

Singapore Company Focus

Gallant Venture

Bloomberg: GALV SP | Reuters: GLVT.SI

DBS Group Research . Equity

6 Apr 2011

BUY S\$0.43 STI : 3,140.62

(Re-initiating Coverage)

Price Target : 12-Month S\$ 0.88

Reason for Report : Re-initiating Coverage

Potential Catalyst: Land Sales

Analyst

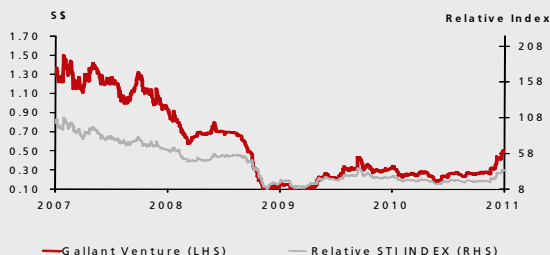
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Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2009A	2010A	2011F	2012F
Turnover	188	220	225	255
EBITDA	53	76	87	110
Pre-tax Profit	(3)	21	20	45
Net Profit	(11)	9	11	35
Net Pft (Pre Ex.)	(11)	10	11	35
EPS (S cts)	(0.4)	0.4	0.5	1.5
EPS Pre Ex. (S cts)	(0.4)	0.4	0.5	1.5
EPS Gth Pre Ex (%)	(1,985)	(191)	18	214
Diluted EPS (S cts)	(0.4)	0.4	0.5	1.5
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	51.2	51.6	52.1	53.6
PE (X)	nm	110.0	91.1	29.0
PE Pre Ex. (X)	nm	107.7	91.1	29.0
P/Cash Flow (X)	22.5	15.9	15.0	11.1
EV/EBITDA (X)	19.2	16.1	14.0	10.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	CASH	0.1	0.1	0.1
ROAE (%)	(0.8)	0.8	0.9	2.8

Consensus EPS (S cts):

Other Broker Recs: B: 1 S: 0 H: 0

ICB Industry : Financials

ICB Sector: Real Estate

Principal Business: Runs industrial parks and provides Resorts and Utilities operation services in Batam and Bintan. Also involved in land sales in Bintan

Source of all data: Company, DBS Vickers, Bloomberg

No Venture, No Gain

- **Lagoi Bay Village development is ready to take flight; to unlock value from land sales.**
- **Recent new ventures potentially profitable; significant value to be extracted**
- **Double-bagger potential, re-initiate with TP S\$0.88**

Prime Lagoi Bay development to take flight. Gallant Venture ("GV"), a master developer of industrial parks and resorts in Bintan and Batam, owns over 18,000 ha undeveloped landbank on Bintan island held at its historical cost of S\$0.78 – S\$10.95psm. Development of its prime site - Lagoi Bay, a 1,505-ha sea-facing site is taking shape, with major infrastructure works and construction of the central shopping mall is in advanced stages. The group booked in S\$33m sales with over 70% margins as it transferred the first land packets to investors. We believe the development of Lagoi Bay as an integrated resort will spur much investors' interest and land sales in the future.

Diversified businesses in Riau islands offer stable operational cashflow. Gallant Venture's matured utilities and industrial parks businesses generate a strong recurrent EBITDA of c.S\$70m–S\$85m p.a, and hence generate stable cashflow for operational and investments. It also offsets the lumpy property development earnings. We expect the group to maintain average debt/equity at <0.2x.

Opportunistic ventures offer substantial windfall gains. GV's S\$14.8m investment in a 29.4% stake in PT Silo, which operates an iron ore mining business was a bargain in a fire sale, and its 48% interest in a downtown Shanghai property project could yield >2x return on investment.

Re-initiate BUY with SOTP-based TP of S\$0.88. Gallant Venture will unlock substantial value from more land sales sparked by the Lagoi Bay development, where the group has and is projected to sell its plots at an average of cS\$120psm, against expected development cost of cS\$35 psm and substantial windfall gains from its opportunistic investment projects. Our SOTP-based TP of S\$0.88 offers over than 100% upside.

At A Glance

Issued Capital (m shrs)	2,412
Mkt. Cap (S\$m/US\$m)	1,025 / 814
Major Shareholders	
Salim Group (%)	45.4
SembCorp Industries (%)	23.9
Dornier Profit (%)	7.9
Free Float (%)	22.8
Avg. Daily Vol.('000)	14,243

Analysts

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1. Investment Summary

Holder of potentially huge unrealized profit potential. Gallant Venture ("GV"), a master developer of industrial parks and resorts in Bintan and Batam, owns over c.18200 hectares of land located in North and West Bintan – 14,400 hectares in North Bintan (known as "**Bintan Resorts**") earmarked for tourism development and another 3800 hectares in West Bintan slated for industrial, recreational and commercial projects. As of FY09, GV's land bank is reported at its historical cost of c\$556m, or at an average of \$50.78 – \$510.95 / m²

Why it did not take off previously? While Bintan offers one of the nicest beaches in South East Asia, the longer term vision of the island turning into a major regional resort enclave off the shores of Singapore did not take off as expected as (i) the haphazard development of existing resorts in our view - with individual developers and operators scattered unevenly across the island created a "bubble effect" amongst tourists who rarely venture out of the respective resorts, (ii) accessibility between the resorts is both limited and deliberately stunted as a lack of centralised public attractions such as Patong Beach in Phuket for tourists to explore and mingle and a lack of vibrancy and attractiveness of the island as visitors stay and play only within the boundaries of their resorts, (iii) the lack of alternative transportation, where the only entry into Bintan is through Ferry has limited the growth of visitor arrivals into the island.

Upcoming Lagoi Bay Development to inject vibrancy and life into Bintan – a key to complete Bintan's puzzle. In order to fully realise Bintan's potential, Gallant Venture plans to integrate the current self-sustaining resorts with a master-planned village centre located at the heart of Lagoi Bay to draw in the crowds and add further variety to the current attractions on the island. Gallant Venture's vision is for the Beach Village ("LBV") to draw the disparate pieces of Bintan's disorganised development together and transform them into a vibrant and self-sustaining community.

Unlocking value process starts. Development of its prime site - Lagoi Bay, a 1,505-ha sea-facing site is taking shape, with major infrastructure works and construction of the central shopping mall in advanced stages. The group booked in S\$33m sales at an average price of S\$100-150 psm, enabled the group to record over 70% margins as it transferred the first land packets to investors to start development of the various land plots into resorts/resort homes. We believe the development of Lagoi Bay as an integrated resort will spur much investors interests and land sales in the future.

Treasure Bay – Landmarks' S\$425m project next to Gallant's Lagoi Bay site expected to raise international visibility for Bintan. Landmarks Berhad recently launched phase 1 of its Treasure Bay resort island site and is pumping more than S\$425m into development of a resort covering over 222 acres. Featuring a luxury resort and serviced villas, a dedicated multi-model transportation terminal, world class marina and lagoon, as well as amenities for entertainment, retail, night-life and F&B, the project is expected to complete in 2015.

The launch of a big-name project such as Treasure Bay will definitely raise the profile of Bintan Island and a big boost for Gallant Venture. Developers and potential investors alike will watch Treasure Bay's development closely.

Site of Treasure Bay development



Source: Google map, DBS Vickers

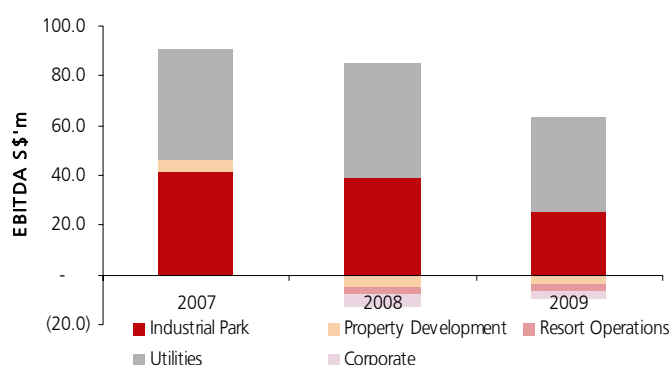
Going forward, looking to ease mode of transport into Bintan.

Gallant Venture proposal of moving its current embarkation point from Tanah Merah Ferry Terminal (TMFT) to the upcoming Marina South Ferry Terminal downtown when completed by end 2011 is in the works as the shift will be positive for Bintan's image as a travel destination and weekend playground for Singaporeans, as it will cut the ferry journey down to c30-45min and eliminate the need for tourists to travel to the relatively obscure Tanah Merah Ferry Terminal (next to Changi Airport, in the Eastern part of Singapore).

In addition, a proposed new airport is in the works with President Susilo Bambang Yudhoyono granting permission for a new airport (catering from single-aisled planes like Boeing 737s and Airbus 320s) to be built at the Lobam industrial area, 35min away from Bintan Resorts. We understand that Gallant Venture will be involved and is currently looking for partners to embark on this plan to build an airport. This new embarkation point will be a key catalyst to the further growth in the tourism sector of Bintan in the longer term.

Synergetic business segments supports group earnings with a constant stable positive cash flow. While the land sales from its property development segment have been relatively slow over the past 2 years, the Group's utilities, industrial parks and resorts segments have matured well and generate strong cash flows with recurrent EBITDA of cS\$70m – S\$85m p.a.

Gallant Venture's historical EBITDA contribution



Source: Company, DBS Vickers

Profitable ventures in Shanghai property and iron ore projects acquired on the cheap. GV's S\$14.8m investment for a 29.4% stake in PT SILO (through a convertible bond issue) was a bargain in a fire-sale. GV's 48% interest in the Shanghai property project is expected to yield 2-3x return on investment. Successful execution of these projects could result in substantial windfall gains for GV.

Profitable ventures in Shanghai property and iron ore projects acquired on the cheap. Gallant Venture's two opportunistic acquisitions aimed to smooth out the group's earnings over the coming years as the Lagoi Village Bay development remains in its initial development stages. The first investment – (i) a 29% stake in PT Sebuk Iron Lateritic Ores, an iron ore mining company located in Sebuk, Indonesia for US\$14m and (ii) a 47.8% stake in a Shanghai Project Co, which owns a prime land parcel located in Lao Xi Men, Shanghai. The group, with its partners, intends to develop the Shanghai site into an integrated residential – retail complex, which is expected to start pre-sales in end 2011. We expect the group to reap 2-2.5x returns on investment on this project.

These investments, though their successful execution could result in substantial windfall gains for GV, we view them as more as opportunistic in nature and we believe that management will continue to focus on its core business in Bintan as key catalysts for the group's prospects going forward.

Initiate with a BUY with SOTP-based TP of S\$0.88. Gallant Venture's fortunes are changing for the better as Lagoi Bay Mall is approaching completion and infrastructure works are also in advanced completion stages. In addition, its recent ventures are expected to be profitable and will contribute positively to group's performance going forward. Catalysts to look out for include (i) more land sales at Lagoi Bay, (ii) sales at its Shanghai project, (iii) more clarity with management's stake in PT SILO.

In our SOTP valuation, we used a combination of (i) DCF with an assumed WACC of 12.5% (cost of Equity: 15%, cost of Debt of 5%, terminal value of 1%) to value the group's existing resorts, utilities, industrial parks, (ii) revaluation of Lagoi Bay at an average price of S\$55/sqm (only 820 hec are master-planned to be sold), keeping the other non-sellable land and other land banks on its balance sheet at costs, (iii) assumption that the group will sell its Lao Xi Men project at an average selling price of RMB 70,000 sqm vs all-in cost of RMB 30,000 sqm; and (iv) a 10x P/E on forecasted earnings of PT SILO.

