Independent Auditors' Report
To the members of Samko Timber Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Samko Timber Limited, (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 7 to 79 which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements. The Group incurred a net loss of Rp224,980 million for the year ended 31 December 2010 and is in a net current liability position of Rp28,752 million as at that date. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. As discussed more fully in Note 2.1, the ability of the Group to continue as a going concern depends on its ability to generate sufficient cash flow from its operations and the continuous financial support from its lenders.

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ from the amounts at which they are currently recorded in the balance sheet. In addition, the Group may have to reclassify long term assets and liabilities as current assets and liabilities. No such adjustments have been made to these consolidated financial statements.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

28 March 2011

2. Summary of significant accounting policies

2.1 *Going Concern*

For the year ended 31 December 2010, the Group incurred net loss of Rp224,980 million (2009: Rp824,786 million) and as at 31 December 2010, the Group is in a net current liabilities position of Rp28,752 million (2009: Rp707,842 million). These matters indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as going concern.

The financial position of the Group has improved as compared to previous years followed by the dilution of the Company's interests in PT Sumalindo Lestari Jaya Tbk ("Sumalindo") (Note 30) and the successful capital raising of the Company (Note 28). During the financial year, the financial statements of Sumalindo (which have adverse financial position) were deconsolidated after the Group diluted its interests in Sumalindo below the controlling stake. This has improved the Group's short-term working capital position (balance sheet) and the Group's share of Sumalindo's losses was lowered. The Group's liquidity also improved because of additional fund received from the capital raising exercise carried out during the year as disclosed further in Note 28, continuing support from lenders as well as the Group's ability to generate positive operating cash flow during the year.

Notwithstanding the improvement above, the Group faces greater business competitions particularly from domestic markets. In addition, it needs to further improve its liquidity in the next twelve months to cater for higher bank loan repayment obligations as well as additional working capital that may be required to implement its strategies to generate more revenue and improved its margin.

The strong competition will put pressure on the pricing of the Group's products and its margin. To overcome these challenges, the Group started the downstream business (including improving the products mix) and will expand in 2011 as appropriate. In addition, the Group will continue to push for better export sales and improve its production efficiency.

The Group may need to raise additional funds in the next twelve months and are exploring various options including obtaining new loans, refinance or restructure its bank loans as and when required. The Group has started the discussion with lenders to restructure its bank loans so as to conserve cash for its business' working capital needs.

The Group will continue to monitor and address these challenges, however, the Group believes that it will be able to obtain additional funding as and when necessary and obtain the continuing financial support from its lenders.

The financial statements have been prepared on the assumption that the Group will continue as a going concern. The ability of the Group to continue as a going concern depends on the assumption that the Group's initiative mentioned in the above paragraphs will continue to have a positive effect to the Group, the Group's ability to obtain continuing financial support from its lenders as well as the Group's ability to generate sufficient cash from its operations to fund its working capital needs.

If the Group is unable to generate sufficient cash from its operations or obtain continuous financial support from its lenders, the Group may be unable to continue its operational existence for the foreseeable future, and adjustments would have to be made to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the balance sheet. In addition, the Group may have to provide for further liabilities which may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.