

### KEY STORY

#### Regional

##### Plantation

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CPO prices up on Malaysia's palm oil inventory at 19<sup>th</sup>-month low. But expect pick-up as external demand is stagnant. Time to lock in some profits.

#### Singapore

##### Banking

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Turnaround in sentiment for US financials provide boost to share prices of Singapore banks.

### REGIONAL

#### Sector

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#### Technical Analysis

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Further upside - add laggards.

### CHINA

#### Economics

##### Mar 09 Money Supply

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Credit expansion more effective on the economy.

### SINGAPORE

#### Sector

##### Banking

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Turnaround in sentiment for US financials provide boost to share prices of Singapore banks.

### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8083.4	3.1	1.3	16.7	(7.9)
S&P 500	856.6	3.8	2.7	19.0	(5.2)
FTSE 100	3983.7	1.5	(3.4)	7.2	(10.2)
AS30	3617.5	1.4	(0.1)	15.1	(1.1)
CSI 300	2595.5	3.1	0.7	17.7	42.8
FSSTI	1828.5	2.5	1.4	23.1	3.8
HSI	14901.4	2.9	2.6	27.4	3.6
JCI	1465.8	(1.7)	0.3	13.9	8.1
KLCI	941.4	2.6	3.8	11.6	7.4
KOSPI	1336.0	1.5	4.1	18.7	18.8
Nikkei 225	8964.1	0.5	2.4	18.4	1.2
SET	453.9	2.2	2.5	6.8	0.9
TWSE	5782.0	2.0	4.6	18.1	25.9
BDI	1478	1.0	(3.9)	(35.7)	91.0
CPO (RM/mt)	2352	2.9	6.4	17.6	44.3
Nymex Crude (US\$/bbl)	52	(0.7)	(1.3)	12.1	16.3

Source: Bloomberg

### Top BUYS/SELLS

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
<b>Top BUYS</b>			
China Life	2628 HK	27.90	31.30 12.2
China Mobile	941 HK	68.45	85.00 24.2
China Railway	390 HK	4.92	5.90 19.9
China Shenhua	1088 HK	20.05	21.90 9.2
Sinopec	386 HK	5.56	6.60 18.7
Zijin Mining	2899 HK	5.68	7.15 25.9
Bumi Resources	BUMI IJ	940	1,010 7.4
DBS Group	DBS SP	8.91	10.55 18.4
Indofood Agri	IFAR SP	0.75	0.80 7.4
SingTel	ST SP	2.55	2.95 15.7
Advanced Info	ADVANC TB	81.75	101.73 24.4
Quality Houses	QH TB	0.95	1.28 34.7
<b>Top SELLS</b>			
Harbin Power	1133 HK	6.01	3.50 (41.8)
Parkson Retail	3368 HK	8.51	5.15 (39.5)
S'pore Airlines	SIA SP	11.46	8.20 (28.4)
STX Pan Ocean	STX SP	12.30	4.35 (64.6)
Amata Corp	AMATA TB	3.30	2.52 (23.6)

### Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.1	(2.5)	1.8
Euro Zone*	0.7	(2.9)	0.5
Japan*	(0.6)	(6.0)	0.2
Singapore	1.2	(4.0)	4.0
Malaysia	4.6	(2.5)	3.2
Thailand	2.6	(5.2)	4.5
Indonesia	6.0	3.6	4.8
Hong Kong	2.5	(4.0)	3.5
China	9.0	6.5	8.3
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,595	1,947
Copper* (US\$/MT)	6,884	3,719	4,505
Gold Price London* (US\$/ounce)	873	936	982
Iron Ore* (US\$/dmu)	153	108	101
CPO (US\$/MT)	818	520	685
BDI	6,338	2,500	1,500

\* Bloomberg

Source: UOB, UOB Kay Hian

## Plantation

Inventory likely already at its bottom

CPO prices are up on Malaysia's palm oil inventory at 19<sup>th</sup>-month low. But expect inventory to pick up as external demand is showing signs of stagnating and supply is rising. Lock in profit for Malaysian- and Indonesian-listed stocks.

