

# Clearbridge Health Limited

## EBITDA-focused expansions



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### SINGAPORE | HEALTHCARE | 2Q19 RESULTS

6 September 2019

- 1H19 revenue made up 23% of our full-year estimates.
- Healthcare system revenue surged 407% YoY due to higher revenue contribution from TMJ (acquired Apr'18) and IGM (acquired May'19).
- Medical centre revenue grew 26% YoY as the Group expanded its Philippines, Hong Kong and Malaysia businesses.
- Loss attributable to shareholders rose by S\$1.3mn QoQ, dampened by a S\$1.16mn rise in operating expenses, of which S\$1.11mn is non-recurring.
- Maintain BUY with a lower TP of S\$0.26 (prev TP: S\$0.28).** The lower target price is due to the increase in number of shares after the recent share placement. We expect higher revenue contribution from the new acquisitions and business expansions to flow into 2H19. We kept of FY19e forecast relatively unchanged.

#### Results at a glance

SGD '000	2Q19	2Q18	YoY (%)	1Q19	QoQ(%)	Comments
<b>Healthcare system</b> (laboratory + renal care)	3,734	736	407%	1,314	184%	The S\$2.99mn YoY increase was contributed by S\$0.6mn from TMJ (acquired Apr'18) and S\$2.39mn from IGM (acquired May'19).
<b>Medical clinics/centres</b> (HK, PH, MY, SG)	905	720	26%	900	1%	The YoY rise was due to expansion of medical centres in Philippines, Hong Kong and Malaysia; as well as higher revenue contribution from Medic Laser in Singapore.
<b>Revenue</b>	<b>4,639</b>	<b>1,456</b>	<b>219%</b>	<b>2,214</b>	<b>110%</b>	
Gross profit	1,624	705	130%	962	69%	2Q19 GP margin fell to 35% (2Q18: 48%) due to higher direct expenses incurred with the expansion of laboratories and medical centres.
EBITDA	(1,076)	(1,320)	nm	(867)	nm	
Net income/ (loss), reported	(1,345)	(12,230)	nm	1	nm	Net loss rose QoQ mainly due to a S\$1.16mn rise in other OPEX (employee termination expenses in the US + FOREX loss + FV adj for acquisition payables).
Net income/ (loss), adjusted	(2,047)	(1,755)	nm	(1,443)	nm	Excludes non-recurring OPEX and FV gains/losses.

Source: Company, PSR

#### The Positive

- Healthcare system revenue spiked 407% YoY or S\$3.0mn to S\$3.7mn mainly due to higher revenue contribution from TMJ (+S\$0.6mn) and IGM (+S\$2.4mn).**
  - PT Tirta Medika Jaya (TMJ) is a renal dialysis facility in hospitals located in Indonesia (acquired April'18). Only 23 hospitals contributed to TMJ's 2Q19 revenue of S\$1.22mn, another 20 more facilities are under renovation. We expect renovations of all 43 hospitals to be completed by 4Q19 and it will have a meaningful impact to full-year earnings. Management targets to increase its existing 43 joint operation contracts with hospitals to 65 by 4Q19. We forecast FY19e revenue from TMJ to reach S\$9.8mn.
  - PT Indo Genesis Medika (IGM) operates laboratories in collaboration with public hospitals in Indonesia (acquired May'19). The S\$2.4mn contribution from IGM in 2Q19 was only for half of a quarter. With 10 out of 13 laboratories under operation (3 pending), we expect to see the full effect of IGM by 4Q19. We forecast FY19e revenue from IGM to reach S\$15.0mn.

The report is produced by Phillip Securities Research under the 'SGX StockFacts Research Programme' (administered by SGX) and has received monetary compensation for the production of the report from the entity mentioned in the report.

#### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.142
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.260
<b>TOTAL RETURN</b>	<b>83.1%</b>

#### COMPANY DATA

BLOOMBERG CODE	CBH SP
O/S SHARES (MN)	575
MARKET CAP (USD mn / SGD mn)	58.9 / 81.6
52 - WK HI/LO (SGD)	0.30 / 0.14
3M Average Daily T/O (mn)	1.49

#### MAJOR SHAREHOLDERS (%)

Chen Johnson	13.4%
Bonvests Holdings Ltd	7.2%
Vorobyev Maxim	6.9%
Chen Chung Ni	5.4%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.0	(6.6)	(40.8)
STI RETURN	(3.1)	1.0	1.4

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, (SGD '000)	FY17	FY18	FY19e	FY20e
Revenue	288	6,135	29,949	38,980
EBITDA	(3,876)	(7,461)	1,510	6,253
NPAT adj.	(801)	(8,610)	(324)	1,591
EPS adj. (S\$ Cents)	(0.3)	(1.8)	(0.1)	0.3
P/E (X), adj.	-	n.m.	n.m.	43.5
P/B (X)	-	1.5	1.5	1.4
Div Yield	0.0%	0.0%	0.0%	0.0%
ROE	-1.6%	-16.1%	-0.7%	3.3%

Source: Company Data, PSR est.

