- Cement
- Metals

MALAYSIA

YEW Chee Yoon *Head of Research*
 +603 2141 1555 cheeyoon@kimengkl.com

- Strategy
- Banks
- Telcos
- Property
- Conglomerates & others

LIEW Mee Kien
 +603 2141 1555 meekien@kimengkl.com

- Gaming
- Media
- Power
- Construction

Research Team
 +603 2141 1555

- Food & Beverage
- Manufacturing
- Plantations
- Tobacco
- Technology

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

Nguyen Thi Ngan Tuyen
 +84 838 38 66 36 x 163 tuyen.nguyen@kimeng.com.vn

- Pharmaceutical
- Confectionary and Beverage
- Oil and Gas

Ngo Bich Van
 +84 838 38 66 36 x 164 van.ngo@kimeng.com.vn

- Bank
- Insurance

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

- Shipping
- Seafood
- Rubber

Trinh Thi Ngoc Diep
 +84 838 38 66 36 x 166 diep.trinh@kimeng.com.vn

- Property
- Construction

THAILAND

Naphat CHANTARASEREKUL
 +662 658 6300 x 4770 naphat.c@kimeng.co.th

- Energy

Supattra KHONGRUNGPHAKORN
 +662 6586300 ext 4800 supattra.k@kimeng.co.th

- Media & Publishing
- Retail
- Information & Communication Technology

Kanchan KHANJOU
 + 662 658 6300 x 4750 kanchan@kimeng.co.th

- Banks
- Construction Materials

Nathavut SHIVARUCHIWONG
 + 662 658 6300 x 4730 nathavut@kimeng.co.th

- Property

KELIVE Thailand (for retail clients)

George HUEBSCH *Head of Research*
 +662 658 6300 ext 1400 george.h@kimeng.co.th

PHILIPPINES

Ricardo PUIG *Head of Research*
 +63 2 849 8835 ricardo_puig@atr.com.ph

- Strategy
- Property
- Telcos

Laura DY-LIACCO
 +63 2 849 8840 laura_dyliacco@atr.com.ph

- Utilities
- Conglomerates

Robin SARMIENTO
 +63 2 849 8839 robin_sarmiento@atr.com.ph

- Banking
- Ports
- Mining

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

- Consumer
- Cement
- Media

REGIONAL

Luz LORENZO *Economist*
 +63 2 849 8836 luz_lorenzo@atr.com.ph

- Economics

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

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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

Ricardo PUIG (research)
 ricardo_puig@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)
 gwals@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

Naphat CHANTARASEREKUL (research)
 naphat.c@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

Mai Phan Lam Hoa (sales)
 Hoa.maiph@kimeng.com.vn

New York

Kim Eng Securities USA Inc
 406, East 50th Street
 New York, NY 10022, U.S.A.

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

Jeffrey S. SEO (sales)
 jseo@kesusa.com

Warren KIM (trading)
 wkim@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

Kurnia SALIM (sales)
 ks@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

Malaysia

Kim Eng Research Sdn Bhd
 16/F, Kompleks Antarabangsa
 Jalan Sultan Ismail
 50250 Kuala Lumpur, Malaysia

Tel: +603 2141 1555
 Fax: +603 2141 1045

YEW Chee Yoon (research)
 cheeyoon@kimengkl.com



Ong Seng Yeow
 Director, Retail Research