### Inventory Down on Higher Domestic Intake

		Mar 09	yoy (%)	mom (%)	Remark
CPO Production	(tonnes)	1,275,736	(1.5)	7.4	Oil palm trees entering higher production season, yoy down due to tress stress
Palm Oil Stocks	(tonnes)	1,363,657	(25.3)	(12.9)	Due to higher domestic use
Palm Oil Exports	(tonnes)	1,260,380	1.3	0.2	Yoy increase mainly driven by EU, India & Pakistan. Mom key support came from UK and US market
CPO Price	(RM/tonne)	2,022.5	(45.0)	6.7	Price rally in anticipation of low inventory
FFB Yield	(tonnes/ha)	1.44	(4.6)	10.8	Higher mom as trees entering high production season
Oil Yield	(tonnes/ha)	0.29	(3.3)	11.5	Oil extraction also improved

Source: MPOB, UOB Kay Hian

### Key Events

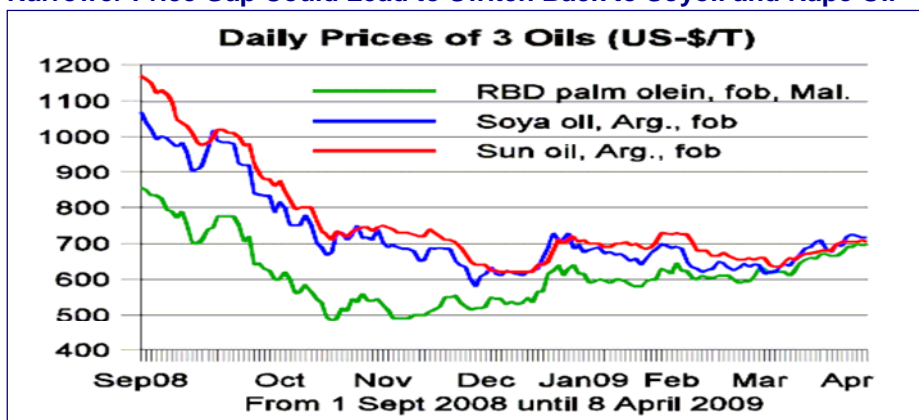
- 19-month low inventory of 1.4m tonnes boosted CPO prices.
- Production starts to pick up after three consecutive months of decline.
- Exports are flat mom, up 1.3% yoy.

### Sector Impact

Palm oil price has been the firmest among edible oils, justified by a significant reduction in inventory during the past four months. However, we do not foresee prices could stay firm at current levels or higher because:

- **High prices encourage demand switch.** A narrower price discount is likely to result in a pick-up in global demand for soyoil and rape oil, which is negative for palm oil.

### Narrower Price Gap Could Lead to Switch Back to Soyoil and Rape Oil

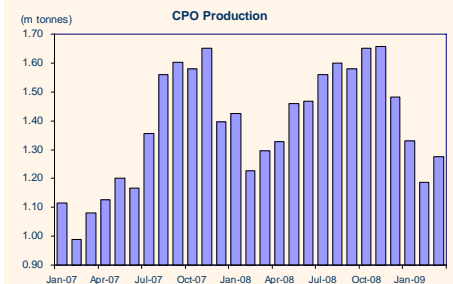


Source: Oil World

- **Slower demand from India.** Following the recent price strength, it is also likely that palm oil purchases from India will slow down, as Indian port stocks of palm oil were still unusually large at around 500,000 tonnes as of 31 Mar 09.