#### VALUATION METHOD

DCF (WACC 8%, Terminal growth 3%)

Phillip Research Team (+65 6212 1849)

[research@phillip.com.sg](mailto:research@phillip.com.sg)

### The Negatives

- **Medical clinics/centres revenue growth was relatively flat at 1% QoQ to S\$0.9mn in 2Q19.** The low growth was due to lower pharmacy sales in Clearbridge Medical Philippines (Marzan) as the Department of Social Welfare (DSWD) is currently streamlining and rolling out new medicine assistance schemes. Management guided that the subsidy claim receivable exposure to DSWD, is around S\$200-300k. However, as compared to a year ago, medical centre revenue grew 26% YoY as the Group doubled the size of its Hong Kong clinic in May 2019 and opening of its Malaysia paediatrics clinic in March 2019. We expect the Hong Kong, Singapore and Malaysia clinics and centres to offset the temporary decline in Philippines' contribution.
- **Operating expenses surged 80% YoY or S\$1.0mn to S\$2.2mn.** This was mainly due to one-off S\$0.65mn termination expense of certain employees due to the streamlining of R&D activities in the US which resulted in a decrease in the Group's number of employees in the Clinicians/ Technologist/ Product Development function in the US. The ex-gratia payments in the form of shares and share options of Clearbridge Health Limited were finalised only in 2Q19, hence the respective expense was recognised accordingly. The remaining rise in other OPEX was due to non-recurring fair value adjustment of S\$0.09mn in respect of the contingent consideration payable for the acquisition of Marzan, Medic Laser and Surgical Private Limited and TMJ and FOREX loss of S\$0.14mn.

### Growth drivers:

- Recovery of patient volume from Marzan
- Increased renal care patient volume in TMJ as more hospitals become operational
- New IGM acquisition in Indonesia
- Nine newly acquired dental clinics in Singapore
- Expansion of Hong Kong clinic
- New Paediatric clinic in Malaysia

### Updates

The Group raised S\$11.3mn from share placement to accelerate its growth plans for its South-East Asia entities and strengthen its balance sheet. The Group is currently considering Vietnam, India and Thailand as potential ventures in the future. Management has guided that the Group is done acquiring for now and focus will be placed on net income by 4Q19.

With regards to the Hong Kong protests, management did not experience a significant drop in patient volume at its Hong Kong clinic. In fact, revenue from the Hong Kong clinic rose 20-25% MoM since the expansion in May 2019.

### Investment Actions

**Maintain BUY with a lower TP of S\$0.26 (prev TP: S\$0.28).** The lower target price was due to the increase in number of shares as a result of the recent share placement. We believe the two primary growth drivers for CBH is the healthy underlying demand for healthcare services in the three key countries that it is operating in – Indonesia, Philippines, Singapore, and its aggressive M&A in various EBITDA accretive businesses.

Despite this quarter's miss in earnings forecast, we expect higher revenue contribution from the acquisitions and business expansions to kick-in in the second half of the year onwards to reach our FY19e earnings estimates. The full impact of the Group's acquisitions will be seen in 4Q19.

### Valuation

We used DCF valuation to fully capture CBH impressive growth over the next five years.

Description	Value
Firm value (SG\$ m)	190
Adjust for: Net cash/(debt), SG\$ m	15
Adjust for: Minority interest	(72)
Adjust for: Biolidics	18
Equity value (S\$ m)	150
Number of shares (m)	575
<b>Fair value (S\$/share)</b>	<b>0.260</b>

Cost of equity = 10%; WACC = 8%; terminal growth rate = 3%

## Overview of operations:

### Healthcare system

**1. Marzan** – Medical centre and pharmacy business in the Philippines (acquired in January 2018). Marzan's pharmacy is registered under DSWD to provide drugs at a subsidised rate to patients. Marzan's revenue may also receive a boost, pending the approval for accreditation by the Department of Health as an approved Overseas Foreign Worker screening facility and other major Health Management Organisations for private corporate clients.

