

Singapore Economics

Budget: Planning for Next Generation

Bumper fiscal year, surprise “hongbao”

Current government is looking forward and already setting the fiscal parameters for the next 4th generation of leaders. Operating fiscal revenue came in much higher than expected, due to higher corporate income tax, stamp duties and exceptional Statutory Board (MAS) contribution. Overall budget surplus was \$9.6bn (2.1% of GDP) in FY2017, far exceeding the projected \$1.9bn. This was the highest budget surplus as a % of GDP since FY2007 (a strong growth year). A one-off “hongbao” of up to \$300 will be handed out (costing \$700mn), despite it not being an election year. The govt. conservatively projects a negligible budget deficit in FY2018 at 0.1% of GDP (see Fig 1).

GST hike only in 2021-25

The GST hike (to 9% from 7%) is still coming despite the bumper year, but deferred until 2021-25, probably “earlier rather than later.” This will be implemented in a progressive manner, with a permanent GST voucher and offset package to cushion impact on lower and middle-income households. A +2ppt hike would generate revenue of nearly 0.7% of GDP per year, and would be necessary to fund rising healthcare and infrastructure spending (see Table 2 & Fig 3).

Higher stamp duty on high-end property

The speculated wealth tax came in the form of a hike in top marginal stamp duty to 4% (from 3%) for residential property valued in excess of S\$1 million starting 20 Feb 2018 (see Table 3). This also applies to en bloc property deals. Our analyst Derrick argues that this is a small dampener which will impact the high-end more than mass market, and should not derail the property market recovery (see *Singapore Property: Higher BSD a Small Dampener*, 19 Feb 2018).

Imported services tax in 2020, carbon tax in 2019

GST will apply to imported services from 1 Jan 2020, even if overseas suppliers do not have a physical presence in Singapore. Imported services include apps, software, online subscription fees, marketing, IT and management services. Contrary to our expectations, GST was not extended to online sales of goods, which would fail to capture the bulk of GST leakages. Currently, imported goods costing more than \$400 are taxed. We are not entirely clear on why GST is applied to online e-services, but not goods.

A carbon tax of \$5 per tonne of greenhouse gas emissions will be implemented in 2019-23, lower than the earlier guidance of \$10-\$20 per tonne and below most countries’ carbon tax rates (see Fig 4). About \$1bn revenue collection is projected in first 5 years, but will be recycled on worthwhile environmental projects. The carbon tax will be reviewed by 2023 and increased to \$10-\$15 per tonne by 2030. Petrol, diesel & compressed natural gas are exempted as they already incur excise duties.

Analysts

Chua Hak Bin
(65) 6231 5830
chuahb@maybank-ke.com.sg

Lee Ju Ye
(65) 6231 5844
leejuye@maybank-ke.com.sg

Supporting corporate innovation, internationalization

Govt. extends the wage credit scheme (co-fund employee wages for next 3 years which would cost \$1.8bn); enhances and extends corporate income tax rebate to YA2019 at 20% of tax payable (capped at \$10k); defers foreign worker levy increase for marine shipyard and process sectors for another year (see Table 5); raises tax deduction on licensing of intellectual property; and enhances double tax deduction for internationalization. These largely benefit SMEs because of the caps.

Fostering caring & cohesive society

Support for lower-income and elderly came in form of education support; review of EldersShield insurance scheme; enhanced Proximity Housing Grant; extension of service and conservancy charges rebate (\$126mn) and encouraging individual & corporate giving. Foreign domestic worker monthly levy will be hiked to \$300 (from \$265) starting 1 Apr 2019, to reduce over-dependency (see Table 4).