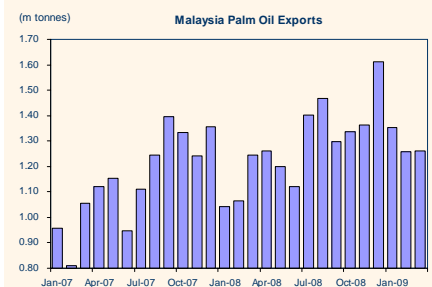
## REGIONAL Plantation OVERWEIGHT

### Strong Contribution from East Malaysia



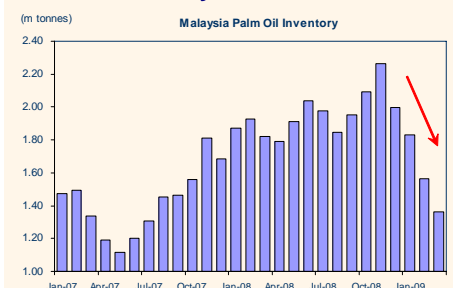
Source: MPOB

### Flattish Exports



Source: MPOB

### Lowest Inventory Since Jul 07



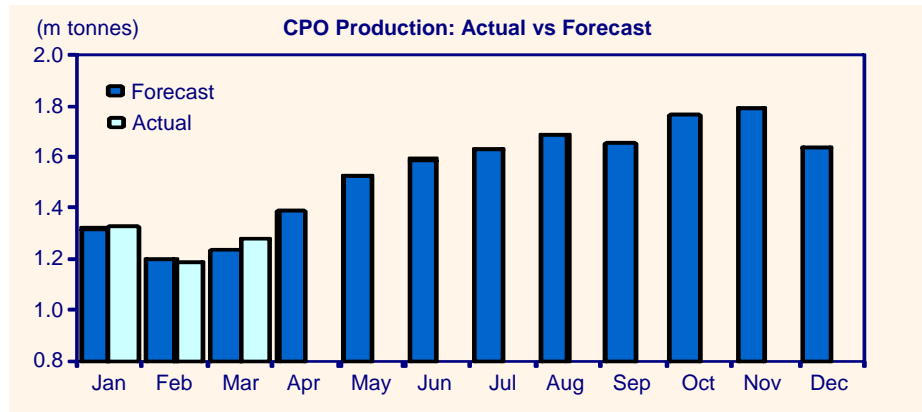
Source: MPOB

### Analyst

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- **Start of high production season.** Oil palm trees are now at their higher production season as shown by higher production mom in Mar 09. However, it still showed a slight yoy decline due to tree stress.

**Mar 09 Production Was Slightly Above Expectation**



Source: MPOB

**Inventory expected to build up.** Higher production growth is expected from April onwards. The production growth could outpace exports, hence inventory may pick up again in 2Q09. This could affect the recent hike in CPO prices, which hit RM2,400/tonne on 10 Apr 09.

**Recommendation**

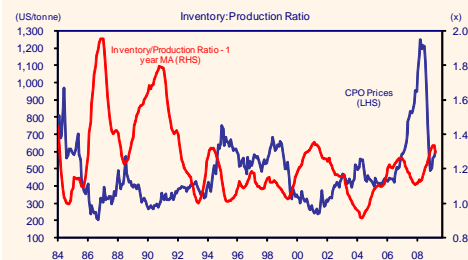
**Maintain OVERWEIGHT.** After the recent price rally, most of the Indonesian-listed stocks have surpassed our price targets. We are currently reviewing their earnings estimates and price targets. In our note dated 3 Apr 09, we recommended investors to take profit on Astra Agro Lestari after its strong price performance. For exposure to plantation sector, we prefer **Wilmar International (WIL SP/Target: S\$3.50)** and **Indofood Agri (IFAR SP/Target: S\$0.80)**.

