

Buy S\$1.57 STI : 3,438.27

Price Target : 12-month S\$ 1.80

Reason for Report : Post results note

Potential Catalyst: Higher operating efficiency, revenue intensity and international expansion.

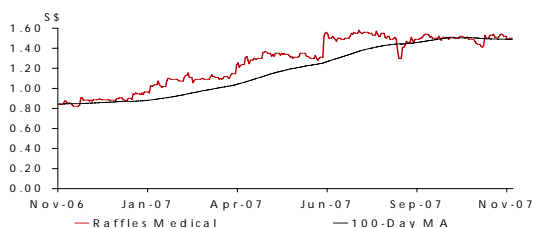
ANALYST

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FORECASTS AND VALUATION

FY Dec (\$\$ m)	2006A	2007F	2008F	2009F
Turnover	134.2	168.2	208.3	266.4
EBITDA	21.9	42.8	37.2	47.8
Pre-tax Profit	20.0	40.8	32.5	41.8
Net Profit	15.7	33.3	26.6	34.2
Net Pft (Pre Ex.)	15.7	33.3	26.6	34.2
EPS (S cts)	3.5	6.5	5.2	6.6
EPS Pre Ex. (S cts)	3.5	6.5	5.2	6.6
EPS Gth Pre Ex (%)	28	85	(20)	29
Diluted EPS (S cts)	3.4	6.4	5.1	6.5
Net DPS (S cts)	3.3	3.7	4.9	6.3
BVPer Share (S cts)	24.8	38.0	39.4	41.2
PE (X)	44.8	24.2	30.3	23.6
PE Pre Ex. (X)	44.8	24.2	30.3	23.6
P/Cash Flow (X)	38.7	34.6	26.2	20.7
EV/EBITDA (X)	29.7	19.4	22.1	16.9
Net Div Yield (%)	2.1	2.4	3.1	4.0
P/Book Value (X)	6.3	4.1	4.0	3.8
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
ROAE (%)	14.3	21.6	13.4	16.5

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)	515
Mkt. Cap (\$\$m/US\$m)	809 / 559
Major Shareholders	
Raffles Medical (%)	40.2
Loo Choon Yong (%)	10.2
Free Float (%)	49.6
Avg. Daily Vol. ('000)	280

Earnings Rev (%):	2007: 3.2	2008: 2.0
Consensus EPS (S cts):	2007: 5.8	2008: 6.1
Variance vs Cons (%):	2007: 12.1	2008: (14.8)

Sector : Health Care

Bloomberg/Reuters Code: RFMD SP/RAFG.SI

Principal Business: Raffles Medical Group Ltd. is a Singapore-based company that is principally engaged in the provision of integrated healthcare services.

Raffles Medical

Poised for a healthy year and beyond

➤ **Story:** Raffles Med had a good set of 3Q and 9M results; and, we expect this to continue into 4Q.

➤ **Point:** We expect FY07 and the forecast years to be led by contributions from both its Hospital and Healthcare divisions, which, in turn, are expected to be driven by (i) increasing foreign patient numbers; (ii) buoyant economic and employment figures; (iii) possible upsides to revenue intensity from higher complexities and full ownership of hospital, giving management more flexibility to optimise hospital space. We have adjusted our '07F and '08F net profit up marginally by 2%-2.6% to account for lower expenses incurred as a result of operating efficiencies. Excluding gains from JV, we expect full year bottomline to grow by about 47% to c. S\$23m in FY07F.

➤ **Relevance:** The prospects look bright for the Group on the back of the buoyant economy and the Singapore government's drive to position the city-state as a medical hub. We believe further catalyst for the stock will come, if and when, the Group announces plans to extend its presence overseas. Maintain BUY, TP: S\$1.80 based on DCF (WACC 6.2%, terminal growth 1%).

3Q results were good... Topline grew 25% to S\$43.8m due to higher contributions from its Healthcare and Hospital divisions. 3Q operating margins improved by more than 2ppt from 13.3% to 15.6% due to better operating efficiencies. As a result, net profit rose 60% to S\$6.5m. Consequently, 9M bottomline, including S\$12.5m gain from its subsidiary, ended at S\$26.5m, up 145% y-o-y.