RNAV of Gallant Venture

RNAV	Assessed Value (\$'m)	Value/Share (\$)
Supporting business		
Utilities	321	0.13
Industrial Parks	290	0.12
Resorts	79	0.03
Value of Supporting Business	690	0.29(1)
Valuation of Lagoi Bay	406	0.17
Landbank valued at Book	427	0.18
	833	0.35(2)
Value of Lao Xi Men, Shanghai	707.2	0.29(3)
PT SILO	75	0.03(4)
Value of Gallant Venture	2,305	0.96SUM
Less: Net Debt (FY10)	(176)	(0.07)
RNAV	2,129	0.88

Source: DBS Vickers estimates

2. SWOT Analysis

Strengths	Weakness
<p>Accretive nature of land development. With Lagoi Bay Village malls nearing completion and development of land sold taking shape, we expect higher interest in Lagoi Bay, and this may drive up land prices in the future. The accretive nature of land development is such that once a critical mass is reached, the building up of key infrastructure such as airports, causeways and roads may accelerate, which in turn further fuel land prices.</p> <p>Bintan a safe bet for investment. GV's land bank has been fenced off from the rest of the island, and there are stringent security checks on visitors travelling between Bintan Resorts and the rest of the island, hence there is a relatively low crime rate. Security risk on Bintan island is also lower than Phuket and Bali (subject to political instability and terrorism), which makes Bintan a more attractive investment.</p> <p>Bintan and Batam sheltered from environmental disasters. Bintan has not been subject to any terrorism attacks to date, and is relatively sheltered from environmental disasters (Bintan was not affected by the 2003 tsunami, as well as the Mount Merapi volcano eruption in 2008). Hence, possibility of disruption to resorts and industrial parks operations remain low.</p> <p>Shanghai property and iron ore projects acquired on the cheap. GV's S\$14.8m investment for a 29.4% stake in PT SILO (through a convertible bond issue) was a bargain in a fire-sale. GV's 48% interest in the Shanghai property project is expected to yield 2-3x return on investment. Successful execution of these projects could result in substantial windfall gains for GV.</p>	<p>Lumpy incomes. As property development will contribute a growing proportion of the group's revenues going forward, we expect earnings to be lumpy depending on the (i) amount of land parcels sold and (ii) timing of income recognition which could be uncertain.</p> <p>Property development costly, with high execution risk and no track record. As the master planner, GV's capital commitments to infrastructure and land development are high, with little certainty of land sales. Lagoi Bay development has experienced repeated setbacks since its 2008 launch, and land sales have dried up over the last 2.5 years. Lagoi Bay's success depends upon many factors, and the execution risk associated the sale of GV's vast Bintan land is considerable.</p>
Opportunities	Threats
<p>Special Economic Zone (SEZ) status of Bintan and Batam an advantage to GV's industrial parks business. Both Singapore and Indonesian governments have agreed in 2007 to develop SEZs in Batam, Bintan and Karimun, which will grant them special customs & excise, tax, immigration and manpower privileges such as duty-free imports and exports, waiver of Value Added Tax and flexible foreigner property ownership. Businesses that market to Singapore would be attracted to move their production to the SEZs in view of the various tax benefits such as duty free imports and exports, and the waiver of Value Added Tax.</p>	<p>Property development operations are vulnerable to economic cycle. GV's tourism-oriented property development operations in Bintan are highly elastic to the economic cycle, as evidenced by the slow land sales during the 2008-09 financial crisis. Any potential economic instability will adversely impact the Group's ability to execute land sales.</p> <p>Bintan is still vulnerable to the political, security and environmental stability in the region. While unaffected by major negative events that have occupied headlines such as Thailand's recent political turmoil and terrorist attacks, Bintan's main attraction as a resort paradise would ultimately be affected by the regional instability.</p>

Source: DBS Vickers

3. Kingmakers of Bintan

Investment holding company with focus on regional growth opportunities. Incorporated in Singapore in 2003, Gallant Venture ("GV") is an investment holding company that operates largely in the Riau islands of Batam and Bintan. It was listed in 2007, and its principal shareholders currently include the Salim Group (53.4%), Sembcorp Industries Ltd (23.9%) and the Ascendas Group (3.66%).

20-year operating history. Gallant Venture group is a consolidation of separate entities operating within the Riau resorts and industrial parks established in the early 1990s as part of a strategic framework agreement between the governments of Singapore and Indonesia. Under the Framework of the Development of the Riau Province, both countries agreed to (a) promote infrastructure and tourism related investments in Bintan (and rest of the Riau), (b) encourage Singapore-based companies to invest in Indonesia, and (c) encourage Indonesian-based companies to invest in Singapore.

In 1990, **PT BMW**, under the Salim Group, was granted the right to sell, use and develop land in the north coast of Bintan for resorts purposes by then the governor of Riau. With strong support from the Singapore and Indonesian governments, the company sold four major land sites totalling c.1200ha for the development of resorts, with c.1370 keys in total. Since then, major resort development have sprouted out from those sites, anchoring Bintan's reputation one of South East Asia's dream "resort island".

PT BIC and **PT BIIE** were established in the early 1990s to oversee the industrial parks businesses in Batam and Bintan respectively. Major shareholders of these two companies were PT HR (subsidiary of the Salim Group), Ascendas Group and SCI Group (now known as Sembcorp Industries). The industrial parks sought to provide low-cost alternatives to the increasingly expensive industrial space in Singapore.

The resorts and industrial parks companies were consolidated in 2003 with the establishment of Gallant Venture, which now fully owns all three companies.

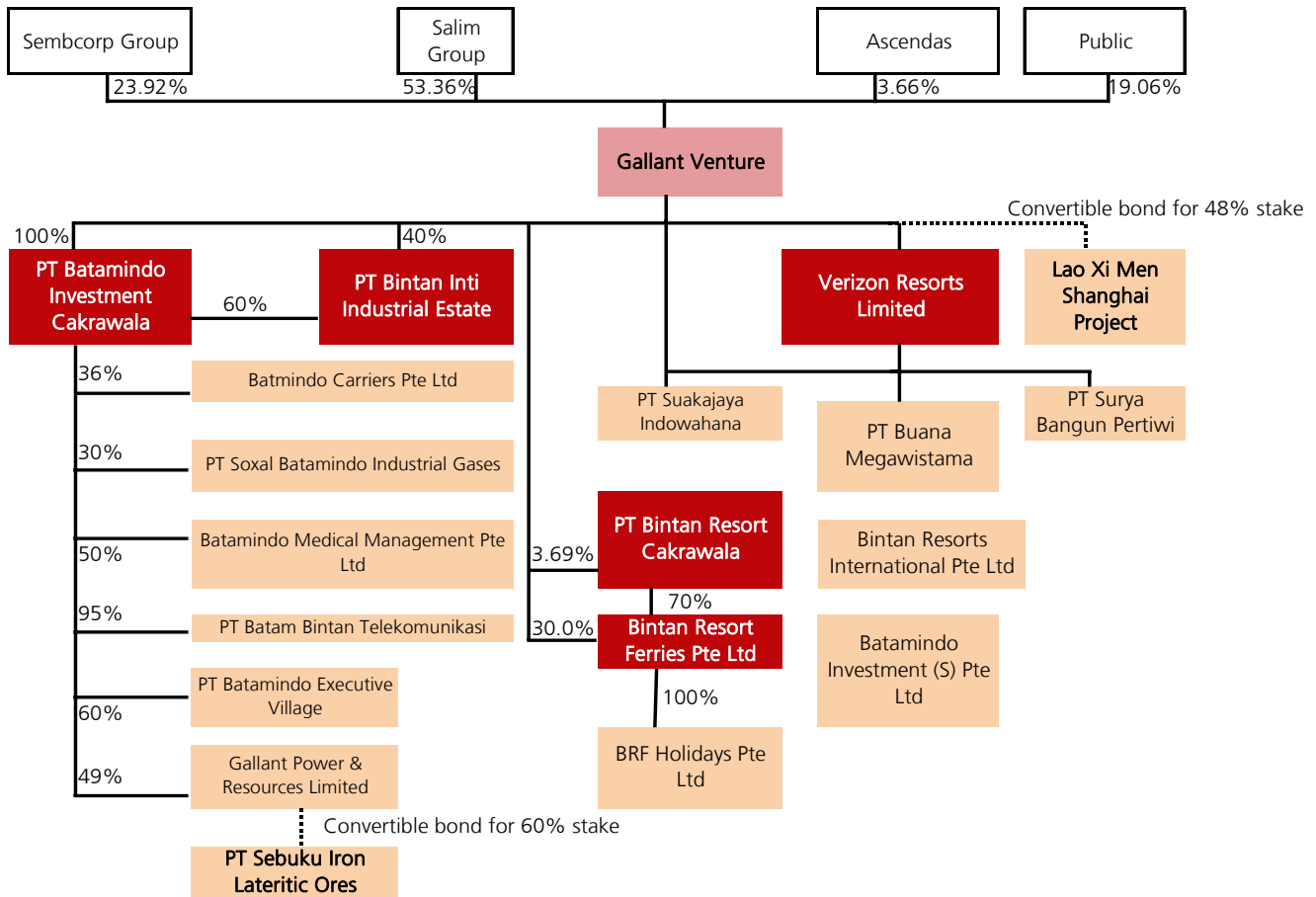
Recently diversified into resources-related segment in Indonesia and property development in Shanghai. In FY09 the group diversified its business operations through the acquisitions of (a) a 29% stake in PT Sebuk Iron Lateritic Ores, an iron ore mining company located in Sebuk, Indonesia for US\$14m; and (b) a 47.8% stake Shanghai Project Co, which owns a prime land parcel in Lao Xi Men, Shanghai. Gallant Venture with its partners intends to develop the Shanghai site into an integrated residential – retail complex, which will start pre-sales by end 2011. In our view, the Shanghai property is an opportunistic one-off investment.

Bintan's Resorts Operating History

Year opened	Resort Name	Land area (ha)	Keys
1995	Laguna Bintan Resort	220	198
1996	Nirwana Garden Resort	300	395
1996	Bintan Lagoon Resort	300	473
1997	Ria Bintan Resort	400	300
Total		1,220	1,366
Keys as of FY10:			1,366

Source: Company, DBS Vickers

Gallant Venture's Corporate Structure



Source: Company, DBS Vickers

Gallant Venture

Having stranglehold on Bintan tourism industry's development. As the integrated master planner for industrial parks and resorts in Bintan and Batam, Gallant Venture's key businesses are divided into 4 key segments: (i) property development, (ii) utilities, (iii) industrial parks and (iv) resort operations, whose scope of revenue and operations grow largely in tandem with each other.

Location of Gallant Venture's operations in Bintan & Batam



Source: Company, DBS Vickers

(i) Property development. The Group currently owns c.18200 hectares of land located in North and West Bintan – 14,400 hectares in North Bintan (known as “Bintan Resorts”) earmarked for tourism development and another 3800 hectares in West Bintan slated for industrial, recreational and commercial projects. As the master planner, GV is required to divide, allocate and sell its Bintan land parcels in the manner that is consistent with its longer-term development of Bintan tourism industry. This is unlike the relatively haphazard development of competing neighbouring Indonesian tourist destinations such as Bali.

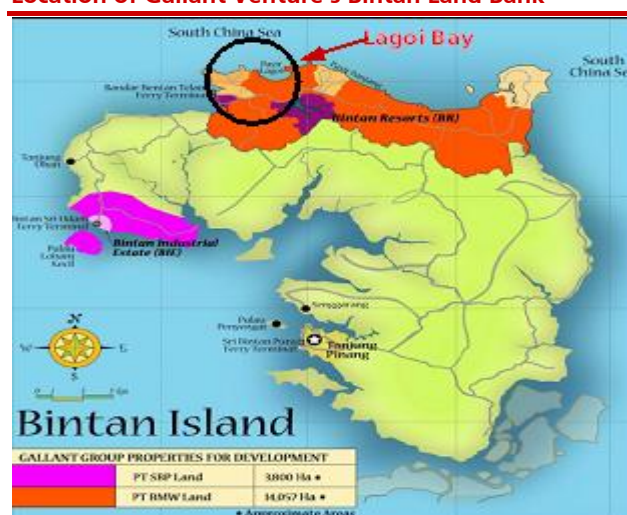
Huge land bank offers huge unrealised profit potential. As of FY09, GV's land bank is reported at its historical cost of cS\$575m, or at an average of S\$0.78 – S\$10.95 / m². Over the medium term, the group will focus on sales and development of land parcels in Lagoi Bay. Management is exploring the possibility of developing the other fallowed land banks for agricultural purposes.