**2. PT Tirta Medika Jaya (TMJ)** – Renal care facilities (acquired in April 2018) located in Indonesia that offers renal care services through joint operations with equipment manufacturers and hospitals in Indonesia. The key feature of renal care is its recurrent revenue stream (dialysis is a lifetime treatment). The average utilisation rate of the renal care facilities was around 70%. Each patient requires dialysis around three times a week, 4 hours each treatment. The Group incurs CAPEX of S\$60-80k to fit out each renal care centre. The Group currently focuses on ramping up occupancy instead of acquiring more contracts.

**3. PT Indo Genesis Medika (IGM)** – Provides laboratory services and located in Indonesia (acquired in May 2019). IGM operates laboratories with collaborating public hospitals in Indonesia under Joint Operation (JO) contracts. Currently has 13 clinical laboratories, out of which, 3 is pending contracts for novation. We expect revenue contribution from the 10 operating JOs to kick in around 3Q19-4Q19. With an estimated 2,500 hospitals in Indonesia, only 16 are class A, and CBH has a JO with 6 class A hospitals in the most affluent locations.

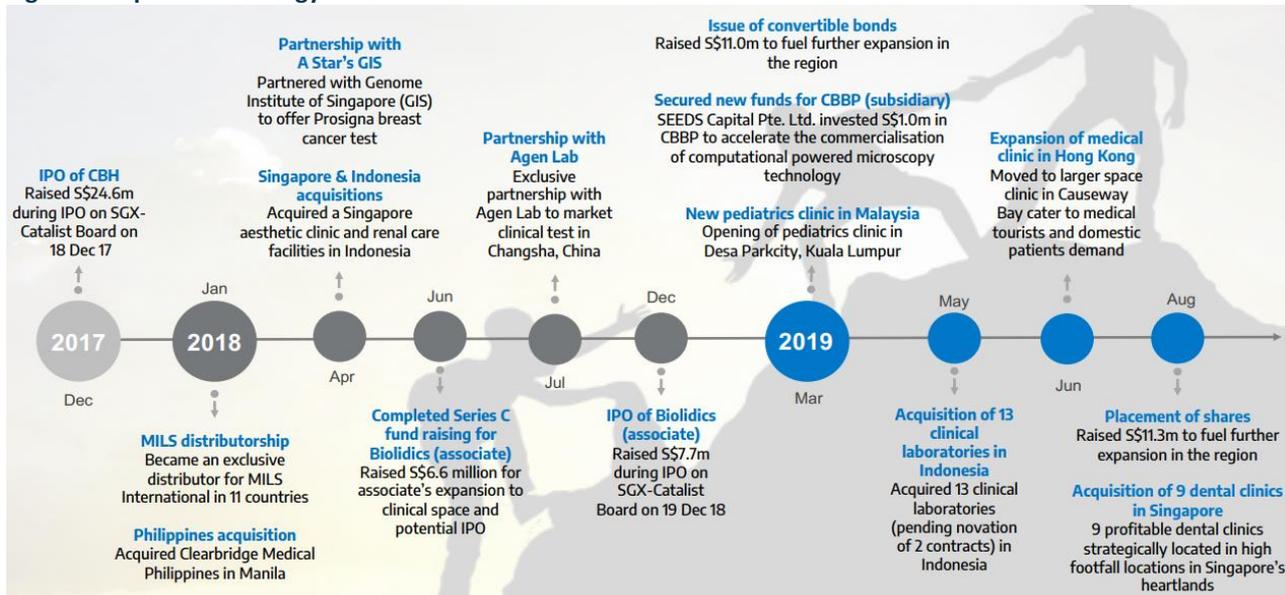
### Medical clinics/ centres

**1. Clearbridge Medical, Hong Kong** – Single medical clinic in Hong Kong, which achieved rapid patient volume growth in FY18 of > 350 patients per month. Patients are mainly from China seeking health screening and vaccinations. CBH expanded collaborations with new local and Chinese agents to introduce more medical tourists from China. Renovation of the new clinic (that is double the size of the current clinic) has been completed in 2Q19 and will be able to cater to more patients. We expect higher volume from the larger clinic to boost revenue in 3Q19. The newly renovated clinic is located in the same building as the existing clinic.

**2. Clearbridge Medica, Malaysia** – New Paediatric clinic received MOH license and opened in March 2019. It is located in a new township with affluent middle-class young families. Revenue contribution should kick in from 2Q19 onwards. CBH has partnership with 12 GP clinics and separately, CBH is working with 6 pharmacies to market CBH's hereditary cancer gene tests.