...expect to follow through into full year. We expect the Group to end the year on a positive note. Our net profit is adjusted up marginally by 2% - 2.6% due to better operating margins assumed. Excluding exceptional gains of its JV, we project net profit to end at S\$23m for FY07F, up 47% y-o-y.

Benefit from Singapore's drive to be a medical hub and... International patients coming to Singapore have increased 19% CAGR from '01-'06 to 448,800 per annum in 2006; and, is targeted to reach 1m by 2012. Foreign patients now account for about 35% of Raffles Hospital's admission. We believe the Group will continue to ride on this positive trend.

...Robust employment figures and economy. In the first three quarters of 2007, total employment gains were 171,500, up 38% y-o-y. The 9M07 figure is almost equivalent to the 176,000 for the whole of 2006. We think Raffles Med will benefit from the robust employment market with its wide network of over 60 clinics and over 5,000 corporate accounts.

A defensive stock; maintain BUY, TP: S\$1.80. We like the prospects going forward for reasons as mentioned. We believe catalyst could come if and when the Group announces any significant foray into international markets.

Positive prospects

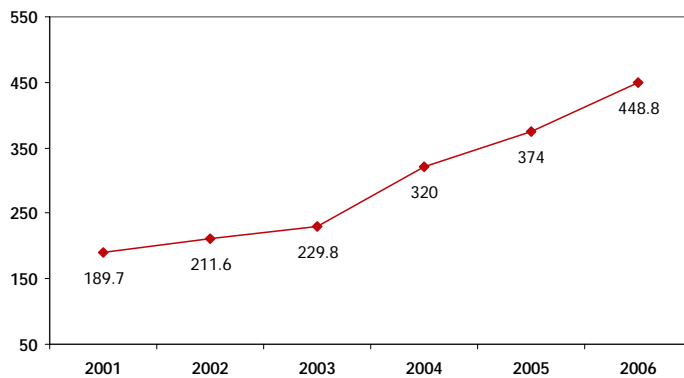
Positive on the Raffles Medical prospects. We are positive on the Group's prospects as it rides on:

1. Influx of international patients and Singapore's drive to be a medical hub;
2. Buoyant economy with increasing employment; and,
3. Possible upsides on increasing operating efficiency and revenue intensity.

1. **Benefit from government's drive to achieve 1m medical tourists by 2012.** We believe the Group will continue to benefit from the influx of international patients on the back of the Singapore government's initiative to achieve 1m international patients per annum by 2012. This is estimated to generate S\$3bn in GDP receipts. As of 2006, the total number of international patients stood at about 448,800, which was almost double since the inception of this initiative in Oct 2003. Over the period from 2001- 2006, international patient numbers have grown at a CAGR of 19%.

International patient accounts for one-third of patient numbers in RH; and set to grow. Management estimates that about 35% of its hospital patients are foreigners; and, they believe the proportion should increase going forward. Furthermore, since international patients arrive for specific medical purposes/check ups, this should provide upside for the hospital's revenue intensity per patient.

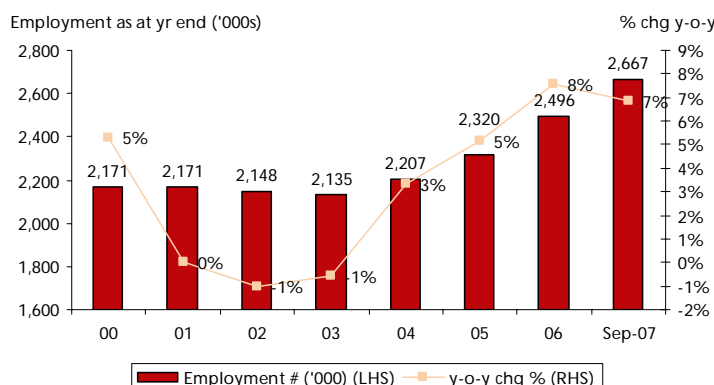
International Patient Inflow to Singapore (2001 to 2006)