Breakdown of Gallant Venture landbank book value

Land Bank	Area (ha)	Book value (\$m)	Value / m ²
Lagoi Bay	1,505	129	10.96
Landbank 1	3,719	195	5.24
Landbank 2	3,325	65	1.95
Landbank 3	5,806	45	0.78
Industrial	3,868	117	2.77
Total	18,223	556	

Source: Company, DBS Vickers

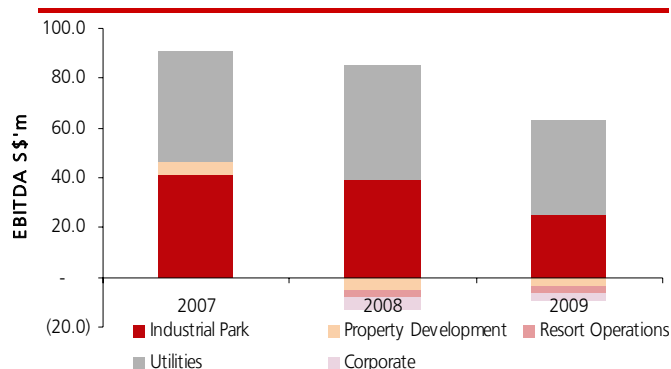
Location of Gallant Venture's Bintan Land Bank



Source: Company, DBS Vickers

(ii)-(iv) Synergetic business segments producing stable positive cash flow. While the land sales from its property development segment have been relatively slow over the past 2 years, the Group's utilities, industrial parks and resorts segments have matured well and generate strong cash flows with recurrent EBITDA of cS\$70m – S\$85m p.a.

Gallant Venture's historical EBITDA contribution



Source: Company, DBS Vickers

4. Banking on Bintan's success

Execution of Lagoi Bay project key to Gallant Venture's fortunes. As the master developer for Bintan Island, Gallant Venture's fortunes are essentially tied to its success in remaking Bintan into a resort playground for the well heeled, off the coast of Singapore. We believe Bintan has the potential to be a thriving enclave in the future.

Bintan ~ a thriving island off Singapore coast. An Indonesian island of 2,402 sq km located approximately 45km southeast of Singapore. Bintan is accessible by a 45-minute ferry ride from Singapore's Tanah Merah Ferry Terminal. We believe the strategically located Bintan is positioned to benefit from Singapore's tourism and economic boom. Visitor arrivals in Bintan have already seen a 28.4% CAGR between FY05 and FY09, surging to a record 410k visitors in 2009.

There are currently 4 resort operators in Bintan, catering to a wide spectrum of the tourist market – ranging from the luxurious Banyan Tree to the more mass-market Angsana, Nirwana Garden, and Ria Bintan.

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Source: Company, DBS Vickers

A Golf haven. Bintan Resorts considers itself as the avid golfers' paradise with 4 golf courses, designed by golfing superstars Jack Nicklaus, Gary Player, Ian Baker-Finch and Greg Norman. The courses cater to both beginners and professionals, and are also suitable locations for corporate events. A golf course worth highlighting is the Gary Player Golf Course, which has won countless of awards since 1999, and was winner of "Best Golf Course in Asia" and "Best Golf Course in Indonesia", awarded by Asian Golf Monthly magazine in 2008.

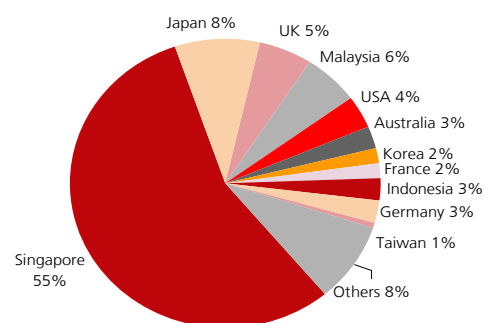
Spa-radise. People looking to relax in a spa are spoilt for choice, with 7 different spa offerings ranging from ancient Asian and traditional Javanese massages, to Western therapies and natural beauty care. These spas operate within the various resorts, providing a comprehensive rest and relaxation experience.

International visibility on the rise since 1996. Unlike a decade ago, when Singaporeans constituted the majority of visitors, Bintan has an increase in visitors from East Asia and Europe in recent years. Hence, the proportion of Singaporean amongst its visitors has dropped – a positive indication of Bintan's growing international and regional visibility as a tourist destination. This should be a boon for the tourism-related facilities within Bintan Resorts.

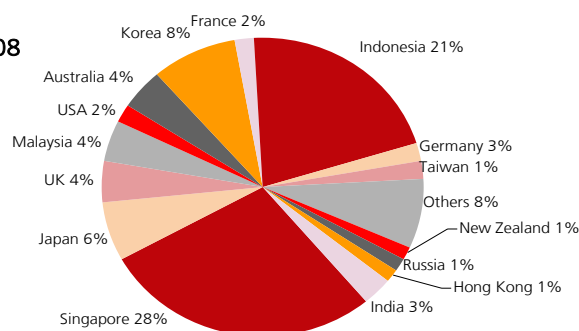
Boom in domestic arrivals. Bintan has also seen a huge increase in Indonesian visitors. This can be attributed both to the increasing number Indonesians visiting Singapore, as well as the government's efforts to market Bintan alongside Bali as an eye-catching tourist destination. Domestic interest in the land is positive not only for Lagoi Bay developments, but in other parcels of land within Bintan Resorts that the Group has yet to market.

Visitor Arrivals by Nationality, 1996 and 2008

1996



2008



Source: Company, DBS Vickers

Leveraging on Singapore's tourism growth. Leveraging on its close proximity to Singapore, Bintan achieved a record 410k visitors in 2009, a sizeable number for an island, which received its second millionth visitor only in 2004. As Singapore continues to grow its tourism pie with the opening of its 2 integrated resorts, Bintan should enjoy some positive spill-over benefits in terms of visitor arrivals.

5. Bintan yet to realise its full potential

Bintan today – a land frozen in time? Although Bintan continues to lure visitors to its white sandy beaches, its development since the first wave of resorts opened in the mid-1990s has stalled somewhat, with the land left to fallow – a victim of policy shifts and bureaucratic heavy-handedness. Hence, Bintan has frozen in time, so to speak, as the rest of Asia roared ahead with developments in the new millennium.

Haphazard development of resorts. Bintan offers one of the most scenic beach landscapes in South East Asia and a myriad of beachfront resorts for tourists. However, archaic and inefficient development in Bintan has, in our view, created a haphazard scenario, with individual developers and operators scattered unevenly across the island. Nirwana Gardens and Laguna Bintan, for example, are located next to the Bandar Bintan Telani Ferry Terminal, whereas Ria Bintan and Bintan Lagoon resorts cap the north-eastern shoreline. Tourists are also usually escorted directly from the ferry terminal to the individual resorts, and in a climate where each resort is primarily concerned with competing for the top tourist dollar, accessibility between the resorts is both limited and deliberately stunted.

Lack of tourist attractions outside the boundaries of each resort. Although the adventurous may venture to Tanjung Pinung, Bintan's main town, many recreational activities such as sea sports, spas and dining facilities are provided within the resorts themselves, giving visitors few opportunities and incentives to venture out of their resorts to explore the rest of the island. We believe that tourists who go to Bintan are captive in nature – typically stay at a single resort without travelling to other locations/resorts, limiting the number of days the average tourist will stay on the island.

There is a lack of centralised public attractions such as Patong Beach in Phuket for tourists to explore and mingle, creating a bubble effect. There is definitely a lack of vibrancy and attractiveness of the island as visitors stay and play only within the boundaries of their resorts. This also shortens visitors' days on the island (currently 1-2 days for Asian visitors versus the average 3-4 days in Bali or Phuket).

Lack of alternative transport limits Bintan's ability to leverage Singapore's tourism boom. There are currently four ferries servicing Bintan and Singapore: two 45-minute ferries, and two 55-minute ferries with a total capacity of 1,700. Although management has indicated that its existing fleet can service up to 1m visitors a year, the lack of other transport offerings reduces the attractiveness of the island to regional tourists in particular.

For regional tourists going to Bintan, they need to take a flight to Singapore, a 10-minute drive from Changi Airport to Tanah Merah Ferry Terminal, and 45-55 minute ferry ride to Bintan (excluding holding time at the terminal). Compared to the likes of Phuket and Bali, which are accessible directly by sea, air and road, the trek to Bintan would appear to be too relatively inconvenient for the activities currently available on the island.

Moving embarkation point downtown to Marina Bay, shaving off travelling time. Talks are underway to move the current embarkation point from Tanah Merah Ferry Terminal (TMFT) to the upcoming Marina South Ferry Terminal downtown, which will be completed by end 2011. This shift will be positive for Bintan's image as a travel destination and weekend playground for Singaporeans, as it will cut the ferry journey down to c30-45min and eliminate the need for tourists to travel to the relatively obscure Tanah Merah Ferry Terminal (next to Changi Airport, in the Eastern part of Singapore).

Gallant Venture's plans to improve accessibility have hit several roadblocks, the most recent one being the rejection of its proposal for a seaplane service by the authorities. We foresee that ferry services will continue to remain the only transport option to Bintan in the mid to near term future. In its present situation therefore, Gallant Venture intends to improve accessibility to Bintan by investing in 2 more ferries in order to increase the frequency of departures to and from Bintan, and reduce waiting time for tourists.

An airport in Bintan in the future? Permit for the construction of an airport in Gallant Venture's Bintan Industrial Estate was obtained in 2009, and Gallant Venture intends to build a private-tourist airport suitable for smaller passenger aircraft like the Boeing 737 and the A320 to ply domestic as well as regional routes within Southeast Asia. The group is currently engaging potential partners to collaborate in the construction of the airport.

Airport Plans



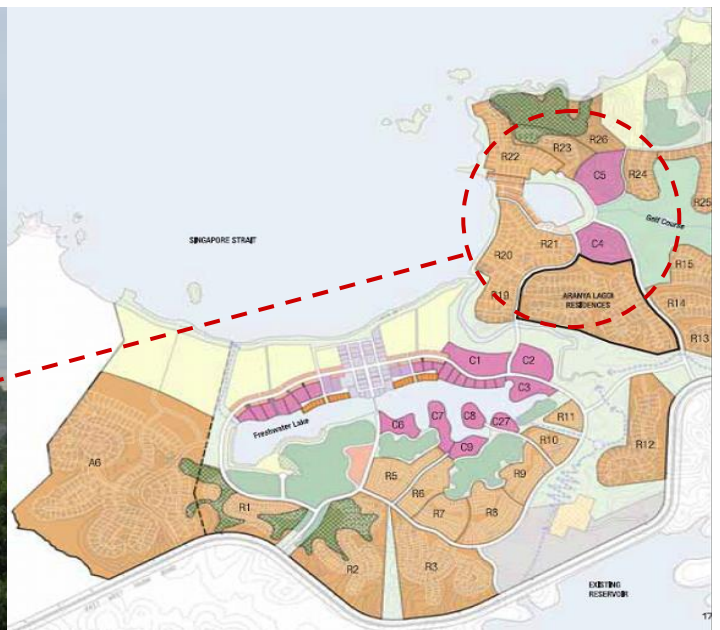
Source: Company, DBS Vickers

Bintan's map of resorts and Lagoi Bay ("Pasir Lagoi")



Lagoi Bay (DBS Vickers Site Visit, Jan 2011)

Lagoi Bay master plan



Source: Company, DBS Vickers

6. Creating Bintan's own identity

Development of Lagoi Bay – the puzzle to integrate Bintan's resorts. In order to fully realise Bintan's potential, Gallant Venture plans to integrate the current self-sustaining resorts with a master-planned village centre located at the heart of Lagoi Bay to draw in the crowds and add further variety to the current attractions on the island. Gallant Venture's vision is for the Beach Village ("LBV") to draw the disparate pieces of Bintan's disorganised development together and transform them into a vibrant and self-sustaining community.

