PICTURES: GALLANT VENTURE

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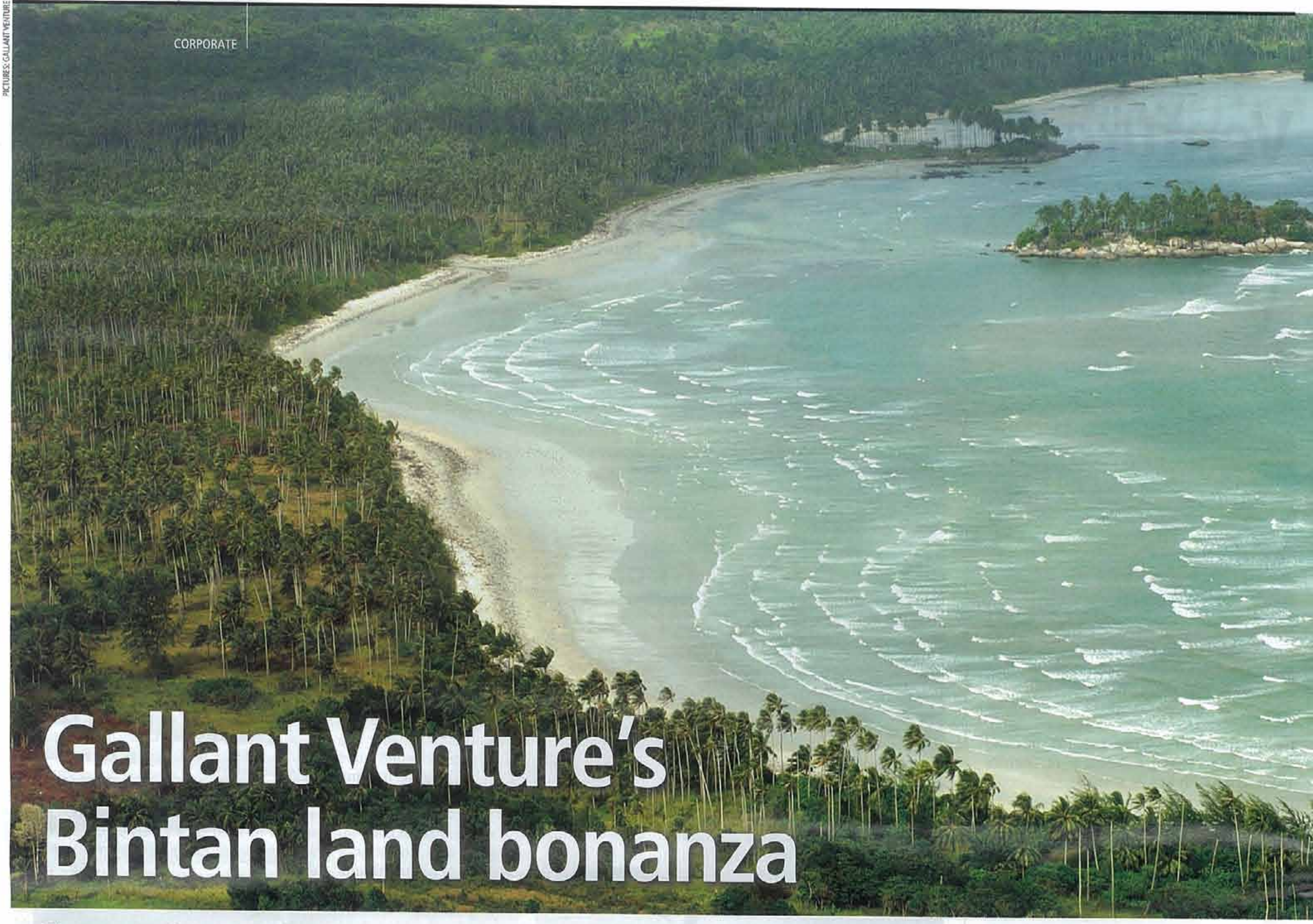

Gallant Venture's Bintan land bonanza

The company's Lagoi Bay Bintan development has land five times the size of Sentosa Island at a fraction of the market price of similar property in Bali and Phuket. And, some analysts see it becoming Singapore's version of Hong Kong's Discovery Bay.