Funding future infrastructure

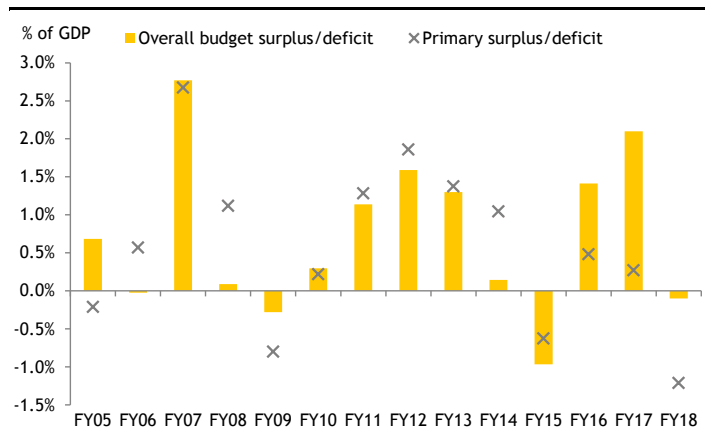
Government will establish a Rail Infrastructure Fund (S\$5bn) for future major rail lines, similar to the Changi Airport Development Fund (S\$4bn) established in 2015 for Terminal 5. Long-term borrowings are being considered for major projects such as the KL-Singapore High Speed Rail, JB-Singapore Rapid Transit System Link and Integrated Waste Management Facility, in order to spread the cost more equitably across generations. This will also help develop the local bond market.

Table 1: Fiscal Position in FY2016 to FY2018

	Actual FY2016	Revised FY2017	Estimated FY2018	Change over revised FY2017	
	\$bn	\$bn	\$bn	\$bn	% change
OPERATING REVENUE	69.0	75.2	72.7	-2.5	-3.3
Corporate Income Tax	13.6	14.4	15.1	0.8	5.2
Personal Income Tax	10.5	10.7	11.4	0.7	6.8
Withholding Tax	1.5	1.3	1.4	0.0	1.0
Statutory Boards' Contributions	0.8	4.9	0.5	-4.4	-90.6
Assets Taxes	4.4	4.4	4.4	0.1	1.2
Customs and Excise Taxes	2.7	3.2	3.4	0.2	5.3
Goods and Services Tax	11.1	10.8	11.4	0.6	5.5
Motor Vehicle Taxes	2.1	2.3	2.8	0.5	20.2
Vehicle Quota Premiums	6.0	6.0	5.6	-0.4	-6.6
Betting Taxes	2.7	2.7	2.8	0.1	2.4
Stamp Duty	2.9	4.7	3.8	-1.0	-20.5
Other Taxes	6.1	6.1	6.4	0.3	5.0
Other Fees and Charges	3.1	3.3	3.4	0.1	4.2
Others	0.5	0.4	0.4	0.0	3.7
Less:					
TOTAL EXPENDITURE	71.4	73.9	80.0	6.1	8.3
Operating Expenditure	52.7	56.1	57.7	1.6	2.8
Development Expenditure	18.7	17.8	22.4	4.5	25.4
PRIMARY SURPLUS / DEFICIT	-2.7	1.2	-7.3		
Less:					
SPECIAL TRANSFERS	6.5	6.2	9.1	2.9	46.2
Special Transfers Excluding Top-ups to Endowment and Trust Funds	2.9	2.2	1.8		
BASIC SURPLUS / DEFICIT	-5.6	-1.0	-9.2		
Top-ups to Endowment and Trust Funds	3.6	4.0	7.3		
Rail Infrastructure Fund	-	-	5.0		
GST Voucher Fund	-	1.5	2.0		
Add:					
NET INVESTMENT RETURNS CONTRIBUTION	14.4	14.6	15.9	1.2	8.5
OVERALL BUDGET SURPLUS / DEFICIT	5.2	9.6	-0.6		

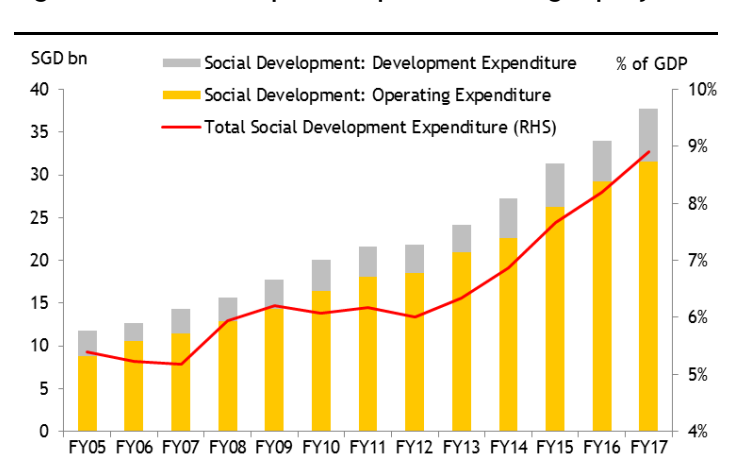
Source: CEIC, Budget 2018, Maybank Kim Eng

