Gallant Venture

Banking on Bintan

♦ **Breaking ground with S$1.02 target**

We initiate coverage of Gallant Venture (Gallant) with a Buy recommendation and a target price of S$1.02. We believe Gallent's share price has a significant 36% upside based on its undervalued landbank, stable cash flows from its industrial estates, and blossoming Utilities and Resort Operations sales from the planned development of Bintan Resorts.

♦ **Gallant defined**

Gallant is a Singapore-based holding company with 16 companies in its stable. Its major shareholders are Indonesia's Salim Group (deemed 51%) and several significant Singapore shareholders. These include SembCorp Industries (26.8%), Ascendas (7.3%) and UOB (2.5%). Gallant has four lines of business. 1) Running the Batamindo Industrial Park and the Bintan Industrial Estate. 2) The master developer for Bintan Resorts and industrial land. 3) Providing support services to Bintan Resorts through its Resorts Operations business. 4) Providing utilities to both its industrial parks and Bintan Resorts.

♦ **Undervalued: ¼ Singapore-sized landbank**

Gallant's property development business has 18,400 hectares of land held in its books at just S$2.97psm, or S$541m total. Gallant expects that it can sell these lands for 5−30x its book value, based on indicative pricing. If we conservatively revalue this land bank for development over the next 25 years, this would yield a discounted RNAV for the land bank alone at S$2.0b, or a surplus of S$0.60/share.

♦ **Lagoi Beach Village the catalyst**

However, for our base case valuation of S$1.02/share, we are only factoring in the development of the Lagoi Beach Village (LBV), or less than 10% of Gallant's extensive landbank. This first phase of Gallant's land sales will be developed over the next 5− 7 years. We also included cashflows from industrial parks, resort operations and utilities. Resorts and utilities earnings will be progressively enhanced from the ongoing development of Bintan Resorts. We are optimistic that LBV will be a main catalyst for Bintan Resorts' long-term development. Despite market speculation on a possible casino development on Bintan, we have not factored that in. The stock rates a BUY as it is.

Year End Dec	2004	2005	2006F	2007F	2008F
Sales (S$ m)	202.0	227.1	284.9	370.5	406.0
Pre-tax (S$ m)	22.8	22.2	49.7	97.8	120.2
Net profit (S$m)	12.7	6.1	32.7	79.8	105.2
EPS (cts)	0.5	0.3	1.4	3.3	4.4
EPS growth (%)	0.0	-51.9	435.9	143.8	31.9
PER (x)	136.7	284.3	53.0	21.8	16.5
DPS (cts)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

Co. Reg No. : 198700034E
MICA (P) : 021/01/2006

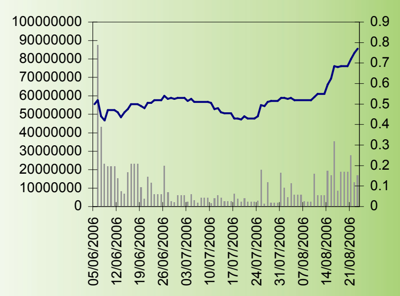
Singapore
Conglomerates/Property
23 August 2006

BUY

Initiate Coverage
Analyst:
Rohan SUPPIAH
rohan@kimeng.com
(65) 6336 3666

Price:	**S$0.75**
Target:	**S$1.02**
ST Index:	**2,470**

Historical Chart



Performance	1m	3m	6m
Absolute (%)	79.1	na	na
Relative (%)	72.0	na	na

Stock Information

Ticker code	GLVT.SI
	GALV SP
Market Cap (US$m)	1182
52-week high ($)	0.79
52-week low ($)	0.3
Shares issued (m)	2,410.4
6m avg. daily vol (US$m)	3.8
Free float (%)	
Major Shareholders (%)	
	Salim Group (50.5% deemed)

Key Indicators

ROE (%)	0.5
Net gearing (%)	8
NTA ($)	0.50
Interest cover (x)	10.3

Gallant Venture's history

Gallant was formed through the reorganisation of assets held on both Bintan and Batam Islands, mainly Bintan Resorts, the Batam Industrial Park and the Bintan Industrial Estate. These assets were previously held by various parties of a consortium, which included the Salim Group as well as Singapore Government Linked Companies (GLCs) such as SCI Group, Keppel Group, and JTC Group. This consortium, formed in the early 1990s, aimed to develop the Riau Islands, when the governments of Singapore and Indonesia signed an agreement pertaining to the Economic Cooperation in the Framework of the Development of the Riau Province.

Basically, the agreement entails both governments' cooperation in promoting international investments in tourist resort development and tourist infrastructure in the Riau Province of Indonesia, especially Bintan. Manufacturing activities were also encouraged, with the suspension of import duties and 25% of the total export volume was permitted for sale in the domestic market. The lower cost structure and abundant workforce were key attractions for multinationals to set up manufacturing activities in Riau. Close proximity to Singapore helped too.

Spearheaded by Bintan Resorts, BIP and BIE

Under this agreement framework, the development of the Riau Islands commenced through 3 main initiatives:

- The development of Bintan Resorts, through a holding company called PT BMW in the early 1980s. In 1990, PT BMW was given the right to develop land for resorts on the northern coast of Bintan.

- Batamindo Industrial Park (BIP) started in 1991, with the establishment of PT BIC through a joint venture agreement between PT HR, STIC and Jurong Engineering (part of JTC). The park targets mainly the electronics industry.

- Bintan Industrial Estate (BIE) kicked off in 1994, when PT BIIE was formed as a joint venture between PT Lembah Kemakmuran (a part of Salim Group), STIC and the JTC Group. Initially targeting light industries like garment manufacturing, the majority of the output is now in electronics as well.

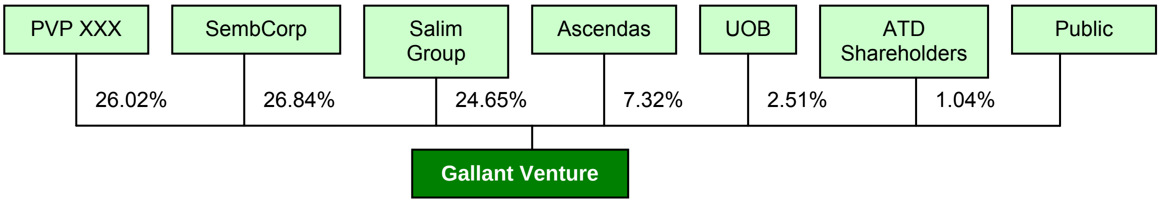
With the onset of the Asian financial crisis, which hit Indonesia particularly hard, the land that was held in various entities controlled by the Salim Group was pledged to IBRA when the Group got into difficulties in 1998. The SARS outbreak followed not long after. From then until 2006, development of the Riau Islands stagnated.

Eventually, the Bintan Resorts land assets were bought over from IBRA by a venture company Parallax Group, and held under its Parallax Venture Partners XXX (PVP XXX) subsidiary.

Gallant emerges

The Salim Group then purchased a stake in PVP XXX before the whole business was reorganised once again to include original partners such as SCI and Ascendas (former JTC). The aim was to restructure the industrial park and resort assets into an optimally organised entity under the Gallant Venture name. So while Gallant is new, having only been incorporated in 2003, the players behind it are certainly not; they have been running the ongoing businesses since the early 1990s. The following figure outlines Gallant's shareholders. A full illustration of the reorganisation process is included in the Appendix.