**Peer Comparison**

Bloomberg Ticker	Year End	Share 10 Apr 09 (RM)	Target Price (RM)	Market Cap (RMm)	FY08F (sen)	EPS FY09F (sen)	FY10F (sen)	FY08F (x)	PE FY09F (x)	FY10F (x)	ROE (%)	P/NTA (x)	Div Yield (%)		
Sime Darby	SIME MK	SELL	09/08	6.50	5.50	39,062	58.4	41.4	48.5	11.1	15.7	13.4	18.0	1.8	8.5
IOI Corp	IOI MK	SELL	06/08	4.30	2.55	26,450	36.3	22.8	29.8	11.9	18.9	14.4	27.7	3.3	4.4
KL Kepong	KLK MK	HOLD	06/08	11.50	10.00	12,276	97.5	79.2	98.5	11.8	14.5	11.7	19.9	2.3	4.7
Asiatic	ASP MK	SELL	12/08	4.80	4.04	3,633	49.3	30.8	47.8	9.7	15.6	10.0	16.9	1.6	3.3
IJM Plant	IJMP MK	HOLD	03/08	2.28	2.05	1,462	20.2	14.1	20.0	11.3	16.2	11.4	20.6	1.9	5.6
<b>Malaysia-average</b>						<b>82,882.7</b>				<b>11.4</b>	<b>16.4</b>	<b>13.2</b>		<b>2.2</b>	
				<b>(S\$)</b>	<b>(S\$)</b>	<b>(S\$m)</b>	<b>(UScent)</b>	<b>(UScent)</b>	<b>(UScent)</b>	<b>(x)</b>	<b>(x)</b>	<b>(x)</b>	<b>(%)</b>	<b>(x)</b>	<b>(%)</b>
Wilmar Int'l	WIL SP	BUY	12/08	3.28	3.50	20,945	21.0	17.7	20.6	10.3	12.2	10.5	17.6	2.4	0.8
Golden Agri	GGR SP	BUY	12/08	0.33	0.33	3,372	3.5	2.9	4.3	6.1	7.5	5.0	34.9	0.5	5.8
Indofood	IFAR SP	BUY	12/08	0.75	0.80	1,079	7.6	6.0	10.1	6.5	8.2	4.9	10.6	1.6	0.0
First Res	FR SP	HOLD	12/08	0.39	0.39	573	5.0	3.6	5.2	5.1	7.1	4.9	29.6	1.1	0.0
<b>Singapore-average</b>						<b>25,968.2</b>				<b>9.1</b>	<b>10.9</b>	<b>8.6</b>		<b>1.4</b>	
				<b>(Rp)</b>	<b>(Rp)</b>	<b>(Rpb)</b>	<b>(Rp)</b>	<b>(Rp)</b>	<b>(Rp)</b>	<b>(x)</b>	<b>(x)</b>	<b>(x)</b>	<b>(%)</b>	<b>(x)</b>	<b>(%)</b>
Astra Agro	AALI IJ	BUY	12/08	14,500	13,700	22,833.8	1,670.7	1,242.1	1,960.4	8.7	11.7	7.4	57.1	4.5	6.0
Lonsum	ISIP IJ	BUY	12/07	3,550	3,300	4,844.2	649.4	428.7	676.6	5.5	8.3	5.2	33.7	1.5	0.0
Sampoerna	SGRO IJ	BUY	12/08	1,400	1,350	2,646.0	232.5	158.6	203.8	6.0	8.8	6.9	29.1	1.6	1.8
Bakrie S'tera	UNSP IJ	SELL	12/08	320	250	1,212.2	45.8	42.0	62.9	7.0	7.6	5.1	7.2	0.6	3.0
<b>Indonesia-average</b>						<b>31,536.2</b>				<b>7.6</b>	<b>10.5</b>	<b>6.8</b>		<b>2.0</b>	

Source: Respective companies, Bloomberg, UOB Kay Hian

**Inventory/Production Ratio**



Source: MPOB

**2H Production Always Higher Than 1H**

	1H (m tonnes)	2H (m tonnes)	1H (% of total)	2H (% of total)
2007	6.68	9.14	0.42	0.58
2008	8.20	9.53	0.46	0.54
2009E	8.26	10.8	0.45	0.55

Source: MPOB, UOB Kay Hian

## Technical Analysis

Further upside - add laggards

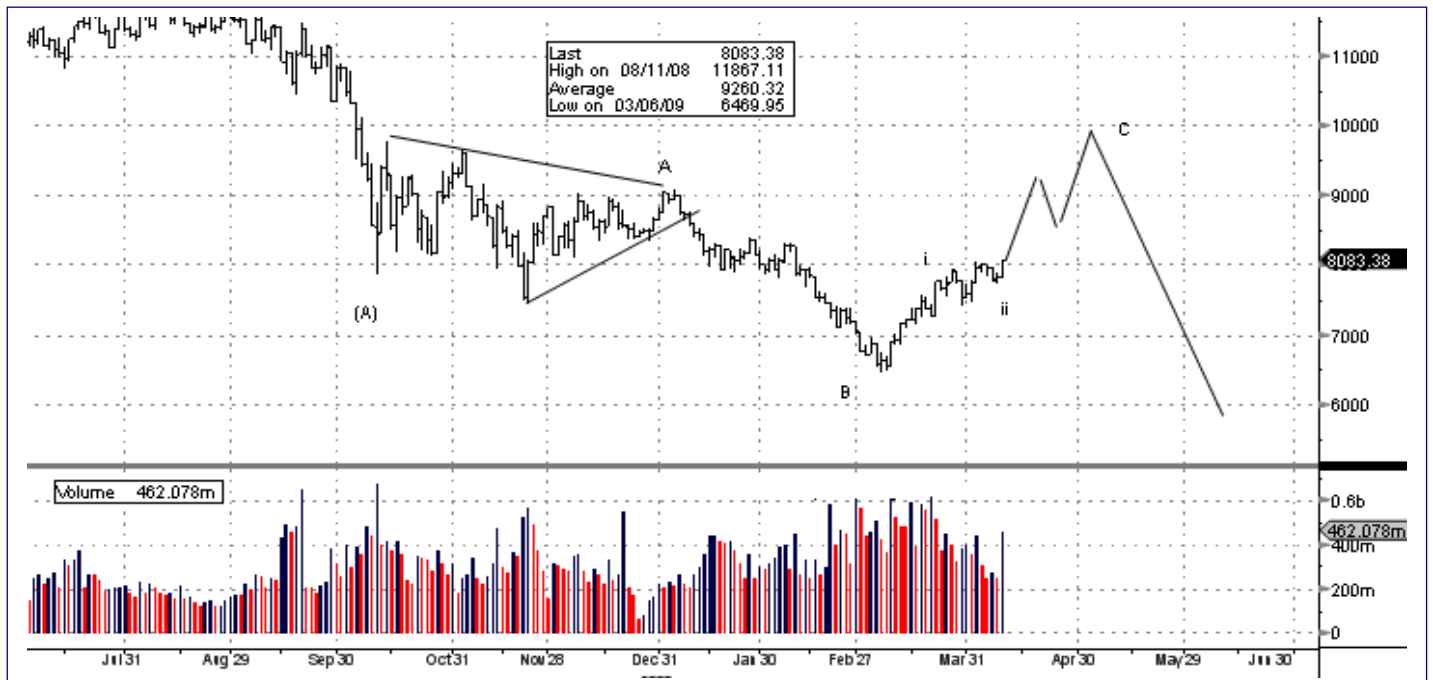
We are shifting from our earlier cautious stance and now believe that the index could form a stronger rally. The primary reason behind this view is the series of higher highs and higher lows coupled with shallow pullbacks that are evident in major Asian markets and US indices. For example, China's Shanghai Composite index recently saw the biggest volume expansion in three years with little distribution.