Source: MOH, Straits Times – 29 March 2006, Frost & Sullivan

2. **Robust employment figures should continue to spur its Healthcare division.** We expect its Healthcare division to benefit from the robust employment in Singapore. Employment in Singapore continued to grow strongly on the back of the continued strong growth in the economy; and, this should benefit the Group's Healthcare division with a network of over 60 clinics and over 5,000 corporate accounts. Based on preliminary estimates from the Singapore's Ministry of Manpower, employment in the third quarter of 2007 alone grew by 57,600, up substantially by 34% from 43,000 in 3Q 2006. In the first three quarters of 2007, total employment gains were 171,500, close to the 176,000 for the whole of 2006. We believe the continued attraction of Singapore as a financial hub, the start up of the two new integrated resorts in 2009/10 and the government's long-term drive to increase the population would underpin demand and growth for healthcare services.

Employment figures and y-o-y change (2000 – Sep 2007)



Source: Ministry of Manpower, Singapore, DBS Vickers

3. **Upside for higher operating efficiencies, intensity and fees.** Based on figures from the Ministry of Health, we note that the bill size for Raffles Hospital, while higher than the average, was still lower than the highest. While we do acknowledge that the hospital bill size from both the selected day surgery procedures and the medical/surgical specialties are not conclusive (possibly due to differences in complexities and services offered) and not totally reflective of the Group's charges vis-à-vis its peers, we believe it still does provide a general indication. Thus, we believe that, going forward, there could be potential for management to narrow the gap.

Tables: Hospital bill size for selected procedures, medical and surgical specialties

Day surgery private Hospitals	----- Colonoscopy -----				----- Gastroscopy -----			
	Volume ¹	Avg length Of Stay (Days) ²	50th Percentile Bill Size (\$) ³	90th Percentile Bill Size (\$) ⁴	Volume ¹	Avg length Of Stay (Days) ²	50th Percentile Bill Size (\$) ³	90th Percentile Bill Size (\$) ⁴
Alexandra Hos.	57	1	764	1115	98	1	293	394
Changi Gen. Hos.	280	1	911	1218	544	1	402	589
East Shore Hos.	91	1	1021	1512	122	1	618	2010
Gleneagles Hos.	643	1	1203	1693	951	1	661	980
Mt Alvernia Hos.	298	1	1097	1637	520	1	595	919
Mt Elizabeth Hos.	1233	1	1313	1935	1096	1	768	1201
National Cancer Ctr.	53	1	1017	1514	43	1	431	546
National Uni. Hos.	553	1	941	1489	805	1	436	657
Raffles Hos.	514	1	1108	1905	611	1	594	1055
Singapore Gen. Hos.	1817	1	1170	1481	1655	1	462	671
Tan Tock Seng Hos.	392	1	893	1354	763	1	418	584

¹ Number of cases for the period 1 Oct 2006 to 30 Sep 2007

² Average Length of stay for the condition/ procedure

³ 50% of patients pay this amount or less, and 50% pay more. This figure provides an estimate of the typical bill sizes for patients

⁴ 90% of patients pay this amount or less, and 10% pay more. This figure provides an estimate of the upper range of bill sizes.

Source: Ministry of Health, Singapore

Room Type	-----Medical specialties -----				-----Surgical specialties -----			
	Class A (1-bedded)				Class A (1-bedded)			
Hospitals	Avg Per Day (\$)	Avg Total Bill (\$)	Total Bill at 90th Percentile	Total Bill at 95th Percentile	Avg Per Day (\$)	Avg Total Bill (\$)	Total Bill at 90th Percentile	Total Bill at 95th Percentile
East Shore Hos.	932	2,886	5,217	7,845	1,795	4,543	7,896	11,400
Gleneagles Hos.	2,233	7,587	19,774	23,556	2,529	6,496	11,449	15,074
Mt Alvernia Hos.	1,107	3,448	6,024	9,966	1,757	4,779	8,555	11,276
Mt Elizabeth Hos.	2,237	8,908	21,189	30,749	2,901	8,578	16,333	23,090
Raffles Hos.	1,994	6,330	17,069	25,560	2,728	6,462	11,674	15,065
Thomson Medical Ctr.	813	2,127	3,519	4,319	1,497	3,857	6,284	7,228

1. Data in respect of private hospitals are based on Medisave claims submitted by the hospitals. The data include doctors' charges.