Out of the 1,500 hectares of land in Lagoi Bay, Gallant Venture has earmarked up to 818 ha of land for sale as resorts or residential homes, with the remaining being zoned for forestry, golf courses and other recreational uses.

Slowly, Lagoi Bay is taking shape. Launched as an exciting but untested development in 2007, Gallant Venture has accumulated c\$85m worth of land sales through an estimated 56 ha (7% of saleable area) of land sold to investors/developers since it was listed back in 2006. Since then, Gallant Venture has slowly been working on delivering the land titles to their respective owners – the most visible step towards fulfilling its ambitious plan for Bintan to date.

Financial crisis in 2008-2009 stalled the development & investment of Lagoi Bay. Lagoi Bay, an undeveloped land covered mainly by jungle, was launched back in 2007. The gestation period for the development concept of Lagoi Bay far exceeded the risk that most developers were willing to take. After reaping c\$60.0m worth of sales within the first year of launch, land sales dried up as investors turn cautious and expectations set initially were dashed as the global crisis hit investors' sentiment worldwide and towards Lagoi Bay.

Cumulative land Sales announced

	Plots	Value (\$\$'m)	S\$ /psm	Land Sold ' hec
Lagoi Bay - Commercial	69	10.5	325	3
Lagoi Bay - Resorts	8	66.9	121	55
Lagoi Bay - Residential	12	3.1	296	1
Township	4	5.4	65	8
Total		85.9		68

Source: Company, DBS Vickers

Three years on, there are signs of life emerging from the jungle. Base layering of the roads have been laid; the lake is nearing completion, land has been cleared, levelled and stabilised, and construction of Phase 1 of the Lagoi Bay Village mall is underway. By the end of this year, electrical cables and water pipes would have been laid, and basic infrastructure for

Lagoi Bay will be completed. As progress continues, those visiting the site today will see substantial transformations of certain portions of the bay compared to the jungle it was back in 2007.

Paved Roads into Lagoi Bay



Central Lake Construction nears completion



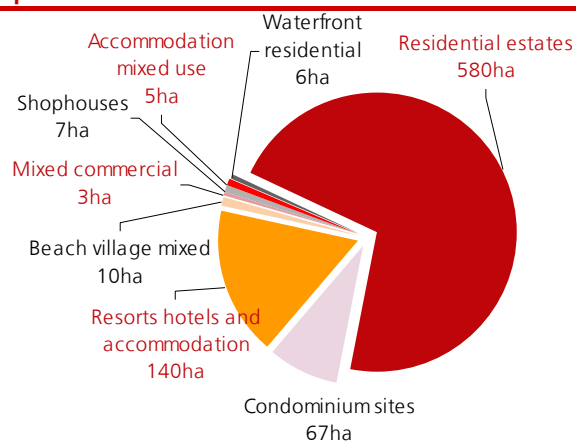
Source: Company, DBS Vickers, site visit

7. Lagoi Bay development taking shape.

More than a concept now. Under the new integrated resort village concept, Gallant Venture has zoned 17% of its total saleable land for resort development and 70% of the area for Residential development with 2 major land sites available for sale. A new marketing team has been brought in to step up the promotion and sale of Lagoi Bay to prospective investors/developers. Future development and land sales will fall into 3 broad categories:

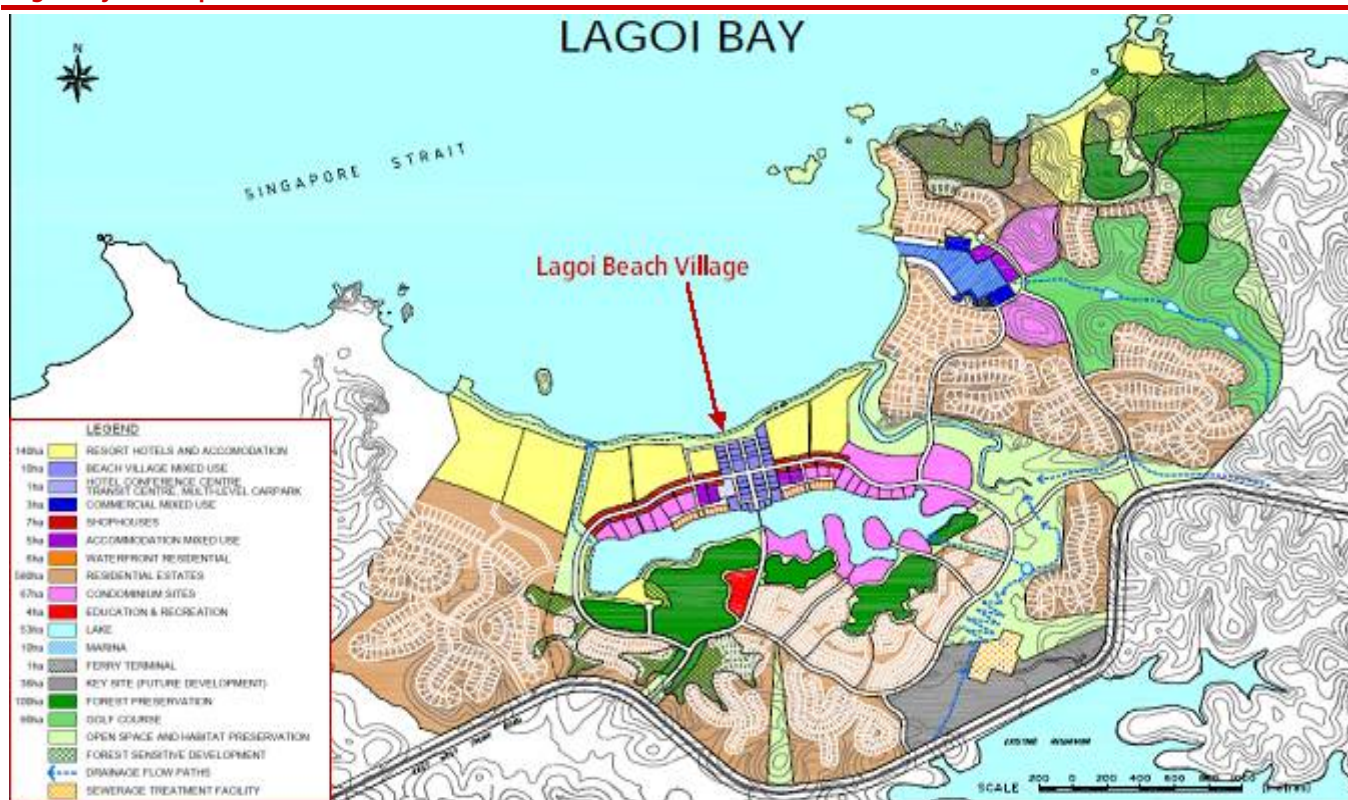
- (i) Lagoi Bay Village
- (ii) Land Sales for resorts
- (iii) Land Sales for residential

Split of Sites zoned



Source: Company, DBS Vickers,

Lagoi Bay masterplan



Source: Company, DBS Vickers,

(i) Lagoi Bay Village

Lagoi Bay - the pearl of Bintan. The centrepiece of Lagoi Bay is the Lagoi Beach Village ("LBV"), a mixed-development covering approximately 20 ha located at the heart of the Lagoi Bay. According to the Group, the beach village will host the highest concentration of commercial, leisure and recreational activities on the island, and will include boutique hotels, cottage accommodations, spas, retail, and food & beverage outlets bringing tremendous vibrancy to the Lagoi Bay.

Current concerns that Bintan does not have much nightlife or commercial activities apart from resorts operations would be addressed by LBV, of which phase 1 of the village is expected to complete by end 2011.

Injecting "life" into Lagoi Bay. Gallant Venture hopes that the opening of LBV will enhance the visibility of Lagoi Bay amongst travellers to Bintan, and hence kick start the development of the rest of Lagoi Bay. We understand from management that the incumbent Pasar Ole Ole shopping village – a small shopping area for visitors, could be relocated to its new permanent home in LBV, thus creating a core centre of activity within Lagoi Bay.

This move will attract more visitors to Lagoi Bay Village itself and potentially ignite investors/developers to build new resorts/residential homes when there is more buzz and traffic into in Lagoi Bay (which is very much lacking now).

LBV artist impression, Phase 1 mall foundation laid

Source: Company, DBS Vickers

Land sales – up to 85% of LBV commercial sites sold. To date c.85% of commercial sites in Phase 1 LBV has been sold, and based on management estimation of completion progress, we expect land titles to be handed over by end 2011/early 2012 and operations to commence as soon as 1H2012. We note that Gallant Venture also added some S\$1m to its order book

through the sale of certain commercial plots in LBV back in 3Q10.

Lagoi Bay Cumulative Commercial Land Sales Announced

Date	No. of Land Plots	Total Sale Value (\$'000)	Average Selling Price (\$psm)
Jan-08	20	1,515.85	356.34
Apr-08	25	3,717.90	382.66
May-08	63	9,163.19	326.48
Jan-09	65	9,217.19	326.31
Dec-09	67	9,301.31	324.74
Oct-10	69	10,548.47	311.96

Source: Company, DBS Vickers

Lagoi Bay Village (LBV) – Artist impression (completed)

Source: Company, DBS Vickers

DBSV Site Visit (Jan 2011): LBV construction

Source: DBS Vickers site visit

As of our latest site visit, foundations of the sea-facing mall (Phase 1) had been laid and supporting beams for the second floor are currently being placed. Phase 1 of construction is due for completion by end-2011, following which Phase 2 – construction of the lake-facing portion of the mall – will commence. We expect partial operations in LBV to commence in 1H12.

DBSV Site Visit (Jan 2011): Phase 1 of Mall construction



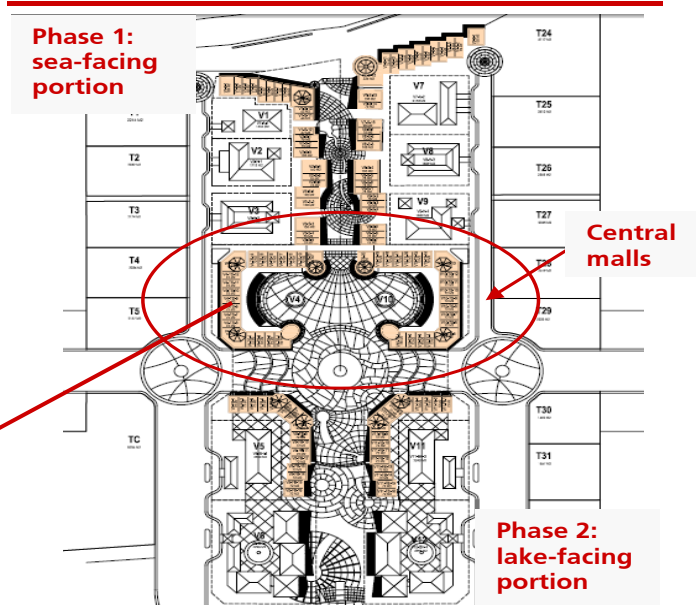
Source: DBS Vickers site visit

DBSV Site Visit (Jan 2011): LBV construction



Source: DBS Vickers site visit

Lagoi Beach Village Masterplan



Source: Company, DBS Vickers

(ii) Land Sales for Resorts

The main crowd puller to Lagoi Bay. Bintan's resorts at present operate an aggregate 1,366 keys, supporting over 410k tourists. Sites zoned for resort development in Lagoi Bay are mainly located at the beachfront and are prime sites in our view. The sites sold in Lagoi Bay up to date, are estimated to support an additional 600-700 keys over the next few years, further broadening visitors' choice for accommodation going forward.