From a psychological perspective, the ability to shrug off negative news (last week's US jobs report) is another sign that fear has substantially receded, with greed taking over.

For the DJIA, there is a clear 3-legged decline from January high of 9,088 to March low of 6,469. We have labeled this as wave B. The index's move from 6,469 is now best seen as wave C, the final part of an A-B-C countertrend move that began from October lows. The minimum upside based on this pattern is 9,088, the end of wave A. The next target would be a 38% retracement of the decline from 14,198-7,882, which would be 10,290.

In Singapore, the next resistance for the FSSTI is seen to be previous high of 1,960. Following a brief pullback, the index is expected to head towards 2,060. We also note a bullish cup and handle formation on crude oil. Commodity-related plays as such could stage sharp rallies in the coming weeks. We also see positive technical indications on S-shares, with significant rise in volume. This sector likewise should make a strong comeback.

### DJIA



Source: Bloomberg

## REGIONAL

### Technical Analysis

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## Mar 09 Money Supply

New loans hit record high of Rmb1.9t

**DATA RELEASED (M1 in Mar 09):** +17% yoy  
**DATA RELEASED (M2 in Mar 09):** +25.5% yoy  
**DATA RELEASED (Loan in Mar 09):** +29.8% yoy  
**DATA RELEASED (Deposit in Mar 09):** +25.7% yoy

**PREVIOUS DATA (M1 in Feb 09):** +10.9% yoy  
**PREVIOUS DATA (M2 in Feb 09):** +20.5% yoy  
**PREVIOUS DATA (Loan in Feb 09):** +24.2% yoy  
**DATA RELEASED (Deposit in Feb 09):** +23% yoy

**Difference between M2 and M1 narrowed, suggesting stronger effect of credit expansion on economy.** M2 growth accelerated in Mar 09 to 25.5% yoy from 20.5% yoy in Feb 09 on the back of another month of astonishing credit expansion. Meanwhile, M1 growth jumped to 17% yoy in Mar 09 from 10.9% in Feb 09. Thus, the difference between M2 and M1 had narrowed to 8.5ppt in Mar 09 from 9.6ppt in Feb 09 and 12.1ppt in Jan 09. It shows that the cash position of companies has improved and the economy has become more active, thanks to prompt implementation of government stimulus package.

**New loans in 1Q09 amounting nearly Rmb5t; smaller proportion of discounted bills implies strong actual loan demand.** New loans amounted to Rmb1.9t in Mar 09, bringing total new loans in 1Q09 to Rmb4.6t (vs Rmb1.3t in 1Q08), close to the bottom line of Rmb5t target new loans for 2009. The extremely strong bank lending helped to stabilise the economy. More importantly, the proportion of discounted bills in total new loans had declined to 20% in Mar 09 while long-term corporate loans increased further to Rmb790b in Mar 09 from Rmb368b in Feb 09. Meanwhile, new consumer loans accelerated to Rmb490b in Mar 09 from Rmb44b in Feb 09 and Rmb121b in Jan 09. The healthier loan structure suggests actual loan demand is improving.