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Park (pictured, left, with Choo) expects revenue from Gallant's land sales to exceed its utilities business by 2010

| BY DESMOND WONG |

There isn't much to see right now other than a deserted, almost desolate, stretch of endless white sand fringed by a crystal clear sea and blue sky. However, Gallant Venture hopes that the 19,700ha — about one-third the size of Singapore — it owns on Indonesia's Bintan island that includes about 100km of beaches will one day boast resorts and luxury homes that provide an idyllic refuge for well-heeled visitors looking to escape the pressures of city living.

Last week, Gallant took the first step in turning that ambition into reality with the launch of the Lagoi Bay Bintan development. With 1,300ha — about five times the size of Sentosa island — Gallant wants to build a town centre of sorts that will generate a critical mass of visitor arrivals and activity, creating demand for the development of the rest of the land that it owns on Bintan.

The company is selling plots of land at Lagoi earmarked for development into hotels, retail outlets and luxury homes at prices ranging from $100 to $280 psm. With comparative beachfront plots at similar resort areas in Bali and Phuket going for as much as US$300 to US$400 ($455 to $607) psm, investors from Malaysia and Indonesia have already snapped up about a quarter of it, according to company officials.

"Our aim is to build up to a critical mass of at least 5,000 more [hotel] rooms and at least half a million additional visitors a year," says Alvin Choo, Gallant's group chief financial officer. "Once it has hit that level, the growth should be able to sustain itself. The process should take three to five years." There are already resorts run by Banyan Tree and Club Med as well as several golf courses at Lagoi. And, a Ritz-Carlton hotel is scheduled for completion by 2009.

The land that Gallant is now selling is being carried in its books at just $3 psm, which means that the land sales it is now conducting could result in a steep jump in earnings going forward. "For last year, land sales brought in about $19 million [in revenue]," says Eugene Park, CEO of Gallant. "This year to date, we've already made $14 million." Park expects revenue from Gallant's land sales to exceed its utilities business by 2010.

Gallant reported revenue of $176.6 million last year. Almost two-thirds of this came from the electricity and water plants as well as the telecommunications services that it operates on Bintan. About one-quarter came from industrial parks that it operates on Bintan and neighbouring Batam island. And, the remaining one-fifth or so of revenue last year was almost evenly split between resorts operations and land sales. Gallant's total net profit for the year was $29.8 million.

Better than Bali

Gallant is approaching the development of its Bintan property in a structured fashion that will set it apart from similar projects in Phuket and Bali, according to Andrew Leong, the company's senior manager for investment and finance. "If you look at places like Bali, the land parcels are owned by different people, and they sell to anyone, resulting in very fast development," he says. "That also means you get a spontaneous springing up of developments, which is messy."

That's not going to happen with Gallant's project on Bintan, Leong continues. "You may get tied down to the pace of our master plan, but you get a better-organised development as we own all the land. The question is whether you want that compared with something that is faster but more chaotic."

Analysts are beginning to see the potential in Gallant's development project on Bintan. "The company is very committed in their plans, and they seem very viable," says Rohan Suppiah, a senior analyst at Kim Eng Securities. "They have put in the money to build the infrastructure, and it is the infrastructure that will fuel the development."

In fact, Suppiah sees the company's Bintan development becoming to Singapore what Discovery Bay is to Hong Kong. "If Singaporeans [can] get around the

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idea of a long commute — 1½ hours — Bintan [would be] viable as a place to live in, especially if the property boom in Singapore continues."

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Other divisions benefit too

If Gallant's Bintan project gains momentum, it won't just be land sales that will give its earnings a lift. The company's utilities arm will benefit too. "When people buy land, they will need to buy our water, our power and use our telecoms," says Park.

As Gallant is a private utilities operator, the electricity it supplies costs about one-third more than electricity from the grid operated by Indonesia's public sector. The water from its treatment plants is more expensive too. But Gallant offers greater reliability.

"With the back-up generators and our own reservoir, we can guarantee services to their properties without having to apply to the government," Leong says. "The water is drinkable to WHO standards, and you won't have brown outs. It's just a matter of the level of service you want, and what you are willing to pay."