**3. Dental Focus, Singapore** – The Group owns a 51% effective interest in 9 dental clinics under the "Dental Focus" brand name with the first right of refusal to acquire another 6 dental clinics and ancillary dental services providers. The acquisition is in line with the Group's EBITDA-focused business strategy and increases its network of primary healthcare touchpoints. The 9 dental clinics collectively generated approximately S\$6.3 million of revenue in the last financial year and are profitable. The acquisition is expected to have a positive impact on the Group's financial performance for the financial year ending 31 December 2019.

Figure 1: Expansion Strategy in Asia



Source: Clearbridge Health Limited

## Financials

### Income Statement

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	123	288	6,135	29,949	38,980
Purchases	(3)	(241)	(3,250)	(8,985)	(11,694)
<b>Gross profits</b>	<b>120</b>	<b>47</b>	<b>2,885</b>	<b>20,964</b>	<b>27,286</b>
Operating expenses	(7,245)	(8,374)	(13,701)	(20,993)	(24,597)
<b>EBITDA</b>	<b>(7,020)</b>	<b>(3,876)</b>	<b>(7,461)</b>	<b>1,510</b>	<b>6,253</b>
Depreciation & Amortisation	(105)	(111)	(1,099)	(1,538)	(3,564)
<b>EBIT</b>	<b>(7,125)</b>	<b>(8,327)</b>	<b>(10,816)</b>	<b>(29)</b>	<b>2,689</b>
Fair value gains/(losses)	5,109	(2,329)	(7,582)	-	-
Finance costs	(193)	(250)	(329)	(433)	(421)
<b>Profit/(loss) before tax</b>	<b>(2,209)</b>	<b>(10,906)</b>	<b>(18,727)</b>	<b>(462)</b>	<b>2,268</b>
Income tax credit/(expense)	(735)	2,981	(158)	(1)	5
<b>Profit/(loss) after tax</b>	<b>(2,944)</b>	<b>(7,925)</b>	<b>(18,885)</b>	<b>(463)</b>	<b>2,273</b>
Minority interest	(993)	(455)	(437)	(139)	682
<b>Net Income, reported</b>	<b>(1,951)</b>	<b>(7,470)</b>	<b>(18,448)</b>	<b>(324)</b>	<b>1,591</b>
<b>Net Income, adj</b>	<b>(7,060)</b>	<b>(801)</b>	<b>(8,610)</b>	<b>(324)</b>	<b>1,591</b>

### Per share data

Y/E Dec, SG cents	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	(0.9)	(2.5)	(3.9)	(0.1)	0.5
EPS, adj.	(3.4)	(0.3)	(1.8)	(0.1)	0.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	8.0	12.7	9.7	12.0	12.3