**Will PBOC curb new loans ahead?** We believe it is unlikely that the People's Bank of China (PBOC) will apply a loan cap for the year and officially move away from quantitative easing. Exports also fell more than expected, and the PBOC previously indicated that the amount of new loans the economy needed would depend on the extent to which exports contracted, i.e. the monetary expansion is to compensate the slowdown in exports. As the outlook for exports is still pessimistic, monetary easing needs to be maintained, in the near term. However, the mind-boggling rate of loan growth may prompt the PBOC to conduct open market operations to reign in liquidity.

**Significant slowdown in foreign reserves accumulation reduces pressure on US treasury purchase.** China's foreign reserves only increased US\$7.7b in 1Q09, a sharp slowdown compared with an increase of US\$1,545b in 1Q08 as capital inflow slowed down and the appreciation of the US\$ led to the depreciation of foreign assets denominated in other currencies in the foreign reserves basket. As a result, China's speed of US treasury accumulation will slow down.

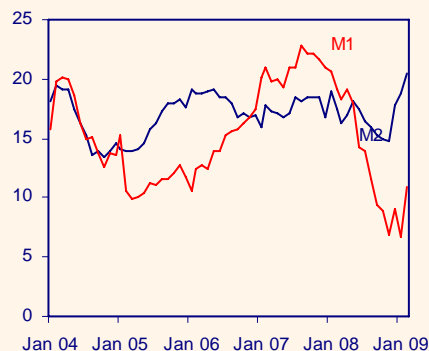
**Strong loan growth to further ease NPL risk for 2009.** New loan growth of such a magnitude during 1Q09 will surely and significantly ease the risk of severe asset quality deterioration for 2009. However, the long-term outlook for asset quality remains ambiguous as the strong loan growth will without doubt increase the risk exposure of the entire banking sector.

## CHINA

### Economics

#### Money Supply

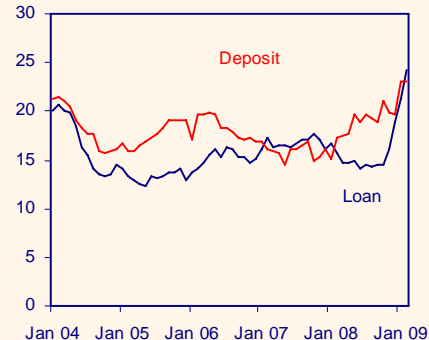
(yoy % chg)



Source: CEIC

#### Loans and Deposits

(yoy % chg)

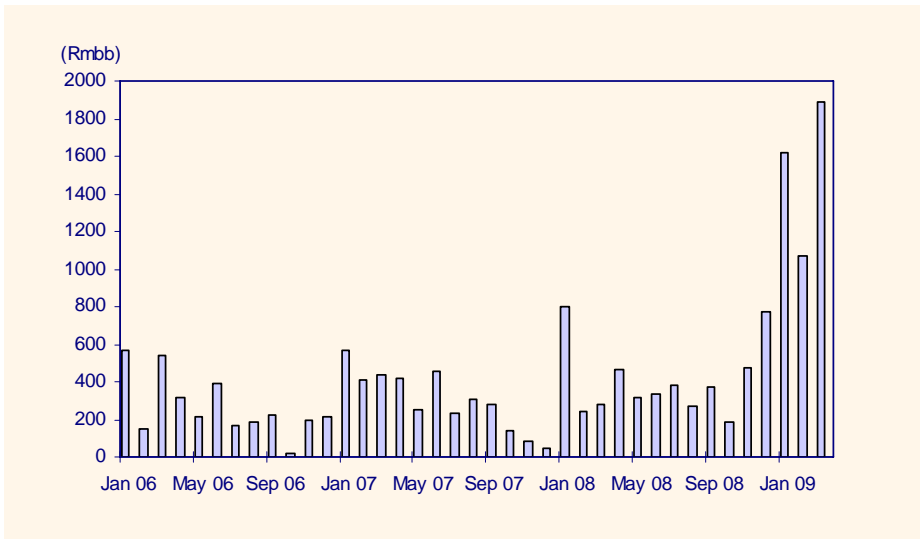


Source: CEIC

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**New Loans**



Source: CEIC

## Banking

### Turnaround in sentiment for US financials

Better-than-expected preliminary results from Wells Fargo indicate possible revival for the mortgage market in the US. The turnaround in sentiment for US financials will provide a boost to share prices of Singapore banks.