Figure 1: Gallant's shareholding structure

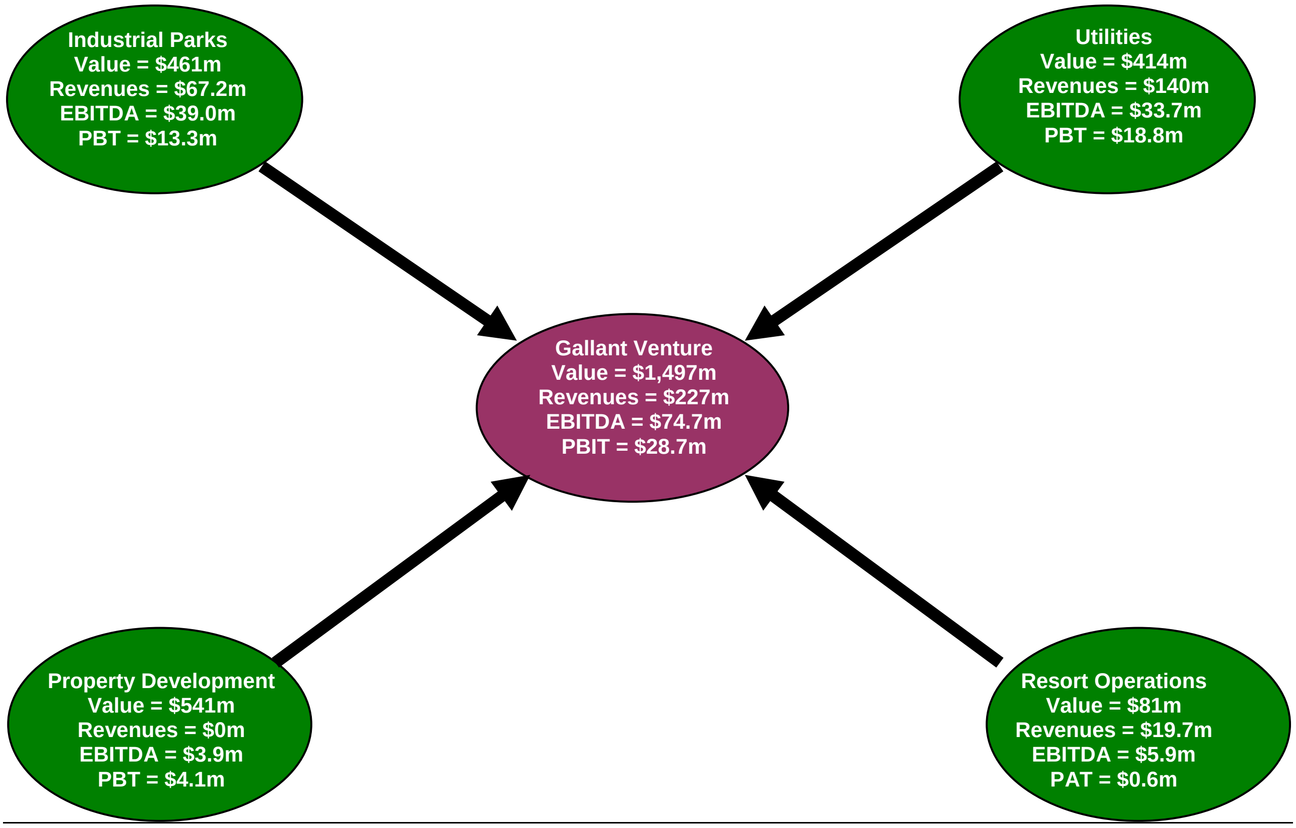


Source: Company data

Governments unite to reignite
In June 2006, Singapore Prime Minister Lee Hsien Loong and Indonesian President Susilo Bambang Yudhoyono reaffirmed their commitment to the development of the Riau Island province, to form a Special Economic Zone (SEZ) across Batam, Bintan and the Karimun Islands. There is clearly strong political will between the two countries to make the Riau Islands a success, and we expect this to be a key driver in the region's development.

Four main business areas
Subsequent to its reorganisation, Gallant has been structured into four main business areas: Industrial Parks, Utilities, Resort Operations and Property Development. The chart below summarises the asset values and pro-forma 2005 financial numbers for the group.

Figure 2: Gallant's line of businesses



Source: Company data

Property Development

The property development business derives revenue from the sale of Gallant's landbank for development. Its extensive 18,400ha land bank, including properties in the Batam and Bintan Islands, is valued very conservatively at S$541m, or an average of just S$2.97/$m^2$.

The land is held under *Hak Guna Bangunan* (or HGB) status under Indonesian land laws. Essentially, HGB confers the right to construct a building on land for a period of 30+20+30 years. This right can be sold, exchanged, transferred, and mortgaged, and can be held directly by any corporate entity. Gallant's lands are up for their 30 year renewal only in the next 17-20 years. As the master developer, Gallant has to ensure that the land it sells is used according to its zoning purpose.

A schedule of the land plots, their plot sizes, their tenure commencement dates and valuation can also be found in the Appendix.

While most of its industrial land in Batam has already been developed, Gallant's property development business will derive the bulk of its revenue from the future sale of land located in the northern and western part of Bintan; as part of Bintan Resorts and BIE respectively, where an abundance of raw land is still available. Gallant plans to release these lands for sale over the next 20−25 years, depending on the progress of development.

Figure 3: Gallant Venture's Bintan landbank

GALLANT GROUP LANDBANK		
	PT SBP Land	3,800 Ha
	PT BMW Land	14,400 Ha

Source: Company data

Bintan Resorts—the tourist hub

The northern plot of land, known as Bintan Resorts, consists of ≈15,600ha of land designated for resort, commercial, residential and support facilities that is available for sale through Gallant. The attractiveness of the area as a tourist destination is that Bintan Resorts is located less than an hour from Singapore by ferry, and has around 100km of shoreline with white sand beaches. A large hinterland can also support other projects, such as theme parks and long-term residential projects. Since 1990, four major sites totaling about 1,200ha (demarcated in orange in the following map) were sold to third parties for development (all currently operational).

- Nirwana Garden Resort: Established in 1996, beachfront resort with 245 hotel rooms, 100 chalets, 50 villas and a water sports beach club. Properties are the Mayang Sari Resort, Nirwana Resort Hotel, Mana Mana Beach Club and Cabanas, Indra Maya Villa and Banyu Biru Villa. Site size is 300 ha.
- Laguna Bintan Resort: The beachfront resort commenced operations in December 1995. Property includes the Banyan Tree Bintan and Angsana Resort and Spa, and has 70 villas, 128 hotel rooms and an 18-hole golf course. Site size is 220 ha.
- Bintan Lagoon Resort: The beachfront resort commenced operations in 1996. The property has 416 hotel rooms, 57 villas and two 18-hole golf courses. Site size is 300ha.
- Ria Bintan Resort: This beachfront resort commenced operations in 1997. Properties include the 300-room Club Med Village and a 27-hole golf course. Site size is 400ha.

Figue 4: Bintan Resorts landbank

Existing Development 3,077 hectares	Lagoi Bay 2,337 hectares	Pasir Panjang 1,683 hectares	Simpang Lagoi 2,037 hectares	Other areas 8,297 hectares
- Full infrastructure - Includes ferry terminal (AT1) and utilities resources (WR1).	- Serviceable by roads, power supply, potable water supply, and telecom. - Next phase of development and land Sales	- No paved roads and utilities - Can be served by extending the existing roads, and the power supply, potable water supply and telecom	- Currently served by the road to Simpang Lagoi - Distribution of power supply, potable water supply, and telecom can be extended and served by the existing utilities centre.	- No access to roads and utilities