Figure 1: Overall Budget Balance vs. Primary Balance, FY2005 - FY2018



Source: CEIC, Budget 2018, Maybank Kim Eng estimates

Figure 2: Social Development Expenditure Rising Rapidly



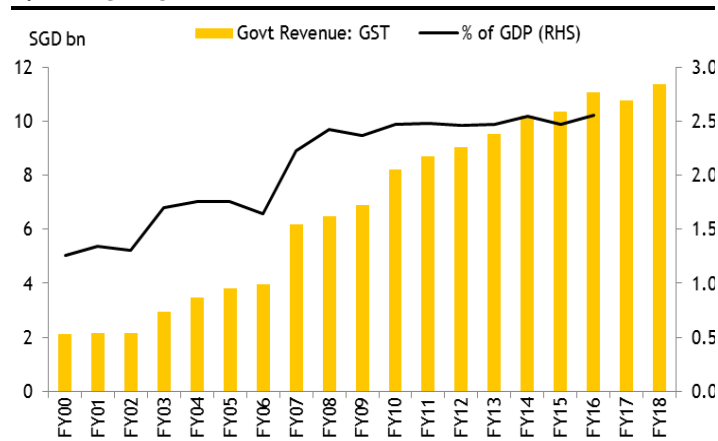
Source: CEIC, Maybank Kim Eng

Table 2: GST, VAT and Sales Tax Rates

Country	Standard rate*
United Kingdom	20%
China	17%
India	15%
Philippines	12%
Indonesia	10%
Korea	10%
Singapore (proposed)	9%
Japan	8%
Singapore (current)	7%
Thailand	7%
Malaysia	6%
Taiwan	5%

Source: Ernst & Young, Budget 2018, Maybank Kim Eng

Figure 3: GST Revenue Remained Steady Between 2.5% and 2.7% of GDP Over the Past 7 Years



Source: CEIC, Budget 2018, Maybank Kim Eng

Table 3: Tax Change for Residential Properties

Rates	Tiers	
	Current	Starting 20 Feb
1%	First \$180k	First \$180k
2%	Next \$180k	Next \$180k
3%	Amount exceeding \$360k	Next \$640k
4% (New)	-	Amount exceeding \$1mn (New)

Source: Budget 2018, Maybank Kim Eng

Table 4: FDW Levy Rates

Type of Levy	Current Monthly Rate	Revised Monthly Rate (from 1 Apr 2019)
Normal	1st FDW	\$265
	2nd FDW	\$265
Concessionary	\$60	\$60 (no change)