#### Corporate Events

**Positive surprise from Wells Fargo.** Wells Fargo announced that it expects net income of US\$3b for 1Q09, twice the consensus estimates. It experienced exceptionally strong US\$100b in mortgage originations and a 41% increase in application pipeline to US\$100b at the end of the quarter. Volume for housing loans surged as mortgage rates for 30-year loans fell to 4.78%, the lowest since the early 70s. Net interest margin is expected to improve going forward as competitors were eliminated. Wachovia paid very high interest rates to attract deposits in 2008 but these accounts are being repriced at a lower rate this year. Legacy Wachovia contributed about 40% of combined revenue. The actual 1Q09 results will be announced on 22 Apr 09.

Share price of Wells Fargo rebounded 31.7% to US\$19.61. Bank of America, who acquired Countrywide Financial, also gained 35.3% to US\$9.55. CEOs of Bank of America, Citigroup and JP Morgan Chase previously said they were profitable in Jan 09 and Feb 09. Most admitted that business had slowed down in Mar 09.

**Banks intend to return TARP money.** JPMorgan Chase, Goldman Sachs and Bank of America have expressed intention to repay TARP funds in consultation with regulators. The preferred shares issued to the US government pay a dividend of 5% in the first five years and 9% thereafter. The initial nine participating banks have also accepted restriction on executive compensation and dividend payout. With strong deposit growth of 7.6% yoy, most US commercial banks have sufficient cash to meet their funding requirements. Industry loans/deposits ratio for commercial banks has improved from 101.2% in Mar 08 to 96.2% in Mar 09. Results of stress tests for 19 of the largest US banks will be released in late-April.

#### TARP Capital Purchase Programme (initial nine participating banks)

Name of Institutions	City	State	Price Paid
Bank of America	Charlotte	NC	US\$15b + US\$20b
Bank of New York Mellon	New York	NY	US\$3b
Citigroup	New York	NY	US\$25b + US\$20b
Goldman Sachs	New York	NY	US\$10b
JP Morgan Chase	New York	NY	US\$25b
Morgan Stanley	New York	NY	US\$10b
State Street	Boston	MA	US\$2b
Wells Fargo	San Francisco	CA	US\$25b
Merrill Lynch	New York	NY	US\$10b

Source: US Treasury

**Lower risk of impairment to investment securities.** US Financial Accounting Standards Board (FASB) has relaxed fair-value or marked-to-market accounting, allowing banks to use their judgement in determining fair value of illiquid assets. Banks thus do not need to mark their assets to fire sale prices when they are not distressed and have strong cash flow. This will ease the quantum of write-downs and preserve capital for US banks, who could elect to implement the changes in their 1Q09 results.

#### Stock Impact

**Fitch Ratings reaffirms stable outlook.** Fitch Ratings (Fitch) has maintained a stable outlook for Singapore banks as their loss absorption indicators and capital ratios are strong. Asset quality will likely deteriorate in 2009 and 2010 but Fitch expects Singapore banks to remain profitable. It estimates net profits in 2009 to be around 40% lower than in 2008, which is in line with our forecast.