### Cash Flows

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
<b>PBT</b>	<b>(2,209)</b>	<b>(10,906)</b>	<b>(18,727)</b>	<b>(462)</b>	<b>2,268</b>
Adjustments	(4,382)	4,211	10,257	437	2,625
WC changes	839	(79)	(2,077)	4,902	1,980
Cash flows used in ops	<b>(5,752)</b>	<b>(6,774)</b>	<b>(10,547)</b>	<b>4,876</b>	<b>6,873</b>
Taxes paid, others	-	-	-	-	-
<b>Cash flows used in ops</b>	<b>(5,752)</b>	<b>(6,774)</b>	<b>(10,547)</b>	<b>4,876</b>	<b>6,873</b>
<b>CFI</b>					
CAPEX, net	(208)	(2,573)	(1,607)	(2,995)	(1,949)
Net acquisition of subsidiaries	(2,982)	10,635	(8,323)	(8,405)	-
Others	-	-	-	(2,003)	-
<b>Cash flows from investing</b>	<b>(3,190)</b>	<b>8,062</b>	<b>(9,930)</b>	<b>(13,403)</b>	<b>(1,949)</b>
<b>CFF</b>					
Proceeds from issuance of shares	-	24,640	-	11,343	-
Loans, net of repayments	500	1,637	943	3,131	(1,806)
Dividends	-	-	-	-	-
Others	10,089	(4,190)	(235)	9,706	-
<b>Cash flows from financing</b>	<b>10,589</b>	<b>22,087</b>	<b>708</b>	<b>24,181</b>	<b>(1,806)</b>
<b>Net change in cash</b>	<b>1,645</b>	<b>23,383</b>	<b>(19,755)</b>	<b>17,217</b>	<b>4,524</b>
Effects of exchange rate changes	(32)	49	(215)	(215)	(215)
Restricted deposits	-	-	235	2,445	2,445
<b>CCE, end</b>	<b>4,308</b>	<b>27,740</b>	<b>8,005</b>	<b>18,584</b>	<b>21,043</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
Investment in associates	28,174	15,051	13,230	13,230	13,230
PPE	48	2,597	6,625	8,295	8,585
ROU	-	-	-	640	707
Intangible assets	95	106	266	8,883	7,398
Goodwill on consolidation	-	11,002	22,296	22,296	22,296
Others	13,449	7,391	5,648	(2,757)	(2,757)
<b>Non-current assets</b>	<b>41,766</b>	<b>36,147</b>	<b>48,065</b>	<b>50,587</b>	<b>49,459</b>
Cash and bank balances	4,308	27,740	8,005	18,584	21,043
Trade receivables	25	71	2,050	4,923	6,408
Others	572	4,835	4,642	5,214	5,190
<b>Current assets</b>	<b>4,905</b>	<b>32,646</b>	<b>14,697</b>	<b>28,721</b>	<b>32,641</b>
<b>Total assets</b>	<b>46,671</b>	<b>68,793</b>	<b>62,762</b>	<b>79,308</b>	<b>82,099</b>
<b>LIABILITIES</b>					
Borrowings	-	9	470	470	470
Trade payables	69	183	1,007	2,464	2,983
Other payables	4,225	5,540	7,072	7,072	7,072
Others	-	-	669	854	854
<b>Current liabilities</b>	<b>4,294</b>	<b>5,732</b>	<b>9,218</b>	<b>10,860</b>	<b>11,379</b>
Borrowings	-	1,632	2,419	5,550	5,550
Others	4,748	1,786	3,595	4,487	4,487
<b>Non-current liabilities</b>	<b>4,748</b>	<b>3,418</b>	<b>6,014</b>	<b>10,037</b>	<b>10,037</b>
<b>EQUITY</b>					
Share capital	28,495	73,897	77,670	89,013	89,013
(Acc loss)/RE	6,245	(10,858)	(30,041)	(30,365)	(28,774)
Others	2,889	(3,396)	(99)	(238)	444
<b>Total equity</b>	<b>37,629</b>	<b>59,643</b>	<b>47,530</b>	<b>58,411</b>	<b>60,683</b>

### Valuation Ratios

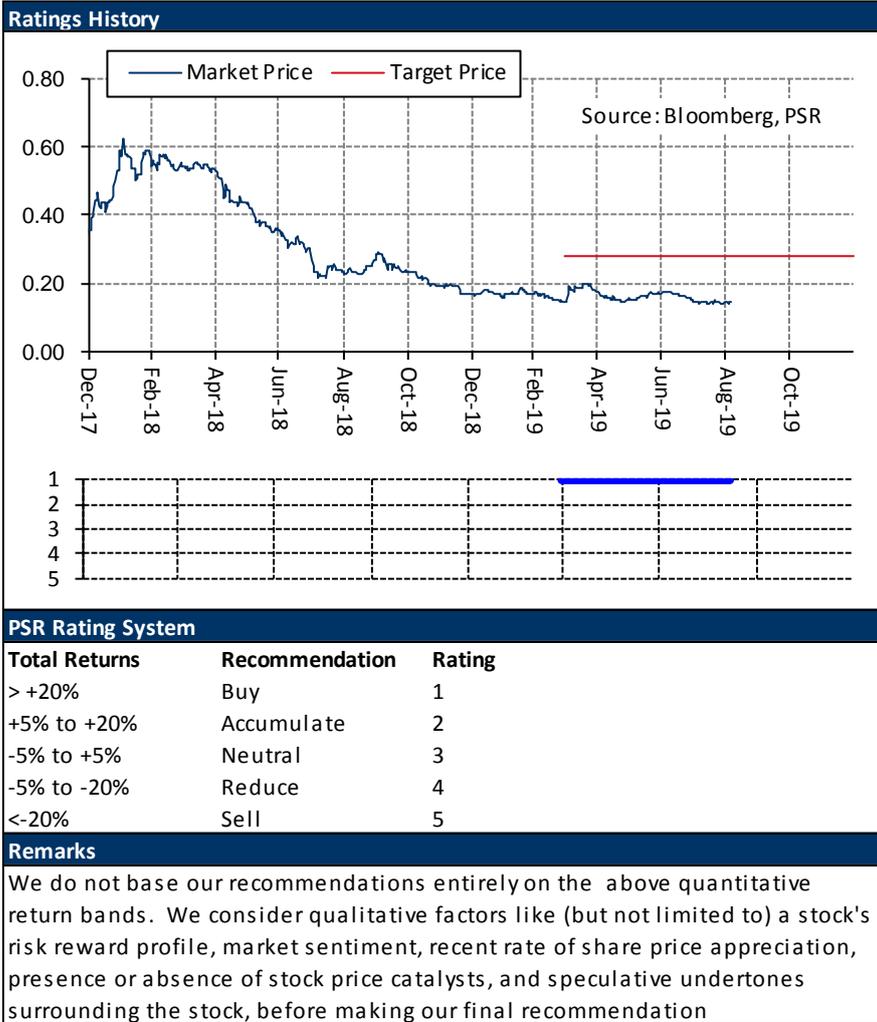
Y/E Dec,	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.			n.m.	n.m.	43.5
P/B (X)			1.5	1.2	1.2
EV/EBITDA (X)			0.7	-8.3	0.0
Dividend Yield			0.0%	0.0%	0.0%

### Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth</b>					
Revenue	134.1%	2030.2%	388.2%	30.2%	
EBITDA	-44.8%	92.5%	-120.2%	314.2%	
EBIT	16.9%	29.9%	-99.7%	-9515.5%	
Net Income, adj.	-88.7%	974.9%	-96.2%	-590.9%	
<b>Margins</b>					
EBITDA margin	-5707.3%	-1345.8%	-121.6%	5.0%	16.0%
EBIT margin	-5792.7%	-2891.3%	-176.3%	-0.1%	6.9%
Net Profit Margin	-5739.8%	-278.1%	-140.3%	-1.1%	4.1%

### Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE		-2%	-16.1%	-0.6%	2.7%
ROA		-1.4%	-13.1%	-0.5%	2.0%
Interest coverage (X)	(67.9)	(75.0)	(9.8)	(0.0)	0.8
Net gearing (X)	Net cash	0.0	Net cash	Net cash	Net cash



## Contact Information (Singapore Research Team)

## Head of Research

Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)

## Research Admin

Siti Nursyazwina - [syazwina@phillip.com.sg](mailto:syazwina@phillip.com.sg)

## Banking &amp; Finance | Healthcare

Tin Min Ying – [tinmy@phillip.com.sg](mailto:tinmy@phillip.com.sg)

## Property | REITs | Transport

Natalie Ong – [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)

## Telco | Technology

Alvin Chia - [alvinchiawy@phillip.com.sg](mailto:alvinchiawy@phillip.com.sg)

## China/HK Equity

Zheng Jieyuan – [zhengjy@phillip.com.sg](mailto:zhengjy@phillip.com.sg)

## US Equity

Edmund Xue – [edmundxueij@phillip.com.sg](mailto:edmundxueij@phillip.com.sg)

## Technical Analysis

Chua Wei Ren – [chuawr@phillip.com.sg](mailto:chuawr@phillip.com.sg)

## Credit Analysis

Timothy Ang – [timothyang@phillip.com.sg](mailto:timothyang@phillip.com.sg)

## Contact Information (Regional Member Companies)

## SINGAPORE

**Phillip Securities Pte Ltd**  
Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

## JAPAN

**Phillip Securities Japan, Ltd.**  
4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

## THAILAND

**Phillip Securities (Thailand) Public Co. Ltd**  
15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangkok,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

## UNITED STATES

**Phillip Capital Inc**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

## INDIA

**PhillipCapital (India) Private Limited**  
No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

## CAMBODIA

**Phillip Bank Plc**  
Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

## MALAYSIA

**Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

## INDONESIA

**PT Phillip Securities Indonesia**  
ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

## FRANCE

**King & Shaxson Capital Limited**  
3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## AUSTRALIA

**Phillip Capital Limited**  
Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

## TURKEY

**PhillipCapital Menkul Degerler**  
Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

## HONG KONG

**Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

## CHINA

**Phillip Financial Advisory (Shanghai) Co Ltd**  
No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

## UNITED KINGDOM

**King & Shaxson Capital Limited**  
6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

## SRI LANKA

**Asha Phillip Securities Limited**  
No. 60, 5th Lane,  
Colombo 3, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)

## DUBAI

**Phillip Futures DMCC**  
Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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