Source: Budget 2018, Maybank Kim Eng

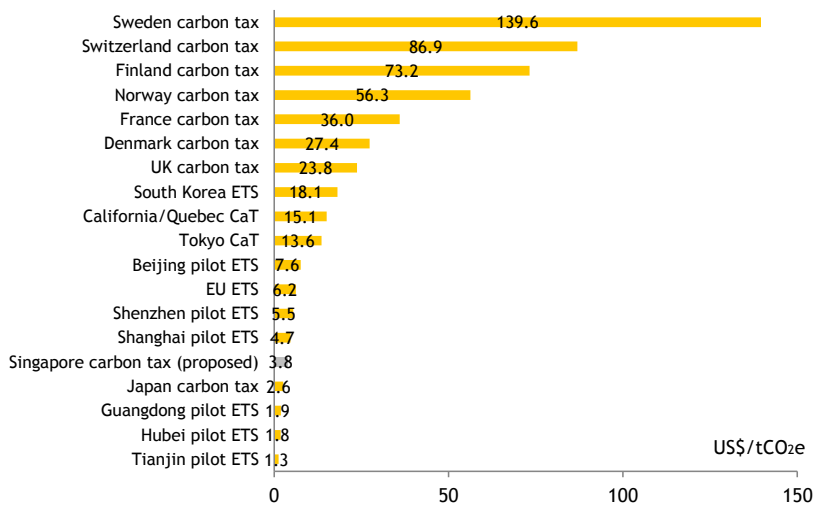
Table 5: Foreign Worker Levy Schedule

Sector/ Pass Types	Tier	Sector Dependency Ratio (DR)	Levy Rates (\$) (R1/R2)		
			1-Jul-17	1-Jul-18	1-Jul-19
S-Pass	Basic Tier (All)	≤10%	330	330	To be announced in 2019
	Tier 2 (Services)	10-15%	650	650	
	Tier 2 (Other Sectors)	10-20%	650	650	
Construction WPH	Basic Tier	≤87.5%	300/650	300/700	300/700
	MYE-Waiver		600/950	600/950	600/950
Services WPH	Basic Tier	≤10%	300/450	300/450	To be announced in 2019
	Tier 2	10-25%	400/600	400/600	
	Tier 3	25-40%	600/800	600/800	
Marine Shipyard WPH	Basic Tier	≤77.8%^	300/400	350/500 300/400	To be announced in 2019
Process WPH	Basic Tier	≤87.5%	300/450	300/500 300/450	
	MYE-Waiver		600/750	600/800 600/750	
Manufacturing WPH	Basic Tier	≤25%	250/370	250/370	To be announced in 2019
	Tier 2	25-50%	350/470	350/470	
	Tier 3	50-60%	550/650	550/650	

^Marine Shipyard DRC was reduced from 81.8% to 77.8% in Jan 2018, as previously announced at Budget 2013.

Note: Numbers in red are Foreign Worker Levy rates announced in Budget 2018.

Source: Budget 2018, Maybank Kim Eng

Figure 4: Existing Carbon Prices Around the World


Source: World Bank, Budget 2018, Maybank Kim Eng

Table 6: Corporate Tax Rates - Is Singapore Still Competitive?

Country	Corporate Tax		
	2018	2009	Change in Tax Rate
India	34.6	34	0.6
Japan	30.9	40.7	-9.8
Philippines	30	30	0
Indonesia	25	28	-3
China	25	25	0
Malaysia	24	25	-1
Korea	22	24.2	-2.2
*United States	*21	35	-14
Thailand	20	30	-10
United Kingdom	19	28	-9
Taiwan	17	25	-8
Singapore	17	18	-1
Hong Kong	16.5	16.5	0

*Tax bill was passed in Congress and signed into law by President Trump on 22 Dec 2017.

Source: KPMG, Maybank Kim Eng

Table 7: Individual Income Tax Rate for Top Bracket

Country	Individual Income Tax		
	2018	2009	Change in Tax Rate
Japan	55.95	50	+6
China	45	45	0
United Kingdom	45	40	+5
Taiwan	45	40	+5
Korea	40	35	+5
United States	37	35	+2
India	35.5	30	+6
Thailand	35	37	-2
*Philippines	35	32	+3
Indonesia	30	30	0
Malaysia	28	27	+1
Singapore	22	20	+2
Hong Kong	15	15	0

*Income tax rate for the richest (with annual taxable income over PHP8mn) was raised under TRAIN, while the tax rates were lowered for the rest.

Source: KPMG, Maybank Kim Eng

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836
sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686
wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849
sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | China
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank-ke.com.sg

LEE Ju Ye
Singapore
(65) 6231 5844
leejuye@maybank-ke.com.sg

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Ramesh LANKANATHAN
(603) 2297 8685
ramesh.l@maybank-ib.com

FX

Saktiandi SUPAAT
Head, FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher WONG
(65) 6320 1347
wongk@maybank.com.sg

Leslie TANG
(65) 6320 1378
leslietang@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631
williechan@kimeng.com.hk

FIXED INCOME

Winson Phoon, ACA
(65) 6231 5831
winsonphoon@maybank-ke.com.sg

Se Tho Mun Yi
(603) 2074 7606
munyi.st@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services - Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

Adrian WONG
(603) 2297 8675 adrian.wkj@maybank-ib.com
• Constructions • Healthcare

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Media • Building Materials

Mohd Hafiz Hassan
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com
• Small & Mid Caps

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan Raja Abdullah, MSTA, Cfte
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com

SINGAPORE

Neel SINHA *Head of Research*
(65) 6231 5838 neelsinha@maybank-ke.com.sg
• Strategy
• SMID Caps - Regional

CHUA Su Tye
(65) 6231 5842 chuasutye@maybank-ke.com.sg
• REITs

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Property • REITs (Office)

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

John CHEONG, CFA
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare • Transport

NG Li Hiang
(65) 6231 5840 nglhiang@maybank-ke.com.sg
• Banks

LAI Gene Lih
(65) 6231 5832 laigenelih@maybank-ke.com.sg
• Technology

HONG KONG / CHINA

Christopher WONG
(852) 2268 0652
christopherwong@kimeng.com.hk
• HK & China Properties