Estimated pipeline for room inventory

Site description	Site hand over?	Est Construction to begin	Est Completion	Est Keys
Existing keys				1,366
(Russian investors)	Y	2011	2012/2013	100-150
Alila Hotels	Y	2011	2012/2013	100-150
Boutique Hotel	N	>2011	>2013	200
Budget Hotel	N	>2011	>2013	200
Total				1,966

Source: Company, DBS Vickers

New resort development to enable the further growth in Bintan's tourism industry. Tourists arrivals in Bintan have grown by a CAGR of 11% from 2007-09. Going forward the growth in tourist arrivals will also be dependent on the available room inventory on the island. Currently, the resorts in Bintan resorts are operating at near optimal capacity. Based on our estimates, assuming no further additions to room inventory, visitors to Bintan can only grow by 5% comfortably (based on current average length of stay of 2.8 days, room sharing of 2.5 per room). However, the increase in room inventory from the above mentioned investments would enable Bintan to increase total visitors to 600k from current 400k per annum.

Bintan's room inventory and maximum capacity

	Current	Maximum Potential without new supply	With new supply
Current room count	1,370	1370	1970
Max room night	500,050	500,050	719050
Available room night	490,049	490,049	704,669
Visitors	401,000	421,000	601,000
Ave length stay	2.8	2.8	2.8
Demand rooms	1,122,800	1,178,800	1682800
Room share	2.5	2.5	2.5
Demand rooms	449,120	471,520	673120
Ave Occupancy (%)	92%	95%	95%

Source: Company, DBS Vickers

Site visit update. During our visit, we noted that accessibility to various plots sold (Russian investor plot and Alila hotel plot) has already been established - roads to respective sites have already been paved. We noted that the land titles for these sites have been transferred to the investors/developers and construction work is expected to begin soon. The other 2 hotel plots for the construction of a boutique hotel and budget hotel is located at Lagoi Bay Village, where Gallant Venture is expected to complete the construction and transfer land titles by end 2011/ early 2012.

DBSV Site Visit (Jan 2011): Paved roads within Lagoi Bay, linking Village to various land plots

Source: DBS Vickers site visit

For the beachfront site sold to a Russian investor, we understand that it could possibly feature a 100-150 room Franklyn-branded resort development when completed.

DBSV Site Visit (Jan 2011): Russian Beachfront Site(as seen from Lagoi Bay Village)



Source: DBS Vickers site visit

DBSV Site Visit (Jan 2011): Russian Beachfront Site (onsite)



Source: DBS Vickers site visit

Alila Hotels & Resorts planning an ultra-luxurious resort at its site. Hospitality group Alila Hotels & Resorts is believed to be developing an eco-friendly theme villa at its site, located at the north-western tip of Lagoi Bay. Set within the lush greenery and at the cliff side with a panoramic 240-degree sea view. Road accessibility has already been paved to the site and construction is expected to commence soon.

DBSV Site Visit (Jan 2011) : Alila Hotels & Resorts site (as seen from lookout point)



Source: DBS Vickers site visit

More sites could be sold in the coming year. We believe that construction of the above 2 sites in Lagoi Bay could ignite developers/hoteliars interests in Lagoi Bay development going forward.

We understand that Gallant Venture is in talks with various parties for potential land sales, one of which is Alila Hotels & Resorts, who is understood to be keen to take up the sites adjacent to its current development.

During our site visit, the land at Pantai Indah has been cleared, with accessibility to main roads already constructed. Land parcels have already been sub-divided and prepared for sale to prospective buyers. Work has also begun on the first beach house, with base structures already completed. We understand that these villas will be completed towards the end of 2011/ early 2012.

Pantai Indah land site (from lookout point)



Pantai Indah Land parcels



Pantai Indah Land parcels



Source: DBS Vickers site visit

Pantai Indah Villa (Construction of show house)



Source: DBS Vickers site visit

Pantai Indah Villa (Completed Bungalows, Artist impression)



Source: Company, DBS Vickers

Success of Pantai Indah crucial to residential development at Lagoi Bay. The success of Lagoi Bay's first residential project Pantai Indah will be litmus test for Gallant Venture given that its lack of visible track record in development of holiday homes sales in Bintan.

Judging by the warm response in the initial launch of Pantai Indah holiday homes (10 out of 26 villas launched has been sold), we remain cautiously optimistic on the potential for future land sales for holiday homes in Bintan.

8. Treasure Bay – another positive development in Bintan for Gallant Venture

Increasing Bintan's visibility with Treasure Bay. Treasure Bay development is 100% owned by Landmarks Berhad, a KLSE-listed company. The 343-ha site, located next to the Bandar Bentan Telani Ferry Terminal, was purchased from Gallant Venture for RM764m back in 2007.

The development was delayed by the global financial crisis in 2008-2009, but has since been revitalised and ready for launch in 1H11. We believe this development will increase Bintan's visibility to investors and traffic into the Lagoi Bay area when Phase 1 is finally completed in 2015.

Site of Treasure Bay development



Landmarks Bhd: Eye-catching shareholder, exciting prospects. Landmarks Berhad's most visible shareholder is Genting Berhad, which holds an indirect 30.3% stake in the company via its fully owned subsidiary, Phoenix Spectrum Sdn Bhd. To date, Genting is the largest name to have invested in Bintan, and its presence in the island is a reflection of Bintan's huge potential as a tourist destination. Developers who are sceptical of Bintan's potential would sit up and take notice of Genting's bold investment in the island when the project is officially launched in 1H11.

Phase 1 launched recently, Bintan to develop into a tourism hub. According to Landmarks Berhad's FY09 annual report and recent media releases, Phase One, covering over 222 acres, will feature a luxury resort and serviced villas, a dedicated multi-model transportation terminal, world class marina and lagoon, as well as amenities for entertainment, retail, night-life and F&B, projected to cost S\$425m to complete by 2015.

The site was recently launched by President Dr Susilo Bambang Yudhoyono of Indonesia, which named the site as "Pesona Lagoi Bintan" meaning "Wonder of Lagoi Bintan".

Positive exposure for Gallant Venture. The launch of a big-name project such as Treasure Bay will definitely raise the profile of Bintan Island and a big boost for Gallant Venture. Developers and potential investors alike will watch Treasure Bay's development closely.

Themed Resorts (artist's completed impression)



Source: Company, DBS Vickers

Cultural Village (completed, artist impression)

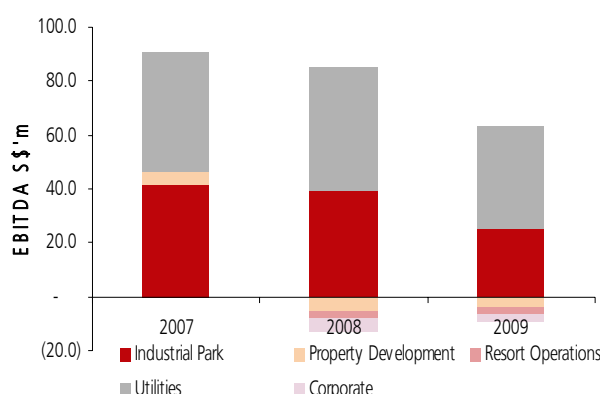


Source: Company, DBS Vickers

9. Complementary businesses offer steady cashflows to group

Synergetic business segments to produce stable cash flow. While land sales from its property development segment have been slow moving over the past 2 years, Gallant Venture's fast maturing utilities and industrial parks businesses have been holding out very well and generate strong cash flows, with recurrent EBITDA of c.S\$70m – S\$85m p.a.

EBITDA contribution past 3 financial years



Source: Company, DBS Vickers

Cash from the group's complementary businesses will be used to support its Shanghai property and Lagoi Bay projects in the near term. This will greatly lower the company's short term operational and interest obligations. We note that Gallant Venture has taken out a US\$194m loan to fund its Shanghai property acquisition, which will be amortized over 5 years. Interest cost will be recharged to the SPV over the period of the loan.

1. Utilities Operations

Utilities operations: organic growth from industrial parks and resorts operations. GV is the private supplier of energy, telecommunications, water and waste treatment services to its industrial parks in Batam and Bintan, as well as the Bintan Resorts. We expect utilities revenue to increase as Lagoi Bay development starts to accelerate.

Utilities production capacity

- | | |
|-----------------------------------|--|
| Water Treatment and Supply | <ul style="list-style-type: none"> 28,600 cubic metres/day. |
| Telecommunications | <ul style="list-style-type: none"> 14,000 fixed line connections for broadband, IDD, fax and dedicated lease lines to Bintan resorts. 100-metre high microwave tower to supplement local authority's optical fibre networks. |
| Waste Management | <ul style="list-style-type: none"> Owns and operates sanitary landfills for disposal of treated solid wastes. Dedicated ponds at Bintan Resorts for the discharge of treated sewage |
| Power Generation | <ul style="list-style-type: none"> 19 dual-fired generators at Batamindo Industrial Park with 130MW installed capacity. 6 generators at Bintan Industrial Estate with 20MW installed capacity. 4 generators at Bintan Resorts with 24MW installed capacity. 150MW power plant (U/C). |

Source: Company, DBS Vickers

Quick recovery in energy production shows resilience of utilities business. Gallant Venture's utilities segment is a stable source of cash flow for the Group. In FY09, utilities accounted for a relatively unchanged 62.4%, or S\$117.3m of the group's revenue. Although revenue from utilities fell c17% y-o-y in FY09 affected by the financial crisis, performance quickly bounced back by end FY09, showing its strong resilience amid quick recovery in electricity consumption from industrial parks. In spite of the 2008-09 financial crisis, the utilities segment continued to generate an EBITDA of S\$38.5m, achieving an EBITDA margin of 32.9% that is in line with previous years.

Huge capex commitments to ensure sufficient capacity to meet utilities demand ahead. To date, Gallant Venture has invested approximately S\$430m on the construction of utility infrastructure and resources for power generation and distribution, and potable water treatment facilities including a reservoir, wastewater treatment and telecommunication facilities and landfills. Another S\$150m is earmarked for construction of a new 150MW Power Plant from FY10 to FY12. Energy demand at Lagoi Beach Village is expected to be 80MW, with present capacity at 12MW. GV currently has sufficient generator capacity to power c.600 keys, with another 600 keys on standby.

Utility services in Lagoi Bay to be completed by end-2011.

Crucial to Lagoi Bay's development is the construction of roads linking various parts of Lagoi Bay to Bintan's main road, which has been mostly completed. As master planner and landowner of the bay, GV is committed to provide water, electricity and road access to the various plots of land up for sale. To date GV has laid the stone and bitumen bases for its roads in Lagoi Bay. In the coming months GV will also lay electrical cables and water pipes in trenches dug next to the roads. The management expects utility services to be up and running by end-2011. We expect improved accessibility and utilities services to enhance Lagoi Bay's investment and development potential.

2. Industrial Parks Operations

Two industrial parks in Batam and Bintan. Gallant Venture owns and operates two industrial parks: the Batamindo Industrial Park in Batam, and the Bintan Industrial Estate in West Bintan, offering total Net Lettable Area (NLA) of 530,000 sqm and 104,000 sqm respectively. Batamindo Industrial Park mainly caters to electronics companies, and the Bintan Industrial Estate houses mostly garment-related tenants.

Integrated master planner of industrial parks. As a master integrated planner, Gallant Venture's industrial parks provide self-contained environment to tenants: with residential compounds, recreational facilities, manpower resources and integrated supply chain services ranging from logistics to transshipment.