## SINGAPORE

### Banking

## MARKET WEIGHT

### DBS (DBS SP)

#### BUY

Current Price: S\$8.91

Target Price: S\$10.55

### OCBC (OCBC SP)

#### HOLD

Current Price: S\$5.46

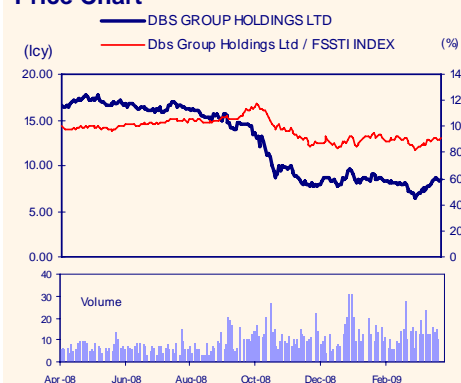
Fair Price: S\$5.27

### UOB (UOB SP)

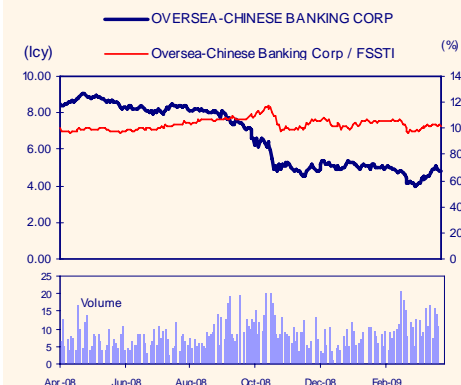
#### NOT RATED

Current Price: S\$10.50

#### Price Chart



Source: Bloomberg



Source: Bloomberg

#### Analyst

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The Singapore government has taken unprecedented fiscal measures aimed at helping smaller businesses and low-income earners (job credit scheme and special risk-sharing initiative), which will mitigate the impact of a slowdown in the economy. Fitch regards the local banks' resilience to be much stronger than most banks in Asia.

**Earnings Revision**

Our earnings forecasts assume NPL ratio rising to 5% for DBS and 6% for OCBC by 4Q10. We forecast net profit of S\$1,549m for DBS, down 38.7%, and S\$1,220m for OCBC, down 32.6%, in FY09.

**Assumptions In Earnings Forecasts**

	2008	2009F	2010F
<b>DBS</b>			
NPL Ratio (%)	1.5	4.0	5.0
Credit Costs (bps)	55	120	80
<b>OCBC</b>			
NPL Ratio (%)	1.5	4.5	6.0
Credit Costs (bps)	24	135	95

Source: UOB Kay Hian

**Valuation/Recommendation**

The sense of panic and freefall has abated. We expect positive forward momentum for the share prices of Singapore banks to continue, boosted by turnaround in sentiment for US financials.

**DBS (BUY/S\$8.91/Target: S\$10.55).**

- DBS announced that CEO Richard Stanley's condition deteriorated in the last 48 hours due to infection and he passed away peacefully on Saturday morning. Executive Chairman Koh Boon Hwee has already assumed active management oversight and works closely with the management committee since Jan 09.
- Management has streamlined operations in Singapore and Hong Kong for greater efficiency. DBS has managed down its trading position, which reduced risk-weighted assets by 3.9% qoq in 4Q08.
- DBS focuses on organic growth in Singapore and the Singapore-dollar loan-deposit ratio improved from 52.6% in 2Q08 to 57.0% in 4Q08.

**OCBC (HOLD/S\$5.46/Fair: S\$5.27).**

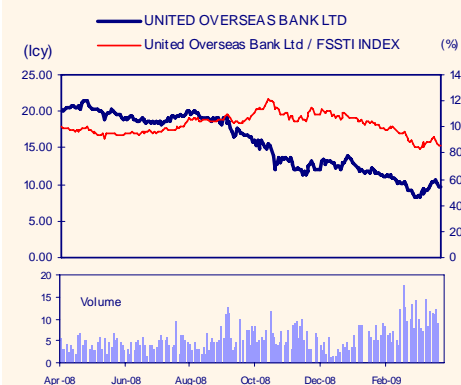
- OCBC has the highest Tier-1 Capital Adequacy Ratio (CAR) of 14.9%, thus it is unlikely to need recapitalisation via a rights issue.
- We are concerned about OCBC's large exposure to property developers as building & construction accounted for 21.1% of its loan book as at Dec 08. However, its share price has recovered with signs of recovery for mass and mid-market private residential properties.
- Overseas, OCBC has a significant presence in Malaysia and Indonesia, which provides long-term growth potential.

**Peer Comparison**

	Bloomberg Code	Rec	Price @ 8 Apr 09 (S\$)	Target Price (S\$)	Market Cap (US\$m)	Hist. (x)	Current PE (x)	Forward PE (x)	P/B (x)	ROE (%)	Div Yield (%)
DBS	DBS SP	BUY	8.50	10.55	12,771	7.8	13.4	9.8	0.77	9.6	7.4
OCBC	OCBC SP	HOLD	5.30	5.27	10,913	9.7	14.4	10.9	1.19	12.2	5.3
UOB	UOB SP	NR	10.12	n.a.	10,157	8.1	10.0	8.9	1.14	12.6	7.3
Average:						8.5	12.6	9.9	1.03	11.5	6.7

Source: Bloomberg, UOB Kay Hian

**Price Chart**



Source: Bloomberg

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