2. The comparison only serves as a guide and has not been standardised for the different range of medical specialties in each hospital.

3. Medical Specialties include Cardiology, General Medicine, Geriatric Medicine, Paediatrics Medicine, Neonatology, Neurology, Rehabilitation Medicine, etc
Surgical Specialties include Cardiothoracic Surgery, ENT, General Surgery, Neurosurgery, Gynaecology, Obstetrics, Orthopaedic Surgery, Paediatrics Surgery, Plastic Surgery, etc

4. Average per day = total amount of inpatient bills / total number of days stayed in hospital (day surgery bills are not included).

Source: Ministry of Health, Singapore

Overseas expansion yet to come; management taking a conservative approach. So far, besides a presence in HK, there has been no announcement of the Group's international expansion plans. Management has indicated that they would prefer to take a conservative approach in evaluating and negotiating entry into other countries, namely China, Vietnam, India and Malaysia. Entry would be via the establishment of medical centres in gateway cities (such as Shanghai and Beijing), before further plans to establish hospitals. We have not factored in any contributions from such possible investments. Notwithstanding this, we believe it could provide catalysts to the share price if and when something substantial is announced. In our view, given management's cautiousness, we think it may take a while before we hear anything from this front.

Valuation

Maintain BUY, TP: S\$1.80. Our DCF based valuation shows a target price of S\$1.80 (based on WACC of 6.2%, terminal growth of 1%). This translates into a PER of 35x on FY08F (and 27.5x on FY09F earnings); and, at a PEG of *c.* 1.16x, which we think could be justified due to the positive prospects and possible earnings upside from higher patient numbers, intensity and operating efficiencies.

DCF Valuation Analysis

	Assumptions	
Risk Free Rate	2.7%	10 yr Singapore T-bond
Cost of Debt	3.0%	Assumed risk-free rate
Tax rate %	18.0%	Singapore corporate tax rate
Expected market return	8.5%	Singapore market return
Current Beta	0.8	Assumed
Current Debt/Equity Ratio	38%	FY07F
Target Debt/Equity Ratio	17%	FY08F
Beta at Target Gearing	0.7	
Cost of Equity	6.8%	Based on CAPM model
WACC	6.2%	
Terminal growth	1.0%	Assumed

FY DEC (\$m)	08F	09F	10F	Terminal
Opg Profit	33.0	43.0	56.5	
Opg Profit Growth%	29%	30%	31%	
Tax rate %	18%	18%	18%	
NOPLAT	27.1	35.3	46.4	
+Depn & Amortn	4.2	4.7	5.3	
+(Inc)/Dec in WC	2.9	4.3	5.4	
-Capex	(5.0)	(5.0)	(5.0)	
FCFF	29.2	39.3	52.0	1,017.4
Disc. FCFF	29.2	37.0	46.2	850.2
Sum of Disc. FCFF to FY05F	962.5			
Net Cash as at FY07	(37.5)			
Fair Value of Equity	925			
Total outstanding shares (m)	514			
Fair Equity Value/Share (\$)	1.80			