The stronger revenues and earnings from Gallant's utilities arm won't flow through as quickly as those from land sales, though. The company's officials figure that it could take up to 24 months before land sales and new developments translate into stronger demand for power and water.

Meanwhile, Gallant's resorts management arm will get a boost too once the development begins attracting increased visitor arrivals to

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Hoping to gain on the back of SEZs

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Bintan. The company runs the ferries that serve the resort areas, as well as travel agency services that promote visits to the island. It also provides medical, fire fighting, pest-control and security staff to manage the variety of emergencies that could occur on the island. According to Merrill Lynch, visitor arrivals at Bintan will grow by over 30% by 2010, from the current rate of under 360,000 a year, to about 470,000.

Little growth from business parks

The outlook for Gallant's industrial parks in Bintan and Batam is somewhat less exciting, though. Playing host to companies like Ciba Vision, Sanyo, Epson and Panasonic, they are relatively mature developments that were already 86% full last year, suggesting little scope for future growth. Another restricting factor is the lower labour costs in competing markets like Vietnam, which are now pulling companies away from Indonesia, notes Park.

"The ones who stay are the pharmaceutical and technolo-gy companies, which are industries that produce higher-value products," he says.

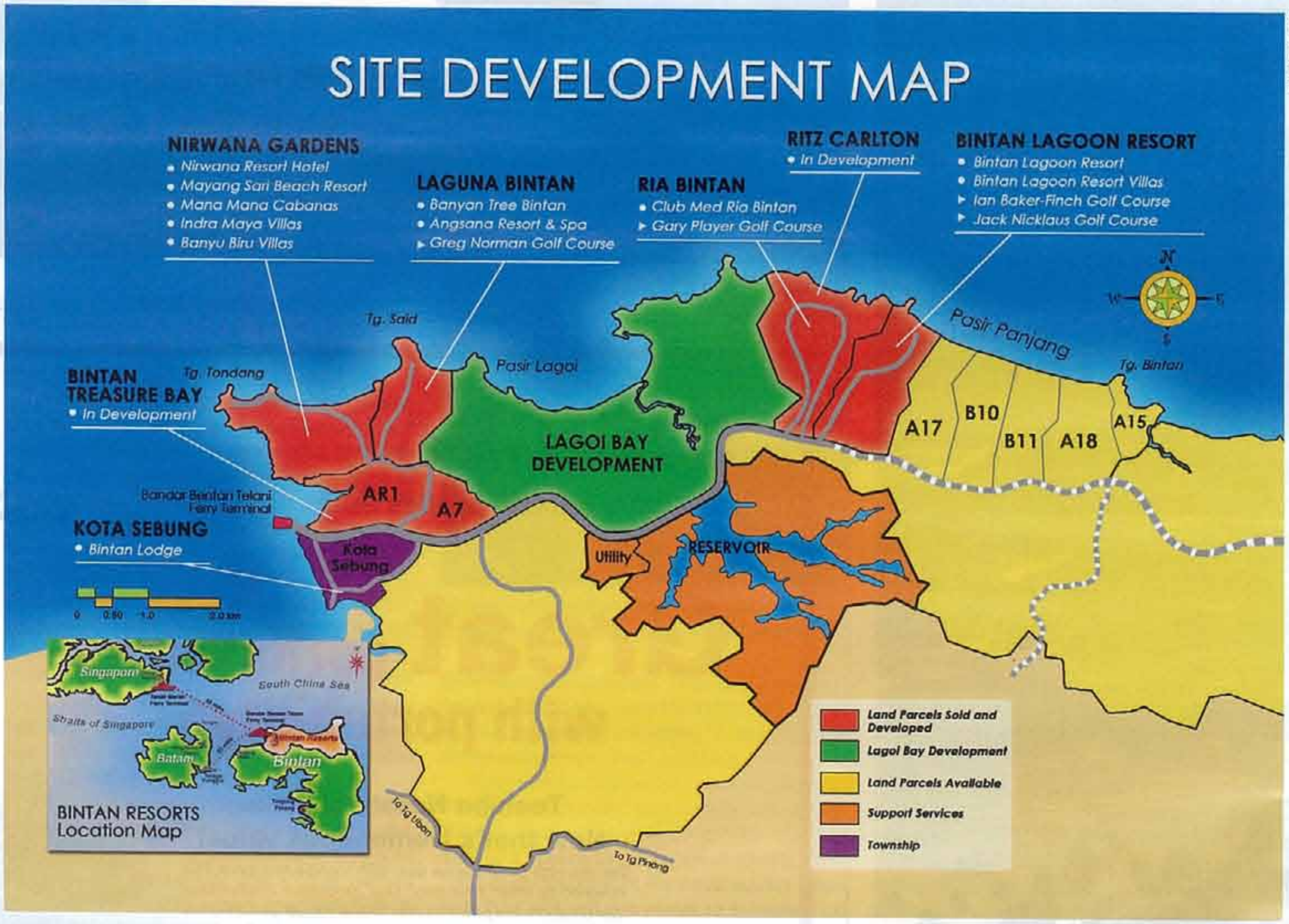
If there is a growth story in Gallant's industrial parks division, it has to do with gradually freer trade and investment across the region. "With investing in the region becoming easier, and our capacity already quite full, we hope to help existing clients expand their investments instead," says Choo.