Source: Company data, Kim Eng

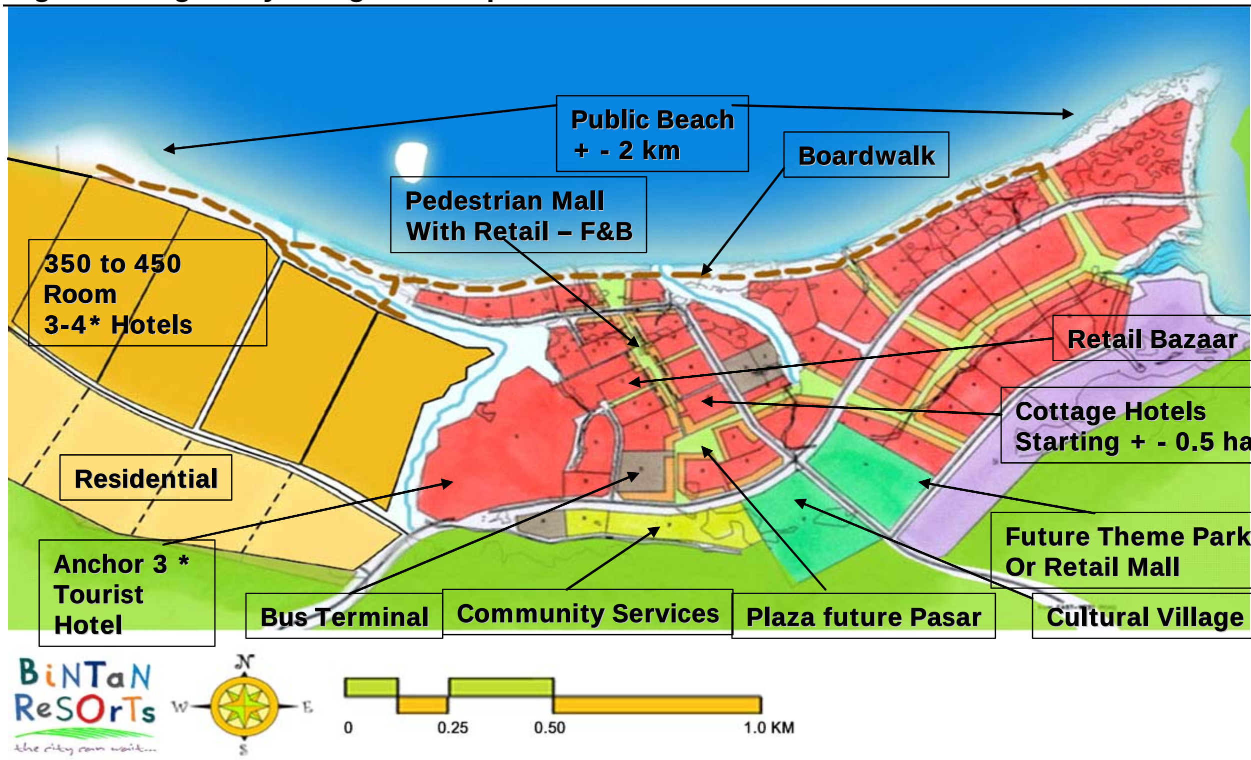
Massive 14,400ha for development
Beyond the current developments, Gallant has another 14,400ha available for sale: Lagoi Bay, Pasir Panjang, Simpang Lagoi and the North Eastern Plot of Teluk Sumpat and its surroundings (see development map above). For perspective, this land area is around 22% the size of Singapore.

Lagoi Beach Village: a new beachhead
The first phase of future land sales by Gallant will be that of Lagoi Bay, (depicted in light green above). Gallant will start its development through the 1,505ha Lagoi Beach Village (LBV), where plots of land will be available for sale to property developers, hotel owners & operators, and individual retail investors. Gallant estimates land sales for LBV could top S$600m.

A free, fresh approach
Gallant will be taking a different approach in developing LBV, compared to what was previously done at the other developments. Instead of taking a single resort approach, as in previous land sales at Bintan Resorts, LBV will be developed as a diversified township. It will incorporate pedestrian malls, retail space and entertainment establishments, several boutique hotels and residential developments. Essentially, LBV will seek to create a locale in the style of Phuket's Patong Beach, Bali's Kuta or Koh Samui's Chaweng, where tenants will be free to create and sustain its overall tourist attraction.

As depicted in the map below, LBV will have a good mix of boutique hotels as well as retail and entertainment spaces. We believe that this "free market" approach to the development of LBV will be conducive, creating a more varied destination, rather than the present situation where visitors are generally limited to the attractions of their own resort itself. Marketing for the project has recently begun, and we can expect some land sales to be announced from 2007 onwards.

Figure 5: Lagoi Bay Village masterplan



Source: Company data

Property prospects looking up – Singapore tourism poised to pick up

LBV will be the development springboard for the long term development of Gallant's landbank. Proximity to Singapore has made Bintan Resorts' development highly dependent on visitor arrivals in Singapore. We believe that the prospects for Bintan Resorts' overall development are good, despite the limited success thus far of its existing developments.

Singapore's development of the Sentosa and Marina integrated resorts will provide a significant boost to the visitor arrivals in Singapore from 2008 onwards. This should also translate into a positive demand for more tropical beach-style resorts, something that Singapore's shoreline woefully lacks. However, beaches aside, the sheer availability of land in such close proximity will open up a myriad of tourism and leisure opportunities that land-scarce Singapore simply cannot provide. Gallant is also counting on this surge in tourism to drive demand for its land.

Additional industrial landbank in West Bintan

In addition to the land at Bintan Resorts, Gallant also holds an additional 3,868ha of land in 10 parcels in Lobam, Bintan Island. Adjacent to Gallant's existing BIE development, this land is zoned for industrial and infrastructure developments. Given the limited response to BIE, our forecasts assume that Gallant will not be converting this land to industrial parks in the near term.

Opportunities boosted by upcoming airport

However, Gallant is setting aside 400ha of this land for the development of an international airport, for medium-range aircraft to serve both the industrial park and Bintan Resorts. When built, the airport will be about 40 minutes' drive from Bintan Resorts. It will provide greater access to tourism from within Indonesia itself, as well as from regional countries such as Thailand, Malaysia and the Philippines. Gallant is currently sounding out the Indonesian government officials and potential airport operators on its development.

Market speculates that gaming will be allowed on Bintan

Gallant's share price has seen a sharp increase recently as the market speculates that a resort with a gaming component (ie, a casino) may be set up within Bintan Resorts. Gambling is presently still illegal under the Indonesian constitution. Other stories circulating are that regulations may be changed to allow gambling in specific demarcated zones in Indonesia, one of which is in the Riau Islands. While we are not privy to the machinations of the Indonesian governmental process, we do not consider this to be impossible either; Singapore itself has boldly decided to allow casinos in the upcoming integrated resorts in Marina Bay and Sentosa. Given the potential revenues that casinos can generate, we opine that it is too attractive an option for Indonesia to simply rule out.

Given the close political ties between Singapore and Indonesia regarding the development of the Riau Islands, wouldn't the Singapore government object to a competing casino so close to its doorstep? We are inclined to believe that this will not be an issue. In examining the plans of the Singapore Integrated Resorts, gaming space makes up less than 20% of commercial space, with the majority of commercial space reserved for conventions, retail and leisure activities. This is part of the reason that Las Vegas Sands won the bid for the Marina Resort, in our opinion.

The gaming component therefore is simply a lucrative way to fund the development of the overall project; the ultimate objective is to attract a wide range of tourists and their dollars. In the same vein, a casino on Bintan would provide a boost for tourism, and jolt the development of Bintan Resorts.

Resort Operations Business

Gallant is also responsible for the overall master planning and infrastructural development of roads, water supply, power supply, telecommunication, and associated support facilities. This includes the ferry access between Singapore and Bintan Resorts. The assets held under this division also encompass the land and buildings which include the Bandar Bentan Telani Ferry Terminal and townships that provide accommodation to workers.

Gallant provides one-stop support services to the four resorts and seven hotel properties in Bintan Resorts. These include ferry services, ferry terminal operations, working accommodation, estate management and security, fire-fighting and medical services.

Figure 6: Transport and security

Source: Company data

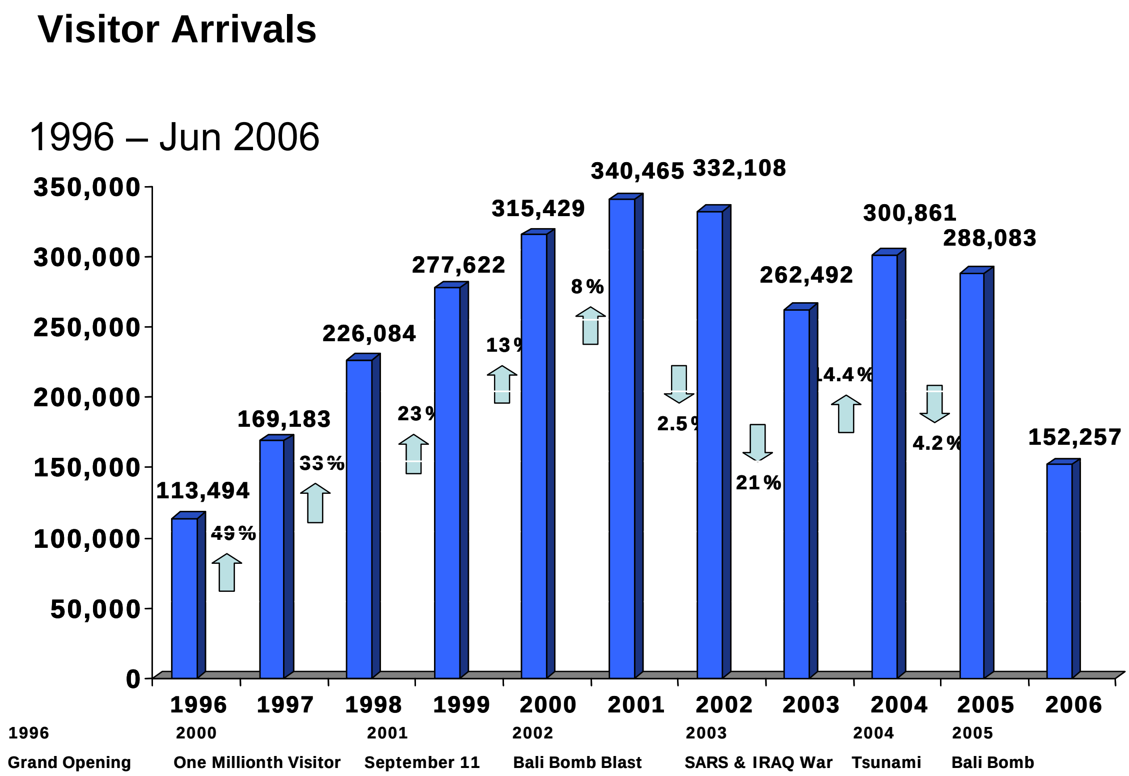
Currently, Gallant is the monopoly provider of support services for all the four main resorts, which have a total of 1,370 hotel rooms. Gallant runs the fast ferry service between Bintan's main gateway the Bandar Bentan Telani Ferry Terminal and Singapore's Tanah Merah Ferry Terminal. This ferry terminal will remain the main gateway to Bintan, probably even after the airport is established.