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 kll@kimeng.com.hk
• Consumer Discretionary & Auto

Mitchell KIM
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Ning MA, CFA
(852) 2268 0672 ningma@kimeng.com.hk
• Insurance

Ricky NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Regional Renewables
• HK & China Properties

Sonija LI, CFA, FRM
(852) 2268 0641 sonijali@kimeng.com.hk
• Gaming

Stefan CHANG, CFA
(852) 2268 0675 stefanchang@kimeng.com.hk
• Technology - Regional

Bonny WENG
(852) 2268 0644 bonnyweng@kimeng.com.hk
• Technology - Regional

Tony REN, CFA
(852) 2268 0640 tonnyren@kimeng.com.hk
• Healthcare & Pharmaceutical

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Strategy • Oil & Gas • Automobile • Cement

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

Vishal PERIWAL
(91) 22 6623 2605 vishalperiwa@maybank-ke.co.in
• Infrastructure

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 8066 8680
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 8066 8689
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 8066 8691
aurellia.setiabudi@maybank-ke.co.id
• Property

Janni ASMAN
(62) 21 8066 8687
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Minda OLONAN *Head of Research*
(63) 2 849 8840
minda_olonan@maybank-atrke.com
• Strategy

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Luis HILADO
(65) 6231 5848 luishilado@maybank-ke.com.sg
• Telcos

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Strategy • Consumer • Materials • Ind. Estates
• Oil & Gas • Telcos

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport • Property • Telcos

Tanawat RUENBANTERNG
(66) 2658 6300 ext 1394
Tanawat.R@maybank-ke.co.th
• Banks & Diversified Financials

Ornmongkol TANTITANATORN
(66) 2658 6300 ext 1395
ormmongkol.t@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 5000 ext 5090
Sukit.u@maybank-ke.co.th

Ekachai TARAPORN TIP *Deputy Head*
(66) 2658 5000 ext 1530
Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Suthichai KUMWORACHAI
(66) 2658 5000 ext 1400
suthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 5000 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroopan WATTANAWONG
(66) 2658 5000 ext 1404
jaroopan.w@maybank-ke.co.th
• Transportation • Small cap

Sorabhol VIRAMETEEKUL *Head of Digital Research*
(66) 2658 5000 ext 1550
sorabhol.v@maybank-ke.co.th
• Food, Transportation

Wijit ARAYAPISIT
(66) 2658 5000 ext 1450
wijit.a@maybank-ke.co.th
• Strategist

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84 28) 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified

THAI Quang Trung, CFA,
Deputy Head, Institutional Research
(84 28) 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

LE Nguyen Nhat Chuyen
(84 28) 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen,
Head of Retail Research
(84 28) 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil & Gas • Banking

TRUONG Quang Binh,
Deputy Head, Retail Research
(84 28) 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber Plantation • Tyres & Tubes • Oil & Gas

TRINH Thi Ngoc Diep
(84 28) 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

NGUYEN Thi Sony Tra Mi
(84 28) 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port Operation • Pharmaceutical
• Food & Beverage

NGUYEN Thanh Lam
(84 28) 44 555 888 x 8086
thanhlam.nguyen@maybank-kimeng.com.vn
• Technical Analysis

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 **Malaysia**

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 **Philippines**

Maybank 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

 **South Asia Sales Trading**

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Malaysia

Joann Lim
joann.lim@maybank-ib.com
Tel: (603) 2717 5166

Indonesia

Hariato Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York

James Lynch
jlynch@maybank-keusa.com
Tel: (212) 688 8886

Vietnam

Patrick Mitchell
patrick.mitchell@maybank-kimeng.com.vn
Tel: (84)-8-44-555-888 x8080

 **Singapore**

Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

 **Hong Kong**

Kim Eng Securities (HK) Ltd
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

 **Thailand**

Maybank 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)

 **North Asia Sales Trading**

Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand

Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London

Mark Howe
mhowe@maybank-ke.co.uk
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank-ke.co.in
Tel: (91)-22-6623-2629

Philippines

Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

 **London**

Maybank Kim Eng Securities
(London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

 **Indonesia**

PT Maybank Kim Eng Securities
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

 **Vietnam**

Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

 **New York**

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

Tel: (212) 688 8886
Fax: (212) 688 3500

 **India**

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

 **Saudi Arabia**

In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787