Batamindo Executive Village. Located just 15 minutes away from the Batamindo Industrial Park is the Batamindo Executive Village, which provides Riau-style housing for executives at the Industrial Park. It includes the SouthLinks Country Club, a 21-hectare, S\$110m development which houses a world class golf course, food & beverage outlets, spas and guest accommodation to cater to the recreational needs of Batamindo Industrial Park's tenants and residents.

Positive EBITDA amid difficult times. In FY09, the Group's industrial parks revenue fell c.18.6% y-o-y from S\$58.5m in FY08 to S\$47.6m amid lower occupancy and rental rates affected by financial crisis and stiff competition in the region. Nevertheless, the Group's industrial parks managed an EBITDA of S\$25.9 million, and a respectable margin of 52.7%, although lower than previous years. In FY09 the Group offered rental rebates as incentive rewards for prompt payment. This helped Gallant Venture to remain competitive and achieve regular inflows of cash.

Industrial parks breakdown

	Batamindo Industrial Park	Bintan Industrial Estate
Net Lettable Area	530,000m ²	104,000m ²
Industries Represented	<ul style="list-style-type: none"> • Electronic and Electrical Products, • Pharmaceuticals • Plastic Moulds • Precision Parts 	<ul style="list-style-type: none"> • Electronics Manufacturing • Garment Manufacturing • Oil & gas support
Accessibility	One International Airport 2 Seaports 5 Ferry Terminals	Own Ferry Terminal Own Seaport

Source: Company, DBS Vickers

Industrial rents likely to remain depressed. Industrial monthly rents have fallen to c.S\$5-7 psf from S\$15 psf some 20 years ago, as new domestic players offer extremely competitive rents of c.\$2-3 psf. Hence, the competition exerted downward pressure on GV's revenue and profit margins. Narrowing differences between GV's industrial parks and local competitors in terms of capital intensity and product offerings will further chip at GV's industrial rent premiums. We expect rents to hover around current (??) levels in the mid to near term future.

3. Resorts Operations

The all-round handyman. As master developer of Bintan Resorts, Gallant Venture is responsible for the overall planning, development, operations and marketing of Bintan Resorts. It is in charge of providing integrated support facilities and services to all the hotels and resorts within Bintan Resorts, which include ferry services and ferry terminal operations, tour operations, property rental and workers' accommodation to fire fighting, security, vector monitoring, environment, medical support services, estate and township maintenance such as roads and drainage, and a 24-hour crisis centre.

An unenviable but necessary task. Since listing, the Group posted negative EBITDA of -S\$2.4m and -S\$2.6m in FY09 and FY08 respectively. Although unprofitable, the groundwork for the proper and efficient functioning of resorts within Bintan is necessary. The Group's commitment to provide world-class transport, infrastructure and safety is an attractive selling point for potential investors.

10. Recent profitable ventures

Diversified business operations. Gallant Venture's two opportunistic acquisitions aimed to smooth out the group's earnings over the coming years as the Lagoi Village Bay development remains in its initial development stages. The first investment – (i) a 29% stake in PT Sebuk Iron Lateritic Ores, an iron ore mining company located in Sebuk, Indonesia for US\$14m and (ii) a 47.8% stake in a Shanghai Project Co, which owns a prime land parcel located in Lao Xi Men, Shanghai. The group, with its partners, intends to develop the Shanghai site into an integrated residential – retail complex, which is expected to start pre-sales in end 2011.

These investments, though profitable are viewed more as opportunistic in nature and we believe that management will continue to focus on its core business in Bintan as key catalysts for the group's prospects going forward.

(i) Investment in PT Sebuk Iron Lateritic Ores (PT SILO)

A Bargain Buy into resources related business. On 22 July 2009, the Group subscribed to the US\$20m convertible bonds, for its investment in PT Sebuk Iron Lateritic Ores (PT SILO), an iron ore and coal mining company principally located in Sebuk Island, South Kalimantan, Indonesia. To date the Group has invested S\$14.2m for a 29.4% stake in PT SILO, and intends to convert its convertible bonds into equity in the near future. The company expects this investment to positively impact segment earnings.

PT SILO was acquired in a fire sale price in our view. PT SILO generated US\$12.5m net profit in FY09, and GV expects profits to increase to US\$20m in FY10 as a result of higher iron ore prices. Iron ore production volume was approximately 2.5m tonnes in FY09, and is expected to hit c.3m tonnes in FY10. Based on US\$20m annual profits, the investment will yield a payback of 2.3 years.

For the price that GV paid for its stake, we estimate returns to investment to be substantial, but first Gallant Venture will need to seek regulatory approval to convert its convertible bonds into a 29.4% equity stake in PT SILO. As the iron ore business is operational, earnings flow-through should be immediate.

Venturing into coal resources. PT SILO is also in the process of developing its first coal mine located in Pulau Laut, South Kalimantan, where it owns 6 mining concessions. Should the exploration be successful, GV hopes to integrate the coal business into its existing utilities operations in order to hedge against energy prices and enhance cost efficiency.

PT SILO's iron ore estimated total resources

Iron ore concession location	Approximate land area (ha)	Estimated total resources (million tonnes)
Sebuk Island, South Kalimantan	8,086.7	351.7
Sebuk Island, South Kalimantan	4,000.0	150.0
Tanjung Batu, South Kalimantan	9,089.0	31.7
Laun, Grogot, East Kalimantan	3,015.0	57.4
Padang Gentine, Sumatera	8,000.0	5.0
Tanah Datar, West Sumatera	8,000.0	21.0
Total		616.8

Source: Company, DBS Vickers

An eventual IPO for the investment? In the longer term, we believe that Gallant Venture will seek to realise its investment in PT SILO, a positive development, in our view. While no firm plans at this moment (the group will first need to convert its bonds into equity, which to date is pending regulatory approval), we believe that an eventual trade sale or IPO could be in the works.

(ii) Shanghai Property Development Project

Expansion into Shanghai property market. On 10 March 2010, the Group has also subscribed to US\$202.5m Notes at par (c.S\$287.55) with 202,500,000 Warrants, for an effective 47.7% stake in Shanghai Wanye Enterprises Lao Xi Men Real Estate Development Co. Ltd, which owns a piece of property in Lao Xi Men, Huangpu District, Shanghai.

The Group's commitment of US\$192m was funded by a bank loan, with an effective interest rate of 6% per year.

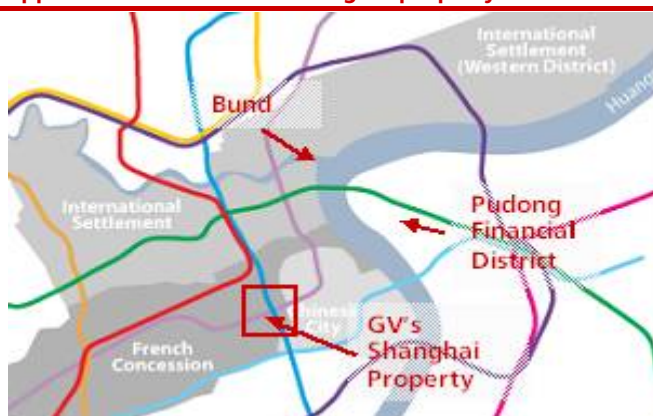
"Shanghai tan". The 42,000 sqm mixed-use property is located in close proximity to the French quarter (Luwan District) and the Bund, and is situated above two MRT train stations. The northern plot, approximating 21,000 sqm is currently zoned for residential development and the southern plot, approximating 21,000 sqm has been proposed for re-zoning for commercial and residential development. Based on a DTZ International property report, the property was valued at RMB3.645bn and a gross development value of RMB8.244bn as at Aug 2009.

When completed, the property is estimated to have a GFA of 256k sqm, with c.115k sqm slated for residential use, 70k sqm for carparks, and the remaining set aside for retail purposes. At present, curtain piling is ongoing, and workers are digging out the basements.

Luwan District: undergoing urban renewal. Luwan District, located in central Shanghai, is widely known as a high-end shopping and food district. With a land area of c.7sq km and population size of 310,000, the district is one of the most densely populated areas in Shanghai. As part of the Old French Concession area, the district is a popular tourist area, attracting international and domestic tourists alike. Retail sales spiked 22% during the Shanghai Expo, reaffirming the area's popularity as a tourist district.

The district experienced accelerated urban construction in recent years, with c.2m sqm of old housing demolished since 2000. In a state council meeting conducted on 12 February 2010, Luwan District was one of the districts slated for accelerated disposal of land plots and reconstruction.

Approximate location of Shanghai property



Source: transimty, DBS Vickers

A luxury end development with substantial returns. Based on its investment cost of S\$287.6m (US\$202m) implies an acquisition cost of S\$1.4bn for its 47.7% stake or at cRMB 12k psm. Assuming construction cost of c.RMB 7k psm and an additional RMB11k in fit-out/ miscellaneous costs, we estimate breakeven price of RMB30k psm. Currently, property around the Lao Xi Men area is transacting at RMB63-85k psm, with certain premium properties estimated to launch at as high as >RMB110k psm.

The Group hopes to sell the property at RMB 70- 85k psm, which represents >2X return on investment. The management estimates the project launch date to approximate end-2011, with 55k sqm up for pre-sale in phase 1.

Site Details

Project Details

Site Area (sqm)	42,815
GFA (sqm)	256,007
Stake	47.7%
Project Start	FY10
Project Completion	FY14
Investment cost	S\$287.6 RMB 1.5bn

Cost breakdown

Land Cost (RMB psm)	12,000
Construction, fit-out, misc (RMB psm)	18,000
Break-Even Cost (RMB psm)	30,000
Selling cost (RMB psm)	70,000

Selling Assumptions (Sqm)

Phase 1	55,000
Phase 2	100,000
Phase 3	100,000

Source: Company, DBS Vickers

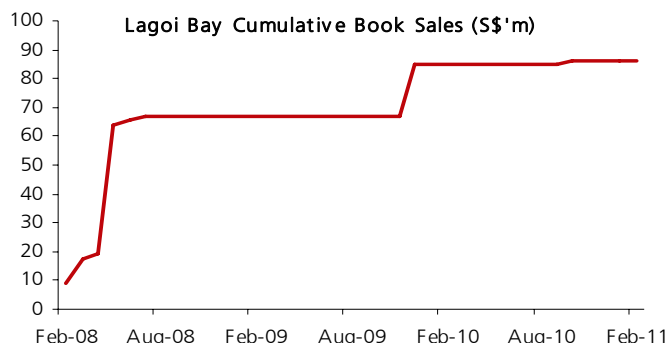
10. Segmental Analysis

A long trek ahead, but the first step was taken. Gallant Venture has achieved a significant milestone in the Lagoi Village Bay development with its first batch of sale sites handed over to the buyers in 2H10. As the infrastructure development and construction of the mall progresses, utilities services will start to roll out in phases from late 2011.

Completion of the LBV mall construction will bring the Lagoi Bay Village development to a matured phase. Although the finished product is still some way off, but development and land sales should start to take off from FY11 onwards.

Booked land sales recognised only in 1H10. As of FY10, cS\$33m of land sales have been booked after transfer of the relevant land titles, leaving ccS\$52m worth of land sales as unrecognised in its order-book. This will be recognised over the coming quarters as land titles are progressively being handed over, which is expected to boost net profits going forward.

Cumulative land sales sold since inception



Source: Company, DBS Vickers

Property development to contribute significantly going forward. Contributions from land sales to group revenue will grow incrementally from FY11 onwards, based on its current orderbook of S\$72m worth of land sales and new land sales. For new land plots, we assume that plots zoned for resorts/commercial will be put up for sale first, followed by plots for residential homes over a 15-year time frame.

Average prices assumed constant. We have also assumed relatively stable average selling prices of S\$120 psm for sites zoned for resorts & residential homes, S\$240 psm for commercial properties, all of which are prices secured for its current plots.