Resorts Operations segment reliant on visitor arrivals

The Resorts Operations segment relies on visitor arrivals to drive revenues, particularly for the ferry services. The operations were barely profitable in FY05, as visitor arrivals fell due to security concerns and fears following the Boxing Day tsunami of 2004. However, visitor arrivals are poised for a resurgence, as visitor arrivals look set to top 300,000 for the full year (see chart below).

In the longer term, this division's turnovers are also set to grow in tandem with the development of more properties in Bintan Resorts. Economies of scale will also start to kick in and thus improve margins. Hence, we believe that the prospects are very good. Once there is a critical mass of developments at Bintan Resorts, Gallant can also benefit from the provisions of other social services such as hospitals, a dedicated police force, and public transport. These can be provided either through direct investments or through lucrative concessions to third parties.

Figure 7: Bintan Resort arrivals picking up



Source: Information based on data provided by Bintan Resort Ferries Pte Ltd

Industrial Parks Business

Gallant's two main assets in its industrial parks business are the Batamindo Industrial Park (BIP) in Batam and Bintan Industrial Estate (BIE) in Bintan. These provide self-contained environments for manufacturing to tenants such as multinational corporations, including Singaporean companies, for a variety of industries.

Gallant provides a range of ready-built factories for rental or sale, customisable to specifications. It also provides support services such as logistics services, to take advantage of Singapore's air and sea-port facilities. Such services include daily shipping for containerised, conventional and light to heavy cargoes. These would be to and from Singapore, transshipment for inbound and outbound cargo via Singapore and warehousing, distribution and relocation services. Gallant also owns and manages a port and ferry terminal at Bintan.

In addition to this, Gallant provides residential, recreational and medical amenities for tenants and workers. Other support services include residential, recreational and medical amenities, security and commercial centres in the industrial parks, and on-sells power, water and waste treatment from Gallant's Utilities business.

Investors and tenants enjoy suspension of import duties in the Bonded Zones, and enjoy the benefit of having 25% of the total export volume permitted for domestic market without tariff.

Figure 8: Gallant's industrial parks

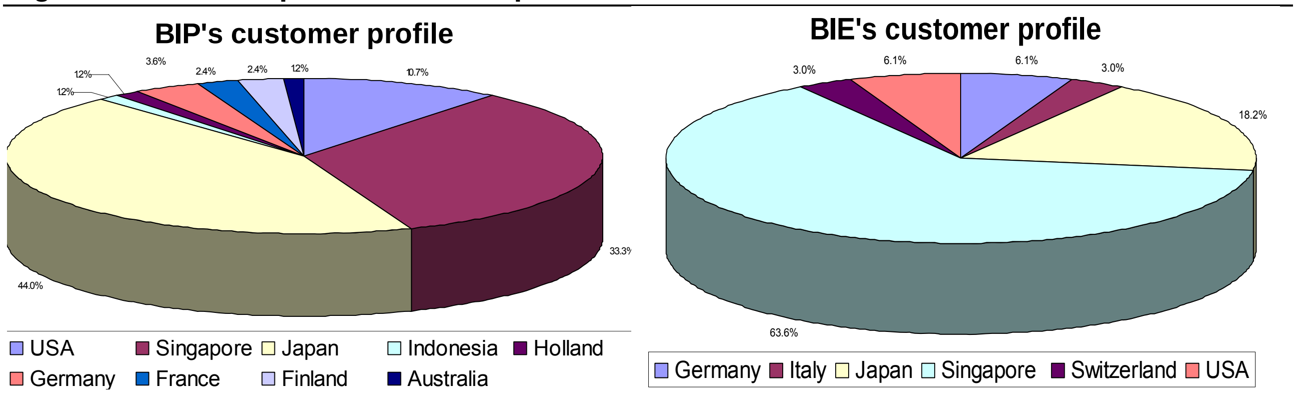
Industrial Parks	NLA (m2)	Target Industries	Transportation Facilities
BIP (Batam)	530,000	Electronics products and components manufacturer, pharmaceutical, precision parts manufacturer, plastic moulding	Batu Ampar and Kabil seaport, Batam Hang Nadim International Airport, 5 ferry terminals
BIE (Bintan)	106,000	Electronic manufacturers, garment manufacturers	Self-contained with its own port and ferry terminal, Bintan Sri Udana

Source: Company data

Major customers from electronics & electrical

Although the revenue of the company's industrial parks business is not dependent on any specific tenant, a substantial portion of its revenue is derived from tenants in the electronics and electrical sectors.

Figure 9: Industrial park customer's profile



Source: Company data

Some of these tenants include Ciba Vision, Solectron, Perkin Elmer, Philips, Thomson, Schneider Electronics, Varta, Siemens, Panasonic, TEAC, Sony Chemical, Sanyo, Sumitomo and Venture Electronics.

Growth outlook may be muted

Both BIP and BIE have been steady cash cows over the years. Despite having additional land-banks that they can convert to industrial parks, we are cautious about the growth prospects of this business division for the near-term. The two parks manufacturing focus is on electronics which, in recent years, has found it hard to compete with lower-cost manufacturing countries like China. While Gallant intends to attract other industries to its parks, such as pharmaceuticals and medical supplies, we remain less than cheerful about the growth prospects of the industrial park business over the shorter term.

Utilities Business

Since 1990, Gallant's utilities division has invested about S$362m for the construction and development of utilities infrastructure and resources. These include power generation and distribution facilities, potable water treatment facilities, waste water treatment facilities and landfill. Under this umbrella, Gallant provides telecommunications, electricity and water supply and waste management services to BIP, BIE, and Bintan Resorts.

Gallant's power plants are more reliable than other local utilities providers, as its plants are designed for spare capacity, which allow regular maintenance and overhauls, and have available backup units to prevent power interruptions. Gallant has been providing a reliable electricity provider to its industrial parks since their inception, which in turn gives its industrial parks a significant advantage in attracting customers.

1. Power

Currently, Gallant has:

- BIP– 16 diesel fired generators and 3 dual-fuel fired generators handling an aggregate peak 81MW.
- BIE– 4 generators handling an aggregate peak load of 11MW
- Bintan Resorts– 4 generators handling an aggregate peak load of 8.2MW

Gallant is also converting 12 of the existing diesel generators, situated in BIP with a total capacity of 72MW, to a dual-fuel operation to include natural gas, scheduled to be completed in 2006.

2. Water

Water is either purchased from third-parties or raw water is treated by Gallant before being piped to customers.

- Batam– water is sourced from 2 reservoirs at Muka kuning and Duriangkang which are owned by the local government authority.
- Bintan– water is sourced from Lake Java for BIE and a reservoir for Bintan Resorts.

3. Telecommunications

Its telecommunications provider subsidiary, PT BBT, has capacities for about 14,000 lines for broadband, IDD, fax, local and dedicated lease lines to provide quality telecommunication services to tenants and investors. It also has a 100m-high microwave tower that supplements the local authority's optical fibre networks to minimise possible interruptions.