Source: DBS Vickers' estimates

3Q and 9M07 results summary

FYE Dec (\$m)	3Q06	3Q07	3Q Chg y-o-y	9M06	9M07	9M Chg y-o-y	Comments
Sales	35.0	43.8	26%	98.7	122.92	25%	Growth from Hospital and Healthcare divisions
Other Operating Income	0.5	0.8	97%	1.2	1.8	50%	
<i>Inventories and consumables used</i>	(4.6)	(4.8)	5%	(13.0)	(14.4)	10%	
<i>Staff costs</i>	(17.3)	(21.5)	24%	(50.8)	(61.5)	21%	
<i>Depreciation of PPE</i>	(0.9)	(0.9)	8%	(2.5)	(2.7)	7%	
<i>Other operating expenses</i>	(7.6)	(9.9)	31%	(20.6)	(27.2)	32%	Largely due to insurance claims
Total operating expenses	(30.3)	(37.1)	22%	(86.9)	(105.7)	22%	Lower than topline due to operating efficiencies
Operating profit	5.1	7.6	48%	13.1	19.1	46%	
Non-Operating Income	0.0	0.0		0.0	0.0		
Interest Income	0.4	0.7	73%	1.2	1.7	39%	
Interest Expense	(0.5)	(0.8)	67%	(1.3)	(1.8)	34%	
Share of Associates' or JV Income	0.1	0.6	344%	0.8	13.6	1661%	Due exceptional gains from the Hospital assets in 2Q
Pretax Profit	5.2	8.1	56%	13.7	32.6	137%	
Tax	(1.1)	(1.6)	40%	(2.9)	(6.2)	110%	Higher tax in tandem with higher PBT
Minority Interests	0.0	0.0	nm	(0.0)	0.1	110	
Net Profit	4.1	6.6	60%	10.8	26.5	145%	In line with expectations
Operating costs as % of revenue	3Q06	3Q07	ppt chg	9M07	9M07	ppt chg	
<i>Inventories & consumables used</i>	13.1%	10.9%	-2.2%	13.2%	11.7%	-1.5%	
<i>Staff costs</i>	49.5%	49.0%	-0.5%	51.5%	50.0%	-1.4%	
<i>Depreciation of PPE</i>	2.4%	2.1%	-0.3%	2.5%	2.2%	-0.4%	
<i>Other operating expenses</i>	21.7%	22.7%	1.0%	20.8%	22.1%	1.3%	
Total cost as % of services	86.6%	84.6%	-2.0%	88.0%	86.0%	-2.0%	
Operating margins	13.4%	15.4%	2.0%	12.0%	14.0%	2.0%	

Source: Company, DBS Vickers

Company Focus

Raffles Medical

Income Statement (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Turnover	134.2	168.2	208.3	266.4
Other Opg (Exp)/Inc	(116.7)	(142.6)	(175.3)	(223.3)
EBIT	17.5	25.6	33.0	43.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.9	13.6	0.0	0.0
Net Interest (Exp)/Inc	1.6	1.6	(0.5)	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	20.0	40.8	32.5	41.8
Tax	(4.3)	(7.3)	(5.9)	(7.5)
Minority Interest	(0.1)	(0.1)	(0.1)	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	15.7	33.3	26.6	34.2
Net profit before Except.	15.7	33.3	26.6	34.2
EBITDA	21.9	42.8	37.2	47.8
Sales Gth (%)	18.9	25.3	23.9	27.9
EBITDA Gth (%)	22.3	95.5	(13.1)	28.5
EBIT Gth (%)	30.7	46.1	28.9	30.4
Effective Tax Rate (%)	21.3	18.0	18.0	18.0

Balance Sheet (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Net Fixed Assets	20.2	21.7	22.5	22.8
Invts in Assocs & JVs	54.0	1.3	1.3	1.3
Other LT Assets	1.3	216.2	216.2	216.1
Cash & ST Invts	56.2	61.1	27.0	21.6
Other Current Assets	20.2	25.3	31.3	40.0
Total Assets	151.8	325.6	298.3	301.9
ST Debt	2.0	2.0	2.0	2.0
Other Current Liab	36.0	44.9	52.4	67.1
LT Debt	0.0	82.4	40.0	20.0
Other LT Liabilities	0.7	0.7	0.7	0.7
Shareholder's Equity	112.9	195.1	202.6	211.5
Minority Interests	0.3	0.4	0.5	0.6
Total Cap. & Liab.	151.8	325.6	298.3	301.9
Non-Cash Wkg. Cap	(15.8)	(19.7)	(21.1)	(27.0)
Net Cash/(Debt)	54.2	(23.3)	(15.0)	(0.4)

Cash Flow Statement (\$\$ m)