In June 2006, Singapore and Indonesia signed a framework agreement to develop and promote the Riau islands, which include Batan and Bintan, as special economic zones (SEZs). Last week, 22 companies pledged to inject US$1.9 billion into the region. With seven of the 22 companies in the hospitality business, Bintan will certainly get a shot in the arm. "The growth is not going to be huge, but we hope to gain on the back of the SEZ when it takes off," says Park.

Kim Eng's Suppiah shares Gallant's conservative outlook on the industrial parks. "The lowest revenue generator [for the company] in future will be the industrial parks," he says. "Unlike other properties, industrial land does not really command much of a premium. A possibility for the parks would be if a company decided to set up a logistics base in Singapore, and wanted their manufacturing facilities close by, making Batam and Bintan suitable."

Rising from the ashes

Gallant is controlled by Indonesia's Salim Group, which effectively owns 50.67% of the company. Salim Group holds 24.65% directly, while the rest comes from its 60% control of private equity investment vehicle Parallax Venture Partners XXX, which holds 26.02% of Gallant. The other significant shareholders are SembCorp Industries, with 26.84%; followed by Ascendas, which controls 3.66%; and UOB with 2.51%. The remaining 16.32% is owned by public investors.



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The company's roots date back to the early 1990s, when Salim Group and several Singapore government-linked companies like SembCorp, Keppel Corp and the JTC Group formed a consortium to take on development projects in the Riau Islands. In the wake of the 1997 financial crisis, Salim Group lost control of several key pieces of land to the Indonesian Bank Restructuring Agency. Some of these were picked up by Parallax, which was formed by Park and his brother Edan Cho Park. These assets were then floated on the market under the holding company Gallant. Just prior to Gallant's IPO in June last year, Parallax sold 60% of itself to Salim Group to raise cash, which was used to pay off some of its investors.

Gallant's transition to a public company wasn't entirely smooth, though. In March, it emerged that Gallant hadn't disclosed a major lawsuit when it launched its IPO the previous year. In April 2006, two of Gallant's subsidiaries were sued by Indonesian property developer PT Raflesia Matrawisata over 863,353 sq m of land in Bintan, which PT Raflesia claimed it owned. PT Raflesia also sought to claim $10 million in damages. The fracas came to a close in June this year, when the Bintan district court dismissed the case.

Shares in Gallant have performed almost exactly in line with the Straits Times Index since the beginning of the year, climbing 13% to $1.13, giving the company a total market value of $2.7 billion.

Even if the land sales don't take off, Gallant can sit on its Bintan property. The leases on the land that the company owns are rolling alternate 30-year, then 20-year, agreements that are renewed at 0.5% tax assessment value of the land. Given future estimates for the next payment of the leases in 2019/20, it will cost Gallant under $5 million to hang on to its landbank for another 30 years.

"Ours is not a story that is going to happen overnight," says Park. "We would much rather be low-key and deliver, so what we are doing now is executing our plan." E