4. Waste Management

BIE, BIP and Bintan Resorts each have their own sewage plant to serve the area. The utilisation of the sewage plants generally fluctuate at around 60% for BIP, and around 20% for BIE. The cost of waste water and sewage treatment is partially recovered from the water tariffs charged to GV's industrial parks' tenants.

Bintan Resorts to drive prospects

Revenues for the utilities business is determined by the number of customers, and the amount of off-take from customers. While BIP is almost fully developed, we do not envisage much upside from this facility for the provision of utilities. Again, we think that most of the growth for the Utilities business will move in tandem with the new developments being established at Bintan Resorts and, to a lesser extent, from BIE and the planned airport. Depending on the style of each individual resort, potential utilities off-take is likely to be very significant.

Valuations

A blended approach
Gallant is a diversified company with multiple income streams. As such, we are adopting a blended approach to valuing the company.

From an asset value perspective, Gallant is sitting on a sizeable land-bank that is currently undervalued at an average of S$2.97 per square metre (psm). For example, the 1,504.6ha Lagoi Bay property is valued at S$129.5m, or just S$8.60psm on average. But we believe that the value of the Lagoi Bay should average around S$42psm, based on indicative valuations of recent transactions in the area. Also, Keppel Land holds the Ria Bintan golf course at an average of S$82psm in its books.

Gallant recently sold a plot of land for S$34m to an undisclosed buyer. While the size of the four land parcels have not yet been disclosed, in keeping with the wishes of the buyer, the S$34m purchase price was significantly above Gallant's book value for the property of just S$8.8m.

As another rough basis for comparison, land prices in Bali transact at anywhere between S$80-500psm, depending on the location, with prime beachfront commanding the premium valuations. Phuket land prices are on average another 50% higher than Bali's. While we concede that Bintan currently does not enjoy the same distinction as Bali or Phuket, the valuation gap is simply too wide to ignore.

For the Bintan Resorts land-bank, we are conservatively estimating a land value of S$100psm for beachfront properties, S$50psm for intermediate properties and just S$30psm for backlot properties while factoring in an 80% efficiency ratio. On this basis, Bintan Resort's properties are valued at S$2b, discounted for sales over the next 20 years.

Base case solely assumes Lagoi Bay land sale cashflows
Our base case assumes the full development of Lagoi Bay at an average of S$42psm over the next seven years of its development plan, which yields a discounted present value of S$377.1m, based on land sales which could potentially top S$600 on a dollar value basis.

Additionally, we are valuing Gallant's Industrial Parks, Resort Operations and Utilities businesses on a discounted cashflow basis. We expect most of the cashflow growth for these businesses to be driven by the development of Lagoi Bay and the ancillary services that it will require, as well as from its utilities requirements. Rents from Industrial parks, on the other hand, are forecast to remain generally constant in-line with the muted medium term growth of the business. We expect Gallant's free cash flow (ex-land sales) to reach over S$100m annually by FY11. We estimate that the cumulative DCF value from these business segments to be worth S$1.6b.

This conservative base case valuation also excludes the potential land sales from the other land plots outside of Lagoi Bay. These and other assets are held at its low book value of just S$461.5m for the purpose of our calculations.

Fair value of S$1.02/share
The summation of these calculations yields us a fair value of S$1.02/share, which serves as our near-term target price.

Figure 10: Blended valuation yields S$1.02 per share

Blended valuation of Gallant Venture (assuming Lagoi land sales only)		
Component	**S$m**	**S$ (per share)**
Net present Value of Lagoi Bay cashflow (7 yrs)	377.1	S$0.156
Net Present Value of Operations Cashflow (10 yrs)	598.2	S$0.248
NPV - Terminal Value of Operations Cashflow	1,031.7	S$0.428
Remaining landbank/assets held at book	461.5	S$0.191
Total value	**2,468.5**	
No of shares (m)	2,410.4	
Value per share		**S$1.02**

Key assumptions:
*Tax rate: 30%**
WACC: 9.5%
Inflation: 3%
Terminal growth rate: 3.0%
** Gallant has tax credits of over S$70m that it can offset against land sale profits*

Source: Company data, Kim Eng estimates

Potentially worth S$1.77/share

If we were to include the revaluation of all of its land-bank over the next 25 years, Gallant's fair value would be closer to S$1.77/share, by our calculations. This valuation would also account for the correspondingly higher cashflows from its utilities and resort management businesses, in-line with a greater developed area of captive customers.

We believe that our assumptions are sufficiently conservative, as we are factoring in a land price appreciation of just 3% pa, based on a nominal inflation rate. However, if the development of Lagoi Bay Village is a roaring success, or if there are other external catalysts, we could see land prices appreciate significantly. Our sensitivity analysis indicates that an additional long-term average increase in property prices of 1% pa will translate to a 5% upward revaluation to Gallant's long-term fair value.

High PEs do not reflect long-term land sales

Gallant's earnings have been muted in the last few years, being unable to offset taxes incurred for its industrial park and utilities businesses against losses of unprofitable subsidiaries. Management is trying to address this issue. However, earnings should receive a significant boost from this year onwards from ongoing land sales.

We expect Gallant to post a net profit of S$32.7m for the current financial year (EPS of 1.4cts), boosted by the one land sale announced so far. For FY07, we expect net profit to more than double to S$79.8m (EPS 3.3cts), boosted mainly by land sales as well. From a whopping 197x FY05 PE at its IPO price, Gallant now trades at a more reasonable 21.8x FY07 forecasts.

Sound financials

Gallant is well capitalised with a sound balance sheet, and net gearing of just 8% with gross debt of S$137.6m. With blue-chip shareholders like the Salim Group, SembCorp Industries and Ascendas, Gallant is able to enjoy attractive financing rates at 1.5% above SIBOR. That's despite the fact that practically all its assets are in Indonesia, a relatively riskier country. The Weighted Average Cost of Capital that we use for our discounted cashflows and present value is 9.5%, based on Gallant's relatively low borrowing costs, a risk free rate of 3.5% and a generous market risk premium of 3.5%.

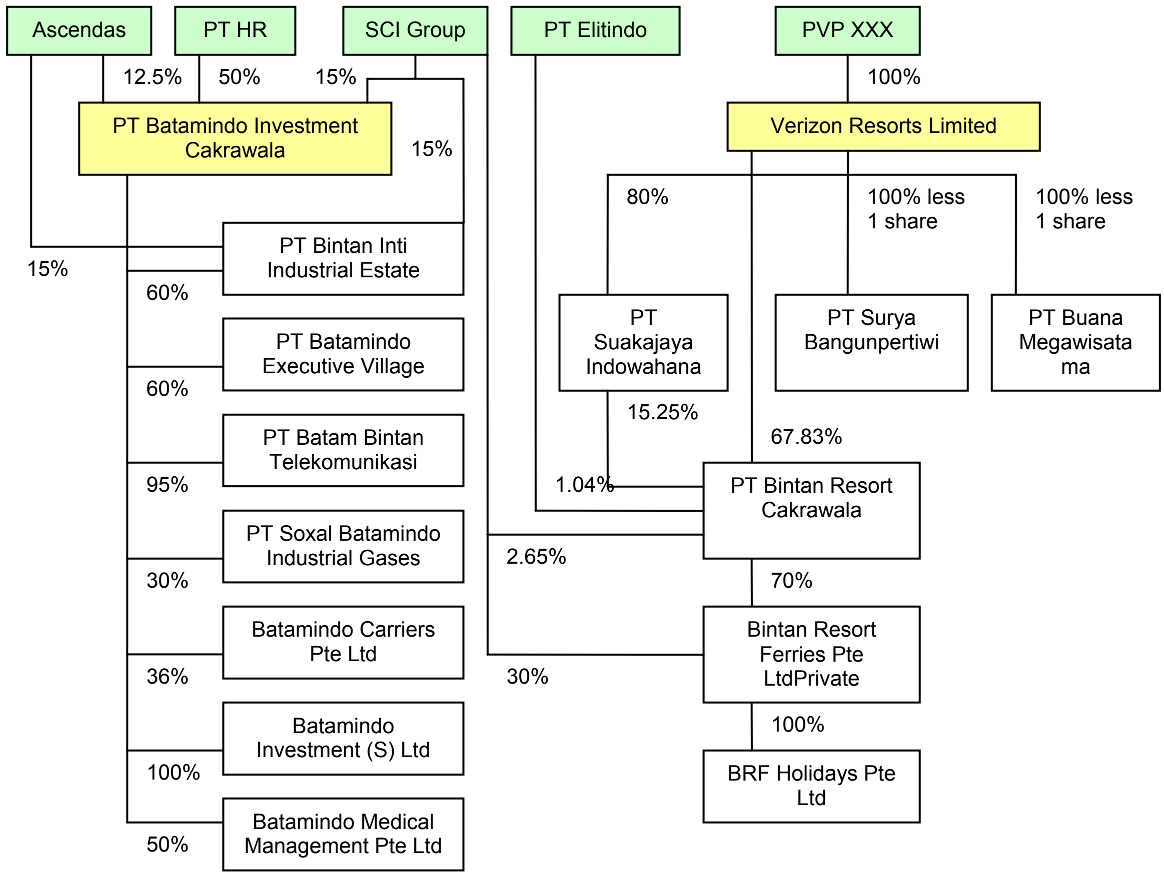
Terrorism the main threat to our forecasts