FY Dec	2006A	2007F	2008F	2009F
Pre-Tax Profit	20.0	40.8	32.5	41.8
Dep. & Amort.	3.4	3.6	4.2	4.7
Tax Paid	(2.3)	(5.9)	(7.3)	(5.9)
Assoc. & JV Inc/(loss)	(0.9)	(13.6)	0.0	0.0
Non-Cash Wkg.Cap.	0.7	2.5	2.9	4.3
Other Operating CF	(1.2)	0.0	0.0	0.0
Net Operating CF	19.7	27.3	32.3	44.9
Capital Exp.(net)	(2.3)	(5.0)	(5.0)	(5.0)
Other Invts.(net)	0.0	(66.3)	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.4	0.0	0.0	0.0
Net Investing CF	(1.9)	(71.3)	(5.0)	(5.0)
Div Paid	(15.5)	(15.0)	(19.0)	(25.2)
Chg in Gross Debt	(0.2)	0.0	(42.4)	(20.0)
Capital Issues	4.8	63.9	0.0	0.0
Other Financing CF	(0.1)	0.0	0.0	0.0
Net Financing CF	(11.0)	48.9	(61.4)	(45.2)
Net Cashflow	6.8	4.9	(34.2)	(5.3)

Rates & Ratios

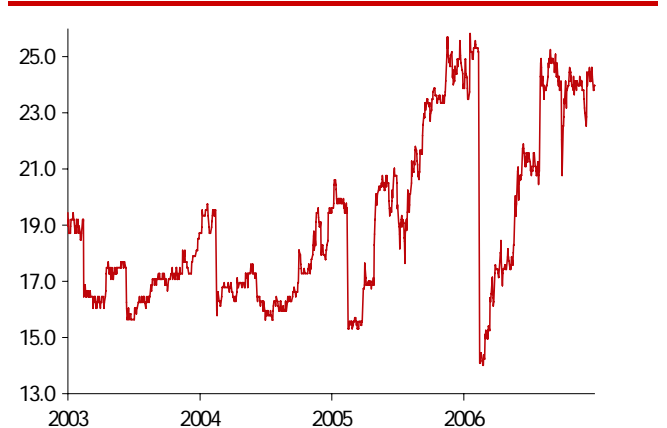
FY Dec	2006A	2007F	2008F	2009F
EBITDA Margin (%)	16.3	25.4	17.8	17.9
EBIT Margin (%)	13.0	15.2	15.8	16.1
Net Profit Margin (%)	11.7	19.8	12.8	12.8
ROAE (%)	14.3	21.6	13.4	16.5
ROA (%)	10.8	14.0	8.5	11.4
ROCE (%)	12.5	12.6	12.4	16.4
Div Payout Ratio (%)	95.5	57.1	95.0	95.0
Interest Cover (x)	NM	NM	70.2	35.4
Debtors Turn (avg days)	39.5	41.0	41.2	40.6
Creditors Turn (avg days)	87.6	88.8	89.8	88.6
Inventory Turn (avg days)	13.5	13.0	13.2	13.3
Current Ratio (x)	2.0	1.8	1.1	0.9
Quick Ratio (x)	1.9	1.7	1.0	0.8
Net Debt/Equity (X)	CASH	0.1	0.1	0.0
Capex to Debt (%)	113.4	5.9	11.9	22.7
N.Cash/(Debt)PS (S cts)	11.9	(4.5)	(2.9)	(0.1)
Opg CFPS (S cts)	4.2	4.8	5.7	7.9
Free CFPS (S cts)	3.9	4.3	5.3	7.8

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	4Q2006	1Q2007	2Q2007	3Q2007
Turnover	35.5	37.7	41.4	43.8
Other Oper. (Exp)/Inc	(30.4)	(33.2)	(35.4)	(36.3)
EBIT	5.1	4.5	6.0	7.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.3	0.2	12.9	0.6
Net Interest (Exp)/Inc	0.9	0.5	0.5	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	6.3	5.1	19.4	8.1
Tax	(1.3)	(1.0)	(3.6)	(1.6)
Minority Interest	(0.1)	0.0	0.0	0.0
Net Profit	4.9	4.2	15.8	6.6
Net profit bef Except.	4.9	4.2	15.8	6.6
EBITDA	6.3	5.6	19.8	9.1
Sales Gth (%)	1.5	6.0	9.9	5.9
EBITDA Gth (%)	3.6	(11.2)	254.2	(54.1)
EBIT Gth (%)	0.1	(12.0)	33.2	26.5
Gross Margins (%)	100.0	100.0	100.0	100.0
EBIT Margins (%)	14.4	11.9	14.5	17.3

Source: Company, DBS Vickers

PE Chart (x)



DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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