DBSV Land Sales Assumptions

	Commercial	Residential/ Townships	Resorts	Total/ Average
Assumptions				
Net Saleable Area (hec)	20 hec	660 hec	140 hec	820 hec
Net Saleable Area (sqm)	0.02m	6.6m	1.4m	8.1m
Selling Price (S\$ psm)	240	120	120	
Land Sales (hec)				
FY11	0.5	5.0	7.0	
FY12	10.0	8.0	10.0	
FY13	61.0	10.0	12.5	
FY14 – FY20	-	315.0	56.0	
FY20 – FY30	-	320.0		

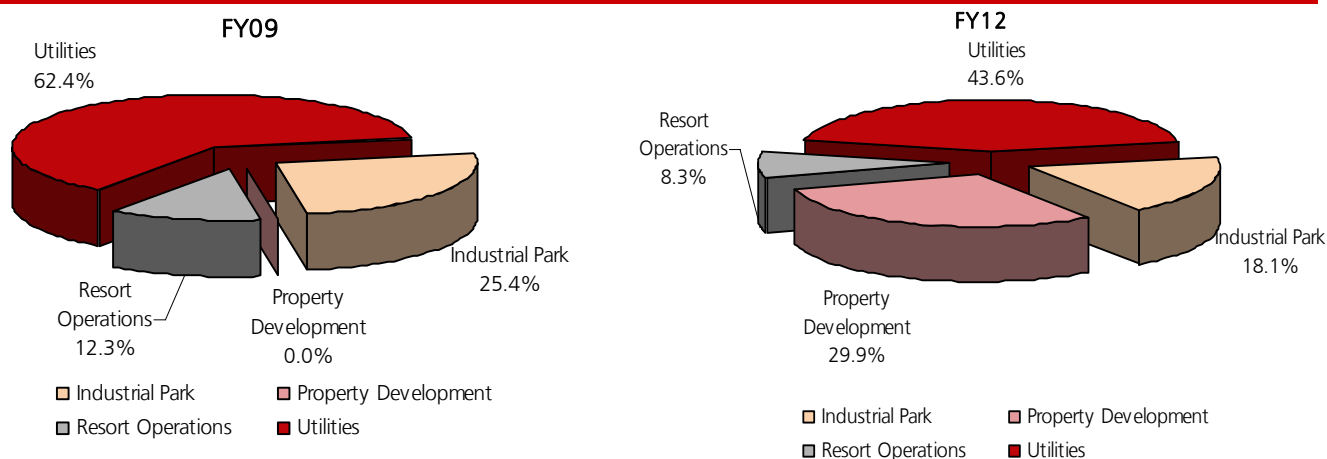
* 1 Hectare = 10,000 sqm

Source: Company, DBS Vickers

Supporting businesses remain stable, continuing to deliver stable cashflows. Gallant Venture's other business divisions will continue to deliver consistent results: (i) **industrial parks** to see average occupancies increase to a sustainable c85%, (ii) **resort operations** will remain steady but relatively flattish over next few years, (iii) **utilities division** is projected to grow steadily from as demand for utilities will increase with higher occupancies at its industrial parks. Ramping up of Lagoi Bay Village development and sale of resort sites will contribute to higher utilities revenue.

No contribution from new ventures assumed. While its new ventures in PT SILO and the Lao Xi Men projects are expected to be profitable ventures, we have not included them in our numbers, pending conversion of the convertible bonds currently held in the books to equity stakes. We have, however, included them in our valuation.

Contribution from various divisions (Property development pie to show sustained growth)



Source: Company, DBS Vickers

Segmental Analysis

FY Dec	2009A	2010A	2011F	2012F
Revenues (\$\$ m)				
Industrial Park	48	46	50	51
Property Development	0	33	33	60
Resort Operations	23	21	22	22
Utilities	117	120	121	122
Total	188	220	225	255
EBITDA (\$\$ m)				
Industrial Park	25	26	26	27
Property Development	(4)	23	23	45
Resort Operations	(2)	(2)	(2)	(2)
Utilities	39	39	39	40
Total	57	85	87	110
EBITDA Margins (%)				
Industrial Park	52.7	55.7	52.4	53.2
Property Development	N/A	68.0	71.0	75.9
Resort Operations	(10.4)	(10.0)	(10.0)	(10.0)
Utilities	32.9	32.5	32.5	32.5
Total	30.5%	38.3%	38.8%	45.5%

Source: Company, DBS Vickers

Quarterly / Interim Performance

Lumpy revenues expected from land sales. Without accounting for land sales, the group's quarterly topline had been relatively stable at c.S\$46-48m over 4Q09-1Q10. Contributions from utilities, resorts and industrial parks businesses have been stable and contribution from property development only kicked in from 2Q10 onwards. Property development boosted topline by 14-24% qoq as revenues were booked in when titles of selected land plots were handed to investors.

We expect lumpy revenues ahead as the earnings flow will be dependent on the frequency and timing of its land sales. We note that the group has another S\$70.2m worth of land sales to be booked over the coming quarters.

Increasing gross margins, returning profitability with land sales recognised. Gross margins have improved to 24-31% in 2Q-3Q from an average of 15-16% in previous quarters due to higher margin land sales. Property development segment, which has estimated gross margins of c70%, also helped the group to return back to profitability in 2Q-3Q10.

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

FY Dec	1Q2010	2Q2010	3Q2010	4Q2010
Turnover	48	60	68	48
Cost of Goods Sold	(40)	(45)	(47)	(40)
Gross Profit	8	14	21	8
Other Oper. (Exp)/Inc	(8)	(9)	(10)	(8)
Operating Profit	(1)	5	11	(1)
Other Non Oper. (Exp)/Inc	1	0	0	1
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0
Exceptional Gain/(Loss)	0	(1)	(1)	0
Pre-tax Profit	1	4	11	1
Tax	(3)	(3)	(3)	(3)
Minority Interest	0	0	1	0
Net Profit	(2)	2	8	(2)
Net profit bef Except.	(2)	3	9	(2)
EBITDA	14	19	25	0
Sales Gth (%)	5.8	23.8	13.8	(29.0)
EBITDA Gth (%)	69.5	32.2	32.1	(98.2)
Operating Profit Gth (%)	(89.9)	(1,156.6)	NM	(104.6)
Net Profit Gth (%)	(75.1)	(213.8)	NM	(119.1)
Gross Margins (%)	16.3	23.9	30.7	16.3
Operating Margins (%)	(1.1)	9.0	16.2	(1.1)
Net Profit Margins (%)	(3.2)	3.0	12.0	(3.2)

Source: Company, DBS Vickers

Financials – Income Statement

Recovered swiftly from financial crisis in FY08-09. Results for FY09 were dragged by lower revenues from the Utilities and Industrial Parks businesses due to the sharp slowdown in global manufacturing activities during the financial crisis and weak US and European economies. FY09 earnings were further aggravated by the lack of land sales booked. Amid the tough economic conditions, land purchases came to a standstill. After a hefty net loss of S\$11m in FY09, the group is estimated to turn around with a net profit of S\$9m in FY10 as earnings recovered steadily over 1Q-3Q10.

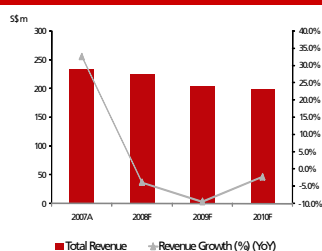
Expect 3-fold growth in net profit by FY12. With an orderbook of cS\$70.2m and new sales assumptions over the next 2 years, we project Gallant Venture to report a 3-fold increase in profits. This is despite higher interest obligations

from its US\$192m loan taken out to fund its Shanghai investment, but the group has not started to recognise any profits from the project.

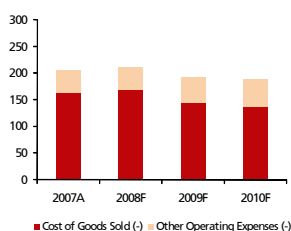
Stable supporting businesses. Steady increase in Utilities output since late 2009 and pick up in Industrial Parks businesses along with strong economic rebound would support earnings over the next 2 years.

Nil contribution from new ventures assumed. Although the new ventures in PT SILO and the Lao Xi Men project are expected to be profitable, we have not included them in our numbers since they are still pending conversion of the bonds into equity stakes.

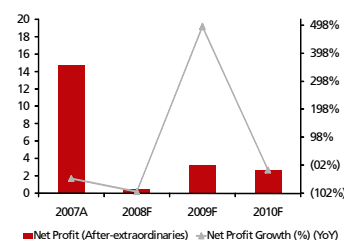
Sales Trend



Operating Cost Trend



Profitability Trend



FY Dec (\$ m)	2007A	2008A	2009A	2010A	2011F	2012F
Turnover	234	225	188	220	225	255
Cost of Goods Sold	(163)	(168)	(155)	(168)	(156)	(160)
Gross Profit	72	57	33	52	70	95
Other Opg (Exp)/Inc	(43)	(41)	(36)	(38)	(40)	(42)
Operating Profit	29	16	(3)	14	30	53
Other Non Opg (Exp)/Inc	0	0	0	7	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	1	1	(1)	0	(9)	(8)
Exceptional Gain/(Loss)	0	0	0	0	0	0
Pre-tax Profit	30	18	(3)	21	20	45
Tax	(14)	(19)	(9)	(14)	(11)	(12)
Minority Interest	(1)	1	2	2	2	3
Preference Dividend	0	0	0	0	0	0
Net Profit	15	1	(11)	9	11	35
Net profit before Except.	15	1	(11)	10	11	35
EBITDA	87	73	53	76	87	109.9
Sales Gth (%)	32.3	(3.9)	(16.7)	17.3	2.4	13.0
EBITDA Gth (%)	2.7	(15.4)	(27.0)	42.7	13.6	26.7
Operating Profit Gth (%)	(1.3)	(43.5)	(117.6)	(589.9)	111.0	78.8
Net Profit Gth (%)	(50.0)	(96.2)	(1,985.1)	(188.7)	20.8	214.1
Effective Tax Rate (%)	46.8	105.2	N/A	65.3	53.6	27.8

Source: Company, DBS Vickers

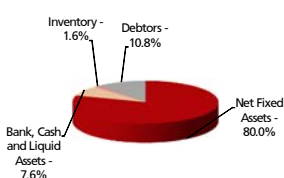
Financials – Balance Sheet

Healthy financial position. The group will go into a net debt position (from net cash in FY09) in FY10 due to the loan taken for its Shanghai project. However, with steady operating cashflows from its businesses, we expect Gallant Venture to maintain a healthy financial position. Net debt to equity ratios and EBITDA interest coverage are all expected

to remain pretty conservative at <0.2x and >4.1x respectively. Performance will likely improve further as the group booked in the highly profitable land sales.

Book value stated at costs. As the group do not re-value their assets, its landbank, industrial parks, power plants are held at historical costs on their books, which in our view are understated.