Indonesia has been rocked in recent years by terrorist attacks mainly in Bali and Jakarta. The country is also suspected as a hotbed for terrorist activities. While we do not envisage Bintan Resorts as a candidate for terrorist attacks at the present moment, the successful development of the resort may make it a prime target in the future. Further terrorist attacks in Indonesia may also negatively affect sentiment towards investment in Indonesia, which may threaten the progress of development in Bintan and Batam.

Natural disasters are also another risk. So far, the tsunamis that have hit Indonesia so devastatingly over the past two years have occurred on the southern shores of the archipelago, created by undersea earthquakes in the Indian Ocean. While the shoreline of the Riau archipelago is not directly exposed to the Indian Ocean, its northern shore could be exposed to tsunamis created in the Pacific Ocean's "Ring of Fire", although it is relatively protected by landmasses surrounding the region. However, natural disasters anywhere in Indonesia may also negatively affect investment sentiment.

Appendix 1: Group Restructuring Exercise

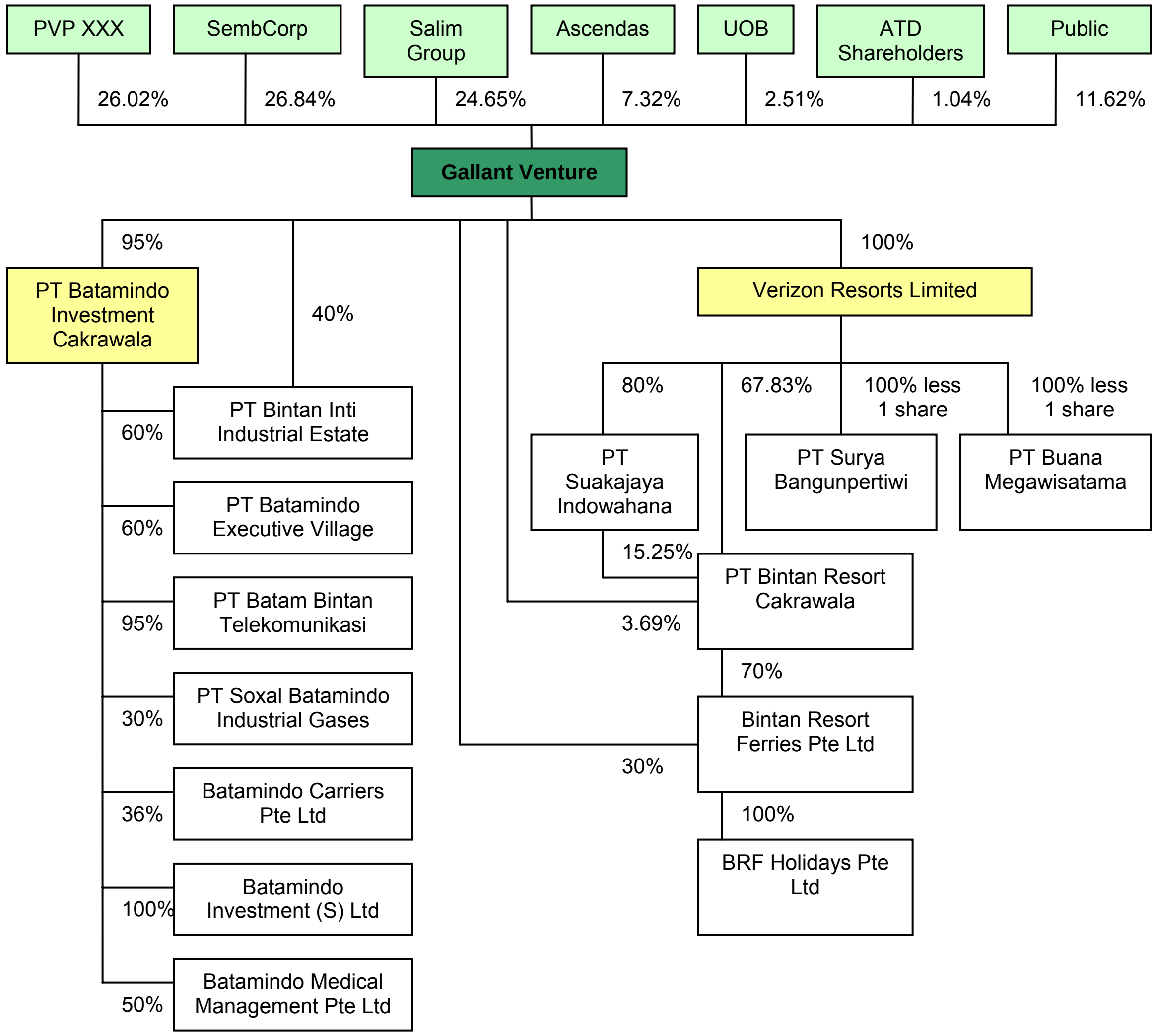
Group before Restructuring



The transition stage

Seller	Transaction	NAV of Transaction	Buyer	Price
PT HR (Salim Group has 84.88%)	1.04% of GV shares	-	ATD Shareholders and creditors	PT HR to becomes subordinate creditor of ATD
PT HR	50% of PT BIC shares	S$416.3m	GV	22.07% of GV shares at $0.50/share
SCI (part of Temasek)	37.5% of PT BIC shares	S$413.3m	GV	S$243.9m in cash
SCI (part of Temasek)	25% of PT BIIE	S$167.7m	GV	
SCI (part of Temasek)	30% of BRF	S$10.7m	GV	
SCI (part of Temasek)	3.65% of BRC	S$150.9m	GV	
GV	19.83% of GV shares	-	SembPark (part of SCI)	S$243.8m in cash or S$0.51/share
PVP XXX	100% of Verizon Resorts	S$613.3m	GV	50.65% of GV shares at $0.50/share
PVP XXX	2.51% of GV shares	-	UOB	Transfer price of S$0.025/share
PVP XXX	9.67% of GV shares	-	SembPark (part of SCI)	Transfer price of S$0.025/share
PT Elitindo	1.04% of PT BRC shares	S$150.9m	GV	0.13% of GV shares at $0.51/share
Ascendas (part of JTC)	12.5% of PT BIC shares	S$413.3m	GV	7.32% of GV shares at $0.51/share
Ascendas (part of JTC)	15% of PT BIIE shares	S$167.8m	GV	
Verizon Land (Fully owned by GV)	S$62.1m loan	-	PT AIB	Repayment by cash or options to convert to PT AIB shares at US$1 par value to an enlarged stake of 48.71%. Loan exp on June 2009 with an annual interest of 1.5% above SIBOR.