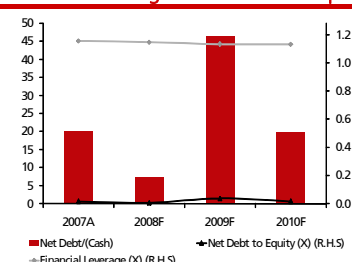
Breakdown of Assets (2010)



Breakdown of Capital (2010)



Financial Leverage & Net Debt to Equity



FY Dec (\$\$ m)	2007A	2008A	2009A	2010A	2011F	2012F
Net Fixed Assets	381	369	361	335	293	252
Invt in Associates & JVs	1	1	15	306	306	306
Invt & Devt Properties	318	295	277	254	254	254
Other LT Assets	73	71	68	55	55	55
Cash & ST Invt	82	90	119	160	125	145
Dev Props held for sale	0	0	0	0	0	0
Inventory	11	16	11	11	9	10
Debtors	62	71	43	45	62	71
Other Current Assets	550	550	553	559	557	556
Total Assets	1,478	1,464	1,448	1,725	1,662	1,650
ST Debt	42	51	56	86	86	86
Other Current Liab	55	58	49	71	48	54
LT Debt	60	34	35	250	200	150
Other LT Liabilities	43	42	44	46	46	46
Shareholder's Equity	1,246	1,247	1,236	1,245	1,257	1,292
Minority Interests	33	31	29	27	25	22
Total Cap. & Liab.	1,478	1,464	1,448	1,725	1,662	1,650
Leverage Analysis (x)						
Net Interest Cover	N/A	N/A	(4.1)	N/A	3.3	6.4
EBITDA Gross Interest Cover	15.3	26.4	19.2	5.4	4.6	7.0
Total Debt to EBITDA	1.2	1.2	1.7	4.4	3.3	2.2
Total Debt to Total Assets	0.1	0.1	0.1	0.2	0.2	0.1
Total Debt to Capital	0.1	0.1	0.1	0.3	0.2	0.2
Net Debt to Equity	0.0	CASH	CASH	0.1	0.1	0.1
Net Debt to Equity ex MI	0.0	0.0	0.0	0.1	0.1	0.1
Capex to Debt	0.3	0.3	0.3	0.0	0.1	0.1
Liquidity Analysis (x)						
Cash Ratio	0.8	0.8	1.1	1.0	0.9	1.0
Current Ratio	7.3	6.6	6.9	4.9	5.6	5.6
Quick Ratio	1.5	1.5	1.5	1.3	1.4	1.5

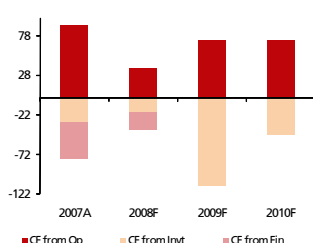
Source: Company, DBS Vickers

Financials – Cash Flow

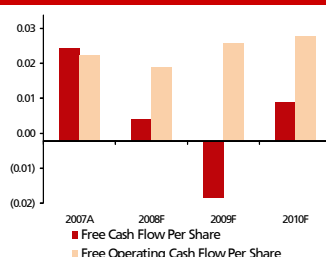
Positive operational cash flow . Despite the lackluster performance from its property development in FY09, Gallant Venture's other supporting businesses continue to deliver strong net operating cash flows of cS\$50-67m. We project the group operating cash flow to continue to grow, underpinned by recognition of more land sales.

Capex requirements should be covered. We estimate that Gallant Venture will need an additional cS\$40m in capex to complete the major infrastructure works in Lagoi Bay Village, over the next 2 financial years. This should be well covered by its operational cash flow.

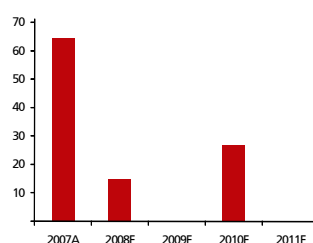
Cash Flow Trend



Free Cash Flow Per Share



Free Cash Flow As At Year End

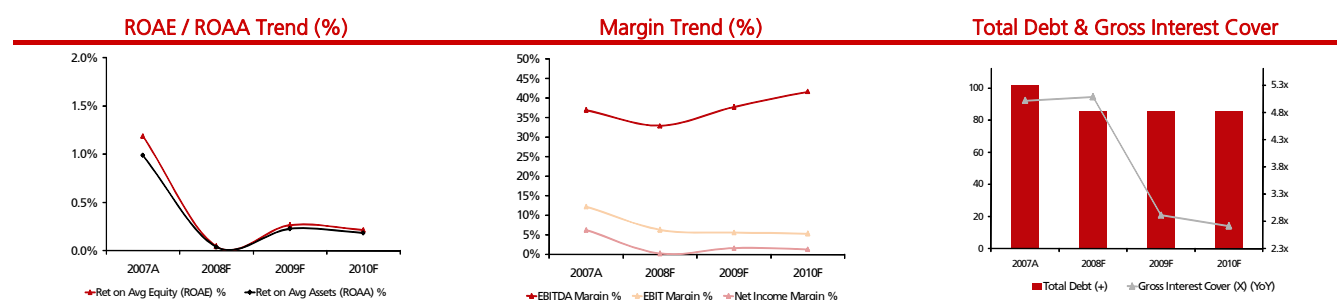


FY Dec (\$\$ m)	2007A	2008A	2009A	2010A	2011F	2012F
Pre-Tax Profit	30	18	(3)	21	20	45
Dep. & Amort.	58	57	56	55	57	57
Tax Paid	(24)	(18)	(8)	(1)	(3)	(11)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
Chg in Wkg.Cap.	32	(14)	19	29	(45)	(4)
Other Operating CF	(4)	(6)	4	(23)	0	0
Net Operating CF	91	37	67	81	30	86
Capital Exp.(net)	(27)	(22)	(29)	(6)	(16)	(17)
Other Invts.(net)	(4)	(2)	0	0	0	0
Invts in Assoc. & JV	0	0	(14)	(279)	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	0	5	0	0	0	0
Net Investing CF	(31)	(19)	(44)	(284)	(16)	(17)
Div Paid	0	0	0	0	0	0
Chg in Gross Debt	(43)	(14)	5	245	(50)	(50)
Capital Issues	0	0	0	0	0	0
Other Financing CF	(2)	(8)	11	0	0	0
Net Financing CF	(46)	(22)	17	245	(50)	(50)
Net Cashflow	15	(3)	40	42	(35)	20
Opg CFPS (\$ cts)	2.5	2.1	2.0	2.2	3.1	3.8
Free CFPS (\$ cts)	2.7	0.6	1.6	3.1	0.6	2.9

Source: Company, DBS Vickers

Financials – ROE Drivers

Growing gross and operational margins. We expect Gallant Venture to show improving gross and operational margins to c37.3% and 20.4% respectively by FY12, as the group starts to reports more land sales and recognise them as land titles are handed over.



FY Dec	2007A	2008A	2009A	2010A	2011F	2012F
Profitability Ratios						
Sales Growth (%)	32.3	(3.9)	(16.7)	17.3	2.4	13.0
Gross Margin (%)	30.5	25.4	17.4	23.7	30.8	37.2
Operating Margin (%)	12.3	7.2	(1.5)	6.4	13.1	20.7
Net Profit Margin (%)	6.3	0.2	(5.6)	4.2	5.0	13.9
ROAE (%)	1.2	0.0	(0.8)	0.8	0.9	2.8
ROA (%)	1.0	0.0	(0.7)	0.6	0.7	2.1
ROCE (%)	1.1	(0.1)	(0.2)	0.3	0.8	2.4
Activity Ratios						
Debtors Turn (average days)	104.4	107.5	110.8	72.8	86.0	95.2
Creditors Turn (average days)	163.8	158.0	181.4	187.0	194.1	139.9
Inventory Turn (average days)	40.4	42.8	49.6	36.2	37.7	35.0
Total Asset Turnover (x)	0.2	0.2	0.1	0.1	0.1	0.2
Fixed Asset Turnover (x)	0.6	0.6	0.5	0.6	0.7	0.9

Source: Company, DBS Vickers

11. Key risks.

Largely untested, execution risks on Lagoi Bay Village project. Apart from the 4 flagship resorts currently operating in Bintan & part of Lagoi Bay, much of Gallant Venture's land bank remains relatively undeveloped, and therefore management's execution ability is untested. Since its initial launch back in 2007, potential land buyers were sceptical due to the lack of built up infrastructure and visibility. However, we should see gradual improvement in investors' confidence as the infrastructure is completed in the coming year. In addition, the launch of Treasure Bay and start of Phase I in 2013 should add substantial vibrancy and buzz to the island.

Our recent site visit reaffirmed a familiar platitude: big rewards bring risks. Gallant Venture's accomplishments are impressive so far, with most of the infrastructure works in the last stages of completion. However, there is still much to do ahead, and for Gallant Venture to succeed in Lagoi Bay Village, many factors such as transport, land sales visibility, etc. have to grow in tandem.

Lack of experience in property development in China. The group's investment in a Lao Xi Men property development project in Shanghai is likely a one-off opportunistic deal. Given the management's lack of experience in the property development business in China, Gallant Venture is likely to work with external parties. Nevertheless, management has reiterated that this project is one-off and the group will not be looking to invest further in China properties in the future.

Country risks - Political uncertainty and economic instability in Indonesia could affect operations. Given its single country exposure in Indonesia, Gallant Venture is susceptible to the economic and political outlook of Indonesia. An economic downturn or loss of investors' confidence in Indonesia could significantly affect its ability to sell land to investors & developers. This will in turn negatively impact its industrial parks and utilities business in Bintan and Batam.

Epidemics, disasters could affect resort operations. As Gallant Venture is in the resort business, epidemics or disasters relating to public health issues, potential or perceived threats to personal safety could impact the flow of visitors to Bintan, which in turn will potentially affect the group's resorts performance.

11. Valuation

Given its multiple business segments and cash-flow streams, we adopt the sum-of-the-parts approach to value its various business units such as:

(i) Huge land bank represents vast unrealised profit, valuing Lagoi Bay. Gallant Venture's carrying costs of its land bank stood at S\$556m as at end FY09, or an estimated historical cost of between S\$0.78-S\$10.96 psm. We acknowledged that the development of the entire 18,000 ha of landbank in Bintan will take a very long time. However, in view of the Lagoi Bay's development and management's more aggressive marketing of land for sale, we believe that sales will take off. As such, in our valuation, we have assumed that Lagoi Bay will be 100% sold over the next 15 years and the rest of the landbank remains at book value.

(ii) Supporting business units. We expect the group's utilities, and industrial parks businesses to generate a steady income stream over the coming years, supported by the rapid developments on the island including Lagoi Bay and Treasure Bay over the next 15 years. Based on DCF method, we have ascribed a value of S\$690.0m for its supporting businesses (utilities, industrial parks).

(iii) Hidden value in Shanghai project. Construction is ongoing and pre-sales is expected to commence in end 2011/early 2012. We have assumed that the project will be completed and 100% sold by FY15 at an average cost of RMB 70,000 psm.

(iv) PT SILO. Gallant Venture's investment in PT SILO appears to be astute. The company has guided a steady US\$20m in NOPAT (attributable US\$5.8m/S\$7.5m to Gallant Venture) and based on 10x PE, PT SILO investment should yield S\$75m surplus. However, this might be revised upon greater clarity on management's plans on its PT SILO stake.

Initiate with a BUY with SOTP-based TP of S\$0.88. Gallant Venture's fortunes are changing for the better as Lagoi Bay Mall is approaching completion and infrastructure works are also in advanced completion stages. In addition, its recent ventures are expected to be profitable and will contribute positively to group's performance going forward. Catalysts to look out for include (i) more land sales at Lagoi Bay, (ii) sales at its Shanghai project, (iii) more clarity with management's stake in PT SILO.

RNAV of Gallant Venture

RNAV	Assessed Value (\$'m)	Value/Share (\$)	Basis
Supporting business			
Utilities	321	0.13	DCF, WACC:12.5%, Cost Equity:15%, Cost Debt: 5%
Industrial Parks	290	0.12	DCF, WACC:12.5%, Cost Equity:15%, Cost Debt: 5%
Resorts	79	0.03	Assumed at Book Value
Value of Supporting Business	690	0.29 (1)	
Valuation of Lagoi Bay	406	0.17	Book Value of S\$129m
Landbank valued at Book	427	0.18	Assumed at Book Value
	833	0.35 (2)	
Value of Lao Xi Men, Shanghai	707.2	0.29 (3)	PV of development profits of S\$445m on top of book value of S\$262m
PT SILO	75	0.03 (4)	10x P/E on forward earnings
Value of Gallant Venture	2,305	0.96	Sum of 1, 2, 3 ,4
Less: Net Debt (FY10)	(176)	(0.07)	
RNAV	2,129	0.88	

DBSV recommendations are based on 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 (-10 to +15% total return over the next 12 months for small caps, -10 to +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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