Group after Restructuring (and subsequent IPO)



Appendix 2: Gallant Venture's landbank

Land Parcel	Gross Area (ha)	Title & Land Use Right - HGB Commencement Date	Value (S$m)
Industrial Land at Kecamatan			
1	288.8	11/26/1993	
2	280.6	11/26/1993	
3	165.2	11/26/1993	
4	162.7	11/26/1993	
5	644.6	11/26/1993	
5a	154.2	11/26/1993	
6	386.1	11/26/1993	
7	419.2	11/26/1993	
8	471.1	11/26/1993	
9	512.5	11/26/1993	
10	383.0	11/26/1993	
	3868.0		**107.5**
Lagoi Bay			
A5	203.7	1/12/1994	
A6	166.0	1/12/1994	
B1	227.0	2/28/1994	
B2	209.7	1/12/1994	
B3	209.7	1/12/1994	
B4	172.4	1/12/1994	
B5	111.8	2/28/1994	
B5a	15.0	2/28/1994	
B8	146.3	1/12/1994	
B8a	43.0	1/12/1994	
	1504.6		**129.5**
Land Bank 1			
AR1-1a	194.3	1/12/1994	
A7	143.3	1/12/1994	
A8	30.1	1/12/1994	
A9	33.6	11/26/1993	
C26	200.6	1/12/1994	
C27	179.5	1/12/1994	
C28	201.8	2/28/1994	
ZPZA	480	1/12/1994	
BP	185	1/28/1994	
R1	215	1/12/1994	
RA1	420	1/12/1994	
1A	536	2/28/1994	
AR2	15.1	1/12/1994	
B9	34.2	1/12/1994	
A13/17-17a	192.2	9/22/1993	
B10	204.8	2/23/1998	
B11	150	2/23/1998	
A14	216.9	1/12/1994	
A15	86.1	2/23/1998	
	3718.5		**194.5**

Land Parcel	Gross Area (ha)	Title & Land Use Right - HGB Commencement Date	Value (S$m)
Land Bank 2			
A16	168.2	1/12/1994	
C1	219.2	9/22/1993	
C2	126.5	11/26/1993	
B12	64.6	1/12/1994	
B13	51.5	11/26/1993	
B16	94	1/12/1994	
C24	229.3	1/12/1994	
C25	193.8	1/12/1994	
RA2	410	2/28/1994	
BT2	179.1	1/12/1994	
Ra5A	0.5	1/12/1994	
Ra5A	399.5	1/12/1994	
RA3	502	1/12/1994	
C23	191.5	1/12/1994	
SP1	495	1/12/1994	
	3324.7		**64.5**
Land Bank 3			
B15	152.6	11/26/1993	
C3	233	1/12/1994	
C4	305.7	1/12/1994	
C5	243.4	1/12/1994	
C6	183	6/9/1998	
C7	214.1	1/12/1994	
C8	141.1	2/28/1994	
C9	244.9	2/28/1994	
C20	154.3	6/9/1998	
C21	150.6	6/9/1998	
C18	144.4	1/12/1994	
C19	190.3	11/26/1993	
B17	231.1	11/26/1993	
B18	118.6	1/12/1994	
B19	36.7	1/12/1994	
B20	45.1	1/12/1994	
B21	37.3	1/12/1994	
BR2	15.0	6/9/1998	
BU1	87.3	1/12/1994	
RA4	362.0	1/12/1994	
R2	460.0	1/12/1994	
SP2	856.1	6/9/1993	
C22	256.3	6/9/1998	
WR2	943.0	6/9/1998	
	5805.9		**45.0**
Infrastructure and Utilities for the following parcels			
AT1	55.1	1/12/1994	
BT1	135.1	1/12/1994	
Ferry Terminal	2.8	11/26/1993	
AU1	66.0	11/26/1993	
WR1	1,560.0	1/12/1994	
	1,819.0		**159.0**

Profit and loss

YE Dec (S$ m)	2004	2005	2006F	2007F	2008F
Sales	**202.0**	**227.1**	**284.9**	**370.5**	**406.0**
Cost of goods sold	-142.4	-169.6	-188.4	-216.7	-228.7
Gross Profit	**59.6**	**57.4**	**96.4**	**153.8**	**177.3**
Operating expenses	-33.4	-32.8	-44.7	-54.5	-59.7
Operating Profit	**26.2**	**24.6**	**51.7**	**99.4**	**117.6**
Net interest	-6.8	-3.2	-3.0	-2.6	1.5
Interest income	2.0	3.3	4.0	3.0	6.0
Interest expense	-8.8	-6.5	-7.0	-5.6	-4.5
Net investment income/(loss)	0.0	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	0.2	0.1	1.0	1.0	1.0
Net exceptional items (forex)	0.0	0.0	0.0	0.0	0.0
Pretax income	22.8	22.2	49.7	97.8	120.2
Income taxes	-11.7	-16.9	-17.0	-18.0	-15.0
Minority Interest	1.6	0.9	0.0	0.0	0.0
Net profit	**12.7**	**6.1**	**32.7**	**79.8**	**105.2**
EBITDA	110.8	106.8	92.7	148.6	176.7
EPS	**0.5**	**0.3**	**1.4**	**3.3**	**4.4**

Source: Company data, Kim Eng estimates

Balance Sheet

YE Dec (S$ m)	2004	2005	2006F	2007F	2008F
Total assets	**1,502.4**	**1,496.6**	**1,537.8**	**1,618.2**	**1,724.3**
Current assets	150.0	159.2	230.0	224.9	177.0
Cash & ST investment	104.9	97.0	149.9	136.2	78.7
Inventories	8.1	15.2	3.0	3.9	5.1
Accounts receivable	34.2	42.7	77.1	84.8	93.3
Others	2.8	4.2	0.0	0.0	0.0
Other assets	442.6	441.7	464.8	559.3	722.6
LT investments	0.0	0.0	0.0	0.0	0.0
Net fixed assets	370.8	367.6	441.1	529.3	688.1
Others (intangibles)	71.8	74.2	23.7	30.0	34.5
Total liabilities	**279.9**	**269.2**	**260.4**	**261.0**	**262.0**
Current liabilities	58.5	70.3	74.3	76.7	79.4
Accounts payable	20.9	20.3	24.3	26.7	29.4
ST borrowings	37.6	50.0	50.0	50.0	50.0
Others	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	173.3	149.0	150.1	150.1	150.1
Long-term debts	130.0	105.2	105.2	105.2	105.2
Others (incl minority)	43.3	43.8	45.0	45.0	45.0
Shareholder's equity	**1,222.5**	**1,227.4**	**1,277.5**	**1,357.2**	**1,462.4**
Paid-in capital	1,189.8	1,195.0	1,213.1	1,213.1	1,213.1
Reserve	0.0	0.0	32.7	112.5	217.6
Capital adjustment	32.7	32.4	31.7	31.7	31.7

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S$ m)	2004	2005	2006F	2007F	2008F
Operating cash flow	**54.4**	**38.8**	**68.8**	**136.0**	**168.2**
Operating Profit	22.8	22.2	49.7	97.8	120.2
Depreciation & amortisation	51.2	49.4	41.0	49.2	59.0
Change in working capital	0.1	-19.0	0.0	0.0	0.0
Others	-19.8	-13.8	-21.9	-11.0	-11.0
Investment cash flow	**-31.9**	**-44.1**	**-114.5**	**-137.4**	**-167.8**
Net capex	-10.4	-34.1	-114.5	-137.4	-217.8
Change in LT investment	3.3	2.8	0.0	0.0	0.0
Change in other assets	-24.8	-12.8	0.0	0.0	50.0
Cash flow after invt.	22.5	-5.3	-45.7	-1.5	0.4
Financing cash flow	**-15.3**	**0.0**	**2.0**	**10.0**	**5.0**
Change in share capital	0.0	0.0	0.0	0.0	0.0
Net change in debt	-15.3	0.0	2.0	10.0	5.0
Others	0.0	0.0	0.0	0.0	0.0
Net cash flow	7.2	-5.3	-43.7	8.5	5.4

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S$ m)	2004	2005	2006F	2007F	2008F
Growth (% YoY)					
Sales	0.0	12.4	25.5	30.0	9.6
OP	0.0	-5.9	0.0	92.1	18.4
EBITDA	7.0	-3.6	-13.2	60.2	18.9
NP	0.0	-51.9	435.9	143.8	31.9
EPS	0.0	-51.9	435.9	143.8	31.9
Profitability (%)					
Operating margin	13.0	10.8	18.2	26.8	29.0
EBITDA margin	54.9	47.0	32.5	40.1	43.5
Net Profit margin	6.3	2.7	11.5	21.5	25.9
ROA	0.8	0.4	2.1	4.9	6.1
ROE	1.0	0.5	2.6	5.9	7.2
Stability					
Gross debt/equity (%)	13.7	12.6	12.1	11.4	10.6
Net debt/equity (%)	0.1	0.0	0.0	0.0	0.1
Int. coverage (X)	15.8	10.3	51.4	156.7	258.2
Int. & ST debt coverage (X)	15.8	10.3	51.4	156.7	258.2
Cash flow int. coverage (X)	0.8	-0.8	-6.2	1.5	1.2
Cash flow int. & ST debt (X)	0.8	-0.8	-6.2	1.5	1.2
Current ratio (X)	2.6	2.3	3.1	2.9	2.2
Quick ratio (X)	2.4	2.0	3.1	2.9	2.2
Net debt (US$m)	62.7	58.2	5.3	19.0	76.5
Per share data (cts)					
EPS	52.7	25.3	135.7	330.9	436.3
CFPS	2.8	1.4	2.9	5.7	7.0
BVPS	49.4	49.6	51.7	55.0	59.4
SPS	8.4	9.4	11.8	15.4	16.8
EBITDA/share	4.6	4.4	3.8	6.2	7.3
DPS	0.0	0.0	0.0	0.0	0.0

Source: Company data, Kim Eng estimates

SINGAPORE
Sebastian HENG *Head of Research*
+65 6432 1858 sebastianheng@kimeng.com
- Strategy
- Oil & gas
- Marine

Stephanie WONG
Regional Head of Institutional Research
+65 6432 1451 swong@kimeng.com
- Telcos
- Media
- Consumer

Gregory YAP
+65 6432 1450 gyap@kimeng.com
- China Consumer
- Regional Themes

Rohan SUPPIAH
+65 6432 1455 rohan@kimeng.com
- Conglomerates
- Transport

David LOOMIS
+65 6432 1417 dloomis@kimeng.com
- Korea Special Situations

KELIVE Singapore
ONG Seng Yeow *Head of Research*
+65 6432 1832 ongsengyeow@kimeng.com
GOH Han Peng
+65 6432 1857 gohhanpeng@kimeng.com
Geraldine EU
+65 6432 1469 geraldineeu@kimeng.com
YEO Kee Yan
+65 6432 1834 yeokeeyan@kimeng.com
Daniel THAM
+65 6432 1412 danieltham@kimeng.com

HONG KONG / CHINA
Stephen BROWN *Head of Research*
+852 2268 0638 stephenbrown@kimeng.com.hk
Edward FUNG
+852 2268 0632 efung@kimeng.com.hk
- Utilities
- Telcos

Ivan LI
+852 2268 0641 ivanli@kimeng.com.hk
- Bank & Finance

Alvin WONG
+852 2268 0633 alvinwong@kimeng.com.hk
- Property

Dennis LAM
+852 2268 0635 dennislam@kimeng.com.hk
- Consumer

Ivan CHEUNG
+852 2268 0634 ivancheung@kimeng.com.hk
- Industrials

Elsa YANG
+852 2268 0631 elsayang@kimeng.com.hk
- China consumer

MALAYSIA
YEW Chee Yoon *Head of Research*
+603 2141 1555 cheeyoon@kimengkl.com
- Strategy
- Banks
- Telcos
- Property
- Shipping
- Oil & gas
- Gaming
- Media
- Power
- Construction
- Food & Beverage
- Manufacturing
- Plantations
- Tobacco
- Electronics

INDONESIA
Katarina SETIAWAN *Head of Research*
+6221 3983 1458 ksetiawan@kimeng.co.id
- Strategy
- Telcos
- Cigarettes/Consumer

Andrey WIJAYA
+6221 3983 1457 andreywijaya@kimeng.co.id
- Retail
- Cement
- Pharmaceutical
- Mining

Ricardo SILAEN
+6281 3983 1455 rsilaen@kimeng.co.id
- Heavy Equipment
- Resources
- Property

Yuniar RESTANTO
+6221 3983 1455 yrestanto@kimeng.co.id
- Technical Analyst

PHILIPPINES
Ed BANCOD *Head of Research*
+63 2 849 8848 ed_bancod@atr.com.ph
- Strategy
- Telcos
- Banking

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

Laura DY-LIACCO
+63 2 849 8843 laura_dyliacco@atr.com.ph
- Power & Energy
- Utilities
- Media
- Conglomerates
- Electronics

Leo VENEZUELA
+63 2 849 8839 leo_venezuela@atr.com.ph
- Consumer
- Property
- Ports

TAIWAN
Darryl CHENG
+886 2 2718 1647 darryl.cheng@yuanta.com.tw
- Downstream

Andrew C. CHEN
+886 2 2546 4171 andrew.chen@yuanta.com.tw
- LED, PCB, FPC, PAT

Chialin LU
+886 2 2758 5097 chialin.lu@yuanta.com.tw
- Communications
- Networking
- Camera

Eric LIN
+886 2 2546 0618 eric.lin@yuanta.com.tw
- Optical
- Passive components
- TFT-LCD

Tess WANG
+886 2 2719 8105 tess.wang@yuanta.com.tw
- Financials

THAILAND
David BELLER
+662 658 6300 x 4740 david.b@kimeng.co.th
- Banks
- Shipping

Korawilai TANTIVORAWONG
+662 264 5118 korawilai@kimeng.co.th
- Energy
- Petrochemicals
- Cement

Montip NITIBHON
+662 658 6300 x 4750 montip@kimeng.co.th
- Telecoms
- Entertainment

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

Bussaba WATCHARAPASORN
+662 658 6300 x 4760 bussaba.w@kimeng.co.th
- Property / Construction

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

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

SOUTH KOREA
Woo-Kyun CHANG *Head of Research*
+82 2 6730 1555 wkchang@kimeng.co.kr
- Bank & Finance
- Stockbrokers & Insurers

Peter AUO
+82 2 6730 1562 peterauo@kimeng.co.kr
- Auto & Auto-parts manufacturers
- Shipbuilding & Shipbuilding Parts

Heather KANG
+82 2 6730 1551 hkang@kimeng.co.kr
- Food & Beverage
- Consumer & Retailers
- Travel & Hotel

Youna HONG
+82 2 6730 1553 younahong@kimeng.co.kr
- Pharmaceuticals
- Casinos & Resorts
- Media

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As of 23 Aug 2006, Kim Eng Research Pte. Ltd. and the covering analyst do not have any interest in Gallant Venture.

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

Sebastian HENG (research)
sebastianheng@kimeng.com

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

David PIRKIS (sales)
dpirkis@kimeng.co.uk

Geoff HO (sales)
gho@kimeng.co.uk

James JOHNSTONE (sales)
jjohnstone@kimeng.co.uk

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

Sunny YOON
syoon@kesusa.com

Jeffrey S. SEO
jseo@kesusa.com

Lucy CHUAH
lchuah@kesusa.com

Lynda KOMMEL-BROWNE
lkommel@kesusa.com

Jonathan NASSER
jnasser@kesusa.com

South Korea
Kim Eng Research Pte Ltd
Korea Branch Office
10th Floor, Seoul Finance Center,
84 Taepyung-ro 1-ka,
Chung-ku,
Seoul, Korea 100-768

Tel: +82 2 6730 1550
Fax: +82 2 6730 1564

Woo-Kyun CHANG (research)
wkchang@kimeng.co.kr

Taiwan
Yuanta Core Pacific Securities
11/F, No 225, Nanking East Rd
Section 3
Taipei, Taiwan

Tel: +886 2 2717 6391
Fax: +886 2 2545 6394

Gary CHIA (sales)
Gary.chia@yuanta.com.tw

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

Stephen BROWN (research)
stephenbrown@kimeng.com.hk

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 6300
Fax: +66 2 658 6384

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Ron GARCHA (sales)
ron@kimeng.co.th

Indonesia
PT Kim Eng Securities
9/F, Deutsche Bank Bldg
Jl. Imam Bonjol 80
Jakarta 10310, Indonesia

Tel: +62 21 3983 1360
Fax: +62 21 3983 1361

Kurnia SALIM (sales)
ksalim@kimeng.co.id

Katarina SETIAWAN (research)
ksetiawan@kimeng.co.id

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

Ed BANCOD (research)
ed_bancod@atr.com.ph

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

South Asia Sales Trading
Connie TAN
connie@kimeng.com
Tel: +65 6333 5775
US Toll Free: +1 866 406 7447

North Asia Sales Trading
Vivian LAU
vivianlau@kimeng.com.hk
Tel: +852 2268 0800
US Toll Free: +1 866 598 2267

North America Sales Trading
Howard KEUM
hkeum@kesusa.com
Tel: +1 212 688 8886

Ong Seng Yeow | Director, Retail Research